

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Financial institutions play very important role in the process of economic growth of the developing country. Among the financial institutions, commercial banks are important enterprises that serve as primary means of intermediation for financial resources mobilization. A developing country must maintain high and sustained rate of economic development. It must mobilize the available resource to support requisite high level of investment.

In any economy, the importance of financial sector in general and banking sector in particular cannot be undetermined. Banking sector definitely plays a pivotal role in the overall developmental of any economy. Commercial banks are one of the vital aspects of this sector which deals in the process of channelizing the available resources in the needed sector. It is the intermediary between the deficit and surplus of financial resources. All the economic activities are directly or indirectly channeled through these banks. People keep their surplus money as deposit in the banks and banks can provide such funds to finance the industrial activities in the form of loans and advances.

Commercial banks accept the demand and time deposits from business, industries, government corporations, non- government organizations and individuals. They give them interest against deposits. They use funds, which were deposited by public and provide loans in the agricultural, commercial and industrial sectors with the objectives of profit maximization. Commercial banks also provide technical and administration assistance to industries, trade and business.

They come into existence mainly with objective of collecting the ideal funds, mobilizing them into the productive sector and causing overall economic development. The bankers have the responsibility of safeguarding the interest of the deposit, the shareholders and society they are serving. A sound banking system is important because of the key role it plays in the economy, intermediation, maturity transform, facilitating payments flows, credit allocation and maintaining financial discipline among borrower. Banks are the gatherers of saving, the allocation of resources, providers of liquidity and payment of services.

It is said that banking sector mirrors the large economy. Its linkage to all sectors makes it a proxy for what is happening in the economy as whole. Indeed the Nepalese banking sector today has the both opportunities and threat. Nepal's economic progress is being declined, unstable political condition and agriculture production is not sufficient, the number of financial institution is being increased day by day.

The economic reform initiated by the government more than a decade ago have changed the landscape of several sectors of the Nepalese economy. The Nepalese banking sector is no exception. This sector is going through major changes as a consequence of economic reforms. The changes affect the ownership pattern of banks, regulatory aspects availability of funds, the cost of funds as well as opportunities to earn, range of services (fee based and fund base) and management of priority sector lending. As consequences of liberalization in interest rates and cutthroat competition bank is operation on reduced spread. Development financial institutions (DFIs) will have a lesser impact on the Nepalese economy. Consumerism is here to stay. Non - banking products like insurance is going to be a tremendous opportunities for banking sector. (KFA general banking course material pg3-5)

1.1.1 Evolution of Banking

At ancient time, in the east, banking was practiced at the time of "Manu" as it is referred in its manuscript "manusmriti". It was also practiced during Chanakya's period, as banking has been mentioned in "Kautilya's Arthasastra". This was the first book of economics so far.

In the west, the history of banking begins in ancient Greece, Rome and Mesopotamia. The Lombards, who was originally from the plains of Lombardy of Northern Italy, introduced banking practice to England. These Lombards brought this business to the city of London and

their home, the Lombard Street, is still the Center of British Banking. The Lombards, after a century or so of business in London, were eventually bankrupted because they lent money to king who did not repay them.

After the Lombards, the goldsmiths practiced banking as a sideline to their normal activities in the bullion and jewelers fields. The early goldsmiths used to have large vaults, which were soundly built and heavily guarded. The person who deposited his surplus funds with the goldsmith became as a 'Depositor' and naturally paid for the privilege of having his money defended this way. These payments were called 'Bank Charges. The depositors who needed funds to pay wages or debts, could call at the bank and collect such sums as required.

The first bank to offer most of the basic banking functions known today was the Bank of Barcelona in Spain. Founded by merchants in 1401, this bank held deposits, exchanged currency, and carried out lending operations. It also is believed to have introduced the bank check. Three other early banks, each managed by a committee of city officials, were the Bank of Genoa (1407), the Bank of Venice (1587), and the Bank of Amsterdam (1609). These institutions laid the foundation for modern banks of deposit and transaction. (Neupane D.K & Thapa K.2008)

1.1.2 Banking in Nepal

Banking system in Nepal was started in the year 879/80 A.D. when a merchant named "Sankhadar Shankhwa" introduced a new Era called "Nepal Sambat" after paying all the debts that exist in the country. The advent of 12th century marked a new period in economic history of Nepal .Silver coinage was introduced, which widened the scope of trade and also innovation of interest bearing private debt such as bonds, mortgages and loans. The term 'Tanka Dhari' meaning 'Money Dealer' was used at the end of 14th century. In 1877 A.D. Prime Minister Ranoddip Shing introduced many financial and economic reforms. The 'Tejarath Adda' was established to provide credit facilities to the general public at a very concessional interest rate. The *Adda* extend only credit and did not accept deposit from the public. Finally it faced financial crisis and closed down. With the cooperation of Imperial bank of India, Nepal Bank Ltd. came into existent under the Nepal Bank Act 1937 as first commercial bank of Nepal. Which played dual role of a commercial bank and central bank until the establishment of *Nepal Rastra Bank* on 26th April, 1956, it carried all the function of a central bank. (Shrestha, M.S ,2009:3)

1.1.3 Need of Bank

A well developed banking system plays an important role in the economic development of a country. A country, developing or developed need adequate and well-diversified banking services for the development of any concerned sector. In the modern economy, banks are to be considered not merely as the dealers in money but also the leaders in development. Therefore, banking is a backbone of any country's economy. Some of the needs of establishing and developing banks are as follows:

<ul style="list-style-type: none">• Capital Formation• Monetization of Economy• Economic Development• Implementation of Monetary policy• Price Stability• Control Interest rate• Credit Creation• Expansion of Business• Underwriting operation	<ul style="list-style-type: none">• Safe Custody of Wealth• Promote Saving• Agency Service• Fund Transfer• Boost of Trade and Industry• Employment Generation• Legal Entity and Freedom from Exploitation• Development of Agriculture and other neglected sectors, etc.
---	--

1.1.4 Meaning of Commercial Bank

Commercial Banks are that financial institutions which deals in accepting deposits of persons and institutions and in giving loans against securities. They provide working capital, which needs of trade, industry and even to agricultural sectors. Moreover, Commercial Banks also provide technical and administrative assistance to industries, trade and business enterprises. The main purpose of priority sector investment scheme is to uplift the backward sectors of economy.

A commercial bank is a financial institution, which accepts the demand and time deposits from the business, institutions, and individuals and engages in both business and customer lending. It must uses fund raised form the public deposit providing loans to agricultural, commerce and industries with the prime objectives of profit maximization. It also provides technical and administrative assistant to the industries, trade and business.

Commercial banks play the important role in directing the affairs of the economy in various ways. The operations of commercial banks record the economy pulse of the economy.

The size and composition of their transactions mirror the economic happenings in the country. For example, the mass failures of commercial during the 1930's reflected the phenomenon of reserve global depression in the world. Commercial banks have played a vital role in giving a direction for the trade and industry in the nations.

