

# **FINANCIAL PERFORMANCE ANALYSIS OF MACHHAPUCHHRE BANK AND KUMARI BANK BASED ON CAMEL**



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**Date:** - .....

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**AnjanaDhakal**

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## **ABBREVIATION**

<b>ABBS</b>	Any Branch Banking
<b>AFCL</b>	Annapurna Finance Company Ltd.
<b>BOK</b>	Bank of Kathmandu
<b>C &amp; B balance</b>	Cash and Bank Balance
<b>CAMEL</b>	Capital, Assets Management Earning Liquidity
<b>CCR</b>	Core Capital Ratio
<b>CRR</b>	Cash Reserve Ratio
<b>EPS</b>	Earning per share
<b>FLs</b>	Financial Institutions
<b>IGSR</b>	Investment in Government Security Ratio
<b>KBL</b>	Kumari Bank Ltd
<b>LLP</b>	Loan Loss Provision
<b>MBL</b>	Machhapuchre Bank Ltd.
<b>NEPSE</b>	Nepal Stock Exchange
<b>NICBL</b>	Nepal Industrial and Commercial Bank Ltd
<b>NPL</b>	Non Performing Loan
<b>NRB</b>	Nepal Rastra Bank
<b>ROA</b>	Return on Assets
<b>ROE</b>	Return on Equity
<b>TU</b>	Tribhuvan University
<b>US</b>	United States

# CHAPTER - I

## Introduction

### 1.1 Background of the Study.

A bank is an institution which deals with money. It means that a bank receives money in the form of deposits from public and lends money for the development of trade and commerce. Bank plays an important role in the economic development of the country. The entire commercial and institutional activities are well knitted with the banks. In the early days, the banking business was confined to receiving of deposits and lending of money, but the modern bankers undertake wide variety of functions to assist their customers. Banks are those financial intermediaries, which bridges the gap between the surplus sector and the deficit sector of the economy. It is said that the banking sector mirror the large economy. It provides the wide range of services to the customers and also known as financial department store.

The word “Bank” is derived from the word “Bancus or Banque” which means bench. Jews, who were considered to be the early bankers, transacted their business on benches in the market. Some people trace the origin of the German word “bank” meaning a Joint Stock Fund. Similarly some people believe that it is derived from the French word “Banque” while other believed in Italian word “Banca” all meaning the Bench. The early bankers, the Jews in Lombardy, transacted their business at benches in the marketplace. When they were unable to meet their liabilities, the depositors used to break their benches and the term bankrupted was derived. There are extant records of loans from the 18<sup>th</sup> century BC in Babylon that were made by temple priests to merchants. Ancient Greece holds further evidence of banking. Interestingly, there is evidence too of credit, whereby in return for a payment from a client, a money lender in one Greek port would write a credit note from the client who could “cash” the note in another city, saving the client the danger of carting coinage with him on his journey.

Bank plays an important role in economic development of the country. The banking history is very much old because systematic public banking history or institution goes credit to Bank of Venice, established in 1157 AD is the first commercial Bank in the world. Originally, it was not a bank in real sense being simply an office for the transfer of public debt subsequently; Bank of Barcelona and Bank of Geneva were established in 1401 and 140 AD respectively then after Bank of Amsterdam

was established in 10 AD. The Bank of England, first England Bank was established in 1694 AD. In England, the goldsmiths were the original representatives of private bank. They charged for safekeeping money consisting of gold and silver. Thus gold smith becomes a banker. Napoleon the “Bank of France” in 1800 AD. 19<sup>th</sup> century comes with the vast scope of development of commercial banking.

The 20<sup>th</sup> century observed the development of various banking institutions highly specialized and sophisticated particularly in advanced countries like U.S.A., U.K and others. Today various international organization like I.M.F., A.D.B. W.Betc have been developed which are influencing the whole business of the modern world. When government has liberalized economy policy and democracy in the country then the growth of commercial bank is very much. In current situation (Aug 23, 2010) 28 commercial banks are operating and providing their services to customers. Nepal Rastra Bank (NRB) is the monitoring and regulating body of financial institutions (Viz. commercial banks, development banks and finance companies). NRB poses the directive of maintaining Rs. 2000 million on a paid up capital with in dated of 15 July 2009 AD (Kantipur daily, 20Aug.2008) which is the mandatory rule of NRB.

In the country, the development of banking is relatively recent. The record of banking system in Nepal gives detail account of mixture of slow and steady evaluation in the financial and global economy of Nepalese life. The growth of financial sector in Nepal is much better as compare to other sectors. Despite of conflict and political insurgency, banking and financial sector continued growing. The banking habits of people are increasing trend, so no of banks and financial institutions are also increasing day by day.

Commercial banks present a key financial intermediary because they serve all types of surplus and deficit units. They offer deposit accounts with the size and maturity characteristics desired by surplus units. They repackage the funds received from deposits to provide loans of the size and maturity desired by deficit units. They have the ability to assess the creditworthiness of deficit units they apply for loans; so that they can limit their exposure to credit (default) risk on the loans they provide (Madura J,1999:506).

Commercial banks are the major component of the financial system. They work as the intermediary between depositors and lenders and facilitate in overall development of the economy, with major thrust in industrial development. Now Nepal is under

development country so that joint venture banks are still to realize as an essential mechanism of mobilizing interval saving through various banking scheme in the economy they can accumulate and collect the capital among their prerequisite. A modern commercial bank is expected to go beyond the conventional banking function and to take up challenging task of achieving economic growth, combined with stability and social justices. Normally banking facility is available in underdeveloped country (like Nepal) in urban area. In almost of the countries banking facilities are concerned into urban and semi urban area they wanted stay far from rural area due to lower rate of return or higher risk. But in fact, without it other sector of economy cannot be flourished.

CAMEL analysis shows the financial strength and weakness of the firm. Balance sheet, profit and loss a/c investment of bank assets shows the financial performance and condition of the bank. The analysis of CAMEL helps in measuring the overall financial performing of organization it is required to take managerial and financial decision. Here we assess the bank effectiveness, efficiency and soundness through CAMEL.

### **Introduction of the Selected Banks**

The researcher has selected Machhapuchhre Bank Limited (MBL) and Kumari Bank limited (KBL) as samples for the study. Since the date of establishment and the size of the capital are also quiet similar, these two banks are chosen for study. The brief introductions of these banks are as follow.

### **Machhapuchhre Bank Limited**

Machhapuchhre Bank Limited (MBL) started its operation in December 10, 2000 as the 14<sup>th</sup> commercial bank as the first regional commercial bank to start banking business from the western region of Nepal with its head office in Pokhara. Today, with a paid up capital above 1,314 million rupees, it is one of the full-fledged commercial bank operating in Nepal. And it ranks in the topmost among the private commercial banks. The bank is providing customer friendly services. The bank aims to serve the people of both urban and rural areas.

Machhapuchhre Bank Limited is the pioneer in introducing the latest technology in the banking industry in the country. It is the first bank in Nepal to introduce centralized banking software named GLOBUS BANKING SYSTED DEVELOPED BY Temenos NV, Swiaerland. Currently it is using the latest version of GLOBUS,

referred as T-24 BANKING SYSTED. The bank provides modern banking facilities such as Any Branch Banking, Internet Banking and Mobile Banking to its valued customers.

Machhapuchhre Bank Limited provides various types of Loans and Advances designed to suit the varied requirements of Industrialist, Business Houses, Professionals, Entrepreneurs and Individuals.

## **Deposit and Loan of Machhapuchhre Bank Ltd.**

### **Deposit**

Current Deposits
Call Deposits
Saving Deposits
PewaBachat
Fixed/Term Deposits
Share Holder's Account
YuvaBachat
Salary Management
Scheme
UchchaSichyaBachat
Sopan/Ladder Deposit
Mach 7 Deposit
SammanBachat

### **Loan**

• <a href="#">Term Loan</a>
• <a href="#">Working Capital</a> (Overdraft / Short Term Loan)
• <a href="#">Trust Receipt</a> / Importers' Loan
• <a href="#">Packing Credit</a> / Exporters' Loan
• Priority Sector / Deprived Sector Loan
• <a href="#">Home Loan</a>
• <a href="#">Hire Purchase Loan</a>
• <a href="#">Education Loan</a>
• Foreign Employment Loan
• <a href="#">Loan Against</a>
○ 1st Class Bank Guarantee
○ Other Bank Guarantee
○ Other Financial Guarantee
○ Our Fixed Deposit
○ Other's Fixed Deposit
○ Government Bonds
○ Foreign Currency Deposits
○ Marketable Securities
• Loan against Marketable Securities
• Consortium / Syndicate Loan
• Other Loans Products and Services
<b>Services that the bank is providing currently</b>
Mobile Banking MBL Debit Card
Internet Banking            Any Branch Banking
Trade Finance Safe Deposit Locker
Evening Counter Money 2 Nepal
365 days banking ATM Card Service

## **Kumari Bank Limited (KBL)**

Kumari Bank Limited came into existence as the fifteenth commercial bank of Nepal by starting its banking operations from 2001 with an objective of providing competitive and modern banking services in Nepalese financial market. The Bank has authorized capital of Rs. 1,600million. The bank has paid up Capital of Rs. 1304,935,920.00 of which 70% is contributed from promoters and remaining from public. The key focus of the bank is always center on serving unfulfilled needs of all classes of customers located in various parts of the country by offering modern and competitive banking products and services in their door.

A revolutionary concept for the first time in Nepal with a growth option to the checking account holder or transferring their excess balance to Time/Call deposit account. KBL takes the pride to be the first bank in the history of Nepal to start a mobile banking service (SMS Banking). It is the first ever commercial bank in the country to provide "Internet Banking service" to its customers. This service has allowed the bank to streamline the services it offers to customers. It allows customers the flexibility to take control of banking activities via the internet

## Deposit and Loan of Kumari Bank Ltd.

### Deposit

Saving Account
➤ Saving Plus Account
➤ Advantage Plus Account
Kumari Saving
Twinkle Star saving
50 Plus Saving
Kumari Smart
BachatKhatta
Kumari Big Saving Khatta
Fixed deposit
Kumari Smart First Deposit
Liquid Deposit

### Loan

Vehicle Loan
Home loan
Consumer Product Financing
Education Loan
Travel Loan
<b>Locker Facility</b>
<b>Remittance</b>
➤ Managers Cheque
➤ Demand Draft
➤ Telex Transfer
➤ Travelers cheque

## 1.2 Statement of the Problem

Nepal, as an economically back pushed country most of the resources of the country are remained unused due to lack of financing. This inadequacy of financing can be removed by participation of foreign investors in the commercial banks to some extent. With this view welcomed the joint venture banks in Nepal. Joint venture foreign commercial banks are operating in Nepal after the government adopted the open liberal and market oriented economic policy the financial sectors has not been enough to meet the growing resource need to the economy. Why is so and what are the problems? It's a very important question. How well the commercial banks of Nepal are doing is the matter of query. What will be their situation in future are some arose question. To answer the question, an analysis of their present financial performance is necessary. A well performance resembles the well combination of all factors. So the

effectiveness of policy, managerial skill, Mobilization of funds and assets will be reflected by the achievement.

In fact, financial performance is a mirror which shows the weakness and strength of the bank. Therefore the paramount significant is not the establishment of commercial banks but how effectively they are doing their performance. The study aims to assess the financial performance condition and overall performance of the sampled commercial banks in the framework of CAMEL. The fundamental problem of this study is to find out fine financial condition of sampled commercial banks in the framework of CAMEL. Based on the fundamental problem, the following specific problems have been set.

- Are the commercial banks able to maintain required capital adequacy ratio as NRB regulation?
- What is the position of its capital, profit, loan, liquidity and deposit over different periods?
- How is the relationship between loan and deposit?
- How is the liquidity position of the bank?
- How is the firm's efficiency in utilizing assets?
- How is the relation between debt and equity of the bank?

### **1.3 Objectives of the Study**

The basic objectives of the study are to examine and evaluate the overall financial performance and effectiveness of selected banks through CAMEL. To achieve these prime objectives the following objectives are also considered in the study.

- To examine the capital adequacy ratio and core capital ratio of banks in different period.
- To highlight relationship between different variables of financial statement
- To examine quality of assets, management efficiency, earning capability and liquidity position of the selected banks.
- To provide suggestions and recommendations for the improvement of the future performance of selected banks based on the finding of analysis.

## **1.4 Importance of the Study**

Good financial performance has a positive impact on economic development of the country and vice versa. Therefore the financial performance of the banks should be in accordance with the spirit of the economic expectation of people.

- This study gives overall idea of the bank's efficiency in utilizing the assets.
- This study would be helpful to those who seek information on financial performance of commercial banks.
- This study also helps to find out if commercial banks are maintaining good financial performance through CAMEL.

## **1.5 Limitations of the Study**

For the completion of this study, the following facts are the basic limitation.

- This study is based on primary as well as secondary data. Accuracy depends upon the data collected and provided by the bank.
- Limited time and resource are major constraint.
- Out of 29 commercial banks, only 2 banks are taken as sample.
- This analysis is based on CAMEL.

## **1.6 Organization of the Study**

The proposed study will be organized into five sections, each deal with the specific aspects of the study which will be as follows:

### **Chapter One: Introduction**

This chapter deals with introduction, which includes general background, statement of the problem, objectives of the study, Importance of the study, limitation of the study of Machhapuchhre Bank Limited & Kumari Bank Limited.

### **Chapter Two: Review of Literature**

The second chapter, Review of literature deals with reviews some work analysis and performance analysis of financial institutions and review of related studies

### **Chapter Three: Research Methodology**

This chapter describes the research methodologies applied to the study; it deals with Research Design, Population and sample, Source of data, Period of study, Statistical tools and Financial tools.

### **Chapter Four: Data Presentation and Analysis**

The fourth chapter is concerned with analytical framework. It includes the analysis of financial statement of Machhapuchhre Bank Limited and Kumari Bank Limited based on CAMEL and comparing it with the guideline set by Nepal Rastra Bank and also each other and overall finding of all two banks.

### **Chapter Five: Summary, Conclusion and Recommendation**

Last section will present summary and conclusion of the study. The major findings of the study will be presented in brief for convenience of the readers and implication of such findings will be stated as recommendation. This section will also incorporate an outlet for future research. Exhibits and Bibliography will be included as Appendices at the end of the study.

# CHAPTER -II

## Review of Literature

### 2. Introduction

Review of literature is the most essential part of all studies. It is a way to discover what other research in the area of our problem has uncovered. A critical review of the literature helps to develop a thorough understanding and insight into previous research works that relates to the present study. Without clear concept on the subject matter, the study might not be conducted with in its periphery. This section provides current stage of the research work and guidelines or further study and helps to avoid unnecessary duplication of research work. This chapter is focused on brief discussion about the abstract regarding the camel analysis. In order to accomplish the objectives of the study, the chapter includes review of relevant concepts, assumption, books and journals as well as major findings of previous studies of the relevant field are included in precise manner.

Scientific research must be based on the past knowledge. The purpose of review of the literature is to develop some expertise in one's area, to see what new contribution can be made and to receive some ideas for developing a research design. Thus, the previous studies cannot be ignored, because they provide the foundation to the present study. In other words, these have to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies. From this, it is clear that the purpose of literature review is to find out what researcher studies have been conducted in one's chosen field of study and what remain to be done.

The review of literature provides the foundation for the developing a comprehensive theoretical framework from which hypothesis can be developed for testing. It is a crucial aspect because it denotes planning of the study. The main purpose of literature review is to find out what works have been done in the areas of the research problem under study being undertaken. For review study, the researcher uses different books, reports, journals and research studies published by various institutions, unpublished dissertations submitted by master level students have been reviewed.

## 2.1 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 History of Banking in Nepal

The specific date of the beginning of money and banking deal in Nepal is not obvious, it is speculated that during the reign of the king Manadev, the coin “Manank” and “Gunank” during the reign of the king Gunakamadev were in use. Historically, we find the evidence of minted coin of Amshuverma in the 7th century and later the coin of Jishnu Gupta. In the beginning of eighth century, king Gunakamadev renovated the Kathmandu city by taking loan and at the end of the same century; a merchant named Shankhadhar had started the “New year” Nepal Sambat after freeing all the people of Kathmandu from the debt. Sadashiva Dev in 12th century, introduced, Silver Coins, King Jayasthiti Malla, had given the responsibility to a caste of society called “Tankadhari” while he had given the name of the castes and their professions for the purpose of transactions of money in the society. In the same century, copper coins were used by King Ratna Malla and the gold coins by the last Malla King of Kathmandu Jaya Prakash Malla.

After the unification of Nepal, Prithvi Narayan Shaha the great King had used coin Mohar in his name. An institution called “Taksar” was established in 1989 and it started to issue the coin scientifically. In this way, we see that the coins have been in use from the ancient time, and there was practice of taking and giving loan for the purpose of trade and other various purposes. During the reign of Ranodip Singh, an office named “Tejarat” was established in Kathmandu in 1933 (B.S.) It used to provide loans to the government officials and the people against deposit of gold and silver. It had also extended its branches outside Kathmandu valley for giving loan. However, this office had no right to accept deposit of public and it had no characteristics of modern banks.

