

CHAPTER-I

INTRODUCTION

1.1 Background

Financial institutions are the specialized firm that facilitates the transfer of funds from savers to borrowers. Bank is a financial institution that acts as a bridge between the savers and users by collecting scattered deposits and giving loans to maximize their wealth. Bank is the principal source of credit for millions of individuals and families and for many units of government (school district, cities, countries etc.) during transaction businesses and consumers make payments from bank-provided checks, debit card or credit card. Hence, bank can be said as a financial intermediary accepting deposits and granting loans offer widest menu of services of any financial institutions. The established, growth and development of the financial sector directly influences by the open market and liberalization policies.

In broadest sense, a bank is a financial intermediary that performs one or more of the following functions: safeguards and transfers of funds, lends or facilitates lending guarantees creditworthiness and exchange money. Such institutions as commercial banks, central banks, trust companies, finance companies, life insurers and investment bankers provide these services.

The concept of bank has been modifying due to the change of time and situations. Many well-known economists, scholars and acts of nations of the world have given definitions regarding bank.

"The more developed financial system of the world characteristically falls in to three parts: the central banks, the commercial banks and other financial institutions. They are also known as financial intermediaries." ¹

¹ Sayers R.S., *Modern Banking*: India Oxford Cleve Don Press, 1976, p.16

“Banking means the accepting for the purpose of lending and investment of deposits of money from the public, repayable on demand or otherwise and withdrawn by cheque, draft order of otherwise.”²

As per Geoffery Crowther *“Banker’s business is to take the debts of other peoples to offer his on in exchange, and thereby create money.”³*

“Bank is an establishment for the custody of money received from or on behalf of its customers its essential duty is to pay their draft on it, its profit arises from its use of the money left unemployed by them.”⁴

“An organization where people and business can invest or borrow money, change it to foreign money, etc. or a building where these services are offered.”⁵

Through these definitions, we can say that banks are those financial institutions that offer several financial services. It would be quite impossible for the entrepreneur to acquire the saving of general public for investment without banks. Therefore, the bank can be best described as the financial institution which accepts saving of public by providing them with certain rate of interest and loan it to needy investors by charging certain rate of interest and earn some profit in the process of intermediation. Modern banking being a lot more than just deposit and loans cater a range if services viz. remittance of money, letter of credit, bank guarantee, issue of money, exchange of foreign currency, provide security to invaluable, controlling monetary activities of entire nation.

² Gupta D.P., *The Banking System: Its Role in Export Development, The Financing of Exports from Developing Countries*, International Trade Center, UNCTAD/GATT, Geneva, 1984, p.15-24.

³Encyclopedia, *The Wordbook*, America: Grolier Incorporated, Vol.3, 1984.

⁴*Oxford English Dictionary*: Oxford University Press, 2005, p.107

⁵ *Cambridge International Dictionary of English*: Cambridge University Press, 2006, p.115

Nepalese financial sector is composed of banking and non-banking sector. Moving towards the Nepali banking sector, it is now at an exciting point in its development. It is going through a rapid transformation. With liberalization in financial markets and integration of domestic market with external markets, bank operations have become more complex and dynamic. Bank established to support the country's commercial sector are called commercial banks. These banks collect the saving from different part of the society and provide aforementioned modern banking services viz. the overdraft facilities to the interested clients exchange the foreign currency, remittance facilities, discount the exchange paper, bank guarantee, letter of credit, provide security to invaluable.

Besides commercial banks, there are sizable number of development banks, finance companies, micro-credit development bank, cooperative, NGOs and postal saving officers that undertake limited banking and financial services. Non-banking financial sector comprises funds, Trust and thrifts like Employee Provident Fund, Citizen Investment Trusts and Mutual Fund.

1.1.1 Establishment of Banking System In Nepal

Though modern banking practices are of recent origin in our country, historical evidences show the presence of some crude banking practices in the earlier period. The contributors to the development of a Nepalese banking system according to the respective time are considered to be Kind Guna Kam Dev, a Sudra Merchant Shankhadhar, the business group 'Tankadharies' of Kantipur and also 'Tejarath', a Government financial institution established by Rana Prime Minister Rannoddip Singh in 1880 A.D. Moreover, the setting up of 'Tejarath Adda', considered as 'The father of modern banking institutions in Nepal' has been regarded as the first remarkable step in organized banking.

1.1.2 History of Modern Commercial Bank

According to the definition of H.L., a banker or a bank is a person or company carrying on the business of receiving money and collecting drafts, for customers subject to the obligation of honoring cheques drawn upon them from time to time by the customers to the extent of the amount available on their customer. Commerce is the financial transactions related to selling and buying activities of goods and services. Therefore, commercial banks are those banks, which work from commercial viewpoint. They perform all kinds of banking functions as accepting deposits, advancing credits and long terms credit to trade and industry. They also operate off balance sheet functions such as issuing guarantee, bonds, letter of credit, etc.

The history of modern commercial banking industry dates back to 1937 A.D in which year Nepal Bank Ltd. was incorporated. Till 1984, financial sector was closed to private sector and foreign investors. HMG/Nepal started to liberalize the financial sector in the first half of the 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 the 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. (Baral, 2005 Vol.2, No.1:p.41-52)⁶.

⁶ Baral K. J., “*Health Check up of Commercial Banks in the framework of CAMEL*”, A Case Study of Joint Venture Banks in Nepal. The Journal of Nepalese Business Studies, 2005, 2, no.1:41-52.

1.1.3 Concept of Commercial Banks

Commercial banks are the most important source of institutional credit in the money market. A commercial bank is a profit-seeking firm, dealing in money or rather dealing in claim to money. It is a financial institution that creates deposits liabilities which circulates as money unlike the deposits of other financial institutions. In fact, the greater part of money supply is the direct consequences of the profit-creating activities of commercial banks.

A commercial bank is an institution that operates for profits. Like other industrial or commercial enterprise, a bank too, seeks to earn maximum income through the suitable employment of its resources. It is a financial intermediary, a sort of a middleman between people with surplus funds and people in need of funds. It accepts deposits for the purpose of lending of investment and thereby hopes to make profit, which are adequate enough to enable the bank to pay interest at the prescribed rates to its depositors, meet establishment expenses, build reserves, pay dividend to the shareholders etc. In general, commercial banks are those FIs, which play the role of financial intermediary in collection and disbursement of funds from surplus unit to deficit unit.

Many well-known economists, scholars and acts of nations of the world have given definitions regarding commercial bank.

“Commercial banks as an organization chartered either by the comptroller of the currency and known as a national bank or chartered by the state in which it will conduct the business of banking. A commercial bank generally specializes in demand deposits and commercial loans.”⁷

“Commercial bank as a bank that concentrates on cash deposit and transfer services to the general public, often to be found on the high street, it may be joint venture bank or a private bank.”⁸

⁷ Rosenberg, *Dictionary of Banking and Finance*, New York, John, Wiley and Sons, 1982, p.215

⁸ Clark, *International Banking and Finance*, New York, 1999, p.89

“Bank is an institution that deals in money and its substitutes and provides other financial services. Banks accepted deposits and makes loans and derives a profit from the difference in the interest rates and charged respectively. Some banks also have the power to create money. CB is a bank with the power to make loans that, at least in part, eventually because new demand deposits. Because it requires to hold only a fraction of its deposits as reserves. It can use some of the money on deposit to extend loans. When a borrower receives a loan his checking account is credited with the amount of the loan; total deposits are thus increased until the loan is repaid. As a group, then CBs are able to expand or contract the money supply by creating new demand deposits.”⁹

1.1.4 Functions of Commercial Banks

There are three primary functions of a bank. They are as follows:

a. Safe guarding: Bank plays the role of safeguarding as it keeps depositor’s money safe and takes decision wisely about making loans and investment. Banks have the following functions on safeguarding. They are

- Ñ Keep record of transaction,
- Ñ Identify the culprit and
- Ñ Take legal action when theft/fraud/loan defaulter takes place

Central Bank is the government banks that manage, regulate and protect both the money supply and banks themselves.

b. Transferring and Exchanging Money: Bank provides the facility of making payment to someone and get payment from someone using check and draft. This makes our life easy because we don’t need to carry money every time with us. Customer can have multiple accounts in multiple cities to transfer money from one account to another account.

⁹*Encyclopedia*, Britannice, 2002, p. 39

c. Lending: Banks take decisions wisely about making loans and investments. Banks give loan only to those who qualify to get according to banks parameters. In this way risk of loosing money by the bank gets minimized.

NRB (2009) stated, the functioning of the banks can be classified into Class A, Class B, Class C and so on. Class “A” includes 26 licensed commercial banks that can be government-owned, privately-owned or jointly owned by government and the private sector. They collect deposits from public, invest in loans and overdrafts, sell and purchase bills, open letter of credit for export and import, provide bank guarantee, deal in foreign exchange and invest in stock and bonds. Class “B” includes 58 development banks. They take high risk by providing loans for venture capital. They provide loans to industry, agriculture, import-export, cottage and small industries, cooperatives. Further, finance companies fall under “C” class with 79 companies operating to provide service. They accept fixed and saving deposits with higher rate of interest. They provide loans to industries and individuals and charge higher rate of interest. Micro Credit Development Banks comes under “D” class with 12 banks. Moreover, 16 savings and credit co-operatives (limited banking) and 46 non-government organization (NGOs) are also actively participating in its own way. The no. of banks as per its class is given in table no 1.1.

Table No. 1.1

No. of Banks and Non-bank Financial Institutions

Regulator for Banking Activities	Nepal Rastra Bank
Class A: Commercial Banks	26
Class B: Development Banks	58
Class C: Finance Companies	79
Class D: Micro Credit Development Banks	12
Savings and Credit Co-operatives	16
Non-Government Organizations (NGOs)	46

(Source: Nepal Rastra Bank Report as of May, 2009)

Finally, it is relevant to define the meaning of commercial bank according to commercial bank act, 2013 (1974), which requires, commercial bank means a bank which operates currency exchange transaction, accepts deposits, provides loan and performs dealing relating to commerce, and other than these banks which have been specified for the cooperative, agriculture, industry of likely and any other specific objective.

George and his friends in their study affirmed that CAMEL model is an internationally accepted tool for evaluating performance and predicting bank failures. In his study, he further stated that CAMEL stands for **C**apital Adequacy, **A**sset Quality, **M**anagement Quality, **E**arnings Quality and **L**iquidity. It is considered as the best available method for evaluating bank performance and healthy position of the bank since it considers all areas of banking operations.

Baral in his journal (2005), states that NRB has adopted the CAEL (capital adequacy, asset quality, earning and liquidity) system to check up the health of FIs. It has yet to use the CAMELS to evaluate the financial performance and check up the financial health. Independent outsiders also can not use all components of CAMELS to check up the financial health of FIs in Nepal due to the full disclosures of required financial information to outsiders. NRB dictated FIs to disclose the financial information in uniform way only in the fiscal year (FY) 2001/02. In this study, attempt has been made to check up the financial health of joint venture banks in the framework of CAMEL. (Baral ,2005: p,41-52)¹⁰.

¹⁰ Baral K. J., "*Health Check up of Commercial Banks in the framework of CAMEL*", A Case Study of Joint Venture Banks in Nepal. The Journal of Nepalese Business Studies, 2005, 2, no.1:41-52.

1.1.5 Rational of Regular Health Check up of Commercial Banks

Not only the commercial banks but also any FIs require regular health check up to maintain the confidence of private sector in financial system of the country and protect the interest of depositors, lenders, shareholders and other stakeholders. The gravity of the importance of sound financial sector has increased tremendously after the international financial turmoil of the second half of the 1990s. International Monetary authorities such as International Monetary Fund and international FI like the World Bank have underpinned the need of healthy financial sector to build up the confidence of private sector in the liberalized financial system. Therefore, they have directed their member countries to reform the financial sector and conduct the regular health check up of FIs through onsite and offsite supervision. International FIs like the World Bank and Asian Development Bank (ADB) are supporting the projects run in the vein of reforming process of the financial sector of different countries. For example, the World Bank is constantly providing the technical and financial support to reengineer NRB and restructure Nepal Bank Ltd. and Rastriya Banijya Bank (*NRB 2005:p.22-35*)¹¹.

Health of financial sector depends on the health of individual FIs. In addition, individual FI's health counts on the macro and micro factors. Among the macro factors, political stability and the real sector growth are vital. The financial health of FIs can not sustain without the political stability and sustainable real sector growth with sound health. However, the intensity of contagious effect of these macro variables may vary from one individual FI to another. Therefore, health of individual FI should be checked up regularly to know the intensity of such effect.

Health of an individual FI is a function of multiple factors such as quality of its assets, liquidity position, capital base, management quality, market sensitivity and earnings. All these factors affect the different types of risk to an individual FI.

¹¹ *NRB, Banking Supervision and Annual Report, 2005: p.22-35*

Different types of risks: credit risk, interest rate risk, liquidity risk, market risk, off-balance sheet risk, foreign exchange risk, technology risk, operational risk, insolvency risk, affect the health of an individual FI adversely if they are not managed in sustainable manner. A number of factors such as quality of assets, financial market condition, foreign exchange market, composition of assets, financial health of its clients, profitability, capital adequacy, affect the degree of these risks. Financial health check-up of an individual institution should be made regularly to detect the adverse effect of these risks on its health. Micro-prudential indicators such as capital adequacy, asset quality, management soundness, earning and profitability, liquidity, sensitivity to market risk, and market based indicators like market price of financial instruments, credit ratings are used as indicators of the sound health of an individual FI. These indicators are explained at length in the ensuing section of the study.

1.2 Introduction of Banks under the Study:

Bank of Kathmandu Limited

Bank of Kathmandu is one of the leading commercial bank in Nepal. It was established 2051B.S (March 1995 A.D.) under Joint investment of the Syam Commercial Bank, Thailand. The share of the Siam Commercial Bank has hold to general public of Nepal and management is handed over the Nepalese.

Bank of Kathmandu Limited (BOK) has today become a landmark in the Nepalese banking sector by being among the few commercial banks which is entirely managed by Nepalese professionals and owned by the general public. They wish to reiterate here that whatever activity they undertake they put in conscious efforts to glorify their corporate slogan, **“We make your life easier”**.

To achieve these, BOK has been focusing on its set objectives right from the beginning. To highlight its few objectives:

- To contribute to the sustainable development of the nation by mobilizing domestic savings and channeling them to productive areas
- To use the latest banking technology to provide better, reliable and efficient services at a reasonable cost
- To facilitate trade by making financial transactions easier, faster and more reliable through relationships with foreign banks and money transfer agencies
- To contribute to the overall social development of Nepal.

BOK's IT infrastructure has been designed, to facilitate, internal and customer convenience. Nationwide, all the branches are connected to the central database via Wide Area Network (WAN) powered by Finacle, state-of-the-art banking application software supported by hardware like SUN Fire V880 RISC server, VSAT etc. Internally, BOK relies on Information & Communication Technology (ICT), for a quick, reliable, efficient system. Banking operations are powered by Finacle, which is listed among the top 40 companies that have reshaped the global economy as per the Wired Magazine.

Head office of BOK is suited at Kamalpokhari, Kathmandu. It has altogether 17 branches. Five of them are located inside the Kathmandu valley and rest are spread across the nation.

Kumari Bank Limited

Kumari Bank Limited, came into existence as a part of Nepal Rastra Bank's Liberalization of Nepalese Banking industry by starting its banking operation from Chaitra 21, 2057 B.S(April 03, 2001). It is the fifteenth commercial bank of Nepal with an objective of providing competitive and modern banking services in Nepalese financial market.

Currently, the bank is operating from its office premises located at Putalisadak, Kathmandu and is in the process of expanding its branches all over the country. KBL has been providing a world class service to the customers at a higher satisfaction

level. The bank practices total quality management and embrace good governance. The bank has been pioneer in providing some of the latest banking services like E-Banking and SMS banking services. KBL is the first ever commercial bank in the county to provide “Internet Banking services” to its customer.

KBL is customer oriented and client is always their first priority. To cater the changing needs of customer, the bank has constantly focusing on building sound technology to enhance customer comfort and value. The bank shall be preferred provider of financial services to their target client by embracing good governance, service excellence and professional culture in order to achieve sound business growth and maximize shareholders value. The bank has now being recognized as an innovative and fast growing institution striving to enhance customer value and satisfaction by backing transparent business practice, professional management, corporate governance and total quality management as the organizational mission.

1.3 Focus of the Study

This research study is focused on assessing and comparing the financial condition and performance of Bank of Kathmandu (BOK) and Kumari Bank Limited (KBL) in the framework of CAMEL by using descriptive and analytical research design. The tools under CAMEL are applied to diagnose the financial performance of BOK and KBL.