Upadhaya and Tiwari (1998) stresses that the commercial bank is established with a view to provide short term debt necessary for trade and commerce of the country along with other ordinary banking business such as collecting the surplus in the form of deposit, lending debts by discounting bills of exchange, accepting valuable goods in security, acting as an agent of the client etc. In the same way, Abrol and Gupta (2002) explain that principally a commercial bank accepts deposits and provides loans primarily to business firm. On the other hand, the broad concept of commercial bank holds that the commercial bank is a banking institution other than central bank. The commercial bank is the only institution other than central bank permitted to accept demand and time deposits (Crosse, 1963).

Commercial banks induce the savers in the community to hold their savings in the form of socially useful assets of which bank deposits constitute the most important element. Commercial banks draw the community savings into the organized sector, which can be allocated among the different economic activities according to the priority laid down by planning authorities in the country.

1.1.5 Functions of a Bank

A Bank is a financial institution, which provides financial services from producing and selling the professional and prudent management of the public's fund as well as performing many other roles in the economy. Their successes and failures hinge on their ability to identify the financial services. The competition between commercial banks produces the financial services efficiently.

Kohn (2004) states that the basic business of banking is a combination of two functions - payments and financial intermediation and has however, changed and continues to change along three dimensions: entry of new institutions into banking, as new forms of lending and borrowing are developing the intermediation function is evolving; and other related functions to the basic ones are being added. We can present an overview of a full service bank as follows:

Accepting Deposits: This is the oldest function of a bank in which the banker charged commission for keeping the money in its custody. Now a days a bank accepts three kinds of deposits from its customers. The first is the savings deposits on which the bank pays interest relatively at low rate to the depositors. Depositors are allowed to withdraw their money by cheque upto a limited amount during a week or a year. Businessmen keep their deposits in current account known as demand deposits. They can withdraw any amount available in their current account by cheque without notice. The bank does not pay interest on such accounts. A bank accepts fixed or time deposits from savers who do not need money for a stipulated period from one month to longer periods ranging up to ten years or more.

Loans and Advances: One of the primary functions of a commercial bank is to advance loans to its customers. A bank lends a certain percentage of the cash lying in deposits at a higher interest rate than it pays on such deposits. This is how it earns profits. The bank advances loans in the following ways:

Cash Credit: The bank advances collateral based loans to businessmen. The amount of the loan is credited to the current account of the borrower.

Term Loans: These are long term loans and are repayable monthly or quarterly in equal installments.

Call Loans: These are very short-term loans advanced to the bill brokers for not more than fifteen days. They are advanced against first class bills or securities. Such loans can be recalled at a very short notice.

Overdraft: A bank allows the borrower to overdraw his current account upto a sum equal to the loan sanctioned.

Discounting Bills of Exchange: Banks purchase bills of exchange after discounting i.e charging rate of interest for the time to maturity, if the holder wants its proceeds before maturity. Banks is reimbursed by the accepting bank on maturity.

Credit Creation: Credit creation is one of the most important functions of the commercial banks. When a bank advances a loan, it opens an account in the name of the customer and does not pay him in cash but allows him to draw the money by cheque according to his needs. By granting a loan, the bank creates deposit.

Foreign Trade Operation: A commercial bank finances foreign trade of its customers by accepting foreign bills of exchange and collecting them from foreign banks. It also transacts other foreign exchange business-buying and selling of foreign currency.

Agency Services: A bank acts as an agent of its customers while collecting and paying cheque, bills of exchange, drafts, dividends etc. It also buys and sells shares, securities, debentures etc. for its customers. Further, it pays subscriptions, insurance premium, utilities bills and other similar charges on behalf of its clients. It also acts as a trustee and executor of the property and will of its customers. Moreover, the bank acts as consultants to its clients. For these services, the bank charges a normal fee while it renders others free of charge.

Miscellaneous Services: Banks also act as custodian of valuables of the customers by providing locker facility where they can keep their jewelry and valuable documents. It issues various forms of credit instruments, such as cheque, drafts and travelers' cheque etc., which facilitate transactions. It renders underwriting services to companies and helps in the collection of funds from the public. Lastly, it provides statistics on money market and business trends of the economy.

1.2 Focus of the Study

Government of any countries highly monitors and controls the finance industry even in the liberalized market economy. Government does so due to build its high gravity in the national economy, and to build up the confidence of private sector in its financial system. NRB as an apex monetary authority of the country started to monitor and control the finance industry especially at the end of the 1990's by using the directives to the financial institution (FIS). It initiated the offside and onside supervision if 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. It 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 CAMEL to evaluate the financial performance and check up the financial health.

The BASEL committee on Banking supervision of the bank of international settlement (BIS) has recommended using capital adequacy, asset quality, management quality earning and liquidity (CAMEL) as criteria for assessing a FI in 1988 (ADB: 2002) the sixth component market risk (S) was added to CAMEL in 1977 (Gilbert, Meyer and Vaughan: 2000). However,

most of the developing countries are using CAMEL instead of CAMELS in the financial performance evaluation of the FIs.

CAMELS framework is a common method for evaluating the soundness of FIs. This system was developed by regulatory authorities of US banks. The Federal Reserve Bank, the Comptroller of the currency and Federal Deposit Insurance Corporation all use this system (Mc Nally: 1996). Monetary Fund is also using the aggregate indicator of individuals FIs to assess the financial system soundness of its member countries as part of its Surveillance work (Hilbers, Krueger and Monetti: 2000).

General Introduction of Related Banks

Kumari Bank Limited (KBL)

Kumari Bank was established in the April 3rd 2001, with the objective of providing competitive and modern banking services in the Nepalese financial market. The bank believes in good corporate governance with transparency in all dealings and conduct. Customer is always our first priority geared towards providing fast, reliable and efficient financial services and solutions. Employees have direct input and control over their work process. Employees are treated equitably with respect and good faith. Our priority stands in providing world class services to our customers at higher satisfaction level. Practicing total quality management by embracing good governance to optimize our assets in order to achieve sound business growth is the vision of this bank. Kumari Bank aims to position itself as a provider of "Complete Banking" solutions by providing a wide range of traditional and innovative banking products and services to all segments of the Nepalese economy.

Capital strength

Authorized capital	NPR 1,600,000,000
Issued Share Capital	NPR 1,186,099,200
Paid up Share Capital	NPR 1,186,099,200

The bank provides full range of personal financial services, including current, saving and time deposits accounts, loans and investments. Other services of the bank include cash management, salary management, safe deposits lockers, weekend banking, foreign exchange and transfer services, remittance services, internet banking, evening banking, 365 days banking. *(KBL Annual report 2008/09)*

Kumari Bank understands the present market condition and needs of the business community have enabled to design products and services which not only give our customers a one stop integrated banking solution but also add value to the overall business. The provision of services to small and medium size enterprise is core strength of Kumari Bank. These enterprises can avail term loans, working capital loans, trust receipt loans. Both funded and non funded facilities are granted within the single obligor stipulated by the central bank.