Nevertheless we can say that the institutional banking system had started from then. After having concluded a treaty with British India in 1980 (B.S.), Nepal could trade

over Seafreely for the diversification of trade. As a result, in 1933(1936 the draft of the company act and banking act were prepared by forming industrial council “A Jute Mill” was established in Biratnagar under this act and both commercial and industrial developments as well as institutional banking system had been started together at a time in Nepal.

The history of modern commercial banking industry dates back to 1937 A.D. in which year Nepal Bank Limited was incorporated. Till 1984, financial sector was closed to private sector and foreign investors. Then the Government started to liberalize the financial sector in the first half of 1980s. But it speeded up this process only in early 1990s. Private Sector rushed into the finance industries especially after the restoration of democracy in 1990. Most of the commercial Banks came into operation during the decade of 1990s. Government of any countries highly monitors and controls the finance industry even in the liberalized market economy. Government does so due to its high gravity in the national economy, and to build up the confidence of private sector in its financial system. Nepal Rastra Bank (NRB) as an apex monetary authority of the country started to monitor and control the finance industry especially at the end of the 1990s by issuing directives to the financial institutions (FIs). It initiated the offsite and onsite supervision of FIs to maintain their sound financial health and to build up the confidence of private sector in the liberalized financial system and protect the interest of the investors.

“Tejaraath” was replaced by the first commercial bank, Nepal Bank Limited established on 30<sup>th</sup> Kartik 1994 B.S. (1938 AD) with authorized capital of 10 million rupees. Nepal was influenced by the renaissance and the industrial growth brought about by First World War. Nepal established first legation in international level in London in 1934 for creating international relation with the various countries. The first secretary Gunjaman Singh was posted to the legation in his alertness, and under the international influence and the national necessity, Nepal Bank limited was established under the Nepal Bank Act 1994(1938). It has many important functions. The Nepal Bank Limited is the oldest bank of Nepal.

The economic and industrial development was stopped in Nepal from the Second World War. After 2007, the banking activities of Nepal were not satisfactory due to political instability. At first, though this bank was given the authority and

responsibility of central bank, but with the change of time, it was necessary to establish a Central Bank.

Nepal Rastra Bank was established in Baisakh 14, 2013 (1957) as central bank under the Nepal Rastra Bank Act 2012 BS. This was established to replace the Indian Currency and to increase the usage of Nepalese notes, to stop dual monetary system, to apply monetarism in all part of the country, to provide issuance of notes, to bring Nepalese currency in use, to manage the monetary system well, to keep stability of the exchange rate of Nepalese currency, to encourage national industry by mobilizing the capital for development and to develop the banking system in Nepal. This is the government bank. This is bank of banks.

After the establishment of Central bank other banks and financial institutions are established like Nepal Industrial Development Corporation (NIDC) was established in 2016 B.S. likewise Rastriya Banijya Bank, Agricultural Development Bank was established dated 2024-10-07 B.S. under the initiative of the Central Bank. After this phase, commercial banks started its operation. Those banks were opened with joint investment. After this Development Banks, Micro financing came into existence.

Nabil Bank is the first bank established in joint investment in 2041 (1984) and then Nepal Investment Bank was established in 2042 (1985). Standard Chartered Bank was established in 2043 (1987) as a joint venture between ANZ Grindlays and Nepal Bank Limited. Himalayan bank was established as a joint venture with Habib Bank of Pakistan in 2049 (1993). Nepal SBI Bank Limited was established as a joint venture between Employees Provident Fund and State Bank of India in 2050 (1992). Nepal Bangladesh bank was established in 2050 (1993) in technical collaboration with I.F.I.C. Bank Limited of Bangladesh. Everest Bank started its operation in 2051 (1994) but it entered into joint venture with Punjab National Bank in 1997. Bank of Kathmandu was established in 2051 (1994) under joint investment with syam Bank of Thailand. Nepal Credit & Commerce Bank was established as joint investment with leading Bank of Srilanka. Hence there are many Banks in operation in Nepal.

### 2.1.2 Concept of Commercial Bank

Commercial banks are the major component in the financial system. They work as the intermediary between depositors and lenders and facilitate in overall development of the economy, with major thrust in industrial development. Commercial bank came into existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sector and causing and overall economic development.

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 others specific objective.

Commercial banks came into existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sector and causing and overall economic development. The bankers have the responsibility of safeguarding the interest of the depositors, the shareholders and the society they are serving. A sound banking system is important because of the key roles it plays in the economy; intermediation, maturity transformation, facilitating payments flows, credit allocation and maintaining financial discipline among borrowers. Banks are the gatherers of saving, the allocators of resources, providers of liquidity and payment of services.

Table No. 1

#### List of licensed Commercial Banks in Nepal

S.N.	Name	Established Date
1	Nepal Bank Limited	15 Nov, 1937
2	Rastriya Banijya Bank	23 Jan, 1966
3	Agricultural Development Bank Limited	19 Feb, 1968
4	Nabil Bank Limited	16 July, 1984
5	Nepal Investment Bank	27 Feb, 1986
6	Standard Chartered Bank Nepal	30 Jan, 1987
7	Himalayan Bank Limited	18 Jan, 1993

8	Nepal SBI Bank Limited	7 July,1993
9	Nepal Bangladesh Bank	5 June1993
10	Everest Bank Limited	18 Oct,1994
11	Nepal Credit and Commerce Bank	14 Oct,1996
12	Bank of Kathmandu	12 March,2005
13	NIC Bank Limited	21 June,1998
14	Lumbini Bank Limited	17 July,1998
15	Machhapuchre Bank Limited	3 Dec,2000
16	Development Credit Bank Limited	23 Jan, 2001
17	Kumari bank Limited	3 April,2001
18	Laxmi Bank Limited	3 April,2002
19	Siddhartha Bank Limited	24 Dec,2002
20	Global Bank Limited	2 Jan, 2007
21	Citizens Bank Limited	21 June, 2007
22	Prime Commercial Bank Limited	24 Sept, 2007
23	Bank of Asia Nepal Limited	12 Oct, 2007
24	Sunrise Bank Limited	12 Oct, 2007
25	Nepal Merchant Bank Limited	26 Nov, 1996
26	Kist Bank Limited	7 May, 2009
27	Janata Bank Limited.	28Apr,2010
28	Mega Bank Limited.	July,2010

### 2.1.3 Functions of Commercial Banks

Commercial banks, as the name itself signifies, are designed to accept deposit and advance credit to commercial sector. They receive deposits and lend it to those who need it after executing required document actions and after making the necessary provisions for reserves as per regulations. But the modern commercial bank does not stop with merely receiving and lending functions. They undertake innumerable functions, apart from the statutory functions. Although these banks are truly inspired with the objective of gaining profit, these commercial banks are also established to, to accelerate common people's economic welfare and facility, to make available loans to agriculture, industry and commerce and to provide the banking services to the public and the state. The commercial banks offered various types of financial services and functions.

**1. Deposit Collection**

Collecting deposit is the primary function of the commercial banks. They collect deposit from individuals, business, government sectors and other institutions.

**i. Current Account or Demand Deposits**

Current Deposit is also known as Demand Deposit. Those deposit generally maintained by the trades and businessman who have the make a number of payments frequently and regularly. Usually no interest is paid on them hence called non-interest bearing. Depositors sometimes may have to pay certain charges to the bank for services rendered.

**ii. Saving Account**

These Deposits stand midway between current and fixed deposits. Banks may impose certain restrictions on the depositors regarding the number of withdrawals and the amount to be deposited in a given period. Rate of interest paid on these deposits is low as compared to that fixed deposits. However these deposits are less volatile and less concentrated in nature and are considered as best type of deposits.

**iii. Fixed Deposit**

A fixed deposit (also known as a term deposit) is a deposit at a banking institution that can not be withdrawn for a certain “term” or period of time when the term is over it can be with drawn or it can be held for another term. In any case if the depositor has to withdraw the amount, the agreement will be void and no/or less interest is paid. Comparatively higher interest is paid on them. Thus fixed deposits are time liabilities of the banks.

**iv. Call Deposit**

Call deposit, also known as hybrid deposit, is a combination of current and fixed deposit invented for meeting customers financial needs in a flexible manner. Increasing competition has facilitated to introduce this deposit product. This deposit mainly serves the need of appropriate assets liability management of the banks and financial institutions.

v. **Margin Deposit**

This account is meant for holding margin money of the customers deposits(non-interest bearing) to avail various facilities from the bank. Customers are not allowed to withdraw any amount from such account till the expiry of the availed facilities. Margins are required for LC, Guarantee, remittance and some other facilities.

2. **Advancing Loans**

The next important function of commercial banks is advancing loans. Commercial banks offer various types of loan to the individual, business unit and other institutions. Generally bank loans are categorized as:

**Cash credit**

It is revolving type of loan account, normally granted against stock and receivables. This account is regulated by stock statements and drawing power wherein credit/debit transactions are permitted within the sanctioned limit. The level to which debit balance can be permitted is decided by drawing power or limit whichever is lower. Cash credit is normally granted against security of certain commodities, products or book debts/receivables.

**Demand/Term Loan**

Demand loan is a loan provided on repayment basis and is not a running account. Demand/term loan once granted will have a debit for the quantum sanctioned and thereafter only credits of repayment, normally personal in nature, are permitted. It is given against security and the security will be in the form of fixed assets or fixed deposits and it will never be given against stocks. These loans are granted to acquire fixed assets like machinery and construction works.

**Overdraft**

Banks allows customers to draw more than the deposit they have in the Bank. The customer, however, pays to the amount overdrawn by them. As overdraft is granted against security of certain investment like bond /fixed deposits or time it is given against personal guarantee.

### **Bill/Cheque Purchase/ Discounting**

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

### **Trust Receipt Loan**

Trust receipt loans are sanctioned as a limit to be utilized against hypothecation of stocks imported under own letters of credit, normally for a period of 90 days. It is in the nature of demand loan, which is liquidated by 2-3 installments and the limit is not cancelled with liquidation but is reinstated. Hence this loan is more in the form of working capital loan.

### **Money at Call and Short Notice**

These loans are generally made to other banks and financial institutions. Such loans are very short period loans and can be called back by the bank at a very short notice of 1 day to 14 days.

## **3. Credit Creation**

As mentioned above raw material for advancing loans is deposits and from among the collected deposit banks advance the loans to the borrower. These loans taken by borrower are expensed. Finally the same amount comes back to the bank as a deposit. Finally the same amount comes back to the bank. This function of the commercial banks is known as credit creation.

## **4. Trade Finance**

Commercial banks provide various facilities to facilitate external and internal trade. Banks have offered various funded and non-funded facilities to the business. Services like Letter of Credit, Guarantee, Trust Receipt etc are the example of such finance.

## **5. Agency Function**

Commercial banks also perform a number of agency functions for and on behalf of its customers. They handle transaction in share stock, bonds and debentures for their clients. As requested by their customers, they pay taxes, fees and dues on their behalf as necessary.

#### **2.1.4 Concept of Bank Supervision**

There is no theoretically proven system or standard textbook blueprint for the structure and process of regulating and supervising financial institution, including banks. In fact, arrangements for banking regulation and supervision differ considerably from country to country. Apart from the differences in political structure, the most important factors that account for the differences in regulatory and supervision approaches include the general complexity and state of development of the financial system, the number, size and concentration of banking institutions, the relative openness of the domestic financial system, the nature and extent of public disclosure of bank, financial position and availability of technology and human resources for regulation and supervision. However, an impact framework for the regulation and supervision of the banks can be found in the core principles for effective banking supervision issued by the Basel Committee on Banking Supervision in 1977. The framework can be interpreted as comprising four distinct yet complementary sets of arrangements.

#### **2.1.5 Objectives of Bank Supervision**

With the respect of the supervisory arrangements the core principles describe what could be termed a "cradle to grave" approach covering potential problems that may emerge in the future on account of the current risk profile of the banking institution, overall, supervisory risk assessment and early warning systems assist in systematic assessment of banking institution within a formalized framework both at a time of on-site examination and in between examinations through off-site monitoring. Identification of institutions and areas within institutions where problems exist or are likely to emerge. Prioritization of bank examinations for optimal allocation of supervisory resources and pre-examination planning. Initiation of warranted and timely action 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. Off-site 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 bank 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 the Nepal Rastra Bank**

Principally, the central bank has the liability and obligation to maintain fair and healthy environment of the economic activities of the nation. For it the necessary acts, rule and regulation are enacted and development. Thus, the act of checking whether the related officials and banks have honestly complied with the policy, regulation and supervisions enacted by the controlled financial system, it self is called inspection. As a central bank, the Nepal Rastra Bank has been discharging such serious and sensitive task.

Before the establishment of Nepal Rastra Bank, the function of inspection and supervision used to be carried out by the officials by His Majesty of the Government of auditor general. This practiced was contributing until the enactment of the commercial bank act 2020BS. After the introduction of this act, the function of inspection and supervision for the commercial bank was given to the Nepal Rastra Bank and this right was more strengthened by the Nepal Rastra Bank act and the introducing of the commercial bank act 1974. The Nepal Rastra Bank has been discharging the task of inspection for the fiscal year 2025/26BS.

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

### **2.1.8 Concept of CAMEL Banks Rating System**

The acronym "CAMEL" is revised in January 1997, the uniform financial institution rating system, which is commonly referred to as that camel rating system. For purpose of this rating system, the term financial institution refers those insured depository institution whose primary federal supervisory agency is represented on the FFIEC. The agency comprising the FFIEC the board of governors of the federal reserve system (FRB) the federal deposit insurance corporation, the national credit union administration the office of the controller of the currency and the office of the thrift supervision. The term financial institution includes federally supervised commercial banks, savings and loan associations, mutual savings banks and credit unions.

Capital adequacy, Assets quality, Management efficiency, Earnings and Liquidity. A sixth component, a bank's sensitivity to market risk was added in 1997; hence the acronym was changed to CAMEL.

The camel rating system is subjective benchmarks for each component are provided, but they are guidelines only and presents essential foundations upon which the composite rating is based. They do not eliminate consideration of the other patient's factors by the examiner. The uniform rating system provides the ground work for necessary supervisory response and helps institutions supervised by all three us supervisors to be reasonably compared and evaluated. Rating are assigned for each component in addition to the over all rating of a banks financial condition. The ratings are assigned on a scale from 1 to 5. The camel ratings are commonly viewed as a summary measures of the private bank supervisory information gathered by examiners regarding banks overall financial conditions, although they also reflect available public information. Such as details on problem loans, with which to evaluate banks financial conditions and to monitors its compliance with laws and regulatory polices. A key product of such an exam in a supervisory rating of banks overall conditions commonly referred to as a CAMELS rating. In Nepal, the NRB plays the supervisory role for evaluating banks financial condition through rating the banks in accordance to CAMELS is still a myth.

### **2.1.9 Composite of Ratings**

Composite ratings are based on a careful evaluation of an institution's managerial, operational, and financial and compliance performance. The six key composites used to assess an institution's financial condition and operations are: capital adequacy ratio, asset quality, management capability, earning quantity and quality, the adequacy of liquidity and sensitivity to market risk. The rating scale ranges from 1 to 5 with a rating of 1 including; the strongest performance and risk management practices relative to the institution's size, complexity and risk profile; and the profile; and the level of least supervisory concern. A 5 rating includes; the most critically deficient level of performance; inadequate risk management practices relative to the institution's size, complexity and risk profile and the greatest supervisory concern.  
([www.google.com](http://www.google.com))

### **2.1.10 Camels Components**

Each of the components rating descriptions is divided in the three sections; an introductory paragraph; a list of the principle evaluation factors that related to that component; and a brief description of each numerical rating for the components. Some of the evaluation factors are reiterated under one or more of the other components to reinforce the interrelationship between components. The listing of evaluation factors for each component's rating is in no particular order of importance.

#### **A. Capital Adequacy Ratio**

Capital adequacy ratio reflects the overall financial condition of the banks and also the ability of the management to meet additional capital requirement. The inception of every business requires funds commonly known as capital normally the capital structure consists of an equity and debt mix. 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. If the bank has an adequate bank capital, people trust upon such banks, such bank becomes successful to gain the trust of all sectors

The capital adequacy of an institution's related based upon, but not limited to an assessment of the following evaluation factors.

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

## **B. Assets Quality**

Assets are the most critical factor in determining the strength of any bank. 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. The one is Performing Loan, all good loans and overdue for below 3 months. And another is Non Performing Loans, Sub-standard loans overdue by more than 90 days up to 6 months. Doubtful- loans overdue by more that 6 months up to 1 year, then Bad-loans overdue by more than 1 year.