1.4 Statement of the Problem

For the purpose of the study, CAMEL tool will be used to assess the overall financial condition and strengths of BOK and KBL. Besides, the study also attempts to answer the following research questions:

- i) What are the capital adequacy ratios of BOK and KBL?
- ii) What are the qualities of assets of BOK and KBL?
- iii) What is the position of management efficiency of BOK and KBL?
- iv) What are the trend of earning performance made by BOK and KBL?
- v) What is the liquidity position of BOK and KBL?

1.5 Objectives of the Study

In line with the statement of the problem, the fundamental objective of the study is to analyze and compare the financial performance of BOK and KBL in the framework of CAMEL from fiscal year 2003/04 to 2007/08. Following are the objectives on specific term:

- i) To analyze the Capital Adequacy of BOK and KBL and compare with regulatory minimum capita requirement.
- ii) To analyze quality of assets of BOK and KBL.
- iii) To evaluate management efficiency of BOK and KBL.
- iv) To study the trend of earning performance made by BOK and KBL.
- v) To provide suggestions and recommendations to improve bank's performance as per findings on the study.

1.6 Significance of the Study

The significance of the study lies mainly in identifying and comparing the financial health of BOK and KBL in the framework of CAMEL. This study would contribute significantly to the senior management of BOK and KBL to evaluate the financial performance of the company and to maintain their activities effectively. Apart from this study will benefit to the shareholders to know the financial health of BOK and KBL. Besides this, it will be helpful to all interested group such as depositors, debtors, investors, competitors, merchant bankers, researcher and those who want to conduct further study in this field. Also the policymaker will be benefited from this study to formulating the policy regarding commercial banks. Therefore, the study will be much importance and productive to different stakeholders.

1.7 Limitations of the Study

The research is conducted to fulfill the academic requirement of master of business degree. This study is based on a case study of BOK and KBL as samples, which may not represent the overall scenario of all commercial banks presently having 26 in the country. The study is only confined to financial performance analysis of BOK and

KBL in the framework of CAMEL. Further, all the activities are intended to analyze the financial performance only. Besides, the bank's audited annual reports for the period of 2003/04 to 2007/08 are the primary source of information and treated as authentic.

1.8 Organization of the Study

This study is organized into five chapters. The first chapter is the introduction which deals of the background, focus of the study, statement of the problem, objectives of the study, significance of the study, limitation of the study and organization of the study.

The second chapter Review of Literature deals with conceptual review and review of related studies.

The third chapter Research Methodology describes the methodology applied in this study.

The fourth chapter Presentation and Analysis of Data is concerned with analytical framework.

The fifth chapter covers the summary, conclusion and recommendations.

The bibliography and appendices are incorporated at the end of the study.

CHAPTER-II

RIVIEW OF LITERATURE

2.1 Conceptual/Theoretical Framework

The preview of banking sectors along with the general concept of CAMEL is already mentioned in the earlier chapter. This chapter basically highlights the existing literature and research work related to the present research being conducted with the view of finding out what had already been explained by the previous researchers and how the current research adds further benefits to the field of research. Here, review of various books, research studies and articles have been used to make clear about the concept of CAMEL as well to recall the related previous studies made by various researchers.

2.1.1 Theoretical Prescription of CAMELS Framework

The CAMEL framework comes from the financial area. It is one of the most significant areas of research in this modern world. Therefore, this can be regarded as the most upcoming important and inseparable parts of financial management.

Financial management is directly related with finance, that is, money. But finance, today, is the best characterized as ever changing, with new ideas and techniques. Today finance is not only related with the money matters but also subject to acquiring, managing and efficient utilizing of the funds for businesses. Hence it is obvious that, this word “finance” is the matter of concern to the various sectors. For example, it is the management of the firm, which is always interested in all aspects of financial analysis to adopt a good financial management system and for the internal control of the enterprise. Similarly, trade creditors are more interested in cash flow ability of the enterprise to service debt over a long run. However, shareholders of the firm are principally concerned with the present and expected future earnings and the stability of the earnings as well as their variation with the earnings of the other

enterprise. Thus, shareholders are more concentrated on the profitability of the firm. Hence, different people have different perspective on this matter.

The present structure of the financial institutions is based on the foundation laid by commercial banks. Hence, banks are regarded as one of the intermediaries to mobilize capital resources and channel them into productive sectors. Resource mobilization is, thus, assumed to be vital and challenging work in the present day world economy. But in this era of financial, economic and political liberalization, the task is more complicated than before. Thus, there is a need of foreign investment in order to meet the standards to cope with the worldwide competition.

In developing countries these foreign investment plays a significant role in economic development by providing capital, technology, skills, managerial efficiency and others. So, foreign joint investments have been considered as very important. They are mechanism through which resources are mobilized and make flowing from non-productive sectors to productive sectors.

There has been substantial growth in commercial bank since 1990. The establishment of joint venture banks forced the other commercial banks to improve efficiency and to adopt modernization of new technology, new procedures and computerization systems.

The existence of foreign joint venture banks has created an environment of healthy competition among the existing commercial banks. The increased competition forces the existing banks to improve their quality and extend service by simplifying procedures and by training, motivation their own staff to respond to the new challenges.

Sunil Chopra in his article, “Role of foreign banks in Nepal” had attempted to focus the role of foreign banks in Nepal. According to him, the joint venture banks are playing dynamic and vital role in the economic development of the country.

Similarly, Bedi B. Bajracharya, in his article, “Monetary policy and mobilization in Nepal,” concluded that the mobilization of domestic saving is one of the prime objectives of the monetary policy in Nepal. It can, however, be fulfilled only by the commercial banks as they are the active financial intermediary for generating resources in the form of deposit and providing credit to the investors.

The Basle Committee on Banking Supervision of the Bank of International Settlements (BIS) has recommended using capital adequacy, assets quality, management quality, earnings and liquidity (CAMEL) as criteria for assessing a financial institutions (FI) in 1988 ADB 2002. The sixth component, market risk (S) was added to CAMEL in 1997. However, most of the developing countries are using CAMEL instead of CAMELS.

CAMELS framework is a common method for evaluating the soundness of FIs. This system was developed by regulatory authorities of the U.S. banks. The Federal Reserve Bank, the Comptroller of the Currency and the Federal Deposit Insurance Corporation (FDIC) all use this system. Monetary authorities in the most of the countries are using this system to check up the health of an individual FI. In addition, International Monetary Fund (IMF) also is using the aggregated indicators of individual FIs to assess the financial system soundness of its member countries as part of its surveillance work (*H.K. and Moretti 2000: 8-12*)¹².

¹² *Hilbers, Krueger and Moretti, 2000, : p. 8-12.*

The six following subsections describe the components of the CAMELS framework.

2.1.1.1 Capital Adequacy

CAMELS framework system looks at six major aspects of an FI: capital adequacy, asset quality, management soundness, earnings, liquidity, and sensitivity to market risk (*H.K. and Moretti 2000:8-12*)¹³. The first component, capital adequacy ultimately determines how well FIs can manage with shocks to their balance sheets. Thus, it tracks capital adequacy ratios that take into account the most important financial risks—foreign ex-change, credit, and interest rate risks—by assigning risk weightings to the institutions assets. For the purpose of capital adequacy measurement, bank capital is divided into Tier I and Tier II. Tier I capital is primary capital and Tier II capital is supplementary capital. In Nepalese context, Tier I (core/primary) capital includes paid-up capital, share premium, non-redeemable preference share, general reserve fund, accumulated profit, capital redemption reserve, capital adjustment fund, and other free reserve. Amount of the goodwill, fictitious assets, investment in the financial instruments issued by an organized organization in excess to the limit specified by NRB, and investment in the financial instruments issued by the organizations having the own financial interest is deducted from the sum of all elements of the primary capital to arrive at the core capital. Similarly, Tier II (supplementary) capital comprises of general loan loss provision, assets revaluation reserve, hybrid capital instruments, subordinated term loan, exchange equalization reserve, excess loan loss provision, and investment adjustment reserve. Thus, the total capital of commercial banks is the sum of core capital and supplementary capital .

Leverage ratio can be used to measure the capital adequacy of a bank. This is the ratio of bank's book value of core capital to the book value of its assets. The higher ratio shows the higher level of capital adequacy. The U.S.A. Federal Deposit Insurance Corporation Improvement Act (FDICIA) of 1991 has fixed the five target zones: i) 5

¹³ *Hilbers, Krueger and Moretti, 2000, : p. 8-12*

% and above ii) 4 % and above iii) under 4 %, iv) under 3 %, v) 2 % and less of leverage ratio. The leverage ratio falling in the first zone implies that bank is well capitalized. Similarly, the leverage falling in the second zone shows that bank is adequately capitalized. The leverage falling in the last three zones indicates that bank is inadequately capitalized and regulators should take prompt corrective action to bring the capital to the desirable level.

The leverage ratio stated in the foregoing discussion is simple capital to assets ratio. In other words, assets are not risk adjusted. The 1993 Basel Accord enforced the capital ratio to risk adjusted assets of commercial banks. According to this accord, core capital must equal to or exceed 4 percent of the risk weighted assets of the commercial banks. Similarly, the amount of the supplementary capital should not exceed the amount of the core capital and the total capital must equal or exceed 8 percent of risk weighted assets. NRB initially fixed the core capital at the level of 4.5 percent of the risk weighted assets and total capital at the level of 9 percent of risk weighted assets of the commercial banks . For the current FY 2005/06, the mandatory levels of core capital and total capital are 6 percent and 12 percent of risk weighted assets of commercial banks. But NRB has strictly directed all commercial banks that the amount of the supplementary capital should not be in excess to the amount of the core capital (*NRB, 2002:29-38*)¹⁴.

2.1.1.2 Asset Quality

Credit risk is one of the factors that affect the health of an individual FI. The extent of the credit risk depends on the quality of assets held by an individual FI. The quality of assets held by an FI depends on exposure to specific risks, trends in non-performing loans, and the health and profitability of bank borrowers—especially the corporate sector. We can use a number of measures to indicate the quality of assets held by FIs.

¹⁴ *NRB, Banking Supervision and Annual Report, 2002: p.29-38*

ADB suggests these measures—loan concentration by industry, region, borrower and portfolio quality; related party policies and exposure on outstanding loan, approval process of loan, check and balance of loans; loan loss provision ratio; portfolio in arrear; loan loss ratio; and reserve ratio—of checking the quality of assets of an FI.

NRB uses composition of assets, nonperforming loan to total loan ratio, net non-performing loan to total loan ratio as the indicators of the quality of assets of commercial banks. NRB has directed the commercial banks in regards to the concentration of the loan. Any licensed FI can grant the fund base loan to a single borrower or borrowers related to the same business group up to the 25 percent of its primary capital. In the same vein, it can provide the non-fund base loan up to 50 percent of its core capital (*NRB, 2005: 22-35*)¹³. Similarly, it has directed FIs to classify the loans into performing loan and non-performing loans. The loans that are not due and 3 months past due fall in the class of performing loans/performing assets and others do in the non-performing loans. Further, non-performing loans are classified into three groups: substandard, doubtful, and bad debt/ loss.

2.1.1.3 Management Quality

Sound management is the key to bank performance but is difficult to measure. It is primarily a qualitative factor applicable to individual institutions. Several indicators, however, can jointly serve as an indicator of management soundness. Expenses ratio, earning per employee, cost per loan, average loan size and cost per unit of money lent can be used as a proxy of the management quality. ADB recommends cost per unit of money lent as a proxy of management quality. But this can not be used as an indicator of management quality in Nepal. Since the data on amount of the total loan mobilized during a particular FY is not available in published financial statements and annual reports. As stated earlier, NRB has skipped up this component of CAMELS in the performance evaluation of commercial banks (*NRB, 2005:22-35*)¹⁵.

¹⁵ *NRB, Banking Supervision and Annual Report, 2005: p.22-35*

2.1.1.4 Earning Performance

Earning capacity or profitability keeps up the sound health of an FI. Chronically unprofitable FI risks insolvency on one hand and on the others, unusually high profitability can reflect excessive risk taking of an FI. There are different indicators of profitability. Return on assets, return on equity, interest-spread ratio, earning-spread ratio, gross margin, operating profit margin and net profit margin are commonly used profitability indicators. NRB uses return on total assets as an indicator of profitability of a commercial bank. In addition, it uses the absolute measures such as interest income, net interest income, non-interest income, net non-interest income, non-operating income, net non-operating income and net profit, to evaluate the profitability of a commercial bank.

2.1.1.5 Liquidity

Liquidity risk threatens the solvency of FIs. In the case of commercial banks, first type of liquidity risk arises when depositors of commercial banks seek to withdraw their money and the second type does when commitment holders want to exercise the commitments recorded off the balance sheet. Commercial banks have to borrow the additional funds or sell the assets at fire sale price to pay off the deposit liabilities. They become insolvent if sale price of the assets are not enough to meet the liability withdrawals. The second type of liquidity risk arises when demand for unexpected loans can not be met due to the lack of the funds. Commercial banks can raise the funds by running down their cash assets, borrowing additional funds in the money markets and selling off other assets at distressed price. Both liability side liquidity risk (first type risk) and asset side liquidity risk (second type risk) affect the health of commercial banks adversely. But maintaining the high liquidity position to minimize such risks also adversely affects the profitability of FIs. Return on highly liquid assets is almost zero. Therefore, FIs should strike the tradeoff between liquidity position and profitability so that they could maintain their health sound.

Commercial bank's liquidity exposure can be measured by analyzing the sources and uses of liquidity. In this approach, total net liquidity is worked out by deducting the total of uses of liquidity from the total of sources of liquidity. Similarly, BIS maturity laddering model can be used to measure the liquidity of a commercial banks. In addition, different liquidity exposure ratios such as borrowed funds to total assets, core deposit to total assets, loans to deposits, and commitments to lend to total assets are used to measure the liquidity position of a commercial bank. NRB uses total loan to total deposit ratio, cash and equivalents to total assets ratio, cash and equivalents to total deposit ratio, NRB balance to total deposit ratio to measure the liquidity position of commercial banks in the course of the performance evaluation of commercial banks.

2.1.1.6 Sensitivity to Market Risk

Commercial banks are increasingly involved in diversified operations such as lending and borrowing, transaction in foreign exchange, selling off assets pledged for securities and so on. All these are subject to market risk like interest rate risk, foreign exchange rate risk, and financial asset and commodity price risk. The health of an FI more sensitive to market risk is more hazardous than that of less sensitive. Foreign exchange risk, interest rate risk, equity price risk, and commodity price risk are the indicators of sensitivity to market risk.

2.2 Review of Related Studies

The number of the financial analysis regarding the commercial banks as well as the financial performance of Nepal Rastra Bank has been found out in order to review this section. But due to the short span of its establishment very few researches have been made in the area of the liquidity management of bank in Nepalese context, and basically most of them have focused on financial analysis and financial performance of the commercial/joint venture banks as their relevant field.