Everest Bank Limited

Everest Bank Limited (EBL) started its operation in 1994 with a view and objectives of extending professionalized and efficient banking services to various segments of the society. Its joint venture partner, Punjab National Bank (PNB), (holding 20% equity in the bank) is the largest nationalized bank in India having 112 years of banking history. The bank is providing customer friendly services through a network of 34 branches in Nepal.

Capital strength

Authorized Capital	NRs.1,000,000,000,
Issued Capital	NRs.840,620,000
Paid up Capital	NRs.838,821,000.

Out of Paid up Capital, local Nepalese Promoters hold 50% stake in the Banks equity, while 20% of equity is contributed by joint venture partner PNB whereas remaining 30% is held by the public. (*EBL Annual report 2008/09*)

EBL was one of the first bank to introduce Any Branch Banking System (ABBS) in Nepal. It has introduced Mobil Vehicle Banking system to serve the segment deprived of proper banking facilities through its Birtamod Branch, which is also the first of its kind. The bank was bestowed with the “NICCI Excellence award” by Nepal India chamber of commerce for its spectacular performance under finance sector. This bank has been conferred with “Bank of the Year 2006” by the banker, a publication of financial times, London.

The main and best features of this bank are:

- One of the Largest Network among private sector banks spread across Nepal and all connected with ABBS.
- Strong Joint Venture Partner providing Technical Support.

- Representative office in India to facilitate remittance from India.
- Direct Drawing arrangement with PNB and HDFC bank India whereby instant payment is done on presentation of the instrument.
- Direct amount credit in PNB branches connected with Central Banking System and RTGS member banks via speed remittance. More than 126 remittance payout location in Nepal.

EBL in association with Smart Choice Technology (SCT) is providing ATM service to its customers through more than 74 ATMs and over 850 point of sales across the country. ATM sharing arrangement with Punjab National Bank has facilitated usage of EBL Debit Card at more than 1000 PNB ATM outlets across the India at a nominal rate. Similarly, Indian tourists and businessmen having PNB cards will be able to use EBL ATM, while in Nepal.

1.3 Statement of the Problems

CAMEL is a tool to measure financial position of financial institution. It is important for Commercial banks to evaluate performance of assets and liabilities using CAMEL approach developed by Federal Financial Examination Council of Federal Reserve Bank in 1979. The research is focused on assessing the financial condition and performance of Everest Bank Limited and Kumari Bank Limited by using descriptive & analytical research designed.

- i. Are EBL and KBL able to meet Capital Adequacy as prescribed NRB and BASEL II?
- ii. What is the trend of non-performing loan, loan loss provision and loan loss coverage in both the banks?
- iii. How are they managing their expenses with respect to revenue?
- iv. What is the trend of earning performance made by the banks?
- v. What is the trend of liquidity position in EBL and KBL?

1.4 Objectives of the Study

The main objective of this study is to examine the financial position of both the banks. The present research has been tried to meet the following objectives.

- i) To analyze capital adequacy ratio of EBL and KBL.
- ii) To analyzed the trend of non-performing loan, loan loss provision and loan loss coverage of EBL and KBL.

- iii) To evaluate their management's efficiency with respect to revenue.
- iv) To evaluate the trend of earning performing made by EBL and KBL.
- v) To analyze the liquidity position of both the banks.

1.5 Significance of the Study

Banking sector in Nepal is a continuously growing sector however it has owned problem. High competition and poor monitoring service has played negative role in financial sustainability of banking industries. So from this research a part from aiming to gain knowledge research itself aids new literature to the existing field. The significance of this study of financial performance analysis of commercial banks with respect to Everest Bank Ltd. (EBL) and Kumari Bank Ltd. (KBL). This research has proved itself very useful to the management of EBL and KBL as well other Commercial Banks. This study has contributed significant to solve the problem existing in the banks and to formulate the policies and strategies to maintain activities effectively.

1.6 Limitations of the Study

The research has been done as a requirement of partial fulfillment of Master's degree in management. The study is subjected the following limitation.

- The study only covers financial aspects of EBL and KBL.
- This study does not focus on the other aspect of EBL and KBL, and other commercial banks.
- The study is based on secondary data obtained from various sources.
- Reliability of analysis depends on the reliability of sources of data.
- The study covers only 5 Fiscal Years from 2061/62 to 2065/66 B.S.
- S-sensitivity of market risk of (CAMEL'S) has not taken as a part of study.

1.7 Organization of the Study

This study is divided into following extend chapter. However, some small modification on the shape and design of the research may occur as per the necessary of the research.

This study is organized into five chapters; Introduction, Review of Literature, Research Methodology, Data Processing and Analysis and Summary, Conclusions and Recommendation.

Chapter first is Introduction chapter includes Background of the study, 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.

Similarly, the second chapter deals with conceptual review and review of related studies. Research methodology the third chapter describes the methodology adopted in this study.

In the same way, presentation and analysis of data is included in Chapter four. Finally, the Summary, Conclusions and Recommendations of the work are given in Chapter five.

CHAPTER II

REVIEW OF LITERATURE

Review of literature is an essential part of all studies. It is a way to discover what other research in the area of our problem has uncovered. Scientific research must be based on past knowledge.

It is the most important part of the study. Without clear concept on the subject matter, the study might not be conducted within its periphery. This section provides current stage of the research work and guidelines or further study and helps to avoid unnecessary duplication of research work. This chapter is focused on brief discussion about the abstract regarding the camel analysis. In order to accomplish the objectives of the study, the chapter includes review of relevant concepts, assumption, books and journals as well as major findings of previous studies of the relevant field are included in precise manner. The purpose of review of the literature is to develop some expertise in one's area, to see what new contribution can be made and to receive some ideas for developing a research design. Thus, the previous studies cannot be ignored, because they provide the foundation to the present study. In other words, these have to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies. From this, it is clear that the purpose of literature review is to find out what researcher studies have been conducted in one's chosen field of study and what remains to be done.

The main purpose of literature review is to find out what works have been done in the areas of the research problem understudy being undertaken. For review study, the researcher uses different books, reports, journals and research studies published by various institutions, unpublished dissertations submitted by master level students have been reviewed

2.1 Conceptual Review of CAMEL framework

Federal Reserve Bank of New York 1997 has defined the component of camel as rating system which produces a composite rating of an institution overall condition and performance by assessing five components: Capital adequacy, Assess quality, Management administration, Earning and Liquidity. The camel was letter updated with inclusion of sixth components, Sensitivity to market risk, now is referred to as the CAMELS rating system.

CAMEL was originally developed by FDIC for the purpose of determining when to schedule an onsite examination of the bank (*Thomson 1991, Whalen and Thomson,1988*) . FFIEC is revised in 1997, the UFRIS, which is commonly referred as the CAMEL rating system. This system was design by regulatory authority to quantify the performance and financial condition of the banks which it regulates.