## **C. Management**

Managements are the pillars of an organization and are responsible for organizational growth and success. The fact that we have witnessed a paradigm shift in the banking sector has a lot to do with efficient and professional management tactics. The management not only makes suitable policy and the business plans but also implements them for the short term and the long term interests, which helps to

achieve aimed objectives of bank and financial institution's. It is evaluated by checking the effectiveness of the board of directors, the management, manpower and the officials, operating expenditure, customer's relation with the officials and institution, management information system, organization and working method, internal control system, power concentration, monitoring, decision making process, policies.

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

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

#### **D. Earnings**

An analysis of earnings helps the management shareholders and depositors to know about the performance of the bank. The success of bank relies heavily upon the efficiency of the management to drive it towards earning good profits. 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 ration helps the management, investors and creditors to know the performance of the bank. They can get information regarding their interest.

Earningper Share(EPS) indicates after tax earnings of equity shareholders on a per-share basis. It reflects the earning power of the bank. Higher ratio shows the sound profitability position of the bank. Return on Equity (ROE) indicates the profit earning on total shareholders' fund. While Return on Assets (ROA) depicts how efficiently a bank is utilizing and mobilizing its assets to generate profit. Higher the ratio the better it is as higher ROE and ROA indicate better utilization of capital fund and total assets respectively.

#### **E. Liquidity**

Banks are in a business where liquidity (the ability to pay cash to its depositors) is of prime importance. Liquidity ratios are used to judge a bank's ability to meet short term resources available to such obligations. Bank does not provide all deposit at loan and advances. The certain percentage of deposit should be kept in bank in the form of cash. If the bank will keep greater deposit in cash, it loses the opportunity cost. Similarly, if bank keeps low amount in deposit, it could not be able to pay depositors on the time of requirement.

Commercial banks are directed by NRB to maintain five percentage of their deposit as CRR in NRB's account to ensure adequate liability. Cash and bank balance to total deposit ratio is designed to measure the bank's ability to meet the immediate obligation. Mainly cash withdraw by depositors. Investment on Government Security also can measure the liquidity position of bank.

#### **2.2. Review of Previous Studies**

This section deals with the review of journals, International and Nepalese along with Masters' dissertations. International journals have been accessed through the website [www.blackwellsynergy.com](http://www.blackwellsynergy.com) and [www.springerling.com](http://www.springerling.com). [www.nrb.com.np](http://www.nrb.com.np) Similarly, Nepalese journals and Masters' Thesis has been accessed from central library T.U and Shankar Dev Campus, Nepal commerce Campus, Nepal Rastra Bank, New Business Age.

**Barker and Holdsworth (1993)** found a evidence that CAMEL ratings is significant predictors of bank failure, even after controlling for a wide range of publicly available information about the condition and performance of banks.

**Cole and Gunther (1995, 1998)** found that the information contained in CAMEL rating decays quickly with respect to predicting bank failure from 1986 to 1992. In particular, they found that a model using publicly available financial data is a better indicator of a likelihood of bank failure than the previous CAMEL, rating that are more than two quarters old. These two studies address the issue of information decay directly; however, the primary purpose of CAMEL rating is not to identify future bank failures but to provide an assessment of bank's overall conditions at the time of examination.

**Deyong (1998)** found a strong positive correlation between efficiency and management quality, as proxies by bank CAMEL ratings. Examining the relationship between cost efficiency and problem loans, he found that cost efficiency to Granger-cause reductions in problem loans. He note that a decline in cost inefficiency generally tends to be followed by arise in nonperforming loans, "evidence" that bad management practices are manifested not only in excess expenditures, but also in sub par underwriting and monitoring practices that eventually lead to nonperforming loans.

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

**Berger, Davies and Flannery (2000)** carried out a research study on "Comparing Market and Supervisory" Assessments of bank performance: who knows what when?" In this paper, researchers have compared the time lines and accuracy of (confidential) government assessment of bank condition against market evaluation of large U.S bank holding companies. They found that supervisors and bond ration agencies both acquire some information that would help the other group forecast changes in bank condition. In contrast, supervisory assessment and equity market indicators are not strongly interrelated.

Furthermore, supervisory assessments are generally less accurate than either stock or bondmarket indicators in predicting future changes in performance, except when those assessments derive from a recent on-site inspection visit. To some extent, these findings are consistent with the various parties differing incentives.

**Barth and Other (2002)** carried out a study on “Bank Safety and Soundness and a Structure of Bank Supervision” a cross Country Analysis. They have raised two central questions about the structure of bank supervision are whether central bank should supervise banks and whether to have multiple supervisors. They have used data from 70 countries across developed, emerging and transition economies to estimate statistical connections between banking performance, the structure of bank supervision, permissible banking activities legal environments, banking market structure and macroeconomic conditions. They found that where central banks supervise banks, bank tends to have more non-performing loan. Countries with multiple supervisors have lower capital ratios and higher liquidity risk. They also found that conclusions from non-transition economic may not necessarily apply to transition economics.

**Derviz and Podpiera (2004)** investigated the determinants of the movements in the long-term standard and Poor’s and CAMELS bank ratings in the Czech Republic during the period of 1988 to 2001. The same list of explanatory variables corresponding to the CAMELS rating inputs employed by the Czech National Bank’s banking sector regulators was examined for both ratings in order to select significant predictors among them. They have employed an order response logic model to analyse the monthly long run S&P rating and panel data framework for the analysis of the quarterly CAMELS rating. The predictors for which they found significant explanatory power are Capital Adequacy, Credit Spread, Capital Adequacy, the ratio of Total loans to Total Assets and the Total Asset Value at Risk. Models based on these predictors exhibited a predictive accuracy of 70%. Additionally, they found that the verified variables satisfactorily predict the S&P rating one month ahead.

### **2.2.1 Review of Thesis:**

Prior this, large volume of thesis works have been carried out by various scholars covering the various aspects of finance companies such as financial performance analysis, investment portfolio and growth of finance companies, resources mobilization and companies, recourse mobilization and capital structure. Some of them, as supported to relevant for the study are presented as below;

**Amathya, Eliza (2006)** in her thesis “An Evaluation of Financial Performance of NEA” has examined the financial strength and weakness of NEA (Nepal Electricity Authority) based on its liquidity, activity profitability and leverage ratios. The study explains that NEA is suffering from ineffective utilization of assets, sluggish outstanding debt collection and generation of very low returns. The capacity of assets in the generation of revenue earned is very low in comparison to the investments made in the assets. Electricity leakage, theft and wastage and inefficient cost control mechanism with high maintenance expenditure are accused for the reduced profit earning capacity of NEA. In her thesis, she has urged for the improvement in revenue collection system, human resource skill, assets utilization and cost controls mechanism. She believes that more autonomy to the top management would result in timely decision making procedure, which seems to be rather long in NEA.

**Bhandari K.R. (2006)** performed a study on “Financial Performance Analysis of Himalayan Bank Limited in the Framework of CAMEL”. The basis objective of the study was to analyse the financial performance of Himalayan Bank Limited through CAMEL framework. He has used secondary data for the period of six years from 1999 to 2004. The study revealed the adequate capital of the bank. The non-performing loan through in decreasing trend is still a matter of concern. The bank is still with better return on equity (ROE) however it is in decreasing trend. The decreasing trend of net interest margin shows management slack monitoring over the bank’s earning assets. The liquid funds to total deposit ratio is above the industrial average ratio. NRB balance and cash in vault to total deposit ratio are below the industrial average ratio during the study period.

**Tamang Samraj (2007)** conducted a research with the main objective of finding the efficiency of NEPSE and the effect of Nepalese investors’ behaviour on the level of efficiency of NEPSE, entitled “Market Efficiency and the Investors” and found out that NEPSE is not efficient with respect to any of so called levels of efficiency. Processing of information in NEPSE is rather weak and such is perhaps because of the persistent of large number of non-actively traded share. In addition NEPSE behaviour exhibits that price response to information is biased. Price at one time may be unfairly high and later on are unfairly high and later on are unfairly low. It suggests that

information alone is not moving the price; other probable reasons for such may be irrational behaviour of investors, unfair practices of market intermediaries, non-disclosure of information by listed companies on time, manipulative action of speculators etc. This provides evidence consistent with market inefficiencies. The analysis is based on the NEPSE index for total market composite and banking sector index for the study period, test of market efficiency is performed by the randomness analysis of daily market return through the use of Auto-correlation and Run test models. The autocorrelation and run test have detected the existence of significant relationship in the series of market return. It means stock return or prices are following a predictable pattern. Therefore, active investors with historical information about the stock prices can easily outperform with simple buy and hold strategy. The thesis submitted by Mr. Ram Chandra Khatiwada (2008) on the topic "Financial Performance Analysis of Butwal Power Company" examines the financial strengths and weakness of BPC based on its ratio analysis, income and expenditure analysis and least square trend analysis. The study reveals that apart from total assets turnover ratio and capital employed turnover ratio all other ratios are satisfactory and indicate good financial performance of BPC. It also reveals that both the operating income and operating expenses are in decreasing trend, but as the income is diversified appropriately the company possesses good sustaining power. The trend analysis reveals that the company has done better in sales but worse in operating income over the period. The grievance of the study is that the company holds a big portion of current assets unutilized and lacks the ability to enjoy less cost of borrowed capital. Mr. Khatiwada has proposed for a better capital structure and efficient use of total assets in BPC.

**Poudel, R.** (2007) carried out "A study on comparative analysis of financial performance between Himalayan Bank and Standard Chartered Bank" the basic objectives of that study were provided comparative financial performance of SBCNL and HBL. Only five fiscal years financial performance beginning from 1995/96 through 2000/2001 were analyzed.

In this study financial and statistical tools were used to evaluate the performance of banks. In financial tools liquidity, activity, profitability, structural and income and expenditures ratios. Further, the research used the method of least square to find out the trend of different financial indicators he found that the performance of SCBNL is better than that of HBL.

**Chand, K.B.** (2007) conducted "Financial Performance Analysis (CAMEL - Test) of Selected CBs (Nabil, NIBL & SCBL)" the main objective of the study is comparative analysis of commercial banks through the framework of CAMEL. He did her study covering five FY (2001 to 2005) on the basis primary as well as secondary data. Some financial and statistical tools and techniques are applied to evaluate the performance of selected joint venture banks. On his study, except 2001, SCBL had highest CAR among these selected CBs where Nabil is moderate in all time. In the case of NIBL in 2001 it had highest CAR among them and then after it went behind and getting second and some year third position in CAR. Here Chand gave first rank to SCBL for maintain highest CAR. In case of Assets quality in average study show the Nabil performance is much better than other and SCBL and NIBL follows Nabil respectively. Chand study shows the factors affecting the management efficiency and effectiveness. Bank management quality model was also presented in his study. As per earning concern SCBL leads other two banks and tough fight between Nabil and NIBL. For comparative analysis of liquidity part which compare, it is found that NIBL secures first position for percentage of cash balance and percentage of balance with bank and SCBL scores first position for investment in government securities. Nabil is a little bit take risk and invest less in government securities as compare to other two banks. All banks are maintaining the benchmark of the NRB on case of CRR.

**Dhakal, Nirmal (2008)** Carried out "Financial Performance of Everest Bank Limited" objectives are to examine the overall performance of EBL in terms of liquidity, activity, profitability, leverage and capital adequacy ratio, to study the achievement of EBL, to evaluate the effectiveness of collection of deposit and their utilization to examine the causes of gap existing between deposits and loan, investment. He did his study covering five FY (01/02 to 205/06) on the basis primary as well as secondary data. Deposit and net profit, total deposit and loan and advances, total deposit and investment are found to be strongly positively correlated at significant level. The result of the analysis indicates that net profit earned in comparison to the total deposit is relatively low. The result of the analysis indicates that the bank has the high debt equity ratio, which means the creditors, have invested more in the bank than the owners.

**Dahal, Suman (2009)** Conducted “Financial Performance Analysis of NIC Bank Ltd in the Framework of CAMEL”. The main objective of the study were analyse the financial performance of NIC Bank Ltd by in CAMEL. From FY 2003 to 2008 .With help of secondary data.He conducted her study by applying some financial and statistical tools and techniques. The bank’s financial soundness is judged being based on some factors-capital adequacy, asset quality, management soundness, earning quality, liquidity position and sensitivity to market risk. Analysis shows that NICBL has met the requirement as prescribed by the NRB during the entire study period.The bank has maintained adequate provision in the entire loan category.

The earning per employee is in increasing trend except in the year 2006. Financial Position of BIC bank is satisfactory.

**Baral,BishnuPrasad (2010)** conducted “Financial Performance Analysis of Annapurna Finance Company Limited in the Framework of Camel”. The objectives of the study wereto analyse the capital adequacy ,to assess the quality of assets ,to evaluate managing its expenses with respect to incomes and to analyse the position of earning per employees, to study the trend of earning performance, to measure the liquidity position of AFCL. The study was conducted with the objective to analyse the financial performance of anAnnapurna Finance Company Limited (AFCL) in the framework of CAMEL over the fiveyear period from F.Y 060/61 to 064/65 following a descriptive and analytical research design.For the study purpose, AFCL is drawn as a study unit with applying convenience samplingmethod out of 78 finance company till mid-July. The study is based on secondary data. Forthe analysis of the study, annual reports and financial statements of AFCL are used as themajor sources of the data. The analysis of financial statement is done to obtain a better insightinto a firm’s position and performance. Various financial and statistical tools have been usedin this study to get the meaningful result to meet the research objectives.

**Rai, E. (2010)** carried out a research study on “A Study of Camel Analysis of Commercial Banks (Reference To Everest Bank Ltd., Bank of Kathmandu And Nepal Industrial And Commercial Bank Ltd.).The objectives of the study were to check the capital adequacy, assets quality, management quality and earning capability and

liquidity position of selected banks. The study was conducted with the objective to analyze and compare the financial performances of Everest Bank Ltd. (EBL), Bank of Kathmandu (BOK) and Nepal Industrial and Commercial Bank Ltd. (NIC) in the framework of CAMEL over the five years period from FY 2004/05 to 2008/09. The study is based on the secondary data. For the analysis of EBL, BOK and NIC are used as the major sources of data out of 26 commercial banks. CAMEL is a common method for analyzing the health of individual institution, to quantify the performance and the financial condition of the firm. The banks are successful to maintain capital Adequacy Ratio as per NRB standard, i.e. 11% as per current data. BOK has highest CAR than other two banks. Loan loss Provision Ratio of EBL has lower than other two banks which is better than other banks. MER, Liquidity Position, Earning are also higher than other two banks.

### **2.2.2 Research Gap**

Prior this, few studies have been carried out regarding financial performance, comparative study and analysis of commercial banks and finance company on the framework of CAMEL. So far this researcher's knowledge, this study attempts to examine and evaluate the overall financial performance and effectiveness of Machhapuchhre Bank Ltd and Kumari Bank Ltd through CAMEL as well as this study focuses on the individual study of the selected banks by taking latest five years data.

# **CHAPTER III**

## **Research Methodology**

### **3 Introduction**

This chapter has equipped researchers with the inputs necessary for the study and help to make choice of research methodology to support the study in realistic terms with sound empirical analysis. “Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view.”

It also specifies the method and procedure for the acquiring the information needed to solve the research problems. The main objective of study is to analyze and evaluate financial performance of Machhapuchhre Bank Ltd and Kumari Bank Ltd based on CAMEL. To meet the objectives the methodology applied in the study is described as below.

#### **3.1 Research Design**

A research design is the arrangement of conditions for collection and analysis of data that aims to combine relevance to the research purpose with economy in procedure. Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variances. To achieve the objective of this study, descriptive and analytical research design has been used.

Some financial and statistical tool has also been applied to examine facts and descriptive techniques have been adopted to evaluate financial performance of MBL and KBL.

#### **3.2 Population and Sample**

In this study convenience sampling method will be used. At present there are 28 commercial banks operating in Nepal and certified by NRB. Hence, the population consists of twenty-eight commercial banks. Out of 28 commercial banks Machhapuchhre and Kuamari Bank Ltd are selected as sample for this study.

### **3.3 Sources of Data**

Mainly, the study is conducted on the basis of the secondary data. The data required for the analysis are directly obtained from the balance sheet and the P/L a/c of the concerned banks annual reports. Supplementary data and information are collected from number of institutions and regulating authorities like NRB, security exchange board, Nepal stock exchange Ltd, Ministry and finance, budget speech of different fiscal years, economic survey and national planning commission etc. All the secondary data are compiled, processed and tabulated in the time series as per the need and objectives. Formal and informal talks with the concerned authorities of the bank were also helpful to obtain the additional information of the related problem. Likewise, various data and information are collected from the economic journals, periodicals, bulletins, magazines and other published and unpublished reports and document from various sources.

### **3.4 Period of the Study**

Five Years Annual Report has been taken of respective banks which are published by the bank after audit to the general public. It covers the fiscal year of 2004/05 to 2008/09.