2.2.1 Review of Article:

Pradhan (1984) in his article “Financial Liquidity Assessment and Discriminant Analysis” in the “Pravaha”, Journal of management, Vol 8, 1984, published by Nepal Commerce Campus, Tribhuvan University, has made an effort to show how a discriminate analysis may be useful in assessing the financial liquidity position of the selected public enterprises of Nepal. He even tried to arrange 10 public enterprises (5 from manufacturing sectors and 5 from non-manufacturing sectors) on the basis of their risk indicated by Z-scores. The objective of the article was, however, to evaluate and combine two explanatory variables in a manner that forces the selected groups to be as statistically distinct as possible. (Source: Pradhan, R.S., 1984: p.24)¹⁶

Morris (1990), in his discussion paper on “Latin America’s Banking System in the 1980’s” has conclude that most of the banks concentrated on compliance with central bank rules on reserve requirements, credit allocation(investment decision) and interest rates. On the other hand, analyzing loan portfolio quality, operating efficiency and soundness of bank investment management, has largely been over hooked. He further adds that mismanagement in financial institutions has involved inadequate and over optimistic loan appraisal, high risk diversification of loan portfolio and investments, high risk concentration, related parties lending etc. are major cause of investment and loan that has gone bad (Source: Morris, F., 1990: p.19)¹⁷

Madlin & Snock (1998) in their book, “ Evaluation of Banking Supervision in NRB” express when government decided to establish banks with joint venture two benefits were expected; first that competition would force domestic banks such as NBL & RBB to improve their services and efficiency; second that introduction of new banking procedures, methods and technology would occur. (Source: Madlin & Snock, 1998:p.13)¹⁸

¹⁶ Pradhan R.S., “*Pravaha*”, 1984, Vol. 8, p.24

¹⁷ Morris F., “*Latin America’s banking System in the 1980s.*”, 1990, p.19

¹⁸ Madlin C. & Snock H., “*Evaluation of Banking Supervision in NRB*”, 1998, p.13

Shrestha (2004), in his article, “ A study on deposits and credits of commercial banks in Nepal” concluded that the credit deposits ratio would be 51.3%, other things remaining same in the year 2004 A.D., which was the lowest under the period of review. So he has strongly recommended that the commercial banks should try to give more credit entering new field as far as possible otherwise they might not be able to absorb even its total expenses. (Source: R. L. Shrestha, 2004)¹⁹

Jha (2005) in his article, “Challenges and Opportunities”, in *The Boss*, has expressed in his article about the challenges and opportunities that the Nepali banking sector faces. Nepali banking sector is going through a rapid transformation. With liberalization in financial markets and integration of domestic market with external markets, bank operations have become more complex and dynamic. The opportunities to enter new business and new markets and to deliver higher level of customer service are immense. Four trends that alter the banking industry in future are consolidation and merger, globalization of operations, development of new technology and sustenance of traditional services. With the new capital adequacy norms coming through, it is expected that few banks have no choice but to merge. In order to have a sustainable growth in the bottom line, banks must increase their global market operations, especially in treasury products by being more innovative and selecting a pool of products which the global market is offering today to reward the calculated risk taken by the bank. (Source: Jha, 2005: p. 96)²⁰

¹⁹ Shrestha R.L., “A study on deposits and credit of commercial banks in Nepal”, 2004, NRB Samachar

²⁰ Jha Resta, “*The boss*” 15th January-14th February, 2005, Vol. 2, Issue 10, p. 96

2.2.2 Review of Thesis:

Mr. Keshav Raj Joshi (1989) in his dissertation entitled, “A study on financial performance of commercial banks”, has analyzed different ratio of Nepal Bank Ltd. and Rastrya Banijya Bank for the period of five years till fiscal year 1988. He concludes liquidity position of commercial banks is sound. Their debt equity ratio is high and debt on solvency to debt equity ratio is under doubt. Regarding debt solvency to debt equity ratio of local commercial banks is higher than joint venture banks. Conservative credit policy is followed by commercial banks for asset utilization. That is why more investment is done in loan and advances, assets utilization for earning purpose is two third of the total assets. The main sources of income for those banks are interest from loans and advances. Overall profit position of NABIL is better than that of other joint venture banks during the study period. Dividend layout ratios of commercial bank should be determined which should be kept in mind of the shareholder’s expectations and their growth requirements of the banks.

Mr. Bhoj Raj Bohara (1992) in his research paper titled, “A comparative study of the financial performance of Nepal Arab Bank Limited and Nepal Indosuez Bank Limited”, concludes that to meet the short term obligations both the banks had been maintained adequate liquidity and utilization of deposit was satisfactory. Both the banks have highly geared capital structure and the capital adequacy ratio of both banks has been maintained in excess then actually required. This study suggested increasing same status of capital structure to reduced financial risks.

Mr. Bindeshwar Mahato (2000) in his unpublished master’s thesis, “A comparative study of the financial performance of NABIL & NIBL” concluded that NABIL is more oriented towards discharging responsibility towards its shareholders than NIBL. More than this, NABIL is found paying more attention towards the attainment of national objectives. NABIL’s participation in the task of economic development with liberal attitude towards the government and being more responsive to the national priorities like branches expansion, ore employment, more resources mobilization etc.

so, from the shareholders and government point of view, NABIL is performing much better than NIBL. But it doesn't mean that NIBL is not performing well. Relatively, NABIL is doing better banking business.

Mr. Kishor Poudel, (2001) in his thesis paper "Liquidity and Investment position of Joint Venture Commercial Banks in Nepal", has made an attempt to evaluate liquidity and investment of JVBs, with special reference to EBL & NABIL. He has concluded that liquidity of EBL is comparatively better than NABIL. Growth rate of investment is high in EBL than NABIL. He even found that the bank don't have constant and consistent liquidity and investment policy. There is no standard and uniform rate or ratio for maintaining liquid assets by the commercial banks. A commercial bank at its own judgment may decide to maintain an appropriate level of liquid assets. So he has recommended exploring such investment on share and debenture and the bank should have laid down policy for timely review of portfolio and to maintain risk and return.

Miss. Archana Joshi (2002) in her thesis, "A comparative study on Financial Performance of Nepal SBI Bank Ltd. & Nepal Bangladesh Bank Ltd.", reveals that the liquidity position of NSBL exists in normal standard and NBBL is still trying to gain that position. However, NBBL has better turnover than NSBL, thus has got better utilization of resources in income generating activities than NSBL resulting into the increment of profit for the organization. But despite of the fluctuating trend in the ratio of cash and bank balance to total deposit. NSBL is more efficient than NBBL in cash management i.e. it is more able to keep more cash balance against its various deposits. However, the overall finding is that NBBL seems to be more successful in mobilizing its customer's saving in much more productive sectors.

Miss. Rajani Shakya (2004) has performed her dissertation on, "Liquidity assessment of Nepal Bangladesh Bank Ltd." Her study is based on Nepal Bangladesh Bank's liquidity assessment. Its main objective is to analyze the liquidity assessment of NBBL for the creation of better investment. In this regard she has tried to focus on the major problems of NBBL which is at crucial stage. Besides, she has also raised

relevant problems on mushrooming of the banks. Other problems, which she has focused, are:

-) High flow of money in the market but less viable and investible project.
-) Due to lack of study of liquidity and available investment sector, it is not able to attract as much clients as it could have.
-) Due to the political problems, this bank is also going via. saturation.
-) Beneficial investment strategy needs to be in operation.

She concludes that NBBL was not able to maintain the conventional standard of 2:1. The cash and bank balance to total deposit ratio was not satisfactory as the average ratio was found to be only 17.80% which means that NBBL was not capable to keep more cash balance against its various deposit and thus, it defines that its liquidity position is not good in spite of its slight improvement in 2001/02. Loans and advances to total deposit ratio also showed the fluctuating trend. This study recommended that the concerned authorities should develop the sense of safety and security in the mind of investors. She even suggested the NBBL to promote their international banking network to increase their remittance and other banking business.

CHAPTER-III

RESEARCH METHODOLOGY

Research methodology indicates the methods and processes employed in the entire aspects of the study. This chapter provides the overall framework or plan for the collection, analysis and presentation of data required to fulfill the objectives of the study set in chapter I. To meet the objectives of the study, the methodology applied in the study is described as below:

3.1 Research Design

The evaluation of the performance is designed to reflect an assessment of the financial condition of Bank of Kathmandu (BOK) and Kumari Bank Limited (KBL) on the CAMEL perspective. In order to achieve desired objectives, the study is designed within the framework of descriptive cum analytical research methodology.

3.2 Population and Sample

For the purpose of this study, the entire group of commercial banks is taken as population. At present there are 26 commercial banks are providing their services in Nepal. Due to time and resource factors, it is not possible to study all of them regarding the study topic that is why out of which, two banks viz. BOK and KBL are selected as sample on the basis of nearest paid up capital of these sample banks for this study.

3.3 Nature and Sources of Data

Basically the research will be based on secondary data. The annual report of BOK and KBL will be used as the major sources of data and other sources of data are as follows:

- Different Publications of the bank
- Financial and Economic Journals
- Various Research Paper and Dissertations

- NRB Reports & Bulletins and its official website
- Basel Committee Publications through its official website
- Various Article Published in Journal and Financial Magazines
- Nepal Stock Exchange Report
- Books written by the various authors
- Official website of BOK and KBL

3.4 Data Collection Procedure

The required information will be collected by conducting visit to BOK and KBL. The report of the bank for the study period will be obtained through official website of banks. Similarly, NRB regulatory directives banking and financial statistics of the commercial banks in Nepal, monetary policy and other related publications will be obtained through internet surfing to NRB's official website and periodicals. Existing literature on the subject matter will be collected from library of Nepal Commerce Campus and Central Library (TU).

3.5 Data Processing

The required information and financial data will be extracted from above mentioned sources and recorded master sheet. The data will be entered into the spreadsheet of Microsoft Excel to carry out the CAMEL financial ratios calculation and necessary graphical illustrations through mathematical functions and chart program of the Excel program.

3.6 Data Analysis Tools

Various financial and statistical tools will be used in this study to get the meaningful result and to meet the research objectives.

3.6.1 Financial Tools

Financial ratios are the major tools for the analysis. Financial ratio analysis tools will be used to determine the performance of the banks in the framework of CAMEL. These ratios are categorized in accordance of the CAMEL components. Following

category of key ratios will be used to analyze the relevant components in terms of CAMEL.

Capital Adequacy (C)

Capital Adequacy is a measure of an FI's financial strength, in particular its ability to cushion operational and abnormal losses. An FI should have adequate capital to support its risk assets in accordance with the risk-weighted capital ratio framework. It has become recognized that capital adequacy more appropriately relates to asset structure than to the volume of liabilities. This is exemplified by central banks' efforts internationally to unify the capital requirements of commercial banks and to generate worldwide classification formulae. Some of the measures to calculate the capital adequacy is mentioned below:

1. Capital Adequacy Ratio (CAR)

This ratio will reflect the relationship between the total capital funds to the total risk weighted assets. The ratio is calculated by dividing the total capital fund by the total risk weighted assets as given below.

$$\text{Capital Adequacy Ratio} = \frac{\text{TotalCapitalFund}}{\text{TotalRiskWeightedAssets}} \times 100$$

Where,

Total Capital Fund = Core Capital + Supplementary Capital

Total Risk Weighted Assets = On balance sheet risk + Off balance sheet risk

Core Capital

It includes the following items:

-) Paid up Capital
-) Share Premium
-) Non-redeemable preference share
-) General reserve
-) Capital redemption reserve
-) Retained earning/loss

Supplementary Capital

It includes the following items:

-) Loan loss provision for good of pass loan
-) Assets revaluation reserve
-) Convertible debentures
-) Other fee reserves
-) Investment adjustment reserves
-) Hybrid capital instruments

If any bank and financial institutions fail to maintain authorized CAR then following penalties should be penalized:

-) Restriction on opening new branches
-) Restriction on refinancing
-) Restriction on getting loan from other banks
-) Restriction on accepting deposit and other penalties according to NRB rule and regulations.

2. Core Capital Ratio (CCR)

This ratio reflects the relationship between the core capital and total risk weighted assets of the commercial banks. The ratio is calculated by dividing the figures of core capital by the figure of risk weighted assets as given below.

$$\text{Core Capital (Tier I) Ratio} = \frac{\text{TotalCoreCapital}}{\text{TotalRiskWeightedAssets}} \times 100$$

) Assets Quality (A)

Asset quality has direct impact on the financial performance of an FI. The quality of assets particularly, loan assets and investments, would depend largely on the risk management system of the institution. The value of loan assets would depend on the realizable value of the collateral while investment assets would depend on the market value. To analyze the assets quality of the bank following ratios will be used in this study.

1. Non Performing Loan Ratio (NPLR)

This ratio highlights the perfect circumstances of the commercial banks in overall non-performing loans. This ratio aware about the possibilities of rollover of the funds exposed to risk assets as calculated below:

$$\text{Non Performing Loan Ratio} = \frac{\text{TotalNonPerformin Loan}}{\text{TotalLoan \& Advances}} \times 100$$

2. Loan Loss Provision Ratio (LLPR)

This ratio measures the percentage of loan loss provision on loan and advances. Loan loss provision on credit is given to reduce risk of non-payment of released credit. As per the directives to bank and finance companies by NRB (2058 B.S.) 1% of good credit can be provisioned as loan loss provision to reduce risk that may arise due to no recovery of disbursed loan which is computed as below:

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

3. Loan Loss Coverage Ratio (LLCR)

This ratio measures the relation between the loan loss reserves to the non-performing assets which includes loan and advance. It is derived by dividing loan loss reserve by non-performing assets as given below:

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

) Management (M)

The performance of the other four CAMEL components will depend on the vision, capability, agility, professionalism, integrity, and competence of the FI's management. As sound management is crucial for the success of any institution, management quality is generally accorded greater weighting in the assessment of the overall CAMEL composite rating. To analyze the management quality and efficiency of the bank following ratios will be used.

1. Management Efficiency (Earning Per Employee) Ratio (MER)

The relationship between the net profits after tax with the number of the employees is the management efficiency ratio. This shows how efficient the management is. This is calculated by dividing the net profit after tax by number of employees. MER is calculated as follows:

$$\text{Management Efficiency (Earning Per Employee)} = \frac{NPAT}{TotalNoOfStaff} \mid 100$$

J Earning (E)

The quality and trend of earnings of an institution depend largely on how well the management manages the assets and liabilities of the institution. An FI must earn reasonable profit to support asset growth, build up adequate reserves and enhance shareholders' value. Good earnings performance would inspire the confidence of depositors, investors, creditors, and the public at large. To measure the profitability soundness of the bank, the following ratios will be used.

1. Return on Equity (ROE)

This ratio will reflect the relationship between net profit after tax to the shareholders' equity. The ratio is calculated by dividing net profit after tax by the shareholders' equity as given below.

$$\text{Return on Equity (ROE)} = \frac{NPAT}{TotalShareholdersFund} \mid 100$$

2. Return on Assets (ROA)

This ratio is very much crucial for measuring the profitability of funds invested in the bank's assets. Here, we compute the relationship between the net profit after tax and assets with the help of the following formula.

$$\text{Return on Assets (ROA)} = \frac{NPAT}{TotalAssets} \mid 100$$

3. Earning per Share (EPS)

This ratio tells us what profit has been earned by the common shareholder for every share held. A company can decide whether to increase or reduce the number of shares on issue. This is determined by dividing net profit after tax by number of shares.

$$\text{Earning per Share (EPS)} = \frac{NPAT}{TotalNoOfShares}$$

) **Liquidity (L):**

An FI must always be liquid to meet depositors' and creditors' demand to maintain public confidence. There needs to be an effective asset and liability management system to minimize maturity mismatches between assets and liabilities and to optimize returns. As liquidity has inverse relationship with profitability, an FI must strike a balance between liquidity and profitability. It measures the bank's ability to meet their current obligation as they become due. The following ratios will be used to analyze the liquidity position of the bank.

1. Cash Reserve Ratio (CRR)

It shows the relationship between the cash balance in Nepal Rastra Bank and the total deposit. The total deposit also comprises of local currency. This is calculated by dividing the NRB balance with total deposit.

$$\text{Cash Reserve Ratio} = \frac{NRBBalance(Lcy)}{TotalDeposit(Lcy)} | 100$$

2. Cash & Bank Balance Ratio (CBBR)

This ratio shows the relationship between the cash and bank balance to the total deposit. The total deposit also comprises of local currency. This is calculated by dividing the cash and bank balance with total deposit.

$$\text{Cash & Bank Balance Ratio} = \frac{TotalCash \& BankBalance}{TotalDeposit} | 100$$

3. Investment in Government Securities Ratio (IGSR)

This ratio calculates the relation of investment in government securities with the total deposit. This shows the bank's investment in government securities with its total deposit. This can be derived by dividing investment in government securities by total deposit.

Investment in Government Securities Ratio

$$= \frac{\text{Total Investment In Government Securities}}{\text{Total Deposit}}$$

3.6.2 Statistical Tools:

Statistical tools are used to draw the relationship between different variables related to the study topic. Although various statistical tools are available to analyze the obtained data, the researcher has selected the most suitable and commonly usable tools to draw trustworthy various numerical. In this study, different statistical tools will be used to analyze the data and reach the meaningful results which are as follows:

) Average or Mean

The arithmetic mean is a single value of selected series, which represents them in average. It is very useful with respect of statistical analysis and is easy to calculate. It is used to summarize the data as a representation of mass data. It can be calculated by using following statistical formula.

$$\bar{x} = \frac{x}{N}$$

Where,

\bar{x} = Simple Arithmetic Mean

x = Summation of x

N = Total No. of Observation

) Standard deviation:

Standard deviation is the most important and widely used measure of studying dispersion and gives uniform, correct and stable results. The standard deviation measures the absolute dispersion. A small value of standard deviation means a high degree of uniformity of the observations as well as homogeneity of a series and vice versa. Amongst all methods of finding out dispersion, standard deviation is regarded as the best.