CAMEL rating system is subjective benchmark for each components are provided but they are guide lines only and present essential foundation upon which the composite rating is base the uniform rating system provides ground work for necessary supervisory response and help institution supervise by all three US supervisor to be reasonable compared and evaluated. Ratings are assigned for each component in additional to overall rating of banks financial condition. The rating are assign on a scale of one to five , the CAMEL rating are commonly viewed as summary major of the private supervisory information gathered by examiners regarding banks over all financial condition although they also reflect available public information.

CAMEL rating system is used by three federal banking supervisor {the federal, then FDIC and the office of the controller of the currency (OCC)} and other financial supervisory agency to provide the convent summery of the bank condition at the time of exam. In Nepal NRB plays the supervisory role for evaluation banks financial condition.

Purpose of CAMELS Ratings

The purpose of CAMELS ratings is to determine a bank's overall condition and to identify its strengths and weaknesses:

- Financial
- Operational
- Managerial

Rating System

Each bank is assigned a uniform composite rating based on six elements. The system provides a general framework for evaluating the banks. It is a standardized method which allows the assessment of the quality of banks according to standard criteria providing a meaningful rating.

Rating Provisions

Each element is assigned a numerical rating based on five key components:

1. Strong performance, sound management, no cause for supervisory concern.
2. Fundamentally sound, compliance with regulations, stable, limited supervisory needs.
3. Weaknesses in one or more components, unsatisfactory practices, weak performance but limited concern for failure.
4. Serious financial and managerial deficiencies and unsound practices. Need close supervision and remedial action.
5. Extremely unsafe practices and conditions, deficiencies beyond management control. Failure is highly probable and outside financial assistance needed.

Based on the ratings of each element, a composite rating of 1 through 5 is assigned to the bank. All the factors reflected in the key components ratings are considered in assigning the composite rating (www.businessbookmall.com).

BearingPoint, Inc. Management & Technology Consultants had given excellent, precise and brief introduction of component of CAMEL, which had been discussed below.

2.1.1 Concept of Bank Supervision

There is no theoretically proven system or standard textbook blueprint for the structure and process of regulating and supervising financial institution, including banks. In fact, arrangements for banking regulation and supervision differ considerably from country to country. Apart from the differences in political structure, the most important factors that account for the differences in regulatory and supervision approaches include the general complexity and state of development of the financial system, the number, size and concentration of banking institutions, the relative openness of the domestic financial system, the nature and extent of public disclosure of bank, financial position and availability of technology and human resources

for regulation and supervision. However, an impact framework for the regulation and supervision of the banks can be found in the core principles for effective banking supervision issued by the Basel Committee on banking Supervision in 1977. The frame work can be interpreted as comprising four distinct yet complementary sets of arrangement.

Objectives of Bank Supervision

With the respect of the supervisory arrangements the core principles describe what could be termed a "cradle to grave" approach covering potential problem that may emerge in the future on account of the current risk profile of the banking institution, overall, supervisory risk assessment and early warning systems assist in

- Systematical assessment of banking institution within a formalized framework both at a time of on-site examination and in between examinations through off-site monitoring.
- Identification of institution and areas within institutions where problems exist or are likely to emerge.
- Prioritization of bank examinations for optimal allocation of supervisory resources and pre-examination planning.
- Initiation of warranted and timely action by the supervisory.

Process of Bank Supervision

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

Supervisory and Monitoring System of the Nepal Rastra Bank

Principally, the central bank has the liability and obligation to maintain fair and healthy environment of the economic activities of the nation. For it the necessary acts, rule and regulation are enacted and development. Thus, the act of checking whether the related officials and banks have honestly complied with the policy, regulation and supervisions enacted by the controlled financial system, itself is called inspection. As a central bank, the Nepal Rastra Bank has been discharging such serious and sensitive task. Before the establishment of Nepal Rastra Bank, the function of inspection and supervision used to be carried out by the officials by the government of Nepal of the Government of auditor general. This practiced was contributing until the enactment of the commercial bank act 2020BS. After the introduction of this act, the function of inspection and supervision for the commercial bank was given to the Nepal Rastra Bank and this right was more strengthened by the Nepal Rastra Bank act and the introducing of the commercial bank act 1974. The Nepal Rastra Bank has been discharging the task of inspection for the fiscal year 2025/26BS. The system if inspection and supervision of the banking and the non banking financial institution is to be followed on a certain slandered norms. In this regards, the bank for international settlement has formulated an important standard, which is called CAMEL system. The evaluation of financial institutions is done on the basic of it. In the case of Nepal, the Nepal Rastra Bank adopting this system has made in the main basis of the one site and off site supervision.

2.1.2 Concept of CAMEL Banks Rating System

The acronym "CAMEL" is revised in January 1997, the uniform financial institution rating system, which is commonly referred at as that camel rating system. For purpose of this rating system, the term financial institution refers those insured depository institution whose primary federal supervisory agency is represented on the FFIEC. The agency comprising the FFIEC the board of governors of the federal reserve system (FRB) the federal deposit insurance corporation, the national credit union administration the office of the controller of the currency and the office of the thrift supervision. The term financial institution includes federally supervised commercial banks, savings and loan associations, mutual savings banks and credit unions. Capital adequacy, Assets quality, Management efficiency, Earnings and Liquidity. A sixth component, a bank's sensitively to market risk was added in 1997; hence the acronym was changed to CAMEL. The camel rating system is subjective beach marks for each component are

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

I. Capital Adequacy

Capital Component(C) signal's the institution's ability to maintain capital commensurate with the nature and extent all types of risk, and the ability of management to identify measure, monitor and control these risks. Adequacy and inadequacy of bank capital directly affects the banking transaction. The adequacy of bank capital is the most important aspect of a bank. (*www.businessdictionary.com*)

Capital is rated based on the following considerations:

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

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

Capital Adequacy Norms by NRB

NRB has from time to time stipulated minimum capital fund to maintain by the banks on the basis of risk weighted assets. The total capital is the sum of the core capital and supplementary Capital. According to the NRB unified directives for Banks and Non Banks FIs issues number E.Pra.Ni.No. (Ashar 2062 B.S) the capital funds of the bank comprises the following:

Core Capital: Core capital of bank include paid up equity, share premium, non redeemable preference shares, general reserve and accumulated profit and loss. However, where the amount goodwill exists the same shall be deducted for the purpose of calculation of the core capital.

Supplementary Capital: Supplementary capital include loan loss provision, exchange fluctuations reserves, hybrid capital instruments, unsecured subordinated term debt and other free reserves not allocated for specific purposes. According to NRB directive minimum paid up capital requirement for establishment of commercial bank is as under: Rs 250 million to operate overall Nepal except Kathmandu Valley. Rs 1000 million to operate all over Nepal

All existing commercial bank are required to raise capital base to Rs 1000 million by mid July, 2009 through minimum 10% paid up capital increment every year.(www.nrb.org.np.)

II. Assets Quality

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

1. Performing loans:

- All good loans and overdue for below 90 days.