### **3.5 Sources of Data**

As per nature of the study, the study is solely base on secondary data. The required data for the study will be collected in followings ways:

- Annual report of Machhapuchhre Bank Limited and Kumari Bank Limited.
- Internet, home pages and related links visit.
- Directives of NRB, reports, bulletins, and its website,
- Library research study
- The other sources will be articles, previous study on related topic, published articles
- Different authors and journals.

### **3.6 Data Analysis Tools**

Various financial and statistical tools have been used in this study to get the meaningful result and to meet the research objective. Financial ratios are the major

tools for the analysis. In addition to the financial tools, other simple statistical (descriptive) tools were also used. The major tools applied in this study are described in the following sections.

### 3.6.1 Financial Ratio Analysis Tools

To make rational interpretations, keeping with the objectives of the study, various analytical financial tools have been used in the study. The financial analysis tools are used to determine the performance of the banks in the framework CAMEL components. These ratios are categorized in accordance of the CAMEL components. Following categories of key ratio are used to analyze the relevant components in terms of CAMEL.

#### 3.6.1.1 Capital Adequacy Ratio (CAR)

Risk based capital ratio can be defined as the numerical expression of total capital fund to total risk adjusted assets. Capital is important for an organization. Holding excess capital than required may have higher holding cost and low return from investment. Similarly holding too little capital may have inefficiency in paying liabilities of a firm.

Capital adequacy ratio is a measure of the amount of a bank's capital as a percentage of its risk weighted credit exposure. Nepal Rastra Bank (NRB) which recommends minimum CAR of 11% and 5.5% of Core Capital Ratio (CCR).

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

*(Minimum requirement as per NRB Directive is 11%)*

Core Capital Ratio:

Core capital ration shows the relationship between the total core capital and total risk adjusted assets. It is used to measure the adequacy of core capital and financial soundness from very close angle

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

*(Minimum requirement as per NRB Directive is 5.5%)*

Where,

Total Capital Fund = Core Capital + Supplementary Capital

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

### **3.6.1.2 Assets Quality**

Asset quality refers to the capability of any institution in terms of financial strength. A comprehensive evaluation of the asset quality is one of the most important components in accessing the current and future variability of banks. It is also known as turnover ratio. Thus assets quality indicates the speed in which the asset is being turned over. Commercial banks holds the assets in the form of the liquidity assets such as cash and bank balance, short-term investment, loans and advances which every heading consist of risk. Thus bank should be capable of classifying such asset under performing and non-performing loans.

#### **1. Performing Loans**

Performing loan is also known as standard, pass loan and good loan. When a customer. Pays his payment against loan by the third month of its due date those loan are performing loan.

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

A loan is non-performing when payments of interest and principal are past due by 90days or more, or at least 90 days of interest payments have been capitalized, refinanced ordelayed by agreement, or payments are less than 90 days overdue, but there are othergood 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 LOAN / ASSET**

<b>Asset</b>	<b>term</b>	<b>duration overdue</b>	<b>loan loss provision</b>
Performing loans	Standard/pass/good	1 to 3 months	1%
Non-Performing	sub-standard	3 to 6 months	25%
	Doubtful	6 months to 1 years	50%
	Bad loans	more than 1 year	100%

These are the classification of loans according to time frame which are also defined with provisional as per percentages. And for determining the assets quality various ratios can be used.

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

Where,

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

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

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

Where,

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

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

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

Where,

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

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

### 3.6.1.3 Management

Managements are the pillars of an organizational growth and success. Human resources managements is one of the key management issues, good or bad human resource management translates into efficient or inefficient staff performance. Infract the management not only makes suitable policy and the business plans, but also implements them for the short term interest. It is evaluated by checking the effectiveness of the board of the director, management, manpower and total official. Therefore, efficient and effectiveness management, the bank should have the following qualities.

- Quality of good management.
- Proper structure of the management.
- Customer care department.
- Use of modern information technology.
- Fair decision making.
- Proper communication System.
- Internal management system and relation between customer and organization.

#### System motivation

- Self-directed work team.
- Total quality management, produces and process.
- Job rotation
- Coaching and monitoring
- Significant amount of information sear in

Management analysis can be done by using following formula;

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

### 3.6.1.4 Earning

Earnings are the amount of profit a company realizes offer all costs, expenses and taxes have been paid. It is a life blood of the industry. The earnings help the management shareholder's and depositors to evaluate the performance of the bank sustainability of earnings are forecast growth of the bank. The success of a bank rests heavily upon the efficiency of the management to drive

it towards earning good profits. The analysis of earnings highlights the overall performance of the bank. Good earnings performance would inspire the confidence of the depositors, investors, creditors and public at large.

Following ratios depicts the earning position of MBL and KBL.

$$\text{EarningsPerShare (EPS)} = \frac{\text{Net Profit after Tax}}{\text{No of Share Outstanding}}$$

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

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

### **3.6.1.5 Liquidity**

Bank is in business where liquidity (liability to cash to its depositors) is of fundamental (prime) importance. Liquidity ratios are used to judge a bank's ability to meet short-term compulsion (obligation). It is the comparison between short-term obligation and short-term resources available to meet such obligation. As liquidity has inverse relationship with profitability, financial institutions must strike a balance between liquidity and profitability; financial institutions must strike a balance between liquidity and profitability. Banks must be able to manage demand and supply of funds form of assets.

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

- **Cash Reserve Ratio (CRR)**

Cash Reserve Ratio is a bank regulation that sets minimum reserves each bank must hold to customer deposits. These reserves are designed to satisfy withdrawal demands, and would normally be in the form of fiat currency stored in a bank vault (vault cash), or with a central bank.

The reserve ratio is sometimes used as a tool in monetary policy, influencing the country's economy, borrowing and interest rates. Western central banks with low excess reserves; they prefer to use open market operations to implement their monetary policy. An institution that holds reserves in excess

of the required amount is said to hold excess reserves. Commercial banks directed by NRB to maintain 5.5% of their deposits as CRR to ensure liquidity. It is maintained on a weekly basis. If banks fail to maintain a minimum of CRR, it is liable to pay penalty and even bears vulnerable conditions towards liquidity crunch.

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

Since, we cannot find the daily deposit amount in annual report and also cannot access it, we cannot find cash reserve ration 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

$$\text{Cash and Bank Balance Ratio (CBR)} = \frac{\text{Cash \& Balance}}{\text{Total Deposit}}$$

- Investment in Government Security Ratio (IGSR)

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

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

# **CHAPTER – IV**

## **Data Presentation & Analysis**

### **4.1 Introduction**

The general purpose of this chapter is to examine the processes by which the meaning and implications of research data can best be extracted. The main purpose of such analysis is to obtain answer to research questions or to test the hypothesis.

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 Machhapuchhre Bank Limited and Nepal Kumari 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 CAMEL.

### **4.2 Data Presentation and Analysis**

In this section, components of CAMEL and its sub-components are presented in Label and graph which are as below. The major findings of the study on financial performance of MBL and KBL are also described on each section and part of CAMEL Analysis.

#### **4.2.1 Capital Adequacy**

Capital adequacy is a measure of a financial institution's financial strength in particular its ability to cushion operational and abnormal losses. In addition it provides a cushion against the risk of failure. Adequate capital reduces firm's risk. A firm should have adequate capital to support its risks assets in accordance with the risk weighted capital ratio framework. So the adequacy of firm capital is the most important aspect of a firm. Such company becomes successful to gain the trust of all sectors (Mishkin and Eakins, 2006).

It has become recognized that capital adequacy more appropriately relates to asset structure than to the volume of liabilities. Risk Weighted Assets, Core Capital and Supplementary Capital are major figures used to calculate Capital Adequacy Ratio.

In the context of Nepal, NRB has assigned following weight for following Assets of Banks.

0% Risk Weighted Assets	Cash Balance, Gold(tradable), Balance with NRB, Investment in Govt. security, Investment in Govt. Bond, Fully Secured Bond.
10% Risk Weighted Assets	Forward Foreign Exchange Contract
20 % Risk Weighted Assets	Balance with domestic Licensed Banks & Financial Institutions, Loan against other Banks F.D. receipt, Balance with Foreign Banks, Money at Call, Loan against Guarantee of International Rated Banks, Investments on International Rated Banks, L/C (Below 6 month's maturity) and Guarantee against International Bank Guarantee.
50 % Risk Weighted Assets	L/C (Over 6 months maturity), Bid Bonds and Performance Bond
100 % Risk Weighted Assets	Investments on Share, Debenture & Bonds, Other Investments, Loan, Advances & Bills Purchase/Discount, Fixed Assets, Other Assets, Net Other Interest Receivable (Gross Int. Receivable – Interest receivable on Govt. Bonds - Interest Suspense) , Financial Guarantee, Other Guarantee, Irrevocable Loan Commitment, Contingent Liability for Tax and Other Contingent Liability.

Capital Adequacy ratio calculated as follows:

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

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

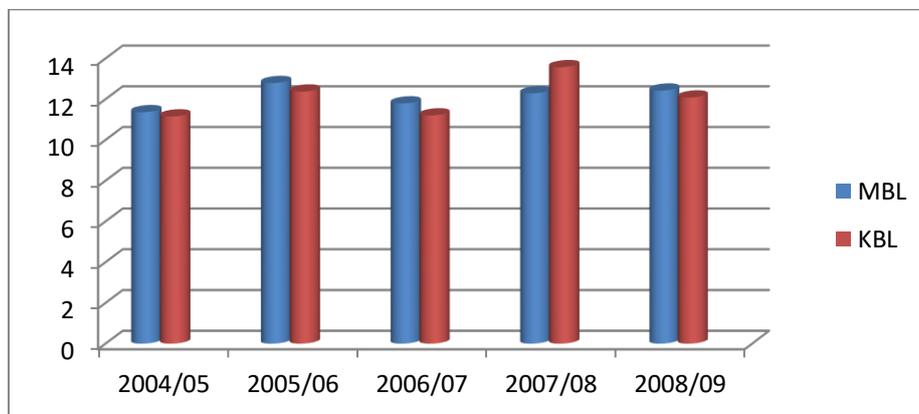
**Table No 4.1**  
**Capital Adequacy Ratio**

<b>Fiscal Year</b>	<b>Banks</b>	<b>Total Capital Fund</b>	<b>Total Risk Weighted Assets</b>	<b>Capital Adequacy Ratio in %</b>
2004/05	MBL	688,843,000	6063130000	11.36
	KBL	701,850,000	6291843521	11.15
2005/06	MBL	976,067,000	7631998000	12.79
	KBL	940,979,000	7,625,050,126	12.34
2006/07	MBL	1101,726,000	9200656000	11.79
	KBL	1115,207,000	9,959,911,398	11.20
2007/08	MBL	1279,796,000	10417064000	12.29
	KBL	1858,207,000	13,688,722,000	13.57
2008/09	MBL	1811,869,000	14588,509,000	12.42
	KBL	2050,908,000	16,983,993,000	12.08

*Sources: Annual Report of MBL & KBL*

Figure 4.1 is a bar diagram which represents the above tabulated numerical data that helps to find out the Capital adequacy Ratio of two banks.

**Figure 4.1**  
**Capital Adequacy Ratio**



As shown in the table 4.1 and figure 4.1, the Capital Adequacy Ratio of MBL is 11.36% and KBL is 11.15 % in the year of 2004/05; in this year CAR of MBL is slightly higher than KBL; FY 2005/06 MBL has higher of 12.79% and KBL has

lower of 12.34%; in FY 2006/07 MBL has higher of 11.79% and KBL has slightly lower of 11.20%; in FY 2007/08 CAR of KBL has higher position of 13.57% and MBL has lowest position of 12.29%; in FY 2008/09 MBL has higher position of 12.42% and KBL has lower position of 12.08%. Furthermore figure 4.2 helps to find out the trend of two banks Core Capital Ratio over the last five years period.

**Figure 4.2**  
**Capital Adequacy Ratio**

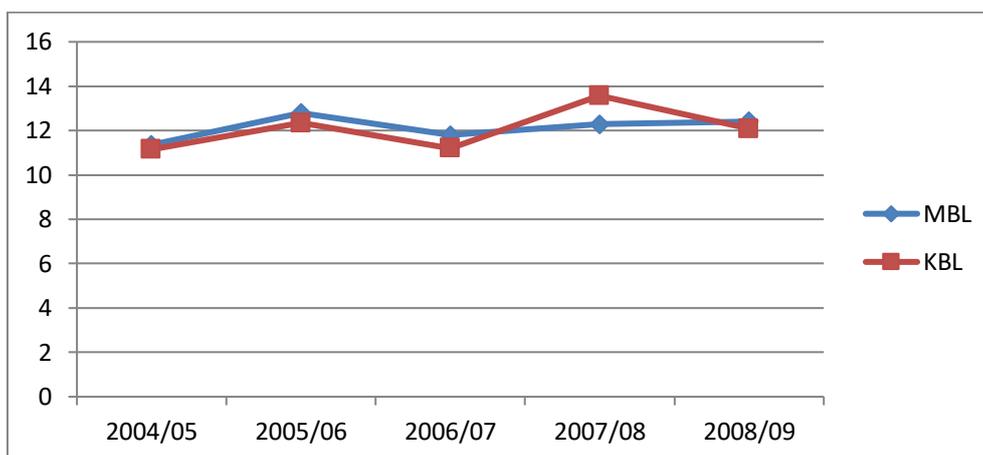


Figure 4.2 is the trend analysis of two banks over the five years study period. As shown in the figure, Capital Adequacy Ratio of MBL started by 11.36% in 2004/05, increased in FY 2005/06 to 12.79% decreases in FY 2006/07 thereafter increased in 2007/08 and FY 2008/09. In year 2008/09 reached to 12.42%. Overall, Capital Adequacy Ratio of MBL increased.

Similarly, KBL is starting with 11.15% in FY 2004/05, then increases in 2005/06 after that decreases in FY 2006/07 and increases in FY 2007/08 and reached to 13.57%, again decrease in FY 2008/09 to 12.08%. Overall Capital Adequacy Ratio of KBL is in fluctuation trend.

#### 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, Non redeemable Preference Share, General Reserve Fund, Cumulative Profit/ loss, Capital Redemption Reserve, Capital

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

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

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

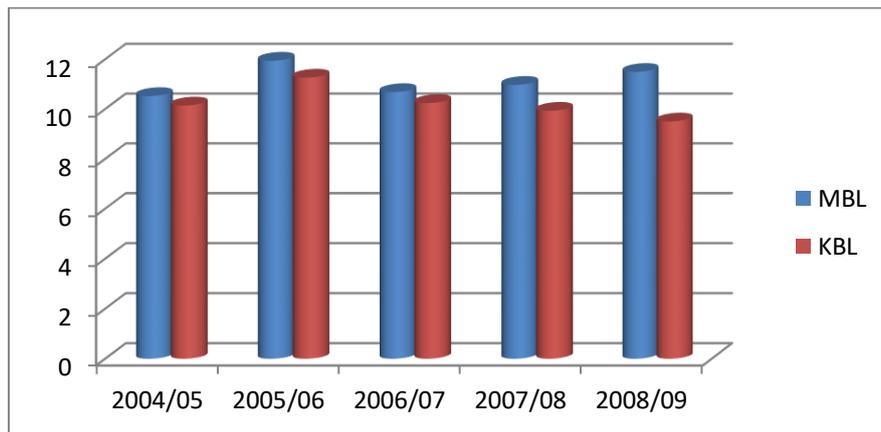
**Table No 4.2**  
**Core Capital Ratio**

<b>Fiscal Year</b>	<b>Banks</b>	<b>Core Capital Fund</b>	<b>Total Risk Weighted Assets</b>	<b>Core Capital Ratio</b>
2004/05	MBL	637,739,000	6063130000	10.52
	KBL	638,037,000	6291844000	10.14
2005/06	MBL	911,543,000	7631998000	11.94
	KBL	858,520,000	7,625,050,000	11.26
2006/07	MBL	982577,000	9200656000	10.68
	KBL	1,019,893,000	9,959,911,000	10.24
2007/08	MBL	1142970,000	10417064000	10.97
	KBL	1,359,032,000	13,688,722,000	9.93
2008/09	MBL	1676865,000	14588,509,000	11.49
	KBL	1612799,000	16,983,993,000	9.50

*Sources: Annual Report of MBL and KBL*

Figure 4.3 is a bar diagram which represents the above tabulated numerical data which helps to analyze the Core Capital Ratio of two banks.

**Figure 4.3**  
**Core Capital Ratio**



As shown in the table 4.2 and Figure 4.3, the Core Capital Ratio of MBL is 10.52% which is slightly higher than KBL of 10.14%, in year 2005/06 MBL has 11.94% is greater than KBL of 11.26%, in the year 2006/07, CCR of MBL is decrease to 10.68% and KBL decrease to 10.24%, in year 2007/08 and 2008/09 MBL has an increasing trend and reached 10.97% and 11.49% respectively, then after a couple of years KBL has decreasing trend and reached 9.93% and 9.50% respectively. Furthermore figure 4.4 shows the trend of two banks Core Capital Ratio over the last five years period.