It is used to find out the deviation in absolute term. It is determined in the following ways:

$$\exists = \sqrt{\frac{\sum f_x Z_{\bar{x}}^2}{n}}$$

Where,

\exists = Standard Deviation

x = Individual value

\bar{x} = Simple Arithmetic Mean

n = Total no. of observation

) **Coefficient of variation:**

The co-efficient of variance is the relative measure of dispersion, comparable across distribution, which is defined as the ratio, of the standard deviation the mean express in percent.

This is pure number independent of the units of measurement and thus, is suitable for comparing the variability, homogeneity or uniformity of two or more distributions. A

distribution with smaller C.V. is said to be more homogeneous or uniform or less variable than other and the series with greater C.V. is said to be more heterogeneous or more variable than the other. It is a relative measure of dispersion based on standard deviation. Symbolically, it is defined as:

$$\text{C.V.} = \frac{\ddagger}{\bar{x}} \times 100$$

Where,

C.V. = Coefficient of variation

\ddagger = Standard Deviation

\bar{x} = Simple Arithmetic Mean

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

This chapter contains evaluation of the performance of BOK and KBL to achieve the objective set in chapter one. To accomplish the objective of measuring the profitability the relevant data are extracted presented in tabular and graphical form. This chapter helps to provide conclusion after detailed analysis, so that proper recommendation can be given at the end of the study.

On regarding mathematical presentation part, this chapter presents the various ratios that affect performance of the concerned banks in the framework of CAMEL. These analytical tools can be used to compare the performance of the banks over a period of time. The above mentioned ratios are the sub-indicators of the financial position of a company that compare with the help of statistical tool viz. mean, standard deviation, co-efficient of variation.

Hence, if any commercial banks have good performance in terms of these latest frameworks, it will be able to provide the return in form of benefit to every party. In order to find out the strength and weakness of the commercial banks in terms of their financial performance, various ratios and variable have been calculated which are presented as follows.

4.1. Analysis of Capital Adequacy (C)

The first component, capital adequacy ultimately determines how well bank can deal with uncertainties. This ratio protects depositors and promotes the stability and efficiencies of commercial banks. Capital adequacy ratios take into account the most important financial risks—foreign ex-change, credit, and interest rate risks—by assigning risk weightings to the institution's assets.

For the purpose of capital adequacy measurement, bank capital is divided into core capital and supplementary capital. Core capital is that capital which is permanent in nature. It includes paid-up capital, share premium, non-redeemable preference share, general reserve fund, accumulated profit, capital redemption reserve, capital adjustment fund, and other free reserve. Amount of the goodwill, factitious assets, investment in the financial instruments in excess to the limit specified by NRB, and investment in the financial instruments issued by the organizations having the own financial interest is deducted from the sum of all elements of the primary capital to arrive at the core capital.

Supplementary capital is defined as that capital which is temporary in nature. It comprises of general loan loss provision, assets revaluation reserve, hybrid capital instruments, subordinated term loan, exchange equalization reserve, excess loan loss provision, and investment adjustment reserve and provision for loss on investments. Thus, the total capital of commercial banks is the sum of core capital and supplementary capital.

According to NRB, core capital must be equal to or exceed 5.5 percent of the risk weighted assets of the commercial banks. Similarly, the amount of the supplementary capital should not exceed the amount of the core capital and the total capital must equal or exceed 11 percent of risk-weighted assets.

For our analysis purpose we have used Capital Adequacy Ratio (CAR) and Core Capital Ratio (CCR).

4.1.1 Core Capital Ratio (CCR)

This ratio reflects the relationship between the core capital and total risk-weighted assets of the commercial banks. The ratio is calculated by dividing the figures of core capital by the figure of risk-weighted assets. The core capital ratio of the two sampled banks are given in table no. 4.1

Table No. 4.1
Comparative Core Capital Ratio of BOK and KBL (in %)

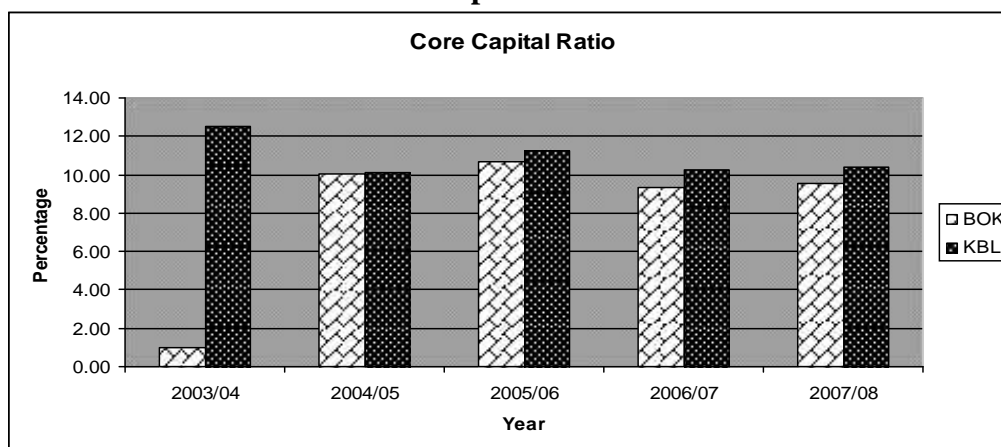
Fiscal Year	BOK	Index	KBL	Index
2003-2004	1.02	-	12.50	-
2004-2005	10.01	9.83	10.14	0.81
2005-2006	10.71	1.07	11.26	1.11
2006-2007	9.32	0.87	10.24	0.91
2007-2008	9.57	1.03	10.40	1.02
Average	8.13		10.91	
†	3.58		0.89	
C.V.	44.11		8.14	

Source: Annex 1

In table 4.1, we perceive that the ratio of BOK has ranged from 1.02 in the fiscal year 2003/2004 to 10.71 in the fiscal year 2005/2006 with the average of 8.13%, standard deviation of 3.58% and C.V. of 44.11%. This explains that the percentage change in the year 2004-2005 is 9.83%. Likewise, this change is 1.07% in the year 2005-2006 and 0.87% and 1.03% in the year 2006-2007 and 2007-2008 respectively.

Similarly, KBL has ranged from 10.14 in the year 2004/2005 to 12.50 in the fiscal year 2003/2004 and average of 10.91%, standard deviation of 0.89% and C.V. of 8.14%. This explains that the percentage change in the year 2004-2005 is 0.81%. Likewise, this change is 1.11% in the year 2005-2006 and 0.91% and 1.02% in the year 2006-2007 and 2007-2008 respectively.

Graph No. 4.1



Here, we observe that both banks have maintained minimum percentage of CCR in all five years as per the NRB standard except BOK in the fiscal 2003/2004. If we see the trend of last five years KBL is doing better in terms of safeguarding interest of depositors whereas BOK is doing better job in term of shareholders earning.

On an average, KBL has higher CCR as compare to BOK it depicts that KBL has better protection and security to its creditors and depositors. Standard deviation and C.V. of KBL is lower than BOK it shows that CCR of KBL is less fluctuating which makes less risk to KBL than BOK.

4.1.2 Capital Adequacy Ratio (CAR)

This ratio will reflect the relationship between the total capital funds to the total risk weighted assets of the commercial banks. This ratio is calculated by dividing the total capital fund by the total risk weighted assets.

The capital adequacy ratio of the two sampled banks are given in table no. 4.2

Table No. 4.2

Comparative Capital Adequacy Ratio of BOK and KBL (in %)

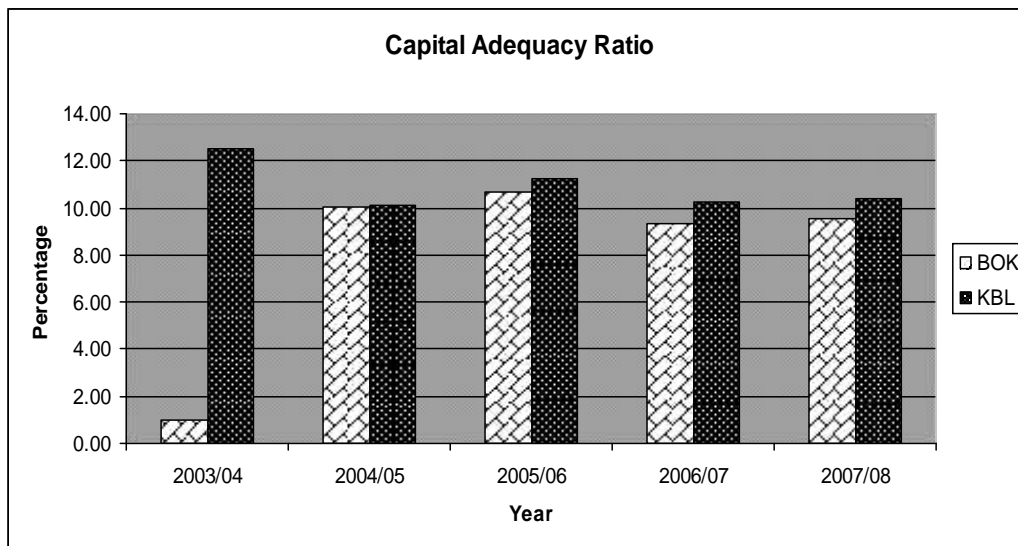
Fiscal Year	BOK	Index	KBL	Index
2003-2004	11.16	-	13.41	-
2004-2005	11.01	0.99	11.15	0.83
2005-2006	14.51	1.32	12.34	1.11
2006-2007	12.38	0.85	11.20	0.91
2007-2008	11.93	0.96	14.41	1.29
Average	12.20		12.50	
†	1.26		1.26	
C.V.	10.34		10.12	

Source: Annex 1

The ratio of BOK ranged from 11.01 in the fiscal year 2004/2005 to 14.51 in the fiscal year 2005/2006 with its average of 12.20%, standard deviation of 1.26% and C.V. of 10.34%. This explains that the percentage change in the year 2004-2005 is 0.99%. Likewise, this change is 1.32% in the year 2005-2006 and 0.85% and 0.96% in the year 2006-2007 and 2007-2008 respectively.

Similarly, the ratio of KBL ranged from 11.15 in the fiscal year 2004/2005 to 14.41 in the fiscal year 2007/2008 with its average of 12.50%, standard deviation of 1.26% and C.V. of 10.12%. This explains that the percentage change in the year 2004-2005 is 0.83%. Likewise, this change is 1.11% in the year 2005-2006 and 0.91% and 1.29% in the year 2006-2007 and 2007-2008 respectively.

Graph No. 4.2



According to NRB, all the commercial banks have to maintain 11% of CAR and 5.5% of CCR. If the CAR and CCR is higher then NRB minimum percentage then it is considered as that the interest of depositors is safe. But in concern to shareholders, the excess of CAR means less earning per share. During the process of maintaining the CAR, the fund should be mobilized in such a way that, the bank can get return from it.

Table no 4.2 observe that all the banks under the study have maintained CAR in all five years as per the NRB standard. On an average, BOK has higher CAR as compared to KBL. From table no 4.2 and graph no. 4.2 we can say that the depositors and creditors of the two banks are in safer position as higher CAR indicates higher amount of capital fund from the promoter side. It indicates better solvency position and lending capacity of bank.

On an average, KBL has higher CAR as compare to BOK it depicts that KBL has better protection and security to its creditors and depositors. Standard deviation and C.V. of KBL is lower than BOK it shows that CAR of KBL is less fluctuating which makes less risk to KBL than BOK.

4.2 Analysis of Asset Quality (A)

It is obvious from the theoretical prescription that the efficacy of commercial banks largely depends on the quality of assets held by them, and quality of the assets relies on the financial health of their borrowers. Many indicators can be used to measure the quality of assets held by commercial banks. Here, non-performing loan ratio, loan loss provision ratio and loan loss coverage ratio are used to measure the quality of assets being held by banks.

NRB has directed the commercial banks in regards to the concentration of the loan. Any licensed Financial Institution can grant the fund base loan to a single borrower or borrowers related to the same business group up to the 25 percent of its primary capital. In the same vein, it can provide the non-fund base loan up to 50 percent of its core capital.

Classification of loan

Types of Loan		Period	Loan Loss provision
Performing	Pass/Good	Up to 3 month	1%
Non-Performing	Sub-Standard	3 to 6 month	25%
	Doubtful	6 month to 1 year	50%
	Bad/ Loss	More than 1 year	100%

4.2.1 Non-Performing Loan Ratio (NPLR)

This ratio highlights the perfect circumstances of the commercial banks in overall non-performing loans. This ratio aware about the possibilities of the rollover of the funds exposed to risk assets. The non – performing assets ratio of the two sampled banks are given in table no. 4.3

Table No. 4.3

Comparative Non-Performing Loan Ratio of BOK and KBL (in %)

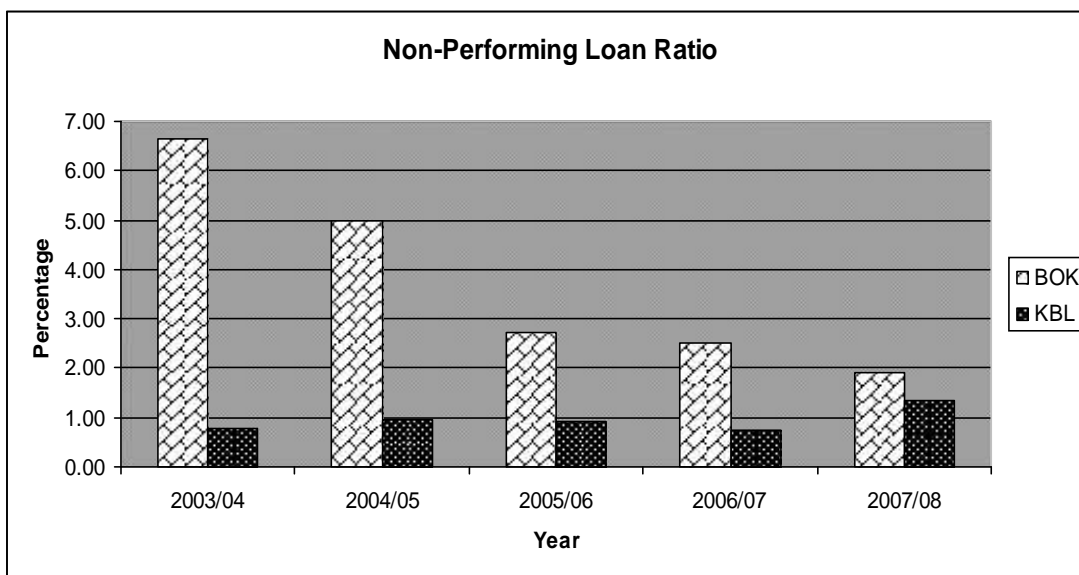
Fiscal Year	BOK	Index	KBL	Index
2003-2004	6.66	-	0.77	-
2004-2005	4.99	0.75	0.97	1.25
2005-2006	2.72	0.54	0.93	0.97
2006-2007	2.51	0.92	0.74	0.79
2007-2008	1.90	0.76	1.35	1.82
Average	3.76		0.95	
†	1.79		0.22	
C.V.	47.65		22.80	

Source: Annex 2

The ratio of BOK has ranged from 2.51 in the year 2006/2007 to 6.66 in the year 2003/2004 with its average of 3.76%, standard deviation of 1.79% and C.V. of 47.65%. This explains that the percentage change in the year 2004-2005 is 0.75%. Likewise, this change is 0.54% in the year 2005-2006 and 0.92% and 0.76% in the year 2006-2007 and 2007-2008 respectively.

Likewise, the ratio of KBL has ranged from 0.74 in the fiscal year 2006/2007 to 1.35 in the fiscal year 2007/2008 with the average range of 0.95%, standard deviation of 0.22% and C.V. of 22.80%. This explains that the percentage change in the year 2004-2005 is 1.25%. Likewise, this change is 0.97% in the year 2005-2006 and 0.79% and 1.82% in the year 2006-2007 and 2007-2008 respectively.

Graph No. 4.3



For any bank lower NPL is better. The table no. 4.3 states that the policy used by the KBL is more effective as compare to the policy used by the BOK.

On an average, KBL has lower NPLR as compare to BOK it depicts that KBL is performing better in terms of non-performing loan. Standard deviation and C.V. of KBL is lower than BOK it shows that NPLR of KBL is less fluctuating which makes less risk to KBL than BOK.

4.2.2 Loan Loss Provision Ratio (LLPR)

This ratio measures the percentage of loan loss provision on loan and advances. Loan loss provision on credit is given to reduce risk of non-payment of released credit. As per the directives to bank and finance companies by NRB (2058 B.S.) 1% of good credit can be provisioned as loan loss provision to reduce risk that may arise due to no recovery of disbursed loan.