2. Non Performing loans:

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

Pass Loan (Performing Loans)

Loans in this category are performing and have sound fundamentals which includes borrowers overall financial conditions, resources and cash flow, credit history and character. They also include the purpose of loan, and types of secondary sources of repayment. Loans and advances whose principal amount is past due of for a period up to 3 months shall be included in this category. These are classified and defined as performing Loans or Performing Assets.

Substandard Loan

Loans in this category have well defined weakness, where the current sound worth and repayment capacity of borrower is not assured. Orderly repayment of debt is in jeopardy. All loans and advances that are past due for a period of 3 months to 6 months shall be included under this category.

Doubtful Loan

Doubtful loans exhibit all the characteristics of substandard loans, with the added characteristics that collection in full is highly questionable and improbable. Classification of loss is deferred because of specific pending factors that may strengthen the quality of assets. Such factors include merger, acquisition, liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plan. All loans and advances, which are past due or a period of 6 months to 1 year, shall be included in this category.

Loss/Bad Loan

These loans are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer full provision or writing of this basically worthless loan. Partial recovery of this may be possible in future. All loans and advances which are past due for a period of more than 1 year as well as advances which have least possibility of recovery or considered unrecoverable and those having thin possibility of even partial recovery in future shall be included in this category.

Loan Loss Provisioning

Nepal Rastra Bank has made it mandatory to commercial banks to make the loan loss provisioning on the basis of outstanding loans and advances and bill purchases on the following basis:

Types of Loans Loan Loss Provisioning	
Pass	1 percent
Substandard	25 percent
Doubtful	50 percent
Loss/ Bad	100 percent

With the objectives of lowering the concentration risk of bank loans to a few big borrowers and to increase the access of small and middle size borrowers to the bank loans, NRB through directive number E. Pra.Ni.No 03/061/62 limits commercial banks to extend credit to a single borrower or group of related borrowers upto 25% of its core capital for fund based credit facilities and not more than 50% of its core capital for Non fund based credit facilities like letters of credit, guarantees, acceptances, commitments.

III. Management

Sound management is the key to bank performance but is difficult to measure. It is primarily a qualitative factor application factor application to individual institution. As sound management earning per employee is very important for the success of any institution or bank, management quality is generally granted greater weighting in the assessment of the overall CAMEL rating. Management is the necessary part of any organization or bank. In Bank management is necessary for planning, controlling, directing and organizing to achieve the desired objectives.

Although several indicators can be used as proxies for the soundness of management, such evaluation is still primarily a qualitative exercise, particularly when it comes to the evaluation of the management of operational risk, that is, the functioning of internal control systems. The quality of management is the most important element in CAMEL framework of financial performance analysis. The productivity of employees can be used as a measuring rod for evaluation. High or increasing ratio of expenses to total revenues can indicate that financial

institutions may not be operating efficiently. Similarly, low or decreasing earnings per employee can reflect inefficiencies as a result of overstaffing, with similar repercussion in terms of profitability. Another possible ratio of management soundness is the rate of expansion in the number of branches whereas some expansion may reflect a healthy degree of competition, too rapid rate of expansion may indicate lax licensing requirements, unsound management, and a gap in the supervisory capacity. NRB also has evaded this component of CAMEL in the performance evaluation of commercial banks in Nepal.

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

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

IV. Earnings

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

help the management and other stakeholders to know about the earning policy of the respective banks:

1. Return on Equity (ROE)
2. Return on Assets (ROA)
3. Earning Per Share (EPS)

It measures the profit available to the equity shareholders as per share basis i.e. the amount that they can get on each share held. In other words, this ratio measures the earnings available to equity shareholders on a per share basis. The quality and trend of earnings of a bank depend largely on how well the management manages the assets and liabilities of the bank. A Bank must earn reasonable profit to support asset growth, build up adequate reserves and increase shareholders' value. Good earnings performance would inspire the confidence of depositors, investors, creditors, and the public at large.

V. Liquidity

Simply, liquidity means short- run solvency of a firm. It reflects the short term financial strength of banks. Bank does not provide all deposit at loan and advances. The certain percentage of deposit should be kept in bank in the form of cash. If the bank will keep greater deposit in cash, it loses the opportunity cost. A lack of liquidity can be remedied by raising deposit rates and effectively marketing deposit products. However, an important measure of a bank's value and success is the cost of liquidity. A bank can attract significant liquid funds. Lower costs generate stronger profits, more stability, and more confidence among depositors, investors, and regulators. Similarly, if bank keeps low amount in deposit, it could not be able to pay depositors on the time of requirement.

Liquidity can be measured in following ways:

1. Cash Reserve Ratio
2. Cash & Bank Balance Ratio
3. Investment Government Securities

2.2 Review of Journals and Articles

Sahajwala & Bergh (2000), in their article, "*Supervisory Risk Assessment and Early Warning Systems*", have stated that on-site examination ratings like CAMELS are useful in the

analysis of the financial condition of the bank at the time of the examination, its compliance with regulatory policies, the accuracy of the regulatory reporting, the quality of its management, the loan loss recognition, and the internal controls practiced, as well as in detecting financial misconduct. Ratings can be accurate indicators of potential problems only if banks are examined at frequent intervals and their financial conditions generally remain stable. Examinations are, however, carried out with some time lag and, insofar as financial conditions of banks can and do change rapidly, supervisory on-site examination ratings cannot be expected to function as condition indicators of banks for long periods of time, much less to serve as early indicators of future problems.

Berger, Kyle & Scalise (2001), in their article, “*Did U.S. Bank Supervisors Get Tougher during the Credit Crunch? Did They Get Easier during the Banking Boom? Did It Matter to Bank Lending?*” have examined a panel data set composed of 5,500 to 9,500 banks from 1986 to 1998. Employing the data both from examinations directly and from the call reports, they look for changes in supervisory toughness and bank lending behavior over three periods: 1986–88, their base period; 1989–92, the period generally thought to include a credit crunch; and 1993–98, a boom period for banks and nearly everyone else. They find that the CAMEL rating for a bank with a given balance sheet in a given region of the country was on average worse in the crunch period 1989–92. Unfortunately, there is no real evidence that classified asset levels went up during the crunch period or that CAMEL ratings went down during the period of ease. Nevertheless, things do look pretty good. But, the results suggest that the change in supervisory stance is statistically, but not economically, significant. That is, the effects can be measured precisely, but are small. To show this, they compute that the change from the pre crunch to the crunch period increases the percentage of classified assets by about 0.04 percent. Since the mean in the data set as a whole is about 6 percent, however, this is not a big number. For the CAMEL ratings, again the probability of a shift is also small. Looking at the CAMEL rating, any change, regardless of whether it is an upgrade or a downgrade, results in a decrease in the percentage of assets held as C&I loans, and increases the percentage of U.S. Treasuries. That is, simply having an examiner change the bank’s rating results in a reduction in lending. Although one would expect this for downgrades, surely it is not the expected outcome for upgrades.