**Figure 4.4**  
**Core Capital Ratio**

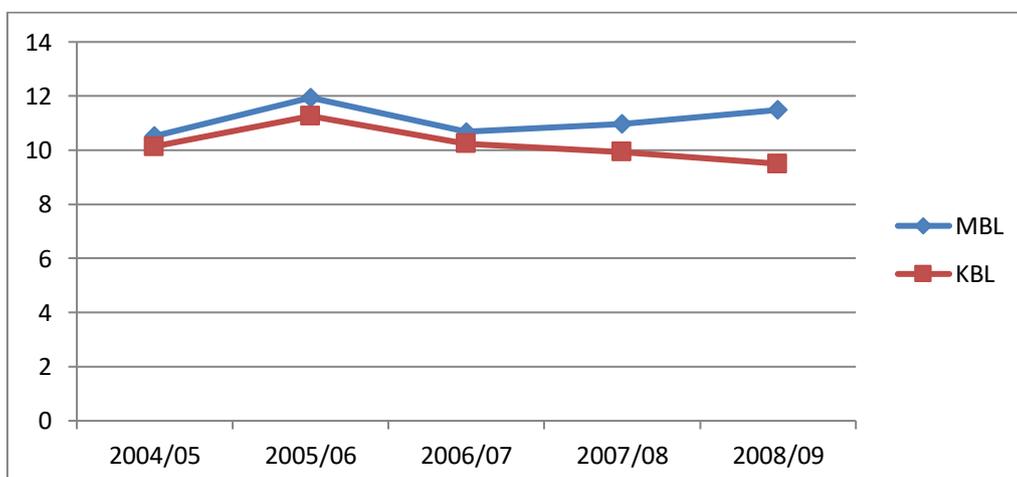


Figure 4.4 is the trend analysis of two banks over the five years study period. As shown in the figure Core Capital Ratio of MBL started by 10.52% in FY 2004/05, increase in year 2005/06 and reached to 11.94%, decrease in year 2006/07 and increases in FY 2007/08, again increased in FY 2008/09 and reached to 11.49%. Overall, Core Capital Ratio of MBL increases.

Likewise, Core Capital Ratio of KBL started with 10.14% in FY 2004/05, increases in FY 2005/06 decreased there after till FY 2008/09 and reached to 9.50% in the FY 2008/09. Overall Core Capital Ratio of KBL also is in decreasing trend.

#### **4.2.2 Assets Quality**

Asset quality refers to the capability of any institution in terms of financial strength. A comprehensive evaluation of the asset quality is one of the most important components in accessing the current and future variability of banks. It is also known as turnover ratio. Thus assets quality indicates the speed in which the asset is being turned over. Commercial banks holds the assets in the form of the liquidity assets such as cash and bank balance, short-term investment, loans and advances which every heading consist of risk. Thus bank should be capable of classifying such asset under performing and non performing loans. For identifying the assets quality we need to calculate three ratios. They are:

##### **4.2.2.1 Non-Performing Loan**

Non performing loan are those when the customer do not pay their payment by third month from its due date. 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, thus the bank with lower NPL indicates the robust risk management system. The ratio is determined by using the given model.

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

Where,

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

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

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

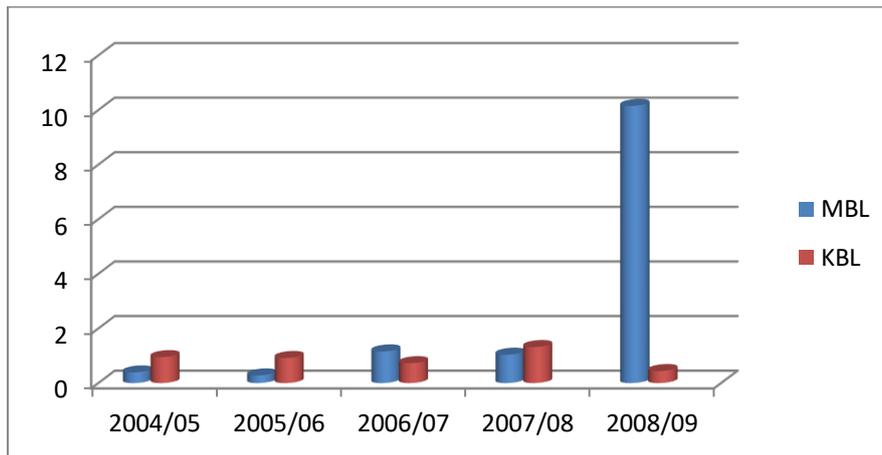
**Table 4.3**  
**Non-Performing Loan Ratio**

<b>Fiscal Year</b>	<b>Banks</b>	<b>Non-Performing Loan</b>	<b>Total Loan and Advances</b>	<b>Non-Performing Loan Ratio</b>
2004/05	MBL	19860891	5130223362	0.39
	KBL	53988537	5681012720	0.95
2005/06	MBL	16916597	6146572956	0.28
	KBL	64353706	7007787514	0.92
2006/07	MBL	85168239	7319939264	1.16
	KBL	66118868	9062433481	0.73
2007/08	MBL	92916079	8964070292	1.04
	KBL	152475600	11522380653	1.32
2008/09	MBL	302837300	2984459357	10.15
	KBL	64542683	14795261241	0.44

*Source: Annual Report of MBL and KBL*

Figure 4.5 is a bar diagram which represents the above tabulated numerical data which helps to compare the Non-Performing Ratio of two banks.

**Figure 4.5**  
**Non-Performing Loan Ratio**



As shown in the table 4.3 and figure 4.5, the Non-Performing Loan Ratio of MBL of 0.39% is lower than KBL, which has 0.95% in FY 2004/05. NPL of KBL is constantly decreasing out of FY 2007/08 is 1.32% and in FY 2008/09 it reached to 0.44% which shows KBL has maintained robust credit management whereas MBL has fluctuating ratio and increasing trend in FY 2008/09, it reached to 10.15%, which indicates lower risk management as compared with KBL.

Furthermore figure 4.6 helps to find out the trend of two banks Non-Performing Loan Ratio over the last five years period.

**Figure 4.6**  
**Non-Performing Loan Ratio**

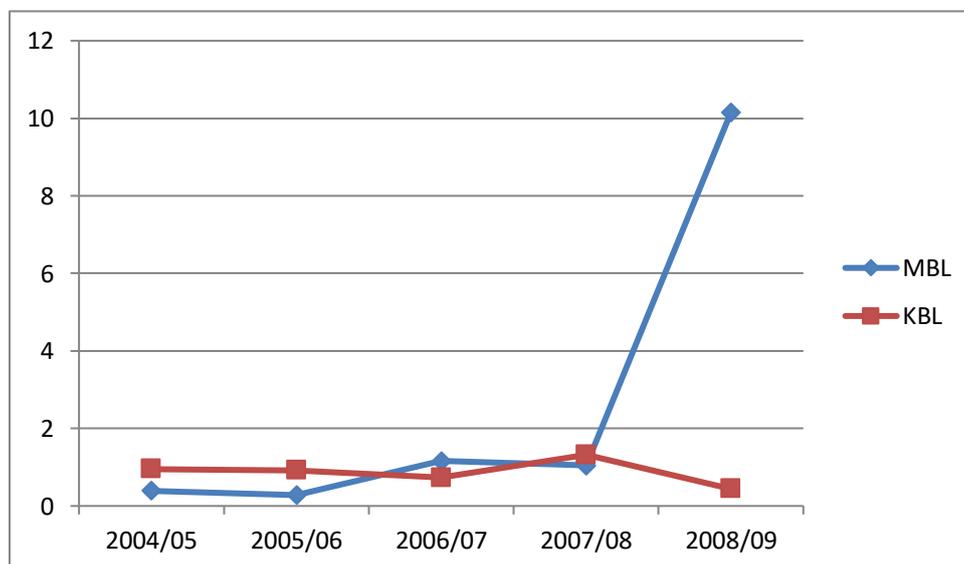


Figure 4.6 is the trend analysis of two banks over the five years study period. As shown in the figure Non-Performing Loan Ratio of MBL started by 0.39% in FY 2004/05, decreased in FY 205/06 and there after continuously increase till FY 2008/09 and reached to 10.15%. So, trend analysis shows that KBL has higher NPL it means bank don't have good credit management.

Similarly, Non-Performing Loan Ratio of KBL started with 0.95% in FY 2004/05 and continuously decreased till FY 2006/07. In FY 2007/08 it increase and reached to 1.32%, in FY 2008/09 which reached to 0.44 %. It's also good sign for KBL.

#### 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 Loss Provision in relation to Total Non-Performing Loan. Out of the Total non Performing if some loans becomes bad or default then that loss to the bank is covered from the Loan Loss Provision Fund. So, from that point of view, higher the loan loss coverage ratio is better for the banks. The ratio is determined by using the given model:

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

Where,

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

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

Table 4.4 is the observed Loan Loss Coverage Ratio of two banks during the study period in numerical terms which is presented below:

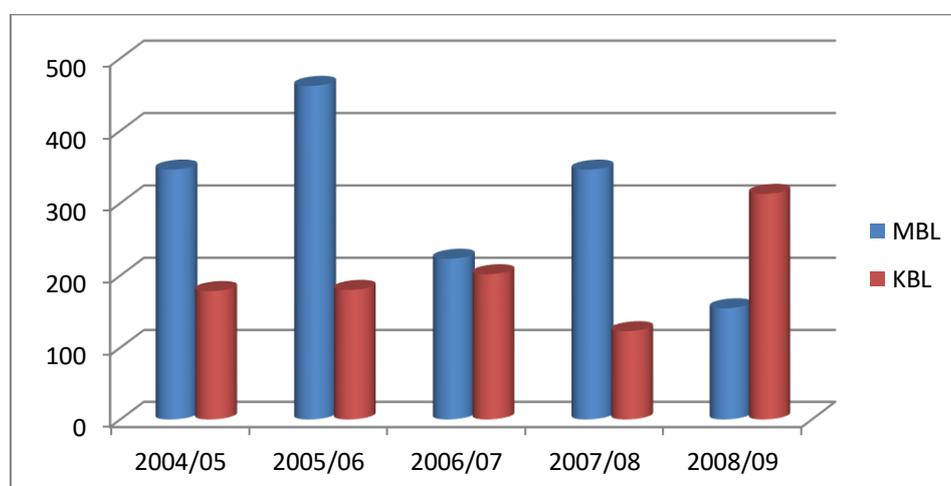
**Table 4.4**  
**Loan Loss Coverage Ratio**

<b>Fiscal Year</b>	<b>Banks</b>	<b>Loan Loss Provision</b>	<b>Non-Performing Loan</b>	<b>Loan loss coverage ratio</b>
2004/05	MBL	68790306	19860891	346.36
	KBL	96375609	53988537	178.51
2005/06	MBL	78145506	16916597	461.95
	KBL	115932088	64353706	180.15
2006/07	MBL	190047722	85168239	223.14
	KBL	133420366	66118868	201.79
2007/08	MBL	321746918	92916079	346.29
	KBL	187292714	152475600	122.83
2008/09	MBL	468447241	302837300	154.69
	KBL	201914411	64542683	312.84

*Source: Annual report of MBL and KBL*

Chart 4.7 is a bar diagram which represents the above tabulated numerical data which helps to compare the Loan Loss Coverage Ratio of two banks.

**Figure 4.7**  
**Loan Loss Coverage Ratio**



As shown in the table 4.4 the loan loss Coverage Ratio of MBL of 346.36% is highest and KBL is of 178.5% is the lowest in FY 2004/05; MBL of 461.95% is highest and KBL of 180.15% is lowest in FY 2005/06; MBL of 223.14% is higher and KBL has

lower of 201.79% in FY 2006/07; in FY 2007/08 MBL has higher which is 346.29 than KBL has lower of 122.83% ; in FY MBL has lower of 154.69% and KBL has higher of 312.84%.

In the above chart it is clearly shown that MBL has an increasing trend of LLCR which is clarifying us that MBL able to cover it losses acquired from loan. Where as KBL has fluctuation in ratio which indicates it may be able cover non-performing loan currently its future trend won't be the same.

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

**Figure 4.8**  
**Loan Loss Coverage Ratio**

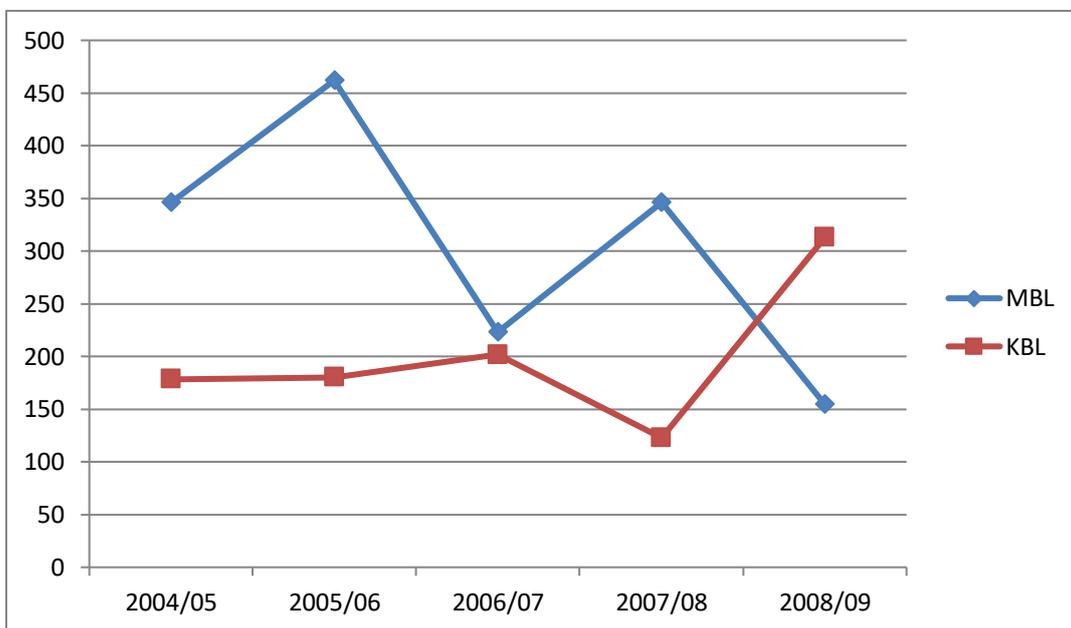


Figure 4.8 shows the trend analysis of two banks over the five years study period. As shown in the figure Loan Loss Coverage Ratio of MBL started by 346.36% in FY 2004/05 and increased in FY 2005/06 after that increased till 2007/08 and reached to 346.29% in FY 2007/08 but in the FY 2008/09 decreased to 154.69%.

Likewise, Loan Loss Coverage Ratio of KBL started with 178.51% in FY 2004/05 after that continuously increases up to 201.79 % in FY 2006/07; in FY 2007/08 decreased to 122.83 and in FY 2008/09 increased to 312.84%.

### 4.2.2.3 Loan Loss Provision Ratio

Bank may loses its loan and it may arise various risk thus to mitigate those risk bank should be prepared before. Thus loan loss provisions are those non cash expenses for banks to account for future losses on loan default. From the very beginning of loan disbursement bank starts creating certain percentage of provision when calculating their pre tax income. This helps to promote bank for solvency and capitalization if default occurs. Higher Loan loss provision indicates poor credit management .Lower LLP ratio indicates the better risk management and robust credit management system in place. But if LLP to TL is higher hen we can say that the quality of loan is good but at least we are in safe position as it has more provision for losses from loan.