Table No. 4.4

Comparative Loan Loss Provision Ratio of BOK and KBL (in %)

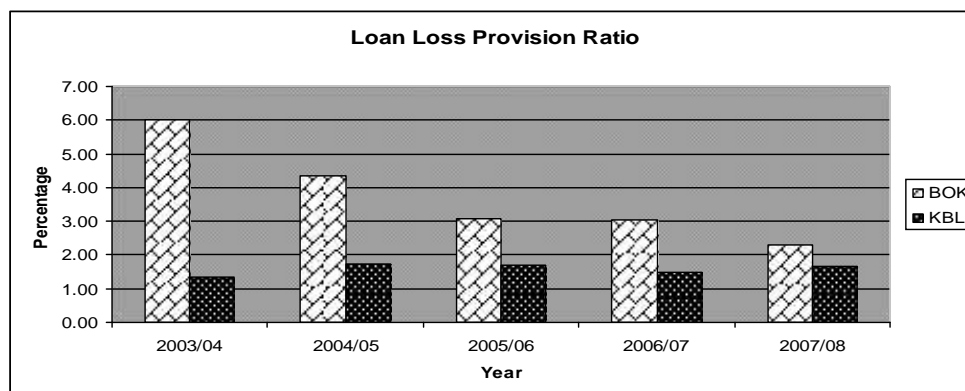
Fiscal Year	BOK	Index	KBL	Index
2003-2004	6.02	-	1.34	-
2004-2005	4.36	0.72	1.73	1.29
2005-2006	3.07	0.70	1.68	0.97
2006-2007	3.04	0.99	1.49	0.89
2007-2008	2.29	0.75	1.65	1.10
Average	3.75		1.58	
†	1.31		0.14	
C.V.	34.97		8.98	

Source: Annex 2

Table no 4.4 states that the ratio of BOK ranges from 3.04 in the year 2006/20067 to 6.02 in the fiscal year 2003/2004 with the average of 3.75%, standard deviation of 1.31% and C.V. of 34.97%. This explains that the percentage change in the year 2004-2005 is 0.72%. Likewise, this change is 0.70% in the year 2005-2006 and 0.99% and 0.75 % in the year 2006-2007 and 2007-2008 respectively.

The ratio of KBL ranges from 1.34 in the year 2003/2004 to 1.73 in the fiscal year 2004/2005 with the average of 1.58%, standard deviation of 0.14% and C.V. of 8.98%. This explains that the percentage change in the year 2004-2005 is 1.29%. Likewise, this change is 0.97% in the year 2005-2006 and 0.89% and 1.10% in the year 2006-2007 and 2007-2008 respectively

GraphNo.4.4



Higher the provision ratio represents the progress of the bank, because the bank is in safe side whereas depositor did not get enough advantage through the provision. Loan Loss provision (LLPR) is made in order to be in safe position, if the issued loans become bad debts or to cover the loss from due. But lower rate of loan loss provision is better to the bank it shows that bank has lower non-performing loan. LLPR is calculated in relation with total loan. This ratio depicts how much provision a bank has to create for its loan out of the total loan provided. The lower rate of loan loss provision, the better is the financial position.

On an average, KBL has lower LLPR as compare to BOK it depicts that KBL has better financial position than BOK. Standard deviation and C.V. of KBL is lower than BOK it shows that LLPR of KBL is less fluctuating which makes less risk to KBL than BOK.

4.2.3 Loan Loss Coverage Ratio (LLCR)

This ratio measures the relation between the loan loss reserves to the non-performing assets which includes loan and advance. It is derived by dividing loan loss reserve by non-performing assets.

Table No. 4.5

Comparative Loan Loss Coverage Ratio of BOK and KBL (in %)

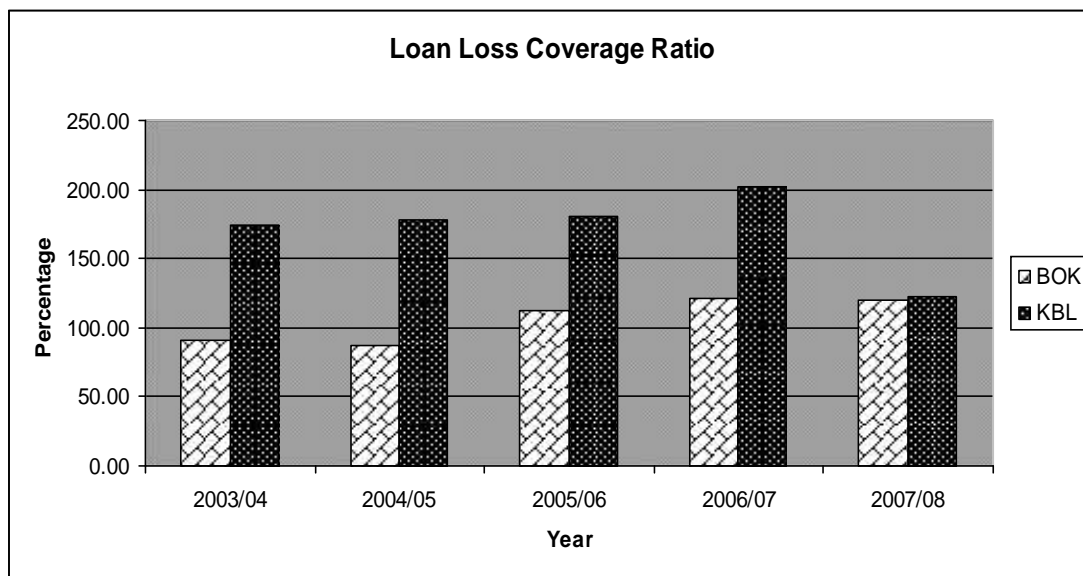
Fiscal Year	BOK	Index	KBL	Index
2003-2004	90.42	-	173.74	-
2004-2005	87.35	0.97	178.51	1.03
2005-2006	112.77	1.29	180.15	1.01
2006-2007	121.16	1.07	201.79	1.12
2007-2008	120.34	0.99	122.83	0.61
Average	106.41		171.40	
†	14.64		26.13	
C.V.	13.76		15.25	

Source: Annex 2

Table no 4.5 states, the ratio of BOK have ranged from 87.35 in the year 2004/2005 to 121.16 in the year 2006/2007 with its average of 106.41%, standard deviation of 14.64% and C.V. of 13.76%. This explains that the percentage change in the year 2004-2005 is 0.97%. Likewise, this change is 1.29% in the year 2005-2006 and 1.07% and 0.99% in the year 2006-2007 and 2007-2008 respectively.

Likewise, the ratio of KBL has ranged from 122.83 in the fiscal year 2007/2008 to 201.79 in the fiscal year 2006/2007 with the average range of 171.40%, standard deviation of 26.13% and C.V. of 15.25%. This explains that the percentage change in the year 2004-2005 is 1.03%. Likewise, this change is 1.01% in the year 2005-2006 and 1.12% and 0.61% in the year 2006-2007 and 2007-2008 respectively.

Graph No. 4.5



Higher loan loss coverage ratio represents the progress of the bank. This ratio depicts how much bad debts is covered from its provision. From table no. 4.5 we observe that KBL is better than BOK in terms of covering bad debts from loan loss provision of the bank.

On an average, KBL has higher LLCR as compare to BOK it depicts that KBL is performing better in terms of covering bad debts from its provision. Standard deviation and C.V. of BOK is lower than KBL it shows that LLCR of BOK is less fluctuating which makes less risk to BOK than KBL.

4.2.4 Credit Deposit Ratio (CDR)

The major source of a bank is deposit and the major outlet of resource is the credit. CDR is the ratio of total cash outflow as loan to total cash inflows as deposit. So, this ratio provides the ratio of efficiency with which the resources are mobilized. Following table displays the deposit collected by banks and their subsequent mobilization.

Table No. 4.6

Comparative Credit Deposit Ratio of BOK and KBL (in %)

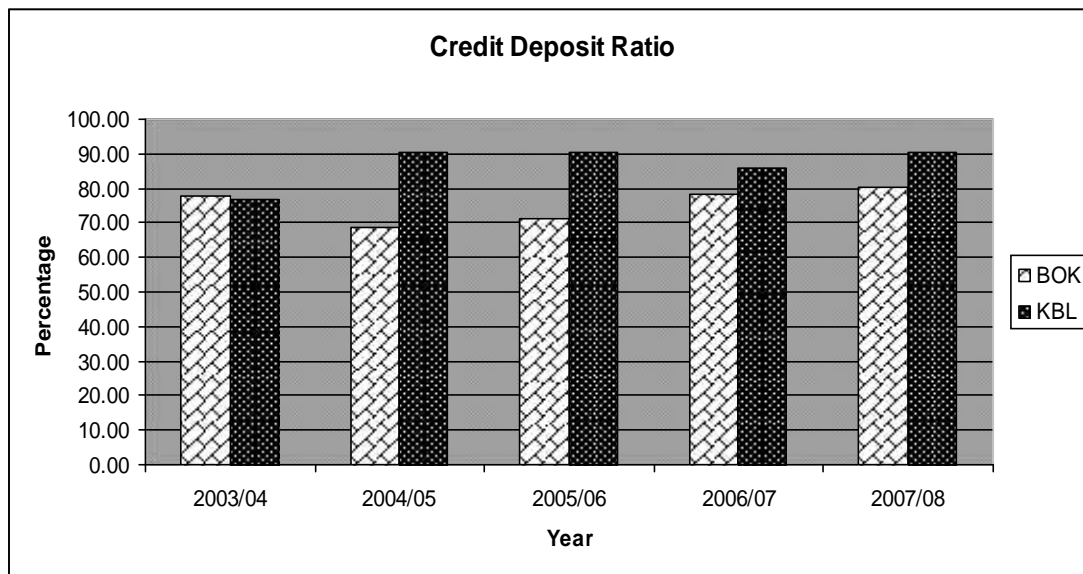
Fiscal Year	BOK	Index	KBL	Index
2003-2004	77.61	-	76.91	-
2004-2005	68.87	0.89	90.62	1.18
2005-2006	71.42	1.04	90.20	1.00
2006-2007	78.25	1.10	85.84	0.95
2007-2008	80.51	1.03	90.20	1.05
Average	75.33		86.76	
†	4.42		5.22	
C.V.	5.86		6.02	

Source: Annex 2

The table no. 4.6 states, the ratio of BOK has ranged from 68.87 in the year 2004/2005 to 80.51 in the year 2007/2008 with its average of 75.33%, standard deviation of 4.42% and C.V. of 5.86%. This explains that the percentage change in the year 2004-2005 is 0.89%. Likewise, this change is 1.04% in the year 2005-2006 and 1.10% and 1.03% in the year 2006-2007 and 2007-2008 respectively.

Likewise, the ratio of KBL has ranged from 76.91 in the fiscal year 2003/2004 to 90.62 in the fiscal year 2004/2005 with the average range of 86.76%, standard deviation of 5.22% and C.V. of 6.02%. This explains that the percentage change in the year 2004-2005 is 1.18%. Likewise, this change is 1.00% in the year 2005-2006 and 0.95% and 1.05% in the year 2006-2007 and 2007-2008 respectively.

Graph No. 4.6



The higher CDR indicates less idle cash at the bank, better utilization of deposits and provided the given loan does not turn out to be bad. KBL has higher CDR as compare to BOK, it indicating higher cash outflows as loan of KBL.

On an average, KBL has higher CDR as compare to BOK it depicts that KBL has less idle cash and better utilization of deposits. Standard deviation and C.V. of BOK is lower than KBL it shows that CDR of BOK is less fluctuating which makes less risk to BOK than KBL.

4.3 Analysis of Management Efficiency (M)

Management is the process of planning, organizing, recruiting, coordinating, staffing, leading and controlling the resources of an organization in an efficient and effective

way to attain the goal. The success and failure of any bank largely depends on effective implementation of management tactics, tools and practices. A good management of bank particularly refers to its proper layout, product and services, customer satisfaction, staff motivation; focus on corporate governance and above all achievement of its goal. Good capital adequacy, asset quality, earnings and liquidity can also be considered as the outcome of better management. We know that Public sector banks in Nepal are constantly sustaining the loss while the private sector banks are earning high profit it is due to management weakness. So management plays a crucial role in success of banking sectors.

Sound management is a key to bank performance but is difficult to measure due to qualitative factor applicable to individual institutions. Several indicators can jointly serve as an indicator of management soundness. Management Efficiency Ratios are used as a proxy of the management quality. However we have only used earning per employee (EPE) to indicate the quality of management.

4.3.1 Management Efficiency Ratio (MER)

The relationship between the net profits after tax with the number of the employees is the management efficiency ratio. This shows how efficient the management is. This is calculated by dividing the net profit after tax by number of employees.

Table No. 4.7

Comparative Management Efficiency Ratio of BOK and KBL (in Rs.)

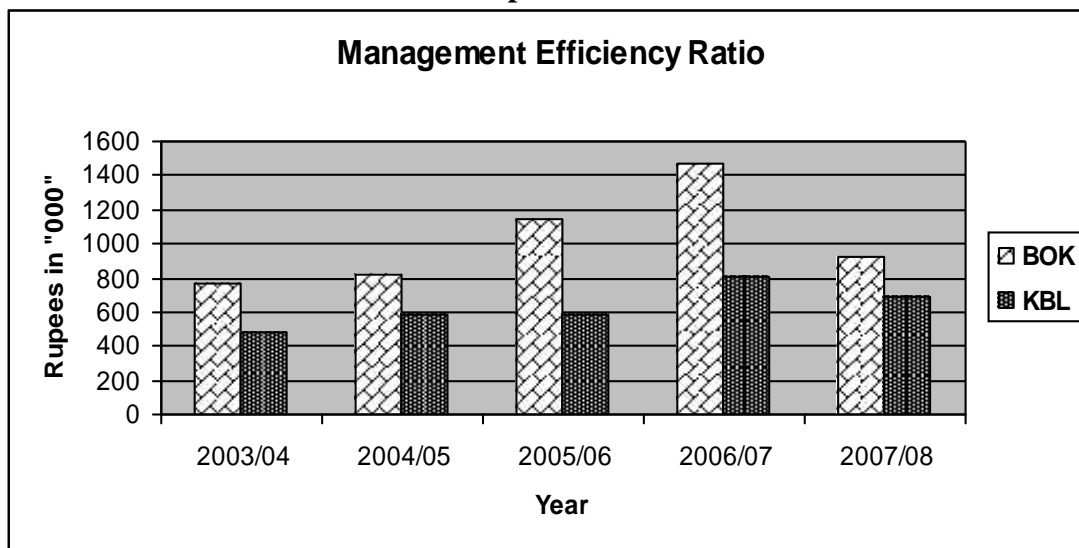
Fiscal Year	BOK	Index	KBL	Index
2003-2004	763,313	-	482,346	-
2004-2005	815,963	1.07	588,823	1.22
2005-2006	1,143,732	1.40	585,688	0.99
2006-2007	1,465,849	1.28	803,127	1.37
2007-2008	926,915	0.63	683,321	0.85
Average	1,023,154		628,661	
†	256,992		107,952	
C.V.	25.12		17.17	

Source: Annex 3

The table no. 4.7 states, the ratio of BOK has ranged from 763,313 in the year 2003/2004 to 1,465,849 in the year 2006/2007 with its average of 1,023,154 standard deviation of 256,992 and C.V. of 25.12%. This explains that the percentage change in the year 2004-2005 is 1.07%. Likewise, this change is 1.40% in the year 2005-2006 and 1.28% and 0.63% in the year 2006-2007 and 2007-2008 respectively.

Likewise, the ratio of KBL has ranged from 482,346 in the fiscal year 2003/2004 to 803,127 in the fiscal year 2006/2007 with the average range of 628,661 standard deviation of 107,952 and C.V. of 17.17%. This explains that the percentage change in the year 2004-2005 is 1.22%. Likewise, this change is 0.99% in the year 2005-2006 and 1.37% and 0.85% in the year 2006-2007 and 2007-2008 respectively.

Graph No. 4.7



Higher MER indicates the better management soundness of the bank. From table no. 4.7, we observe that on an average BOK has the higher MER as compare to KBL. It depicts the management soundness of BOK is better than KBL.

On an average, BOK has higher MER as compare to KBL it depicts that BOK has sound management than KBL. Standard deviation and C.V. of KBL is lower than

BOK it shows that MER of KBL is less fluctuating which makes less risk to KBL than BOK.