Derviz & Podpiera (2004), in their article, “*Predicting Bank CAMELS and S&P Ratings: The Case of the Czech Republic*”, investigated changes in the external Standard and Poors (S&P) long-term rating and the CAMELS rating used by the banking supervisory body of the Czech National Bank. In the case of the CAMELS rating each bank has its specific average rating over the sample period and that the predictors are Capital Adequacy, VaR and the ratio of Total Loans to Total Assets. The CAMELS model explains 84% of the variability in the actual data, and similarly the models of the S&P rating demonstrate a predictive accuracy of 70%. In relation to the S&P rating, the exclusive information at the regulator’s disposal provides a certain predictive advantage over outside observers (such as rating agencies). This is not so in the CAMELS rating case, since, evidently, an observer who is able to reproduce the construct of CAMELS for a given bank has very much the same information as the regulator. An adjustment of deposit rate policy might be an idiosyncratic reaction of an isolated bank experiencing a revision of its specific properties by the markets. In that case, the rating revision may be an unambiguous quantitative expression of the said revision taking place. On the contrary, a rating changes for systemic (business cycle, country credibility, etc.) reason is unlikely to result in a deposit rate adjustment, since the competitive position of the individual bank is not directly at stake. In the past, the Czech National Bank’s tight monetary policy (1997–1999) was often criticized by leading commercial bank representatives on the grounds of prohibitive costs for the sector. And, according to the conventional CAMELS approach, the corresponding rating levels would indeed have been affected by the cost factors hitting both the banks themselves and their borrowers.

Baral, K.J (2005), *Health Check-up of Commercial Banks in the Framework of CAMEL: A Case Study of Joint Venture Banks in Nepal* :using the annual reports data set of joint venture banks and NRB supervision reports, published his paper abstract in the Journal of Nepalese Business Studies (v volume II No.1, December 2005). The paper examined the financial health of joint venture banks in the CAMEL framework for a period ranging from FY 2001 to FY 2004, the selected banks were Standard Chartered Bank Nepal Limited, Nepal SBI Bank Limited and Nabil Bank Limited the health checkup which has conducted on the basis of publicly available financial data, concludes that the financial health of joint venture banks is better than that of the

other commercial banks. The study further indicates that the CAMELS component indicators of the joint venture banks are not much encouraging for managing the possible shocks.

Cole and Gunther (2008), in their article, "*A CAMEL Rating's Shelf Life*", have stated that under more stable financial conditions, CAMEL ratings typically remain accurate for relatively long periods. Also, off-site monitoring systems depend on the integrity of accounting data, which can be enhanced through regular periodic exams. Moreover, the examination process and the CAMEL ratings it generates have numerous important uses, many of which are quite distinct from the relatively narrow application of off-site monitoring systems for the identification of bank failures. The CAMEL ratings can change only when financial conditions change appreciably, as was the case during the particularly volatile time period. Generally speaking, CAMEL ratings are designed to reflect a bank's financial condition, its compliance with laws and regulatory policies, and the quality of its management and systems of internal control. Only through comprehensive, onsite exams can regulators determine whether a bank's management is operating the institution in accordance with the laws and regulations designed to promote safety and soundness. Moreover, the complex financial reviews that accompany an exam, together with the associated dialog between examiners and bank management, are necessary to assess accurately a bank's credit quality and overall financial posture. Given the multiple dimensions and uses of CAMEL ratings, it would be exceedingly difficult to construct a single comprehensive metric of their information content.

Atikoğulları (2009), in his article, "*An Analysis of the Northern Cyprus Banking Sector in the Post – 2001 Period Through the CAMELS Approach*", has analyzed the TRNC banking sector in the post-2001 period to assess the performance of the sector after the TRNC Banking Crisis of 2000-2001 through the CAMELS approach. According to this approach, the balance sheets of the top five banks with the largest asset sizes have been analyzed in terms of capital adequacy, asset and management quality, earnings ability, liquidity and asset size. As a result of this analysis, a number of conclusions have been obtained. First of all, in terms of capital adequacy, results showed that the TRNC banking sector is in a less adequate position as of 2007, compared to the time when the crisis took place in 2001. This result is due to the deterioration in the balance sheets of the sector during the period between 2001 and 2006, which was followed by an improvement between 2006 and 2007. Overall, K.T. Kooperatif Merkez Bankası Ltd.

seems to be the least adequate bank in terms of capital structure, especially from the viewpoint of resistance to loan losses, during the sample period. Secondly, it can be concluded that the asset quality of the banks in the sector, to some extent, has diminished relatively to the years immediately following the TRNC banking crisis of 2000-2001. According to the results, K.T. Kooperatif Merkez Bankası Ltd. stands as the bank with the lowest quality of assets during the period under investigation. Thirdly, the overall continuous increase in cost management and stable operating efficiency of the local banks reveals an improving management quality in the TRNC banking sector, indicating good signs regarding the future of the banking sector. Fourthly, in terms of profitability, trends of the banks have shown lots of fluctuations during the period investigated. However, in general, the profitability of the banks is noticeably higher in 2007 than in 2001, which indicates an overall increase in the profitability of the sector since the time when crisis took place. Finally, in general, liquidity level of the banks in the TRNC banking sector is deteriorating since 2002-2003, after a sharp and immediate increase following the banking crisis of 2000-2001. In 2007, the liquidity level of the banks decreased to a level near to that at the time of the crisis in 2001, indicating an increased possibility of a distress period stemming from a liquidity shortage. new contribution can be made and to receive some ideas for developing a research design.

2.3 Review of Related Thesis

Gurung (1995) conducted a research on ‘A financial study of joint venture banks in Nepal. The objective off this study was to examine the financial strength and weakness of Nepal Granglays Bank Ltd. (NGBL) and Nepal Indosuez Bank ltd NIBL).The study has covered the period of Seven financial year i.e 1980/87 through 1992/93.In this study he has used financial ratios viz. current activity, profitability, capital structure and statistical tool viz. Karl pearson’s coefficient of correlation. The researcher had on the basis of different financial indicators found performance of NGBL is better than NIBL

Deoja (2001) conducted study entitled “A comparative study of the financial performance between Nepal State bank of India limited and Nepal Bangladesh bank limited”. The researcher’s main objective of the study was to evaluated the trend of deposit and loan and advances of NSBIL and NBBL and to evaluate the liquidity, profitability, capital structure,

turnover and capital adequacy position of NSBIL and LBBL. Through research found that the cash and bank balance to current asset, saving deposit to total deposit etc Of NABIL are higher while fixed deposit to total deposit, loans and advanced to current assets of NBBL are higher, and NBBL has better turnover than NSBIL in term of loan and advances to total deposit ratio and loan and advances to fixed deposit ratio. Through the study of the different ratios has conducted that both banks are highly leveraged.

Ms. Anju Khadka (2002) has carried out research on “A Comparative Study on Investment policy of Commercial Banks” with as objective to find out the relationship between deposit, investment, loan and advance and net profit. She has made the following conclusion while comparing the performance of NBL with NABIL, SCBNL and NIBL. NBL is comparatively less successful in on balance sheet as well off- balance sheet operating than that of other CBs. It predicts that in the coming days if is could not mobilize and utilize its resources as efficiently as other CBs to maximize the returns, it would be lag behind in the competitive market of banking. Profitability position of NBL may not maintain the confidence of shareholders, depositors and its all customer if it cannot increase its volume even in future.”