LLP can calculate as follows:

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

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

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

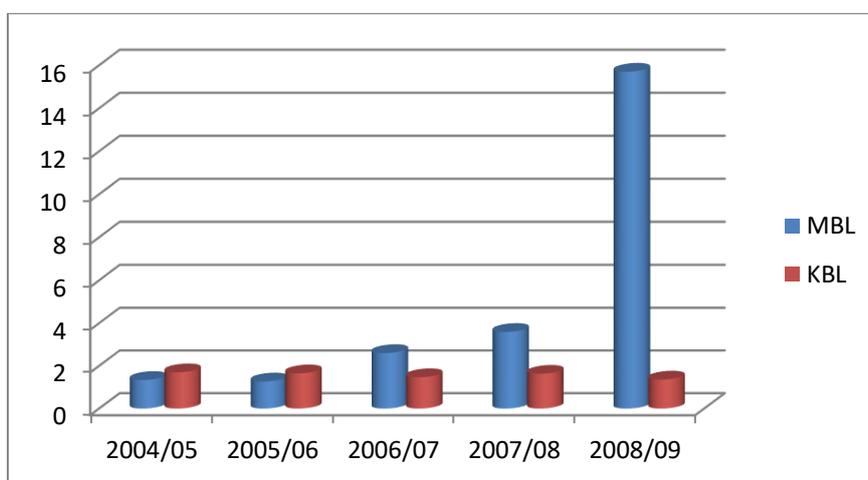
**Table 4.5**  
**Loan Loss Provision Ratio**

<b>Fiscal Year</b>	<b>Banks</b>	<b>Total Loan Loss Provision</b>	<b>Total Loan and Advances</b>	<b>Loan Loss Provision Ratio</b>
2004/05	MBL	68790306	5130223362	1.34
	KBL	96375609	5681012720	1.70
2005/06	MBL	78145506	6146572956	1.27
	KBL	115932088	7007787514	1.65
2006/07	MBL	190047722	7319939264	2.60
	KBL	133420366	9062433481	1.47
2007/08	MBL	321746918	8964070292	3.59
	KBL	187292714	11522380653	1.63
2008/09	MBL	468447241	2984459357	15.70
	KBL	201914411	14795261241	1.36

*Sources: Annual report of MBL and KBL*

Chart 4.9 is a bar diagram which represents the above tabulated numerical data which helps to compare the Loan Loss Provision Ratio of two banks.

**Figure 4.9**  
**Loan Loss Provision Ratio**



As shown in table 4.5 and figure 4.9 the Loan Loss Provision Ratio of MBL of 1.34% is lowest and KBL of 1.70% is highest in FY 204/05; in FY 2005/06 MBL has decreased to 1.27%, after that continuously increased till 2008/09 and reached 15.70

%, which indicates that Loan Loss Provision of MBL is not strong. Whereas LLPR of KBL is decreasing, which continuously decreased till 2006/07 and reached to 1.47%, in FY 2007/08 increased to 1.63%, then year 2008/09 which decreased to 1.36%, which indicates that KBL maintained its Loan Loss Provision lower. Furthermore figure 4.10 helps to find out the trend of two banks Loan Loss Provision Ratio over the last five years period.

**Figure 4.10**  
**Loan Loss Provision Ratio**

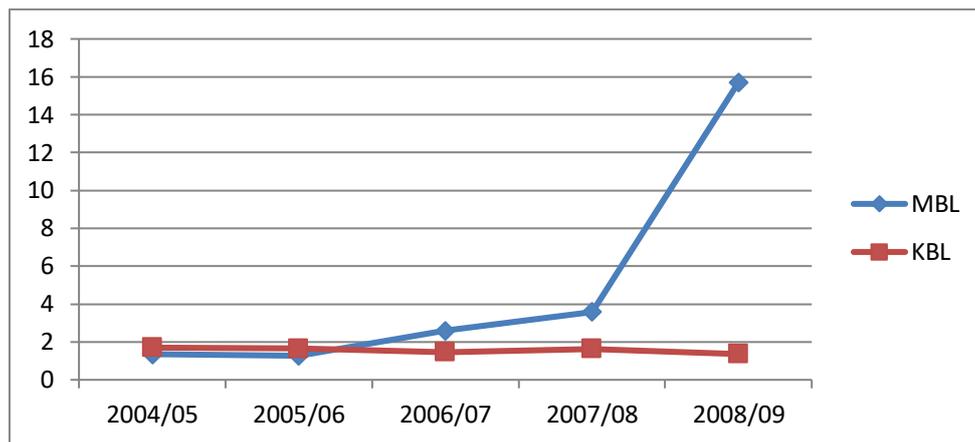


Figure 4.10 is the trend analysis of two banks over the five years study period. As shown in the figure Loan Loss Provision Ratio of MBL started from 1.34% in FY 2004/05 and decreased in FY 2005/06, after that continuously increasing trend till 2008/09 and reached to 15.70%.

Likewise, Loan Loss Provision Ratio of KBL started with 1.70% in FY 2004/05 and then decreases till FY 2006/07, which increased in FY 2007/08, then after decreased in FY 2008/09 and reached to 1.36%.

### 4.2.3 Management

Managements are the pillars of an organizational growth and success. In fact, the management not only makes suitable policy and the business plans but also implements them for the short term and the long term interests, which helps to achieve aimed objectives of bank and financial institution's. It is evaluated by checking the effectiveness of the board of directors, the management, manpower and

the officials, operating expenditure, customer's relation with the officials and institution, management information system, organization and working method, internal control system, power concentration, monitoring, decision making process, policies.

Management analysis can be done by using following formula:

$$\text{Management Efficiency Ratio} = \frac{\text{Net Profit after Tax}}{\text{No of Staff}}$$

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

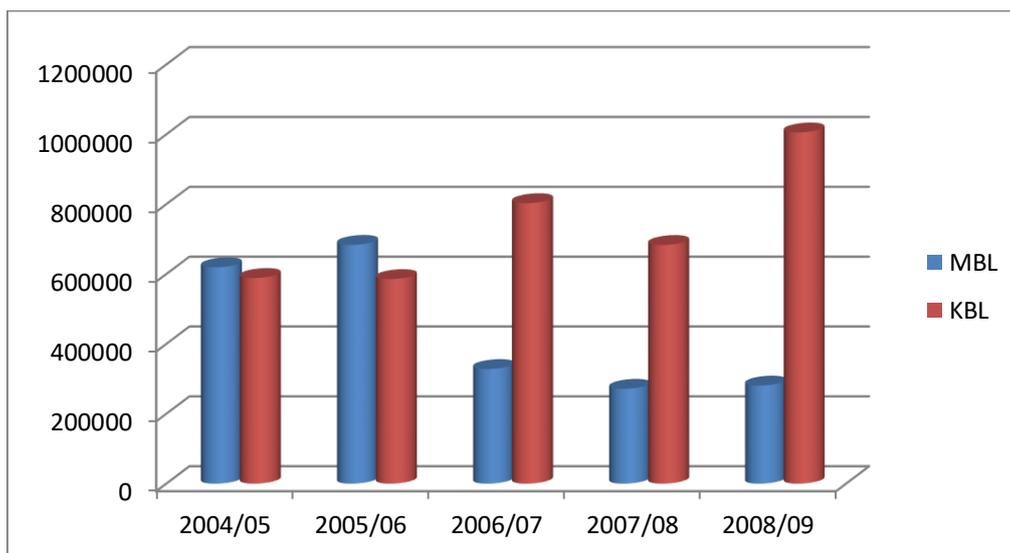
**Table 4.6**  
**Management Efficiency Ratio**

<b>Fiscal Year</b>	<b>Banks</b>	<b>Net Profit After Tax</b>	<b>Total no of Staff</b>	<b>Management Efficiency</b>
2004/05	MBL	84870027	137	619489.25
	KBL	84201758	143	588823.48
2005/06	MBL	133996709	196	683656.68
	KBL	103666767	177	585687.95
2006/07	MBL	76799259	234	328201.96
	KBL	170262909	212	803126.93
2007/08	MBL	85016002	313	271616.62
	KBL	174930227	256	683321.20
2008/09	MBL	123251098	439	280754.21
	KBL	261442589	260	1005548.42

*Sources: Annual Report of MBL and KBL*

Chart 4.11 is a bar diagram which represents the above tabulated numerical data which helps to find out the Management Efficiency Ratio of MBL and KBL.

**Figure 4.11**  
**Management Efficiency Ratio**



As shown in the table 4.6 and figure 4.11, the Management Efficiency Ratio of MBL of Rs 619489.25 was the highest and KBL of Rs 588823.48 was the lowest in FY 2004/05. It means MER of MBL was better than KBL. Similarly in FY 2005/06 MBL of Rs 683656.68 was the highest and MBL of Rs 585687.95 is lowest. Then in FY 2006/07 MER of MBL of Rs 328201.96, which is lowest than KBL of Rs 803126.93. It seems that MER of KBL was better than MBL. In FY 2007/08 MBL of Rs 271616.62 was the lowest and KBL of Rs 683321.20 was the highest. Similarly in FY 2008/09 MBL has Rs 208754.21 is lowest than KBL of Rs 1005548.42. Above analysis we can say that KBL has more effective workers and good management of human resources than MBL.

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

**Figure 4.12**  
**Management Efficiency Ratio**

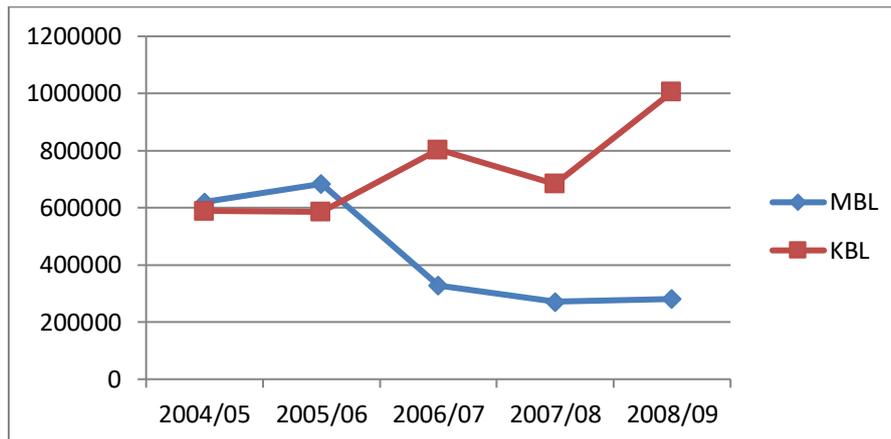


Chart 4.12 is the trend analysis of two banks over the five years study period. As shown in figure management efficiency ratio of MBL started by Rs 619489.25 in FY 2004/05, increased in RY 2005/06 and decreased till FY 2007/08 then slightly increased in FY 2008/09 and reached to Rs 280754.21. We conclude that MER of MBL is not satisfactory. The bank has poorly performed.

Similarly, MER of KBL started with RS 588823.48 in FY 2004/05, then increases till 2006/07, after that decreased in FY 2007/08 and increased in FY 2008/09 and reached to RS 1005548.42. Overall MER of KBL is fluctuation trend but increasing trend form above analysis we can say that KBL has more effective MER than MBL.

#### **4.2.4 Earnings**

Earnings are the amount of profit a company realizes after all costs, expenses and taxes have been paid. It is a life blood of the industry. The earnings help the management shareholder's and depositors to evaluate the performance of the bank sustainability of earnings are forecast growth of the bank. The success of a bank rests heavily upon the efficiency of the management to drive it towards earning good profits. The analysis of earnings highlights the overall performance of the bank. Good earnings performance would inspire the confidence of the depositors, investors, creditors and public at large.

#### 4.2.4.1 Earning Per Share

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 ignored is the capital that is required to generate the earnings (net income) in the calculation. Following is the expression of earning per share:

$$\text{Earnings Per Share (EPS)} = \frac{\text{Net Profit after Tax}}{\text{No of Shares Outstanding}}$$

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

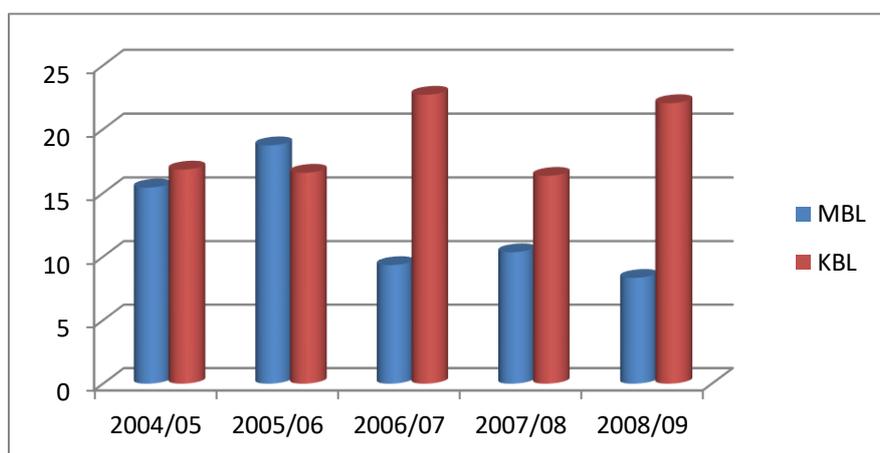
**Table 4.7**  
**Earning per Shares**

<b>Fiscal Year</b>	<b>Banks</b>	<b>Net Profit After Tax</b>	<b>No of Share Outstanding</b>	<b>Earning Per Share</b>
2004/05	MBL	84870027	5500000	15.430914
	KBL	84201758	5000000	16.840351
2005/06	MBL	133996709	7150000	18.740798
	KBL	103666767	6250000	16.586682
2006/07	MBL	76799259	8216510	9.346944
	KBL	170262909	7500000	22.701721
2007/08	MBL	85016002	8216510	10.346972
	KBL	174930227	10700000	16.348619
2008/09	MBL	123251098	14792696	8.3318888
	KBL	261442589	11860990	22.042223

*Source: Annual report of MBL and KBL*

Chart 4.13 is a bar diagram which represents the above tabulated numerical data which helps to compare the Earning per Shares of two banks.

**Figure 4.13**  
**Earning per Shares**



As shown in the table 4.7 and figure 4.13, the Earning per Shares of MBL of Rs.15.43 is the lowest and KBL of Rs.16.84 is the highest in FY 2004/05; MBL of Rs.18.74 is the highest and KBL of Rs.16.59 is lowest in FY 2005/06; in FY 2005/06 EBL has decreased to Rs 9.35 and KBL increased to Rs 22.7. MBL of Rs.9.35 is the lowest and KBL of Rs. 22.70 is highest in FY 2006/07. Similarly, in FY 2007 MBL is lowest of Rs. 10.35 and KBL is highest of Rs 16.35; in FY 2008/09 MBL has lowest EPS of Rs. 8.33 and KBL has highest EPS of Rs.22.04.

From the above table we can see that EPS of KBL is the highest and is in increasing order throughout the year. MBL is also making extra effort in utilizing the shareholder's fund though EPS of MBL is low. EPS of MBL is fluctuating order. But the EPS of KBL is swinging a lot.

Furthermore figure 4.14 helps to find out the trend of two banks earning per Shares over the last five years period.

**Figure 4.14**  
**Earning per Shares**

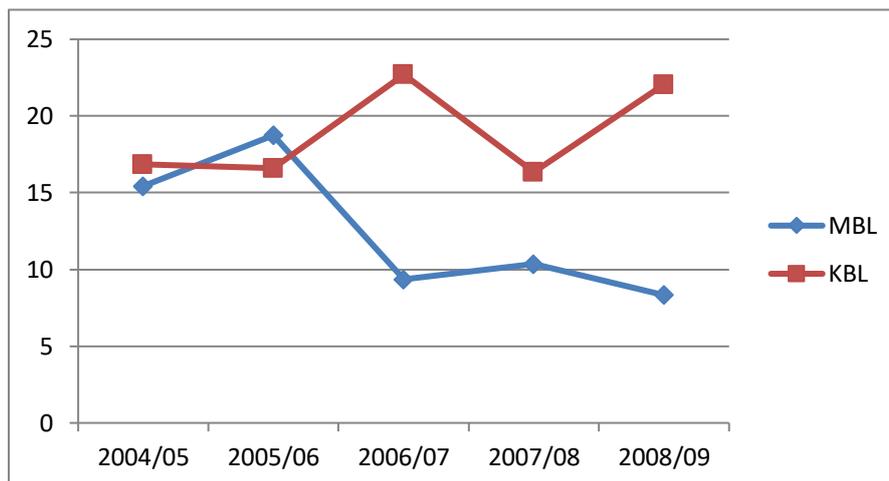


Figure 4.14 is the trend analysis of two banks over the five years study period. As shown in the figure earning per Shares of MBL started by Rs.15.43 in FY 2004/05, increased in FY 2005/06 and reached to Rs.18.74, then after decreasing till FY 2008/09 and reached to Rs 8.33. Overall earning per Shares of MBL is not satisfactory because of its decreasing trend.

Similarly EPS of KBL with Rs. 16.84 in FY 2004/05 then decreased in FY 2005/06, after that increased in FY2006/07, in FY 207/08 decreased and reached to Rs. 16.35 , in FY its increased and reached to RS 22.04. From the above trend analysis we can say thatEPS of KBL is increasing trend and good.