4.4 Analysis of Earning Performance (E)

Earning is the profit that the bank earns. It can be defined as profit made by bank from different kind of transactions. The different kinds of transactions can be such as lending of deposits, trade finance, remittance and other various services etc. So we can say that earning reflect aggregate performance of the bank. Earning capacity or profitability keeps up the sound health of a bank. There are different indicators of profitability for analyzing. They are as follows:

4.4.1 Return on Equity (ROE)

This ratio will reflect the relationship between net profits after tax to the shareholder's equity. The ratio is calculated by dividing net profit after tax by the shareholder's equity.

Table No. 4.8

Comparative Return on Equity of BOK and KBL (in %)

Fiscal Year	BOK	Index	KBL	Index
2003-2004	18.11	-	9.30	-
2004-2005	18.27	1.01	12.00	1.29
2005-2006	18.39	1.01	11.02	0.92
2006-2007	20.73	1.13	15.27	1.39
2007-2008	22.11	1.07	9.29	0.61
Average	19.52		11.37	
†	1.61		2.21	
C.V.	8.26		19.39	

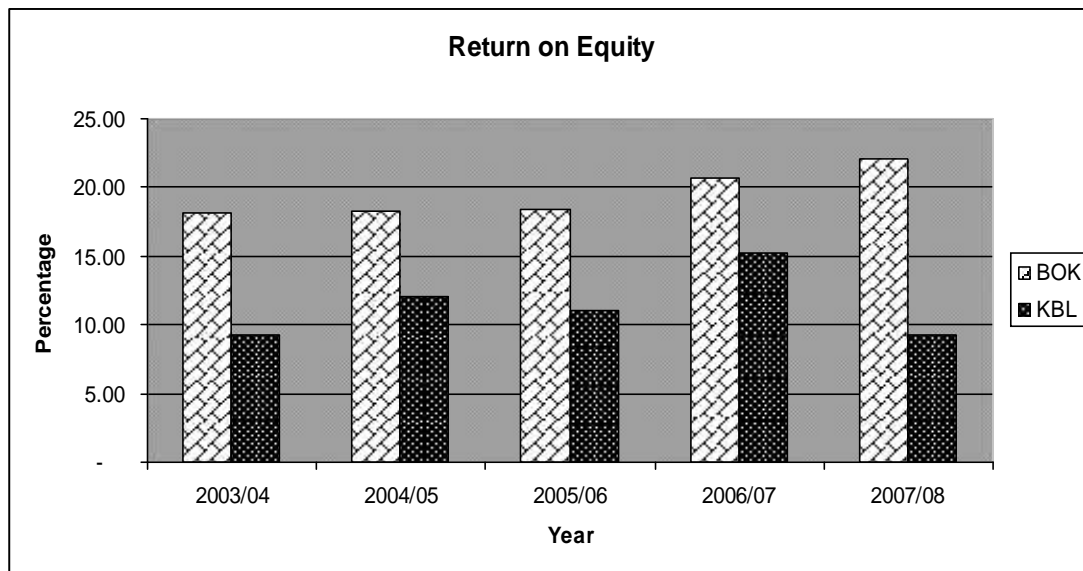
Source: Annex 4

Table no. 4.8 states, the ratio of BOK has ranged from 18.11 in the year 2003/2004 to 22.11 in the year 2007/2008 with its average of 19.52%, standard deviation of 1.61% and C.V. of 8.26%. In the fiscal year 2003/2004 of BOK, the ratio is 18.11 and is increased by 1.01% in the fiscal year 2004/2005. In the fiscal year 2005/2006, it

increased to 18.39 which is increased by 1.01%. Then it further increases to 20.73 in the fiscal year 2006/2007, which is increased by 1.13%. At the last year of the study, the ratio becomes 22.11. This increment of ROE of last year indicates shareholders increasing rate of return from their investment.

Similarly, in the case of KBL bank, the ratio has ranged from 9.30 in the year 2003/2004 to 15.27 in the year 2006/2007 with its average of 11.37%, standard deviation of 2.21% and C.V. of 19.39%. In the fiscal year 2003/2004, the ratio is 9.30 and is increased by 1.29% in the fiscal year 2004/2005. In the fiscal year 2005/2006, it decreases to 11.02 which is decreased by 0.92%. Then it increases to 15.27 in the fiscal year 2006/2007, which is increased by 1.39%. At the last year of the study, the ratio becomes 9.29. This decrease of ROE of last year indicates shareholders fluctuating rate of return from their investment.

Graph No. 4.8



Higher the ROE better it will be for the shareholders as the main objective of organization is wealth maximization. From the table no. 4.8 we observe that on an average ROE of BOK is more as compare KBL which means that the shareholders rate of return from the investment is high in BOK.

On an average, BOK has higher ROE as compare to KBL it depicts that BOK has higher shareholders rate of return from the investment than KBL. Standard deviation and C.V. of BOK is lower than KBL it shows that ROE of BOK is less fluctuating than KBL which makes less risk to BOK as compare to KBL.

4.4.2 Return on Assets (ROA)

Return on assets is very crucial for measuring the profitability as well as production power of assets. The relationship between net profit and total assets give the return on assets.

Table No. 4.9
Comparative Return on Assets of BOK and KBL (in %)

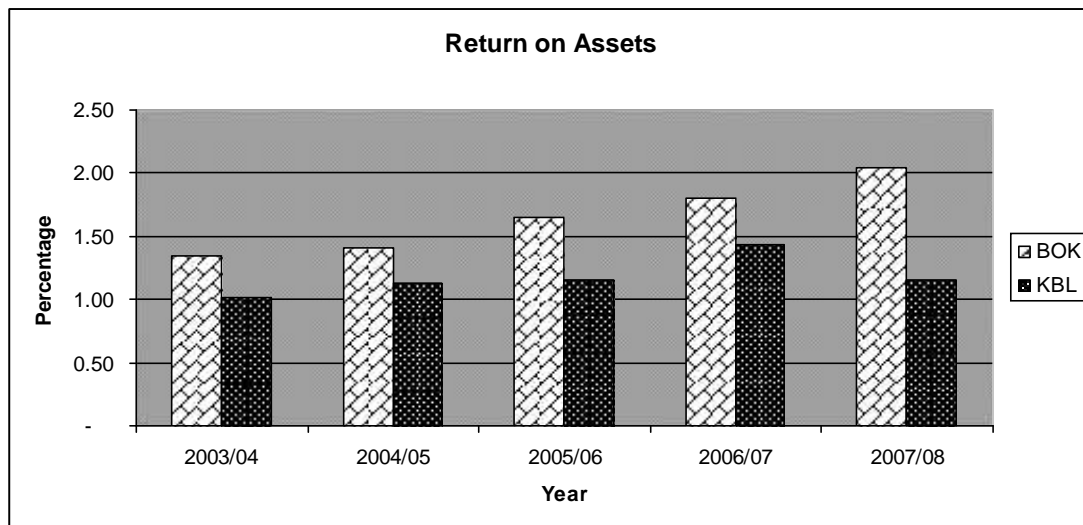
Fiscal Year	BOK	Index	KBL	Index
2003-2004	1.34	-	1.01	-
2004-2005	1.41	1.05	1.13	1.12
2005-2006	1.65	1.17	1.15	1.02
2006-2007	1.80	1.09	1.43	1.24
2007-2008	2.04	1.13	1.16	0.81
Average	1.65		1.18	
†	0.26		0.14	
C.V.	15.50		11.67	

Source: Annex 4

Table no. 4.8 states, the ratio of BOK has ranged from 1.34 in the year 2003/2004 to 2.04 in the year 2007/2008 with its average of 1.65%, standard deviation of 0.26% and C.V. of 15.50%. In the fiscal year 2003/2004 of BOK, ROA is 1.34%, which means the bank has only 1.05% capacity of earning, the profit from assets. Further, in fiscal year 2004/2005, it is 1.41%. Then the ratio increases by 1.17% and 1.09% for the fiscal year 2005/2006 and 2006/2007 respectively. At the last year of the study, it again increases to 2.04% by 1.13% the average ratio is 1.65.

Similarly, the ratio of KBL has ranged from 1.01 in the year 2003/2004 to 1.43 in the year 2006/2007 with its average of 1.18%, standard deviation of 0.14% and C.V. of 11.67%. In fiscal year 2003/2004 of KBL, ROA is 1.01%, which means the bank has only 1.12% capacity of earning, the profit from assets. Further, in fiscal year 2004/2005, it is 1.13%. Then the ratio increases by 1.02% and further increases by 1.24% for the fiscal year 2005/2006 and 2006/2007 respectively. At the last year of the study, it decreases to 1.16% by 0.81% the average ratio is 1.18.

Graph No. 4.9



Higher the ROA better the bank. On an average, ROA of BOK is higher as compare to KBL. Since, we can say that BOK is generating better return on assets than KBL.

On an average, BOK has higher ROA as compare to KBL it depicts that BOK is generating better return on assets than KBL. Standard deviation and C.V. of KBL is lower than BOK it shows that ROA of KBL is fluctuating less than BOK which makes less risk to KBL as compare to BOK.

4.4.3 Earning Per Share (EPS)

This ratio tells us what profit has been earned by the common shareholder for every share hold. A company can decide whether to increase or reduce the number of shares on issue. This is determined by dividing net profit after tax by number of shares.

Table No. 4.10

Comparative Earning Per Shares of BOK and KBL (in Rs.)

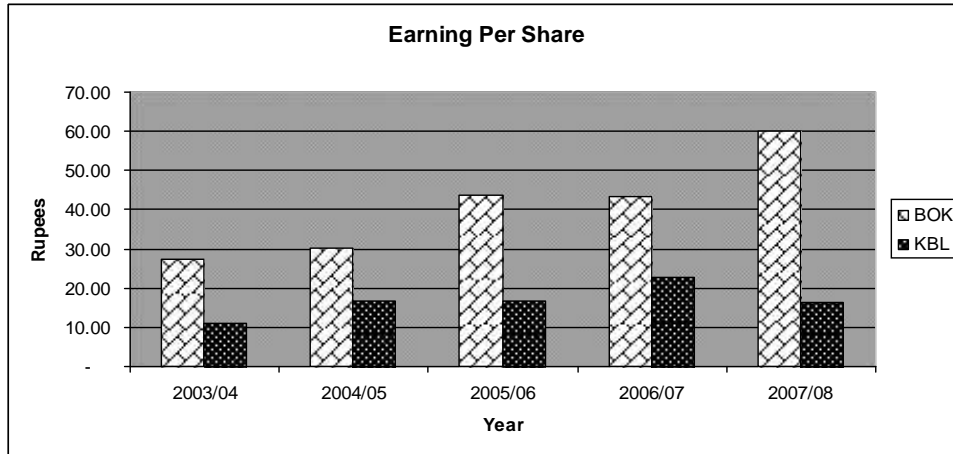
Fiscal Year	BOK	Index	KBL	Index
2003-2004	27.50	-	11.09	-
2004-2005	30.10	1.09	16.84	1.52
2005-2006	43.67	1.45	16.59	0.98
2006-2007	43.50	1.00	22.70	1.37
2007-2008	59.94	1.38	16.35	0.72
Average	40.94		16.71	
†	11.60		3.68	
C.V.	28.34		22.00	

Source: Annex 4

The table no. 4.9 states the ratio of BOK has ranged from 27.50 in the year 2003/2004 to 59.94 in the year 2007/2008 with its average of 40.94%, standard deviation of 11.60% and C.V. of 28.34%. This explains that the percentage change in the year 2004/2005 is 1.09%. Likewise, this change is 1.45% in the year 2005/2006 and 1.00% and 1.38% in the year 2006/2007 and 2007/2008 respectively.

Similarly, table no. 4.9 states the ratio of KBL has ranged from 11.09 in the year 2003/2004 to 22.70 in the year 2006/2007 with its average of 16.71%, standard deviation of 3.68% and C.V. of 22.00%. This explains that the percentage change in the year 2004/2005 is 1.52%. Likewise, this change is 0.98% in the year 2005-2006 and 1.37% and 0.72% in the year 2006-2007 and 2007-2008 respectively.

Graph No. 4.10



This reveals that EPS of BOK is in increasing trend and EPS of KBL is in fluctuating trend through out the study period of five years. EPS of BOK is higher than KBL on an average.

On an average, BOK has higher EPS as compare to KBL it depicts that BOK has better earning per share than KBL. Standard deviation and C.V. of KBL is lower than BOK it shows that EPS of KBL is fluctuating less which makes less risk to KBL than BOK.

4.5 Analysis of Liquidity Position (L)

Liquidity reflects the short-term financial strength of banks. Bank does not provide all deposit at loan and advances; certain percentage of deposit should be kept in bank in the liquid form. Liquidity risk threatens the solvency of financial institutions.

There are two types of liquidity risk in commercial banks, first type of liquidity risk arises when depositors of commercial banks seek to withdraw their money and the second type of risk arises when commitment holders want to exercise the commitments recorded off the balance sheet. Commercial banks have to borrow the additional funds or sell the assets at fire sale price to pay off the deposit liabilities. They become insolvent if sale price of the assets are not enough to meet the liability withdrawals.

The second type of liquidity risk arises when demand for unexpected loans can not be met due to the lack of the funds. Commercial banks can raise the funds by borrowing additional funds in the money markets and selling off other assets at distressed price. Both liability side liquidity risk (first type risk) and asset side liquidity risk (second type risk) affect the health of commercial banks adversely.

Maintaining the high liquidity position to minimize such risks also adversely affects the profitability of commercial banks. Return on highly liquid assets is almost zero. Therefore, banks should strike the tradeoff between liquidity position and profitability so that they could maintain their health sound. Commercial bank's liquidity exposure can be measured by analyzing the sources and uses of liquidity.

4.5.1 Cash Reserve Ratio (CRR)

Cash reserve ratio is the ratio of Cash balance in Nepal Rastra Bank's account. It shows the relationship between the cash balance in Nepal Rastra Bank and the total deposit. The total deposit also comprises of local currency. According to the directives issued by NRB all commercial banks are required to maintain 5% of their deposit as cash reserve with NRB. From the liquidity aspect of the bank, we can say that maintaining the CRR helps bank to utilize their reserves in the case of major liquidity needs.

Table No. 4.11
Comparative Cash Reserve Ratio of BOK and KBL (in %)

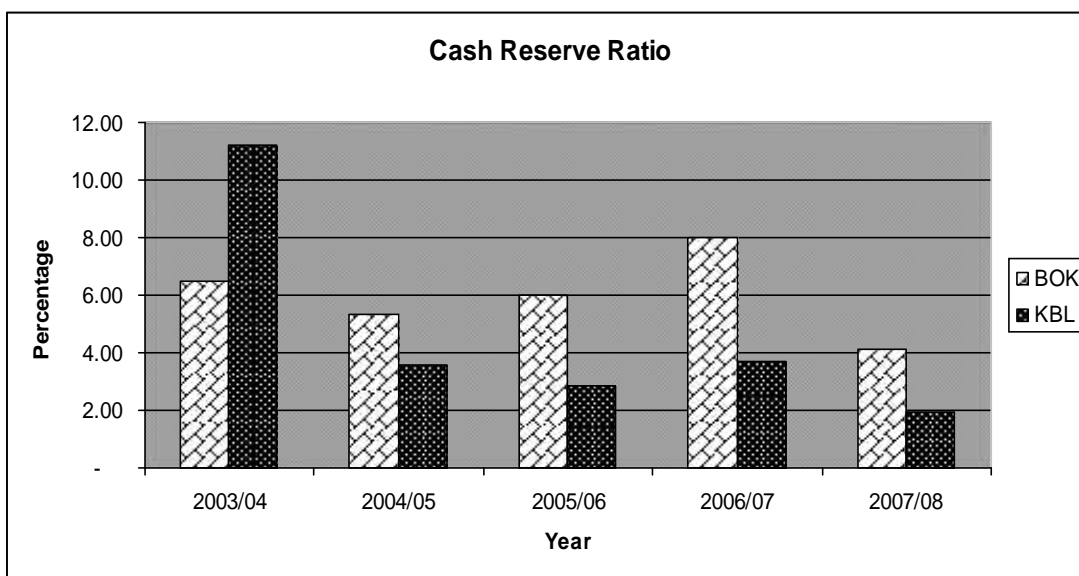
Fiscal Year	BOK	Index	KBL	Index
2003-2004	6.47	-	11.18	-
2004-2005	5.36	0.83	3.58	0.32
2005-2006	6.03	1.12	2.83	0.79
2006-2007	8.00	1.33	3.70	1.31
2007-2008	4.10	0.51	1.92	0.52
Average	5.99		4.64	
†	1.28		3.33	
C.V.	21.44		71.73	

Source: Annex 5

The table no. 4.11 states, the ratio of BOK has ranged from 4.10 in the year 2007/2008 to 8.00 in the year 2006/2007 with its average of 5.99%, standard deviation of 1.28% and C.V. of 21.44%. This explains that the percentage change in the year 2004-205 is 0.83%. Likewise, this change is 1.12% in the year 2005-2006 and 1.33% and 0.51% in the year 2006-2007 and 2007-2008 respectively.