As the banks experience many difficulties in recovering the loans and advances and their large amount in being blocked as non performing assets, she suggested and there is an urgent need to work out a suitable mechanism through which the overdue loan can be realized.

Ms. Bhattarai (2004) had conducted study in “Implementation of Directives Issued by Nepal Rastrya bank : Comparative Study of Nepal SBI Bank limited and Nepal Bangladesh Bank Ltd. ‘’ has made an attempt to analyze various aspect of NRB directives with respect to Capital Adequacy and loan Classification and Provisioning. As per her view the process of continual review and classification of loan and advance enables banks to mirror the quality of their loan portfolios and to take remedial action to counter deterioration in the credit quality of their portfolios. The research had recommended the banks to be very careful while analyzing the paying capacity of its credit client with longer period of past due.

Mr. Bhandari (2006) used descriptive analysis in his research work of evaluating "Financial Performance of Himalayan Bank in the Framework of CAMEL" during 1999 to year 2004 A.D. The analysis revealed adequate Capital of the bank. The non-performing loan though in decreasing trend is still a matter of concern. The bank is still with better ROE however it is in

decreasing trend. The decreasing trend of net interest margin shows management slack monitoring over the bank's earning assets. The liquid funds to total deposit ratio is above the industrial average ratio. NRB balance and cash in vault to total deposit ratios are below the industrial average ratio during the study period.

In the same way, Mr. Chand (2006) conducted “A Financial Performance Analysis of NABIL Bank Ltd in the frameworks of CAMELS”. In his dissertation data from the fiscal year 2000/01 to 2004/5 has been used. More over annual reports of bank are mentioned as main sources of research. Six component of CAMELS have been also been analyzed distinctively by using various financial ratio analysis tools along with some general statistical tools as mean, standard deviation, C.V and least square trend analysis and conducted that the capital adequacy is sound where as supplementary capital is in declining trend , Assets quality, management efficiency, Earning quality, Liquidity and Sensitivity to Market risks and concluded that NABIL bank Ltd has maintained the capital adequacy with NRB boundaries, Assets composition of NABIL is mainly focused on Loan and Advances, Earning efficiency of the bank is sound and in case of liquidity the bank has not followed the NRB norms effectively.

Mr Gurung (2008) conducted the research on “ A case study on the financial performance analysis of Standard Chartered Bank Nepal Limited in CAMEL framework” with the main objective to analyze Capital adequacy & liquidity position of SCBNL and compare with regulatory minimum capital requirement, management soundness, quality of assets and evaluate Risk Weighted Assets, to evaluate the level, trend and stability of SCBNL’s earning. SCBNL has not met Capita adequacy the requirement of NRB during the study period, total loan is found decreasing trend during the study period, the quality of assets is strong over the study period, the bank has decreasing income with respect to expenses, the has sound management, the bank has maintained reasonable liquid position on its loans and advances but not adequate liquidity in the vault.

Mr. Marasini (2008) conducted the research on “Financial Performance Analysis of Rastrya Baniijaya Bank in the frame work of CAMEL”’ the duration of the study period was FY 2001/02 to 2006/7 the main object are to examine capital adequacy of bank, the level trend of assets composition, risk weighted asset and quality of loan provision mix, the condition of bank’s

expenses with respect to their earnings, trend of earning and to assess sensitivity of banks earning to interest rate risks.

It is found that there are no more studies performed in this topic. However, there are some dissertation which are related to this conducted for the partial fulfillment of Master's Degree in Tribhuvan University. It is a new field of the study so it will contribute some new knowledge in the research field.

CHAPTER III

RESEARCH METHODOLOGY

This chapter provides the overall framework or plan for the collection, analysis and presentation of data required to fulfill the objectives of the study. Different tools and techniques used for the analysis and presentation as to answer the research questions are explained under this section. It includes the type of information to be collected and sources of the information for the study purpose. "Research methodology refers to the various sequential steps (along with a rationale on each such step) to be adopted by a researcher in studying a problem with certain object in view" (Kothari, 1989). To meet the objectives, the methodologies applied in the study are described below:

3.1 Research Design

Research design is the task of defining the research problem. A research design is the arrangement of conditions, for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Kothari, 1989). This research study aims at portraying accurately on the financial performance of Everest Bank Limited and Kumari Bank Limited based on the CAMEL perspective prescribed by UFIRS/UBPRS in line with the BASEL II accord. Hence, the research is conducted on a historical and analytical case study basis. Therefore descriptive and analytical research methodology has been followed, to achieve the desired objectives of the study.

3.2 Population and Sampling of Data

The total number of commercial banks represent as the total population for the purpose of this study. Hence, the population consists of 30 commercial banks. Among them only two commercial banks are taken as sample banks for the study on the judgmental basis of the researcher. Both of these are joint venture banks. Everest Bank limited is selected as it being Indo-Nepal joint venture bank where as Kumari Bank Limited is selected as it being Nepalese venture bank. So, Non random sampling method has been used.

3.3 Source of Data

This research study is based on secondary data. The required data for the study has been collected in the following ways:

- Five years (2061/062 to 2065/066) annual reports, newsletter, brochure ect. of the of Everest bank Limited and Kumari bank Limited
- Laws, guideline and directive of Nepal Rastrya bank.
- Articles published in newspapers, journals, magazines and other publications.
- Library research study.

- Unpublished thesis and dissertation.
- Text books.
- Various report published by NRB, NEPSE ect.
- Internet, home pages and related links visit.

3.4 Data Collection Procedure

As the study is based mainly on the secondary data, required facts and figures have been obtained from the annual reports collected from the corporate office of the bank. Supplementary data and information are collected from couple of institutions and regulating authorities like NRB, Security exchange board and annual report of both the banks. The data has been obtained from browsing the official web sites of EBL, KBL, NRB and other related sites.

3.5 Data Analysis Technique

The data collected from different sources are recorded systematically and identified. The available information is grouped as per the need of research work in order to meet research objective. The collected data are presented in appropriate form of table and chart. For the analysis purpose different kinds of appropriate financial tools have been applied. Further to represent the data in simple form diagrams and graphs have also been used.

3.6 Financial ratio analysis tools

The financial analysis tools are to judge the soundness of a banks, one can carry out detailed examination which includes - checking its available funds, assets quality analysis, management analysis, earning volume and liquidity analysis. And this can be acquired by using he generally accepted CAMEL theory. These ratios are categorized in accordance of the CAMEL components. Following categories of key ratio are used to analyze the relevant components in terms of CAMEL.