#### **4.2.4.2 Return on Equity**

It is the amount of net income returned as a percentage of shareholder's equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. The return on equity is one of the most important return measures of the bank because the promoters are guided by this ratio to decide about their investment.

$$\text{Return on Equity} = \frac{\text{Net Profit after Tax}}{\text{Total Shareholder's Fund}} \times 100$$

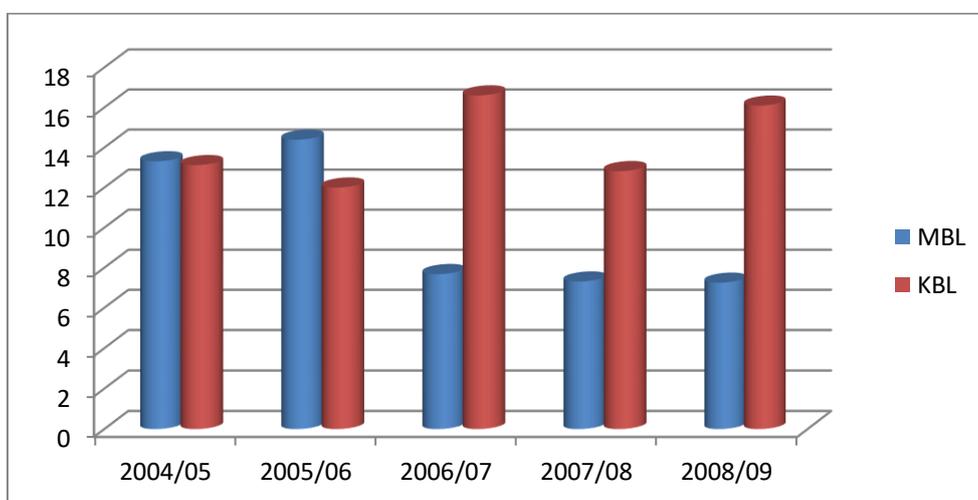
Table 4.8 is the observed Return on Equity of two banks during the study period in numerical terms which is presented below:

**Table 4.8**  
**Return on Equity**

Fiscal Year	Banks	Net Profit After Tax	Total Shareholders' Fund	Return on Equity
2004/05	MBL	84870027	637739384	13.31
	KBL	84201758	641762737	13.12
2005/06	MBL	133996709	931091357	14.39
	KBL	103666767	863850557	12
2006/07	MBL	76799259	1000264635	7.68
	KBL	170262909	1025630159	16.60
2007/08	MBL	85016002	1163346958	7.31
	KBL	174930227	1364885269	12.82
2008/09	MBL	123251098	1700198096	7.25
	KBL	261442589	1624952708	16.09

*Sources: Annual report of MBL and KBL*

Chart 4.15 is a bar diagram which represents the above tabulated numerical data which helps to compare the Return on Equity of two banks.



As shown in table 4.8 and figure 4.15, the Return on Equity of MBL of 13.31% in FY 2004/05. In FY 2005/06 it is highest of 14.39% then after coming three years it was decreasing trend. In FY 2006/07, 2007/08, 2008/09 was 7.68%, 7.31% and 7.25% respectively. From the above finding we can see that ROE of MBL is decreasing order throughout the year. MBL must making extra effort utilizing the shareholder's fund through ROE.

Similarly ROE of KBL of 13.12% in FY 2004/05; it decreased in FY 2005/06 and reached to 12%. Again KBL of 16.60% is the highest in FY 2006/07; it is decreased in FY 2007/08 and reached to 12.82%. Increased in FY 2008/09 and reached to 16.09%. ROE of KBL is the highest and increasing trend.

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

**Figure 4.16**  
**Return on Equity**

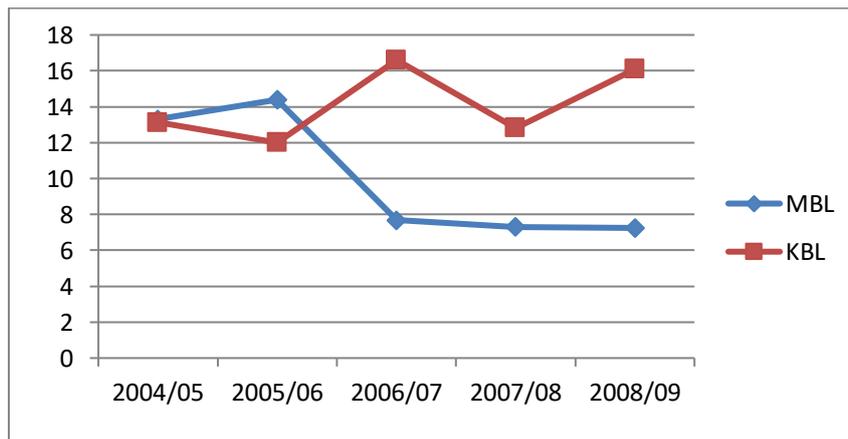


Figure 4.16 shows the observed values of Return on Equity along with trend line. As shown in the figure ROE of MBL started by 13.31% in FY 2004/05, increased in FY 2005/06 to 14.39%, then after the trend of ROE of MBL has declined till 2008/09.

Likewise, ROE of KBL started with 13.12% in FY 2004/05, decreases in FY 2005/06 then after fluctuation trend. Trend shows the Return on Equity of KBL is better than MBL.

#### 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 resources have been utilized and measured the return on assets productive sectors that can generate profit for the banks. Higher ROA shows the better utilization and management on the assets and extend profit level. This ratio depicts how efficiently a bank is utilizing and mobilizing its assets to generate profit. It is calculated as follows:

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

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

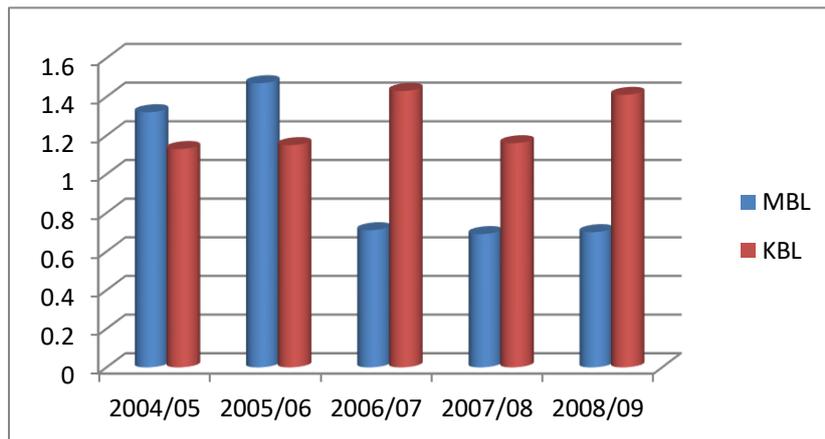
**Table 4.9**  
**Return on Assets**

<b>Fiscal Year</b>	<b>Banks</b>	<b>Net Profit After Tax</b>	<b>Total Assets</b>	<b>Return on assets</b>
2004/05	MBL	84870027	6445422625	1.32
	KBL	84201758	7428303218	1.13
2005/06	MBL	133996709	9096830401	1.47
	KBL	103666767	9010276185	1.15
2006/07	MBL	76799259	10810330518	0.71
	KBL	170262909	11918311429	1.43
2007/08	MBL	85016002	12410040092	0.69
	KBL	174930227	15036249428	1.16
2008/09	MBL	123251098	17490782101	0.70
	KBL	261442589	18538565109	1.41

*Sources: Annual report of MBL and KBL*

Figure 4.17 is a bar diagram which represents the above tabulated numerical data which helps to compare the Return on Assets of two banks.

**Figure 4.17**  
**Return on Assets**



As shown in the table 4.9 and figure 4.17 the Return on Assets of MBL is the highest of 1.32% and KBL of 1.13% is the lowest in FY 2004/05; MBL of 1.47% is the highest and KBL of 1.15% is lowest in FY 2005/06; MBL has continuously decreasing till FY 2007/08 and reached to 0.69%; in FY 2008/09 its slightly increased and reached 0.70%. KBL is increasing trend till 2008/09 and reached to 1.41%.

From the above table we can say that ROA of KBL is the highest and overall it is in increasing order. It has improved considerably by the end of 2008/09. It means KBL is successful in mobilizing its asset to yield high return. But the ROA of MBL is very fluctuating and decreasing trend through the fiscal year.

**Figure 4.18**  
**Return on Assets**

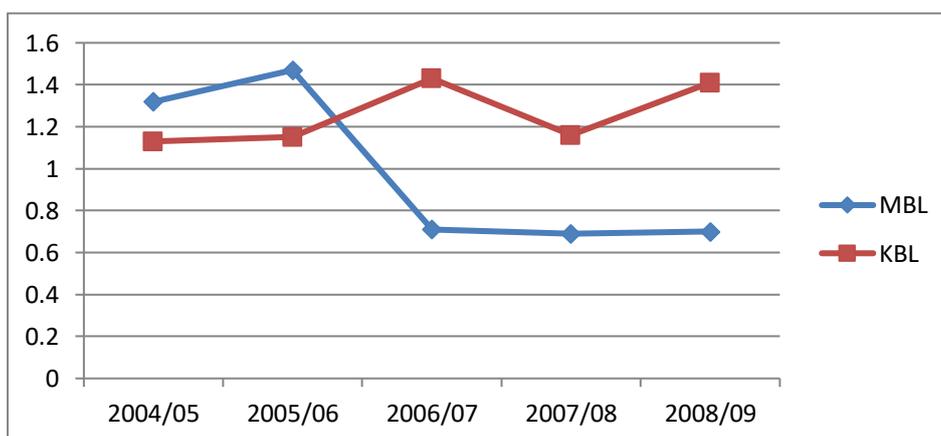


Figure 4.18 represents the trend analysis of two banks over the five years study period. As shown in the figure, Return on Assets of MBL started by 1.32% in FY 2004/05, increased there after in the FY 2005/06 and decreased continuously till 2007/08; in year 2008/09 slightly increased and reached 0.70%

Similarly, Return on Assets of KBL started with 1.13% in FY 2004/05, decreased in FY 2007/08 and reached to 1.16%, then after increased in FY 2008/09. Overall ROA of KBL is satisfactory in comparison with MBL. KBL is in increasing trend.

#### **4.2.5 Liquidity**

Simply, liquidity means short- run solvency of a firm. It reflects the short term financial strength of banks. Bank does not utilize all deposits as loan and advances. Certain percentage of deposit should be kept in bank in the form of cash. Managing liquidity is the most important activity conducted by banks. Liquidity of the bank should be maintained according to the standard. Excess liquidity as well as lack of liquidity can be considered as bad symptoms to the banks. If the bank does not hold enough liquidity, it will not be able to meet its obligations, take advantage of favorable business opportunities and meet emergencies. On the other hand, high degree of liquidity maintained to minimize such liquidity risk seriously affects the profit earning capacity of the commercial banks. Returns on high liquid assets are almost zero. In such case, assets remain idle which adds nothing to the banks earning. SO maintaining the right balance between liquidity positions and profitability is very important.

Liquidity can be measured in following ways:

##### **4.2.5.1 Cash and 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. It is calculated as follows:

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

Table 4.10 shows Cash and Bank Balance Ratio of two banks during the study period in numerical terms which is presented below:

**Table 4.10**

**Cash & Bank Balance Ratio**

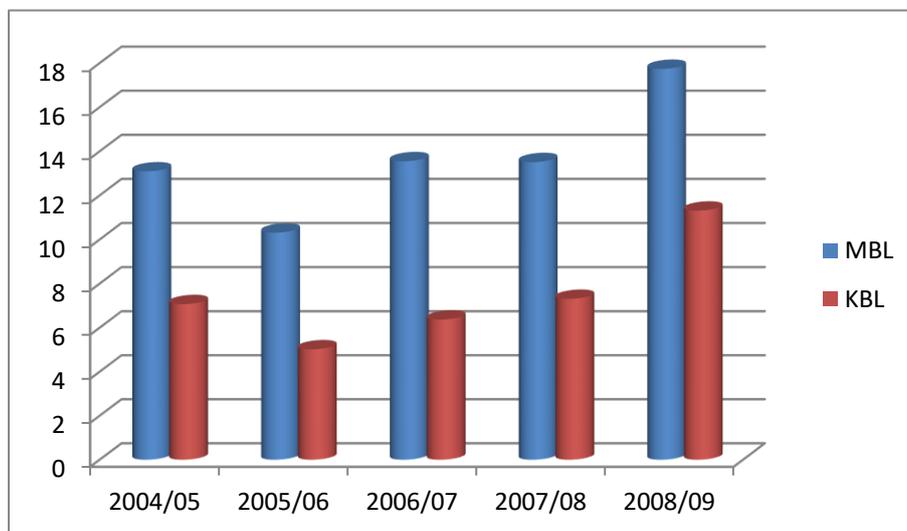
Fiscal Year	Banks	Cash and Bank Balance	Total Deposit	Cash and Bank BalanceRatio
2004/05	MBL	731133276	5586802644	13.08679
	KBL	443371369	6268954481	7.072493
2005/06	MBL	813923936	7893297672	10.31158
	KBL	389629745	7768957276	5.01521
2006/07	MBL	1284080185	9475451509	13.55165
	KBL	672112951	10557416461	6.36626
2007/08	MBL	1500055497	11102242263	13.51128
	KBL	933841677	12774281014	7.31033
2008/09	MBL	2766649116	15596790845	17.73858
	KBL	1776298800	15710925263	11.30614

Source: Annual report of MBL and KBL

Figure 4.19 is a bar diagram which represents the above tabulated numerical data which helps to compare the Cash & Bank Balance Ratio of two banks.

**Figure 4.19**

**Cash & Bank Balance Ratio**



The ratio reflects the banks ability to pay short terms and immediate obligations to the customers. Shown in the table 4.10 and figure 4.19, the Cash & Bank Balance Ratio of MBL of 13.08% is the highest and KBL of 7.07% is the lowest in FY 2004/05; MBL of 10.31% is the highest and KBL of 5.02% is lowest in FY 2005/06; in FY 2006/07 MBL has increased and reached to 13.55% then KBL also increased and reached to 6.37%; MBL is continuously increased till 2008/09 and reached to 17.74% similarly KBL increased till 2008/09 and reached to 11.31%.

Since the higher C & B ratio shows high liquidity positions and ability to cover the deposit withdrawals, from the average illustrations it can be analyzed that MBL can meet any unexpected needs of cash whereas KBL seem to find little bit difficulties for fulfilling unexpected demand for cash.

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

**Figure 4.20**  
**Cash & Bank Balance Ratio**

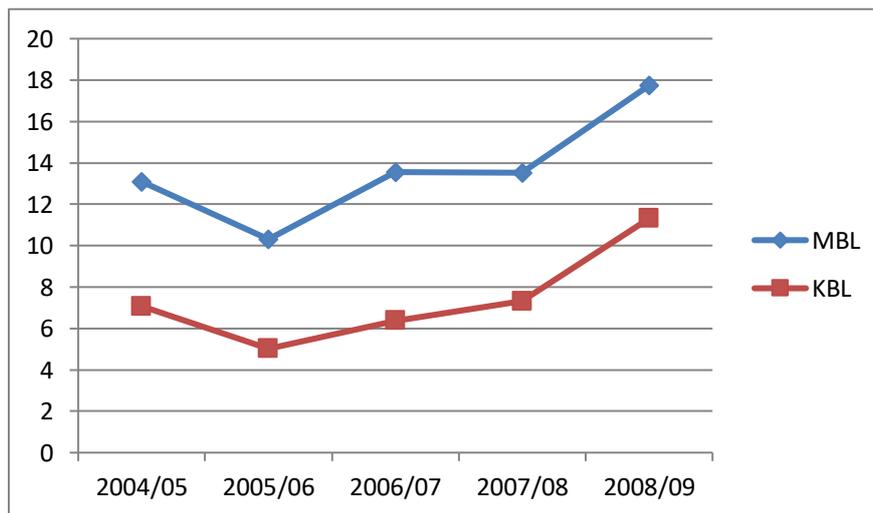


Figure 4.20 represent the trend analysis of two banks over the five years study period. As shown in the figure Cash & Bank Balance Ratio of MBL started by 13.08% in FY 2004/05; MBL's trend is fluctuating and increasing trend. Since the higher CBBR shows high liquidity positions and ability to cover the deposit withdrawals on demand.

Similarly, Cash & Bank Balance Ratio of KBL started with 7.07% in FY 2004/05, then decreases in 2005/06 after that increases till FY 2008/09 and reached to 11.31%. Overall Cash & Bank Balance Ratio of KBL is slightly increasing. So, KBL seem to find little bit difficulties for fulfilling unexpected demand for cash.

#### 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. This ratio calculated as:

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

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

**Table 4.11**  
**Investment in Government Security Ratio**

<b>Fiscal Year</b>	<b>Banks</b>	<b>Investment in Govt. Securities</b>	<b>Total Deposit</b>	<b>Investment in Govt. Ratio</b>
2004/05	MBL	127336220	5586802644	2.28
	KBL	1119994197	6268954481	17.87
2005/06	MBL	904471865	7893297672	11.46
	KBL	1114319438	7768957276	14.43
2006/07	MBL	951272430	9475451509	10.04
	KBL	1297867040	10557416461	12.29
2007/08	MBL	827351580	11102242263	7.45
	KBL	1469095002	12774281014	11.50
2008/09	MBL	477814030	15596790845	3.07
	KBL	1080094990	15710925263	6.75

*Sources: Annual report of MBL and KBL*

Figure 4.21 is a bar diagram which represents the above tabulated numerical data which helps to compare the Investment on Government in Government Security Ratio of two banks.