Similarly, the table no. 4.11 state, the ratio of KBL has ranged from 1.92 in the year 2007/2008 to 11.18 in the year 2003/2004 with its average of 4.64%, standard deviation of 3.33% and C.V. of 71.73%. This explains that the percentage change in the year 2004-2005 is 0.32%. Likewise, this change is 0.79% in the year 2005-2006 and 1.31% and 0.52% in the year 2006-2007 and 2007-2008 respectively.

Graph No. 4.11



Here, we observe that BOK have maintained minimum percentage of CRR in all years of study period as per the NRB standard except in the fiscal year 2007/2008 whereas KBL have maintained only in the fiscal 2003/2004. This trend of last five years reveals that BOK is doing better than KBL in terms of liquidity.

On an average, BOK has higher CRR as compare to KBL it depicts that BOK has better liquidity position than KBL. Standard deviation and C.V. of BOK is lower than KBL it shows that CRR of BOK is fluctuating less than KBL which makes less risk to BOK as compare to KBL.

4.5.2 Cash & Bank Balance Ratio (CBR)

This ratio shows the relationship between the cash and bank balance to the total deposit. The total deposit also comprises of local currency. This is calculated by dividing the cash and bank balance with total deposit.

Table No. 4.12

Comparative Cash & Bank Balance Ratio of BOK and KBL (in %)

Fiscal Year	BOK	Index	KBL	Index
2003-2004	10.11	-	14.26	-
2004-2005	8.25	0.82	7.07	0.50
2005-2006	6.95	0.84	5.02	0.71
2006-2007	10.62	1.53	6.37	1.27
2007-2008	9.10	0.86	7.31	1.15
Average	9.01		8.00	
†	1.31		3.23	
C.V.	14.60		40.32	

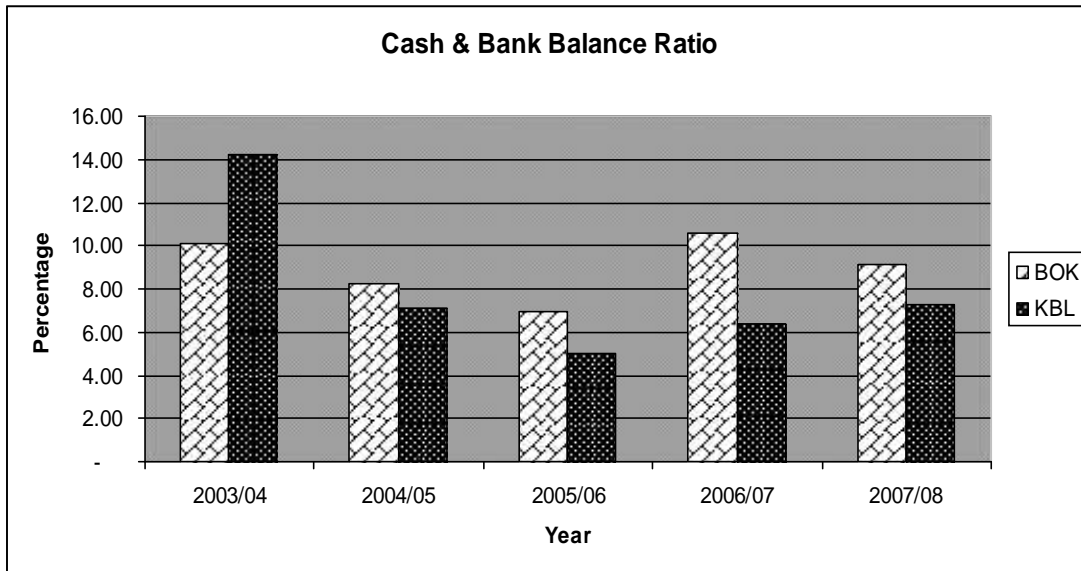
Source: Annex 5

The ratio of BOK has ranged from 6.95% in the year 2005/2006 to 10.62% in the fiscal year 2006/2007 and average 9.01%, standard deviation of 1.31% and C.V. of 14.60%. The ratio in the year 2004/2005 decreases to 8.25% from 10.11% in the year 2003/2004. This reduction is 8.25%. It further decreases to 6.95% at the rate of 0.84% and it increases to 10.62% by 1.53% and the last of the study period ratio decreases to 9.10% by 0.86%.

Similarly, the ratio of KBL has ranged from 5.02% in the year 2005/2006 to 14.26% in the fiscal year 2003/2004 and average 8.00%, standard deviation of 3.23% and

C.V. of 40.32%. The ratio in the year 2004/2005 decreases to 7.07% from 14.26% in the year 2003/2004. This decreases by 0.50%. It decreases to 5.02% at the rate of 0.71% in the fiscal year 2005/2006 and it increases to 6.37% by 1.27% and the last of the study period ratio again increases to 7.31% by 1.15%.

Graph No. 4.12



Here, we observe that two sampled banks have fluctuating trend. On an average, BOK has higher ratio as compared to KBL. It reveals that BOK is doing better than KBL in terms of liquidity.

On an average, BOK has higher CBR as compare to KBL it depicts that BOK has better liquidity position than KBL. Standard deviation and C.V. of BOK is lower than KBL it shows that CBR of BOK is fluctuating less than KBL which makes less risk to BOK as compare to KBL in terms of liquidity.

4.5.3 Investment in Government Securities Ratio (IGSR)

This ratio calculates the relation of investment in government securities with the total deposit. This shows the bank's investment in government securities with its total

Deposit. This can be derived by dividing investment in government securities by total deposit.

Table No. 4.13

Comparative Investment in Government Securities Ratio of BOK and KBL

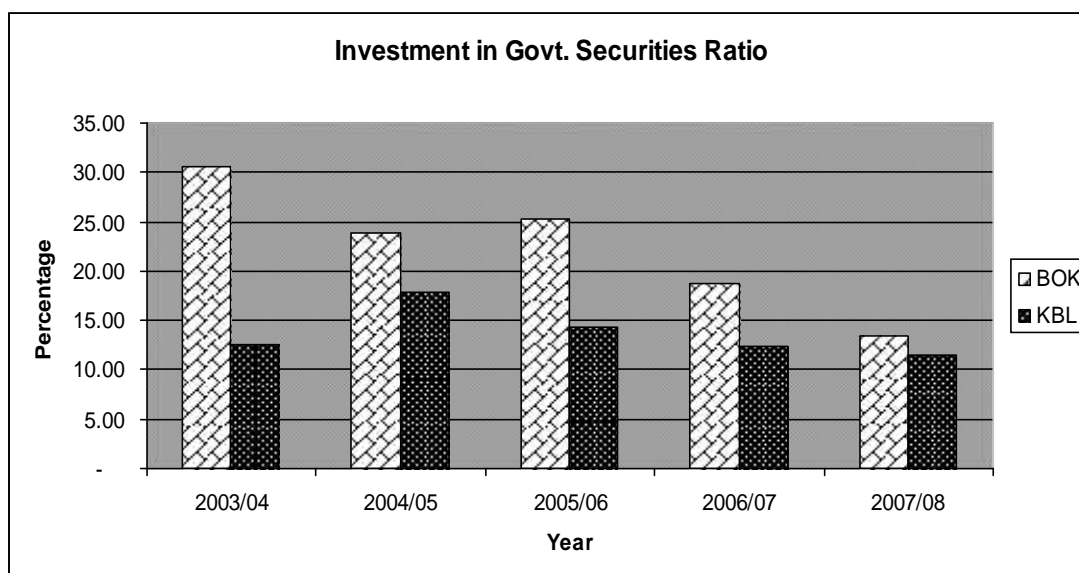
Fiscal Year	BOK	Index	KBL	Index
2003-2004	30.64	-	12.51	-
2004-2005	23.92	0.78	17.87	1.43
2005-2006	25.35	1.06	14.34	0.80
2006-2007	18.82	0.74	12.29	0.86
2007-2008	13.35	0.71	11.50	0.94
Average	22.42		13.70	
†	5.89		2.28	
C.V.	26.28		16.64	

Source: Annex 5

The ratio of BOK has ranged from 13.35% in the year 2007/2008 to 30.64% in the fiscal year 2003/2004 with an average 22.42%, standard deviation of 5.89% and C.V. of 26.28%. The ratio in the year 2004/2005 decreases to 23.92% by 0.78%. In the fiscal year 2005/2006 it increases to 25.35% at the rate of 1.06% and it decreases to 18.82% by 0.74% in the fiscal year 2006/2007 and the last of the study period ratio further decreases to 13.35% by 0.71%.

Similarly, the ratio of KBL has ranged from 11.50% in the year 2007/2008 to 17.87% in the fiscal year 2004/2005 and average 13.70%, standard deviation of 2.28% and C.V. of 16.64%. The ratio in the year 2004/2005 increases to 17.87% at the rate of 1.43%. And it decreases to 14.34% at the rate of 1.43% in the fiscal year 2005/2006 and in the fiscal year 2006/2007 it further decreases to 12.29% by 0.86% and the last of the study period ratio again decreases to 11.50 % by 0.94%.

Graph No. 4.13



Government securities are liquid. So investment in government securities provides the liquidity to the bank. Here IGSR of two sampled banks have fluctuating trend over a study period. On an average, ratio of BOK is higher as compare to KBL it reveals that BOK is doing better in terms of liquidity as compare to KBL.

On an average, BOK has higher IGSR as compare to KBL it depicts that BOK has better liquidity position and it is in safe side in terms of liquidity as compare to KBL. Standard deviation and C.V. of KBL is lower than BOK it shows that IGSR of KBL is fluctuating less than BOK which makes less risk to KBL as compare to BOK.

4.6 Major Findings of the Study :

The major findings of a comparative camel study on commercial bank in Nepal with special reference to Bank of Kathmandu and Kumari Bank Limited are as follows:

- ❖ Over the five years of study period, the core capital ratio of BOK and KBL are in fluctuating trend. If it goes further down than as per NRB standard, NRB may provide directions to maintain at the mark. The ratios of BOK in the review period are 1.02 percent, 10.01 percent, 10.71 percent, 9.32 percent and 9.57

- ❖ percent respectively and the ratio of KBL are 12.50 percent, 10.14 percent, 11.26 percent, 10.24 percent and 10.40 percent respectively. In all the years of the review period, the core capital ratio of KBL is higher than that of BOK which shows KBL has better protection and security to its creditors and depositors and higher financial strength than BOK. But BOK is doing better in terms of shareholders earning. The CCR of both banks are above the NRB standard except of BOK in the fiscal year 2003/2004. The CCR of KBL is fluctuating less than BOK it depicts that KBL has less risk than BOK.

- ❖ In the past five years, the total capital adequacy ratios of BOK are 11.6 percent, 11.01 percent, 14.51 percent, 12.38 percent and 11.93 percent respectively. And ratios of KBL are 13.41 percent, 11.15 percent, 12.34 percent, 11.20 percent and 14.41 percent respectively in the review period. The ratios of BOK are decreasing continuously up to fiscal year 2004/2005 and moving upward in the third period and again decreased in fourth and fifth period of study and ratios of KBL are in fluctuating trend. Throughout the study period, the both banks have maintained minimum CAR as per NRB standard. The CAR of KBL is higher than BOK throughout the study period which shows that KBL has higher internal sources and comparatively strong financial position and higher security to depositors than BOK. The CAR of KBL is fluctuating less than BOK it depicts that KBL has less risk than BOK.

- ❖ Non-performing loan ratio of BOK is in decreasing trend and ratio of KBL is in fluctuating over the study period. The ratios of BOK are 6.66 percent, 4.99 percent, 2.72 percent, 2.51 percent respectively and ratios of KBL are 0.77 percent, 0.97 percent, 0.93 percent, 0.74 percent and 1.35 percent respectively in the review period. The NPL ratio of KBL is lower than the NPL ratio of BOK in all the five fiscal year. The lower NPL ratio of KBL shows the better proportion of performing loans and risk of default (credit) than that of BOK. But it is found that the NPL ratios of both the banks are below 5 percent (International Standard) except of BOK in fiscal year 2003/2004. It shows efficient credit management,

- ❖ low credit risk and good performance of both the banks in mobilizing loan and advances. The NPL ratio of KBL is fluctuating less than BOK it depicts that KBL has less risk than BOK.

- ❖ The loan loss provision ratios of BOK are decreasing over the study period while the loan loss provision ratios of KBL are in fluctuating trend. The ratios of BOK are 6.02 percent, 4.36 percent, 3.07 percent, 3.04 percent and 2.29 percent respectively and the ratios of KBL are 1.34 percent, 1.73 percent, 1.68 percent, 1.49 percent and 1.65 percent respectively throughout the study period. The mean average ratio of BOK is 3.75 percent and coefficient of variation between them is 34.97 percent while the mean average ratio of KBL is 1.58 percent and coefficient of variation is 8.98 percent. The higher CV of BOK reveals that the LLP ratios of BOK are more variable and less consistent than that of KBL and the higher average LLP ratio of BOK means the higher risky assets of BOK in the volume of loan and advances than of KBL.

- ❖ The loan loss coverage ratios of BOK are fluctuating over the study period while the LLC ratios of KBL are in increasing trend. The ratios of BOK are 90.42 percent, 87.35 percent, 112.77 percent, 121.16 percent and 120.34 respectively and the ratios of KBL are 173.74 percent, 178.51 percent, 180.15 percent, 201.79 percent and 122.83 percent respectively throughout the study period. The mean average ratio of BOK is 106.41 percent and CV between them is 13.76 percent while the mean average ratio of KBL is 171.40 percent and CV is 15.25 percent. The higher CV of KBL reveals the LLC ratios of KBL are more variable and less consistent than that of BOK and the higher average LLC ratio of KBL means higher bad debts covering from loan loss provision of KBL it shows the progress of KBL in terms of covering bad debts than that of BOK.

- ❖ The credit deposit ratios of BOK are in increasing trend except in the fiscal year 2004/2005 and ratios of KBL bank are in fluctuating trend over the study period of five years. The CD ratios of BOK are 77.61 percent, 68.87 percent, 71.42

- percent, 78.25 percent and 80.51 percent respectively while CD ratios of KBL are
- ❖ respectively throughout the review period. The mean average CDR of BOK is 75.33 percent and CV is 5.86 percent while mean average CDR of KBL is 86.76 percent and CV is 6.02 percent. The higher CV of KBL reveals the CD ratios of KBL is more variable and less consistent as compare to BOK. Higher mean average CDR of KBL depicts the less idle cash with KBL, better utilization of deposit and better performance in mobilizing loan and advances than that of BOK.
 - ❖ The management efficiency ratios (Earning per employee ratio) of BOK are in increasing trend except in the fiscal year 2007/2008 while the MER ratios of KBL are in fluctuating trend over the study period of five years. The mean average MER of BOK is Rs.1,023,154 and CV is 25.12 percent while mean average MER of KBL is Rs.628,661 and CV is 17.17 percent. The higher mean average MER of BOK reveals the better management system of BOK as compare to KBL. The increasing trend of earning per employee reflects the efficiency of staffs as well as good management quality. And higher CV of BOK depicts the MER of BOK more variable and less consistent than that of KBL.
 - ❖ The return on equity ratios of BOK are in increasing trend while the ratios of KBL are in fluctuating trend over the study period of five years. The ROE ratios of BOK are 18.11 percent, 18.27 percent, 18.39 percent, 20.73 percent and 22.11 percent respectively and the ROE ratios of KBL are 9.30 percent, 12.00 percent, 11.02 percent, 15.27 percent and 9.29 percent respectively during the review period. The increasing trend in ROE ratios of BOK is good sign for them but the fluctuating trend in ROE ratios of KBL is the sign of lower performing than that of BOK. The mean average ROE ratio of BOK is 19.52 percent and CV between them is 8.26 percent while mean average ROE ratio of KBL is 11.37 percent and CV is 19.39 percent. The higher mean average ROE ratio of BOK proves that it earned a better return for its equity shareholders than KBL. The higher CV of

KBL depicts the ROE ratios of KBL more variable and less consistent than that of BOK.

- ❖ The return on assets ratios of both banks BOK and KBL are in increasing trend over the study period of five years except of KBL in the fiscal year 2007/2008. The ROA ratios of BOK are 1.34 percent, 1.41 percent, 1.65 percent, 1.80 percent and 2.04 percent respectively and ROA ratios of KBL are 1.01 percent, 1.13 percent, 1.15 percent, 1.43 percent and 1.16 percent respectively throughout the review period. The mean average ROA of BOK is 1.65 percent and CV is 15.50 percent while the mean average ROA of KBL is 1.18 percent and CV is 11.67 percent. The return on assets ratios of BOK are higher than that of KBL in all the fiscal years throughout the study period which shows that the assets of BOK are used in better ways to generate profit than that of KBL. And the higher CV of BOK reveals the ROA ratios of BOK more variable and less consistent than that of KBL.
- ❖ The earning per share of BOK are in increasing trend except in the fiscal year 2006/2007 and EPS of KBL are in fluctuating trend. The EPS of BOK are Rs.27.50, Rs.30.10, Rs.43.67, Rs.43.50 and 59.94 percent respectively and the EPS of KBL are Rs.11.09, Rs.16.84, Rs.16.59, Rs.22.70 and 16.35 respectively over the study period of five years. The decrease in earning per share of KBL in the fiscal year 2005/2006 and 2007/2008 because of the higher proportion of increment in the number of share than the net profit after taxes. The mean average EPS of BOK is 40.94 and CV is 28.34 percent while mean average EPS of KBL is 16.71 and CV is 22.00 percent. The higher earning per share of BOK shows the higher earning power the bank. The higher CV of BOK reveals the EPS of BOK is more variable and less consistent than that of KBL.
- ❖ The NRB balance to total deposit ratios of both BOK and KBL banks are in fluctuating trend over the study period of five years. The CRR ratios of BOK are 6.47 percent, 5.36 percent, 6.03 percent, 8.00 percent and 4.10 percent

respectively and CRR of ratios of KBL are 11.18 percent, 3.58 percent, 2.83 percent, 3.70 percent and 1.92 percent respectively during the review period. BOK have maintained the balance as per standard set by Nepal Rastra Bank in all the observed year except in the fiscal year 2007/2008 but KBL have maintained only in the fiscal year 2003/2004.

- ❖ The cash and bank balance ratios of BOK and KBL in fluctuating trend during the review period. The CB ratios of BOK are 10.11 percent, 8.25 percent, 6.95 percent, 10.62 percent and 9.10 percent respectively and CB ratios of KBL are 14.26 percent, 7.07 percent, 5.02 percent, 6.37 percent and 7.31 percent respectively over the review period. The mean average CB ratio of BOK is 9.01 percent and the mean average CB ratio of KBL is 8.00 percent. The higher CB ratio of BOK shows the lower liquidity risk but higher the idle funds than that of KBL.

- ❖ The investment in government securities ratios of BOK are in fluctuating trend but ratios of KBL are in decreasing trend over the study period of five years except of KBL in the fiscal year 2004/2005. The investment in government securities ratios of BOK are 30.64 percent, 23.92 percent, 25.35 percent, 18.82 percent and 13.35 percent respectively and the ratios of KBL are 12.51 percent, 17.87 percent, 14.34 percent, 12.29 percent and 11.50 percent respectively during the study period. The mean average investment in government securities ratio of BOK is 22.42 percent and of KBL is 13.70 percent. The higher average investment in government securities ratio of BOK shows its better liquidity position than that of KBL.

CHAPTER-V

Summary, Conclusion and Recommendations

Having completed the basic analysis required for the study. The final and most important task of the researcher is to enlist findings, issues and challenges of the study and give suggestions for further improvement. This would be meaningful to the top management of the commercial banks to initiate action and achieve the desired result. The objectives of the researcher are not only to point out errors and mistakes but also be correct them and give directions for further growth and improvement.

Banking history in Nepal, in true sense started with the inception of Nepal Bank Ltd. (NBL) on 30th Kartik 1994 B.S. Right from inception, it carried out the functions of a commercial bank. But, integrated and speedy development of country is possible only when competitive banking service reaches nooks and corners of the country. On account of this view, at present, Nepalese financial system comprises of 26 commercial banks, 58 development banks, 79 finance companies, 12 micro credit development banks, 16 savings and credit co-operatives, 46 non-governmental organizations performing limited banking activities. Hence, it is these banking sectors, which have played a vital role in the economic development of the country. Besides, it is due to those reforms that have made a fall-out of the general liberalizations of the economy resulting into stiff competitive challenges for the private sector banks from public sector banks, foreign banks and financial institutions and thus mobilizing the liquid funds of the public. But the intense competition and lack of sufficient investment opportunities have created threats to the bank. Therefore, the study has been conducted to evaluate the performance of the selected commercial banks. Among the listed commercial banks in Nepal Rastra Bank (NRB), only BOK and KBL have been taken as sample to assess the efficacy of commercial banks in terms of the indicators of the overall banking sectors.

To check the chances of duplication and follow the principles and doctrines of the research, supportive text and the previous directions have been reviewed. In this chapter,

summary of the study and conclusion derived from the study are presented for analyzing the financial data of the sampled bank, the financial tools – ratio analysis and statistical tools have been applied.

5.1 Summary

The world is competitive and everyone has to fight to sustain. The line of control has been dissolved and the world has been globalized. So, the competition is not only with us that is why the performance and sustainability is important.

This study covers comparative financial analysis of two banks of the 5 fiscal year through CAMEL approach. Various tools and techniques have been used to analyze the data. The primary purpose of conducting this study is to evaluate the efficacy of the commercial banks in Nepal. For this, specific objectives are defined in particular goals. The basic objectives is to examine how for the commercial banks are managing their efficacy in the framework of CAMEL. Basically, the study has been organized into five chapters consisting of introduction, conceptual framework & literature review, research method, data presentation & analysis and finally summary, conclusion & recommendation are made.

To achieve the objectives of this study, descriptive cum analytical research designed has been used. Financial tools along with statistical tools have been applied to examine and evaluate the profitability of Bank of Kathmandu and Kumari Bank Limited in the framework of CAMEL.

Second chapter helped the researcher to provide knowledge about the conceptual and theoretical framework of CAMEL and profitability of the commercial banks in the framework of CAMEL. It tried to know the some concept used in this study. In third chapter, suitable research methodology has been used covering use financial tools. The available data have been analyzed according the need to portray the overall financial performance of commercial banks. Certain issues and findings have been materialized from analysis of data followed by a package of suggestion and recommendation.

The scope of the study is limited to the randomly selected two commercial banks, namely BOK and KBL. In this regard five- year trend from fiscal year 2003-2004 to 2007-2008 and data have been analyzed via descriptive approach.

Similarly, evaluation & analysis of qualities of data have been collection from secondary sources as well as related literatures have been reviewed. A general concept has been given as conceptual frameworks. Finally, the data have been analyzed with the help of various statistical and financial tools to possible extend. From the analysis and interpretation of the data, the researcher arrives at the following conclusions.

5.2 Conclusion

This study is performed in order to analyze the financial position of BOK and KBL. For this the standard CAMEL analysis was conducted and then some strong and weak points of two sampled banks are taken and recommendation for it is also given on the basis of finding of CAMEL analysis.

Economic development plays the significant role for the countries overall development. In Nepalese prospective, the establishment of financial institutions have played progressive role for the economic development of the country. So, far commercial banks have been proved as prime movers of the economic development in Nepalese senior. But as developing country, Nepal needs to strengthen its economic structure to achieve rapid overall development and Nepalese commercial banks, lack development due to the problems of fund mobilization and investment. Similarly, Nepalese finance companies are still stuck to traditional approaches for the fund utilization and management. So they need to revitalize their role, which requires encouraging environment to be innovative and diversify their business to their projected areas. They should resort to find new methods of financing instead of depending only on the time bound fixed deposit that can not always cope with the long-term lending maturity structure. They have not been able to utilize their funds most efficiently and productively. Similarly, commercial banks

continue to have a gradual diversification of their function by shifting a considerable portion of their assets.

On the other ground, there has been increasing competition among the existing commercial banks, co-operative societies and finance companies particularly due to the opening of co-operative which operates limited banking transactions in the country. Furthermore, the opening of new co-operatives, which without taking license from the central bank of Nepal and accepting deposit at an exorbitant rate has hampered the existing formal commercial banks deposit mobilization and investment activities.

Hence, commercial banks are one financial institution which stimulates using by mobilizing idle resources in one hand and on other hand, lend the resources to mobilize to those who have investment opportunities. Thus, they have served as one institution of development to enhance and promote industrial and agricultural activities in the country. Even though, sufficient returns have not been earned and strong, stable appropriate investment policy has not been followed by the commercial banks. Whatever may be the outcome, the deposit mobilization capability of commercial banks is going favorable and the lending capability has also gone up to considerable extend.

From the studies following points have been concluded:

-) KBL has better protection and security to its creditors and depositors and higher financial strength than BOK. KBL has higher the core capital ratio than that of BOK. But BOK is doing better in terms of shareholders earning. The core capital ratios of KBL are more stable and consistent than BOK.
-) The both banks BOK and KBL have maintained minimum CAR as per NRB standard. KBL has higher internal sources and comparatively strong financial position and higher security to depositors than BOK because the capital adequacy ratio of KBL is higher than BOK throughout the study period. The capital adequacy ratio of KBL is more stable and fluctuating less than BOK.

- J KBL has better proportion of performing loans and risk of default (credit) than that of BOK because KBL has lower non-performing loan ratio than BOK. But it is found that the NPL ratios of both the banks are below 5 percent (International Standard) except of BOK in fiscal year 2003/2004. It shows efficient credit management, low credit risk and good performance of both the banks in mobilizing loan and advances. The NPL ratios of KBL are more consistent and stable than BOK.

- J The loan loss provision ratios of BOK are decreasing and KBL are in fluctuating trend over the study period. BOK has higher risky assets than KBL which shows by higher mean average loan loss provision ratio of BOK. The loan loss provision ratios of BOK are more variable and less consistent than that of KBL because BOK has the higher CV than KBL.

- J KBL is improving its performance by covering higher bad debts from its loan loss provision which shows by the higher average loan loss coverage ratio of KBL than BOK. The trend of loan loss coverage ratios of KBL is more variable and less consistent than BOK.

- J KBL has less idle cash, better utilization of deposit and better performance in mobilizing loan and advances than that of BOK it depicts by higher mean average credit to deposit ratio of KBL than BOK. The trend of CD ratio of KBL is more variable and less consistent as compare to BOK.

- J The management efficiency ratios (Earning per employee ratio) of BOK are in increasing trend except in the fiscal year of 2007/2008 while the MER ratios of KBL are in fluctuating trend over the study period. The increasing trend of earning per employee reflects the efficiency of staffs as well as good management quality. BOK has the better management system as compare to KBL which depicts by the higher mean average MER of BOK. And management efficiency ratios of BOK are more variable and less consistent than that of KBL.

- J BOK has earned a better return for its equity shareholders than KBL which depicts by higher mean average ROE ratio of BOK. The ROE ratios of KBL are more variable and less consistent than that of BOK. The return on equity ratios of BOK are in increasing trend while the ratios of KBL are in fluctuating trend over the study period. BOK is doing better than KBL in terms of generating returns for its equity shareholders.

- J The return on assets ratios of both banks BOK and KBL are in increasing trend over the study period except of KBL in the fiscal year 2007/2008. The assets of BOK are used in better ways to generate profit than that of KBL which reveals by the higher mean average ROA of BOK than KBL. And ROA ratios of BOK are more variable and less consistent than that of KBL.

- J The earning per share of both banks BOK and KBL are in increasing trend except of BOK in the fiscal year 2006/2007 while KBL in fiscal year 2005/2006 and 2007/2008 it because of the higher proportion of increment in the number of share than the net profit after taxes of KBL. BOK has the higher earning per share power than that of KBL which reveals by the higher EPS of BOK. The EPS of BOK is more variable and less consistent than that of KBL.

- J The NRB balance to total deposit ratios of both BOK and KBL banks are in fluctuating trend over the study period. BOK have maintained the balance as per standard set by Nepal Rastra Bank in all the observed year except in the fiscal year 2007/2008 but KBL have maintained only in the fiscal year 2003/2004. Liquidity position of BOK is comparatively better than KBL because BOK has highest cash reserve ratio. The CRR of BOK is more stable and consistent than that of KBL which indicates the stable policy of BOK.

- J The cash and bank balance ratios of BOK and KBL in fluctuating trend during the review period. BOK has the lower liquidity risk but higher the idle funds than that of

- J KBL which depicts by the higher CBB ratio of BOK than KBL. The CBB ratios of BOK are more stable and consistent than that of KBL which indicates the stable policy of BOK.

- J The investment in government securities ratios of BOK and KBL are in fluctuating trend over the review period. BOK has better liquidity position than that of KBL which depicts by the higher average investment in government securities ratio of BOK than KBL. The investment in government securities ratios of KBL is more stable and consistent than that of BOK which indicates the stable policy of KBL.

5.3 Recommendations

After highlighting on the performance of commercial banks in Nepal, reviewing the various literatures concerning the study and using appropriate model to present and analyze the data in suitable forms, the following recommendations are submitted to concerned authority to improve the cash fluency in Nepal on the basis of findings of analysis and conclusion drawn upon thereafter.

Analysis, findings and conclusion of the present study on the two different banks demand some suggestions to improve. Hence, this study recommends the following aspects in order to improve performances of commercial banks. They are:

Statement for Improvement

For the achievement of target goals and objective of commercial banks, from above study, analysis observation, with facts we must conclude with a reasonable realistic solution. Commercial banks have to canalize funds by gradually shifting priorities from hire purchase to trading for industries to help capital formation in the country.

Commercial banks are key suggested for improvement in the present status by applying following recommendations.

1. CAMEL:

The both banks should be maintained adequate capital on the basis of total risk weighted assets as per standard set by Nepal Rastra Bank. In this regard, BOK should be more serious than KBL.

It is recommended that BOK should be held more quality assets and provision for possible losses due to excessive non-performing assets in order to prevent from threat of insolvency.

The management soundness of the KBL is not better as compare to BOK. So, to increase the management efficiency of KBL, it recommended to reducing number of staff by using advance technology and increment in net profit after tax as well as management system.

Earning performance of commercial banks reflects aggregate performance of the bank and attracts the investor. That is why the bank should be generated sufficient return for the equity. In this regard, KBL should be increased in the net profit after tax in the proportion of increase in number of shares.

The every commercial bank should be maintained minimum cash balance in NRB as per standard set by NRB. In this regard, KBL is more serious than BOK to maintain minimum balance. So it is recommended to keep adequate liquidity by maintaining minimum CRR, investing in government securities and keeping cash in other financial institutions in order to prevent from threat of insolvency of the bank. .

2. Regional expansion:

Most of the commercial banks have concentrated in Kathmandu for resources mobilization. Such concentration in a few pocket areas of Kathmandu requires a new shift of focus and strategy to expand regionally to rural areas where scattered public savings, can be collected and utilize to formal productive sectors.

3. Conducting training and seminars:

Training and seminars are very important to have frequent sharing of experience by conducting a seminar at least once or twice a year which helps to increase in operating efficiency of the banks. NRB should also encourage training to new entrants by providing orientations on the conceptual dimensions and practical aspects of operating commercial banks through the development of capital market training institute.

4. Strong supervision and control of commercial banks:

Commercial banks are playing with public money that consists of both depositors and investors. As such NRB has to keep a strict watch over their activities to protect the interest of public. The quality of loan portfolio, the adequacy of capital, the soundness of management, earning performance and liquidity position should always and strictly supervise in the commercial banks. For these, regular follow up, as well as regular information must be made mandatory to NRB to have correct evaluation and monitoring of their performance and minimize any irregularities directed in the course of investigation.

5. Mobilizing the deposits funds in productive sector:

Investment pattern of the commercial banks only shows their interest in hire purchase, term loan etc. so the credit should be diverted to the productive, industrial as well as agricultural sector to expect long-term existence of commercial banks to support the national economy.

6. Banking Technology:

The modern banking technologies followed by commercial banks in Nepal are mostly beneficial to the high level depositors. The banks should introduce advance and modern banking technologies to capture more market of financial service industry. Not only this, the commercial banks should adopt efficient and latest market strategy to make its transaction more capable as well as fulfill growing demand of new financial service and facilities.

7. Planning Research and Development:

An emphasis should be given on planning, research and development for the proper planning and controlling purpose. Proper and regular internal system can help the management in regards the cost control strategy and avoid unnecessary leakage in the expenses.

In summary, commercial banks have to prove it to the country that we can really contribute the national economy are efficient and viable agencies for mobilization of savings and its channelization in to productive sectors, are professionals managed and competent enough to ensure adequate rate of return on investment to maintain market price per share, are strategically well planed to be competitive with banks, other agencies and are trust worthy.