**Figure 4.21**  
**Investment on Government Security Ratio**

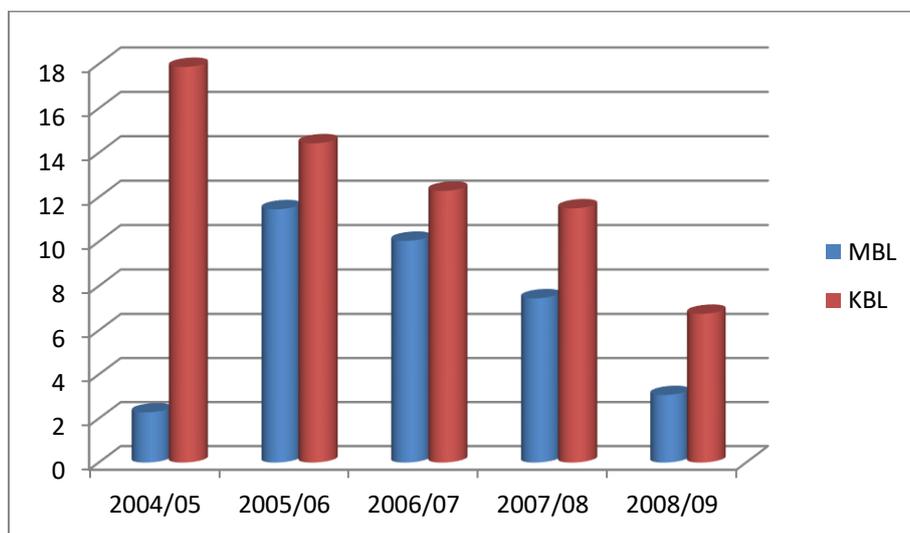


Figure 4.21 represent the Investment on Government Security Ratio of two banks. As shown in figure 4.21 KBL has highest ratio of 17.87% and MBL of lowest of 2.28% in FY2004/05, Similarly in FY 2005/06 KBL has 14.43% and MBL has 11.46%, in FY 2006/07 MBL has 10.04% and KBL has 12.29%, then MBL continuously decreasing trend till 2008/09 and reached to 3.07%, similarly KBL has also decreasing trend till 2008/09 and reached to 6.75%. The above diagram shows that KBL has invested their higher portion of its deposit in the government securities than MBL, which means that it has less risk in investment than MBL. KBL can tackle uncertainties regarding cash shortage in future since the higher percentage shows the better liquidity and vice-versa, in the same time it also carry some disadvantages like cannot have good returns and cannot mobilize its fund properly.

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

**Figure 4.22**

**Investment in Government Security Ratio**

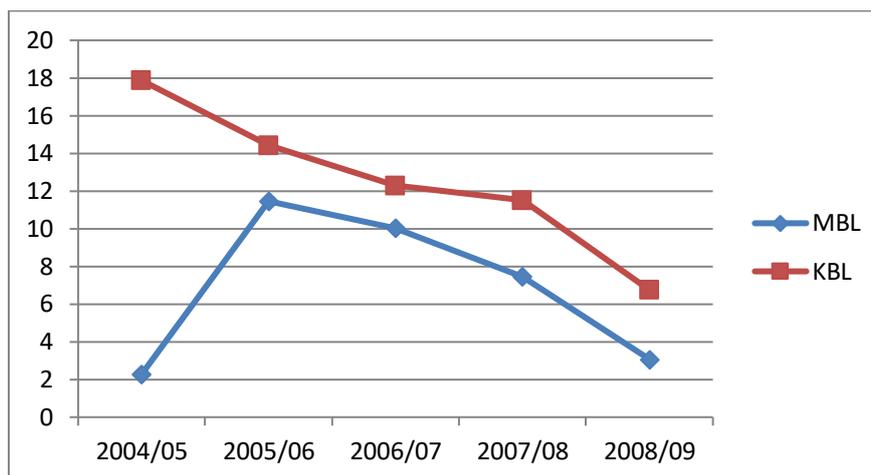


Table 4.22 represents the trend analysis of two banks over the five years period. MBL has started from 2.28% in FY 2004/05, which increased in FY 2005/06 and reached to 14.43% then after decreasing trend till 2008/09. Which represent the MBL has not invested their more portion of its deposit to Government securities which means it has more risk in investment.

Similarly, KBL investment their more portion in Government Security in FY 2004/05 which was 17.87%, then continuously decreasing trend till 2008/09 and reached to 6.75%. Which represents KBL has started its more portions in risk.

### **4.3 Major Findings**

This section includes the key findings of the study obtained from the analysis of the data. Conclusions derived from the findings are presented in the next chapter. The major findings of Financial Performance Analysis of Machhapuchhre Bank Ltd and Kumari Bank Ltd Based on Camel are as follows.

1. According to the NRB's guideline banks in Nepal should manage 11% Capital Adequacy Ratio. CAR of MBL in review period were 11.36%, 12.79%, 11.79%, 12.29% and 12.42%. Ratio of MBL of 12.79% was maximum in FY 2005/06 and ratio of 11.36% was minimum in FY 2004/05. It was in fluctuation trend. CAR of KBL in review period were 11.15%, 12.34%, 11.20%, 13.57%, 12.08%. The ratio of 13.57% was highest in FY 2007/08 and

ratio of 11.15% was lowest in FY 2004/05. Both banks were able to maintain CAR as per NRB standard during the study period.

2. The Core Capital Ratio of MBL were 10.52%, 11.94%, 10.68%, 10.97% 11.49%. The highest ratio was 11.94% in FY 2005/06 and lowest was 10.52% in FY 2004/05%. However, the bank was to maintain more than 5.5% above the BRB requirement during the study period. The ratio of KBL were 10.14%, 11.26% 10.24%, 9.93%, 9.50%. The maximum CCR of KBL was 11.26% in FY 2005/06 and minimum was 9.50% in FY 2008/09. However it is judged that all two banks were maintain more CCR than NRB has prescribed.
3. Non Performing Ratio of MBL was fluctuation and increasing trend. The ratio of MBL was highest in FY 2008/09 which reached to 10.15%. It seems that MBL has high Non Performing Loan during the study period. Likewise, KBL has lowest non performing loan ratio i.e. 0.44% in FY 2008/09 which shows that KBL has maintained its loan and advances most efficiently and effectively.
4. Loan loss coverage ratio of MBL was 346.36% in FY 2004/05 and it was increasing up to 416.95% in FY 2005/06, then decreased to 154.69% in FY 2008/09. KBL has increasing trend of loan loss coverage ratio up to 312.81% in FY 2008/09. In FY 2007/08 it was decreased to 122.83%. Overall, MBL has lowest LLCR as compared to KBL; it has highest LLCR which shows the better financial position. The loan loss coverage ratio has maintained for NPL and has been increasing which is good.
5. The loan loss provision ratio of two banks was in fluctuating trend. As per FY 2008/09 MBL has the highest loan loss provision ratio i.e. 15.70% which indicates that the MBL has worse quality loan and KBL has lowest ratio in FY 2008/09 than other study years. KBL has enough good loans than MBL.
6. Management efficiency ratio shows the contribution of its employee in generating total income. The higher ratio indicates existence of efficient management. Total management efficiency ratios (MER) of MBL were Rs. 271616.62 to Rs. 683656.68 was maximum in FY 2005/06 and ratio of Rs. 271616.62 was minimum in FY 2004/05. It shows that MER of MBL was in decreasing trend. The MER of KBL was increasing trend the highest ratio was

Ts 1005548.42 in FY 2008/09 and lowest ratio was Rs585687.95 in FY 2005/06. MER of KBL is better than MBL.

7. Earning per share is the portion of company's profit allocated to each outstanding share of common stock. EPS serve as an indicator of a companies' profitability. Higher EPS shows the better performance and sustainability of bank. EPS of ML is in decreasing trend and in FY 2005/06 MBL Highest EPS, then after coming years it was decreasing trend .EPS of KBL is in fluctuating trend, highest EPS was in FY 2006/07. In overall KBL is in good position than MBL as per EPS.
8. The return of equity consists of ratio between net profit after tax and equity. The ratio of MBL is in decreasing trend. It was lowest in FY 2008/09. It shows that ROE of MBL is not in good position. ROE of KBL is fluctuating trend. Highest ratio of KBL was in FY 2006/07. A return on equity calculates to see the profitability of the owners' investment. Highest ratio shows that profitability of owner investment in increasing as compare to MBL, KBL has higher ROE.
9. Return of assets comprises net profit after tax and total assets. Toa gives an idea as to how effective management is at using its assets to generate earnings. ROA of MBL is in decreasing trend. It was lowest in FY 2008/09. ROA of KBL is in increasing trend. It shows that KBL is in good position as per ROA.
10. Cash and bank balance ratio shows higher liquidity and great ability of the bank to meet unexpected demand made by the depositor. The cash and bank balance ratio of MBL is in increasing trend. In FY 2005/06 C/B ratio of MBL was decreased to 10.31158% , after that increased till 2008/09 and reached to 17.733858%. In the same way, KBL was also in increasing trend. KBL has minimum cash and bank balance ratio of 5.0152% and maximum C/B ratio of 11.306% in FY 2008/09.
11. The investment in government security ratio of MBL was, 2.28%, 11.46, 10.04%,7.45% and 3.07%.The highest ratio was 11.46% in FY 2005/06 and lowest ratio was 2.28% in FY 2004/05. The ratio of KBL was 17.87%, 14.43%, 12.23%, 11.50% and 6.75%. The maximum ratio of 6.75% in FY 2008/09. KBL has high invested in government security than MBL.

# CHAPTER V

## Summary, Conclusion & Recommendation

This chapter shows the financial report of the study. This chapter is divided into three sections. First section deals with summary of the study in which the result of conclusions that is found in previous chapter is presented in short manner. The second section is related with the conclusion of the study in which overall decision made under the study the presented. The third section of this chapter is remedies or recommendation of the study.

### 5.1 Summary

The study was conducted with the objective to analyze the financial performance analysis of Machhapuchhre Bank Ltd (MBL) and Kumari Bank Ltd (KBL) based on CAMEL over the five years study period from 2004/05 to 2008/09. The study is based on the secondary data for the analysis of MBL and KBL are used as the major sources of data out of 28 commercial banks. CAMEL is a common method for analyzing the health of individual institution, to quantify the performance and financial condition of the fir. For the analysis of the study, annual report and financial statement of MBL and KBL are used as the major sources of data. The analysis of financial statement is done to obtain a better insight into a firm's position and performance various financial and statistical tools have been used in this study to get the meaningful result to meet the research objectives.

The study was designed by regulatory authorities and this study scrutinizes the financial performance of MBL and KBL. Moreover, the specific objectives of the objectives of the study were to examine the capital adequacy of the bank, to assess the quality of the bank's assets, to analyze the efficiency of the bank's managements, to evaluate the earning performance of the bank to find out the liquidity position of the bank in the period of 2004/05 to 2008/09 AD. Different materials were received to build up the conceptual foundation and to find out the clear destination of the research work. During the research the areas that formed part of the conceptual review were historical development of financial system and evaluation of commercial banks in Nepal, concept of commercial banks, and function of commercial banks and components of CAMEL. Besides these, reviews of various theses were carried out under research review.

According to the NRB's guideline banks in Nepal should manage 11% Capital Adequacy Ratio and 505% Core Capital Ratio. Both banks are successful to maintain CAR and CCR. The CAR above NRB standard of the company shows the protection and security to creditors, depositors and financial soundness of the company. The core capital ratio of MBL and KBL are as per NRB standard in all the years in the review period which leads to conclude that the company is running with adequate capital. Moreover, observed core Capital Ratio indicates that the capital of company is running with adequate capital.

The bank with lower Non Performing Loan ratio indicates the robust risk management system. KBL has lower NPL ratio. It indicates that better proportion of performing loans and risk of default (credit) than MBL. The loan Loss Coverage ratio increases it will create low risk for bank. MBL and KBL has fluctuation in LLCR which indicates they may be able cover Non Performing Loan currently, their future trend won't be the same. Lower Loan Loss Provision ratio is better for the banks. MBL has highest Loan Loss Provision ratio. KBL has maintained its LLP lower which indicates the strong credit risk management system.

The management Efficiency ratio (MER) indicates better operation of the bank and better profitability. KBL has highest MER it indicates existence of effective management and better profitability. MER of MBL has decreasing during the study period.

Earnings per Share of KBL is in increasing trend through the year. But EPS of MBL is decreasing trend similarly, Return on equity of KBL is in increasing trend and MBL is in fluctuating trend. ROA of KBL is the highest and overall it is in increasing order. It means KBL is successful in mobilizing its assets to yield high return but the ROA of MBL is very fluctuating and decreasing trend through the fiscal year.

Cash and Bank Balance ratio of MBL is in increasing trend which shows high liquidity position and ability to cover the deposit withdrawal on demand. MBL has not invest their more portion of its deposit to Government Securities which means it has more risk in investment KBL investment their more portion in Government Security.

## 5.2 Conclusion

Based on the findings, following conclusion have been drawn as a concluding framework for financial performance analysis of Machhapuchhre Bank Ltd and Kumari Bank Ltd based on CAMEL.

- Capital Adequacy ratio reflects the overall financial conclusion of the banks and also the ability of the management to meet additional capital requirement. The CAR of MBL and KBL are above the NRB standard over the study period. It can conclude that the capital fund of MBL and KBL are sound and sufficient to meet the financial operation as per NRB standards.
- Core Capita Ratio of MBL and KBL are above the NRB standard in the review period. 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 banks are financially sound and strong.
- The Non Performing Loan for MBL I in increasing trend. The bank has not been gradually able to upgrade its credit management policy. The decreasing trend of NPL ratio helps to conclude that the bank is aware of NPL and adopting the appropriate policies to manage this problem and to increases the quality of Assets.
- Loan Loss Coverage ratios of two banks are above 100%. The banks can meet their loan losses easily.
- Lower Loan Loss Provision ratio indicates the better risk management and robust credit management system in place. LLP of MBL is fluctuating but an increasing trend during the study period. It indicates that the quality of loans becoming decreasing year by year. LLP ratio of KBL has slightly decreased in the year of 2008/09.
- The Management Efficiency ratio depicts efficiencies and productivity as a result of well managed of human resources I terms of profitability. MER of MBL is in decreasing trend, so the bank has poorly performed.
- Higher Earning per Share shows the better performance and sustainability of banks. EPS of MBL is decreasing order and KBL has fluctuating but increasing trend.
- The Return on Equity in fluctuating trend. This indicates that the bank has not earned satisfactory return for its equity shareholders.

- Higher Return on Assets shows the better utilization and management on the assets and trend profit level. This ratio depicts how efficiently a bank is utilizing the mobilizing its assets to generate profit.
- The Cash and Bank Balance to total deposit ratio of two banks are in increasing trend. MBL has the highest between tow banks.
- Investment in Government security ratio of two banks are decreasing trend. MBL has not invested their portion of its deposit to Government securities which means it has more risk in investment.

### **5.3 Recommendations**

Clear financial picture of selected banks can be viewed from all above presentation. Now some valuable and timely suggestions and recommendation can be advances to overcome weakness, inefficiency and to improve present financial position of the bank. On the basis of finding mentioned above some of recommendation have been drawn which are as follows.

1. The capital adequacy ratio of MBL and KBL are just above the NRB requirement. It limits their possibilities of making new loans and advances in the near future. Hence, we recommend them to increase their CAR. So that it becomes possible to increase their loans and advances without any problems CAR adjustments. Core Capital ratio of two banks are as per NRB standard over the review period, but are in fluctuating trend. So recommendation is provided and maintain stable of CCR.
2. As the Non-Performing loan ratio of MBL is increasing trend and KBL is fluctuating trends during the study period, it signals deteriorations in the quality of loans. So, the company is recommended to improve the loan quality. For this the company should give serious attention towards the recovering, timely follow-up and disbursement of loan. Moreover, the company should strictly follow their own loan policies.
3. The Management Efficiency ratio of MBL is in decreasing trend and MBL is in fluctuating trend. Concrete measures like better motivation and training and development should be provided to develop the productivity of the staff. However, MER has its own limitation as we can understand that the

contribution and efficiency of all staffs can not be similar and it does not show any accountability that when the staff was recruited during the fiscal year.

4. The earning quality ratio of MBL like EPS, ROE and ROE are in decreasing trend and KBL has fluctuating trend. The most important performance measure for any firm is profitability without profit, so two banks recommended that to increase more profit. The bank should minimize its operating cost by increasing the operating efficiency of its employees.
5. The Liquidity position of the company should meet its current and contingent obligations. MBL has a very high liquidity in term of Cash and Bank balance ratio. It is recommended that the bank need not increases its C&B ratio than NRB standard.KBL 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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