CAMEL Analysis

It is necessary for the commercial bank to evaluate performance of assets and liabilities using CAMEL component. CAMEL stands for:

C = Capital Adequacy

A = Assets Quality

M = Management Analysis

E = Earning

L = Liquidity

3.6.1 Capital Adequacy

A ratio that can indicate a bank's ability to maintain equity capital sufficient to pay depositors whenever they demand their money and still have enough funds to increase the bank's assets through additional lending. Banks list their capital adequacy ratios in their financial reports. It is stated in terms of equity capital as a percent of assets. Capital requirements imposed by regulators tend to be simple mechanical rules rather than applications of sophisticated risk models. Normally the capital structure consists of core capital and supplementary capital.

Core Capital:

It is permanent in nature and created for general purpose. It consists following items:

Paid up Capital

Share Premium

Non Redeemable preference shares

General Reserve

Cumulative Profit/Loss (up to previous fiscal years)

Capital year profit

Capital Redemption Reserve

Capital Adjustment Fund

Debenture Redemption

Supplementary Capital:

It is temporary capital fund created for specific purpose. It consists following items:

Loan loss provision

Assets revaluation reserve

Unsecured subordinated term debt

Exchange equalization reserve

Additional loan loss provision

Investment adjustment reserve

Provision for loan loss on investment/others

a) Capital Adequacy Ratio (CAR)

The capital adequacy ratio is also called capital to risk weighted Assets ratio (CAR). It is a ratio of bank's capital to its risk. National regulation track a bank's CAR to ensure that it can absorb a reasonable amount of loss and are complying with their statutory capital requirements. Nepal Rastra Bank (NRB) which recommends minimum CAR of 10% and 5.5% of Core Capital Ratio (CCR).

$$\text{Core Capital Ratio} = \frac{\text{Total Core Capital}}{\text{Risk Weighted Asset}} \times 100$$

(Minimum requirement as per NRB Directive is 10%)

Where,

Total Capital Fund = Core capital + Supplementary capital

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

b) Core Capital Ratio (CCR)

Core capital is the primary capital of the bank also known as Owners' fund being utilized more by the bank. It includes paid up capital, share premium, non redeemable preference shares, accumulated profit and loss amount, etc. This ratio should normally be more than 5.5% which indicates that owners' fund is being proper utilized by the bank. If it is less than 5.5%, it means that the bank has followed the wrong policy.

3.6.2 Asset Quality

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

a) Performing Loans

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

b) Non Performing Loans (NPL)

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

Sub Standard Loan

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

Doubtful Loan

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

Bad/ Loss Loan

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

Classification of loans Provision required

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

a) Non- Performing Loan Ratio

This ratio determines the proportion of non-performing loans in the total loan portfolio. Higher ratio implies the bad quality of asset of banks in the form of loan and advances. Hence, lower NPL to total credit ratio is preferred.

Where,

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

b) Loan Loss Coverage Ratio

This ratio determined the proportion of provision held to non-performing loan of the bank. This ratio measures up to what extend of risk inhered in NPL is covered by the total loan loss provision. Higher ratio signifies that the banks are safeguarded against future contingencies that may created due to non-performing loan or in other words banks have cushion of provision to cope the problem that strength of the bank. The ratio is calculated as follows:

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

Where,

$$\text{Total Loan Loss Provision (LLP)} = \text{Provision on (Pass Loan + Restructured Loan + Sub-Standard Loan + Doubtful Loan + Bad Loan)}$$

$$\text{Total Non-Performing loan (NPL)} = \text{Sub Standard Loan + Doubtful Loan + Bad Loan}$$

c) Loan Loss Provision Ratio

This ratio describes the quality of assets in the form of loans and advances that a bank is holding. Since there is risk inherent in loans and advances, NRB has directed commercial banks to classify its loans into different categories and accordingly to make provision for probable loss. Loan loss provision signifies the cushion against future contingency created by the default of the borrower in

payment of loans and ensures the continued solvency of the banks. Higher provision for loan loss reflects increasing non-performing loan, higher provision for loan loss reflects increasing non-performing loan in volume of total loans and advances. The low ratio signifies the good quality of assets in the volume of loans and advances. It indicates how efficiently it manages loan and advances and makes efforts to cope with probable loan loss. Higher ratio implies, higher portion of NPL in the total loan portfolio. This ratio is calculated as follows:

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

Where,

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

Total Loan and Advances = Total Performing Loan + Total Non Performing Loan

3.6.3 Management

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

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

Management analysis by using following formula;

$$\text{Management Efficiency Ratio} = \frac{\text{Net Profit After Tax}}{\text{Total no. of Staff}} \times 100\%$$

3.6.4 Earning

Earning means excess of revenue over cost, so excess revenue earned by any organization in the course of operation is known as profit. It is the ultimate result of any business. The aggregate performance of the bank reflects from its earnings. Earning is the ultimate result of any business. Generally, higher earnings reflect better financial position. Following ratios depicts the earning position of EBL and KBL.

a) Earning Per Share

Earnings per share serve as an indicator of bank profitability on per share basis. It shows the earning available to each shareholder out of the total earning. The ratio establishes the relationship between Net profit after tax and total number of shares.

$$\text{Earning per Share} = \frac{\text{Net Profit After Tax}}{\text{Total No.of Share}} \times 100$$

b) Return on Equity:

Equity capital of any banks is its owned capital. The prime objective of any banks is wealth maximization. In other words to earn high profit and maximizing return to its share holders. ROE is the measuring rod of the profitability of banks. It reflects to which extend the bank has been successful to mobilize its equity capital high ratio indicates higher success to mobilize its owners capital and vice versa. The ratio is calculated by dividing net profit by total shareholders fund (equity capital + reserve and funds). It is expressed as:

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

c) Return on Total Assets:

This ratio establishes the relationship between net profit and total assets. This ratio is also called 'profit to assets ratio. It is calculated dividing return on net profit/loss by total working fund and express as:

$$\text{Return on Asset} = \frac{\text{Net Profit After Tax}}{\text{Total Asset}} \times 100\%$$

3.6.5 Liquidity

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

a) Cash Reserve Ratio (CRR)

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

$$\text{Cash Reserve Ratio} = \frac{\text{Cash Balance in NRB}}{\text{Total Deposit}} \times 100$$

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

b) Cash and Bank Balance Ratio (CBR)

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

$$\text{Cash and Bank Balance Ratio} = \frac{\text{Total Cash \& Bank Balance}}{\text{Total Deposit}} \times 100$$

c) Investment in Government Security Ratio (IGSR)

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

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

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

In this chapter, effort has been made to present and analyze the collected data. Data collected from various sources are classified and tabulated as required of the study and in accordance to the nature of collected data. Data collected from various sources are changed in an understandable presentation using financial as well as statistical tools supported by diagrams and graphs as mentioned in the previous chapter in order to achieve the objective of the study. In data presentation and analysis, the study is focused on CAMEL components. This chapter is the heart of the study all the findings, conclusion and recommendations are going to be drive from the calculation and analysis done in the section.

4.1 Capital Adequacy

Capital adequacy determines how well banks can manage with shocks to their balance sheets. For the purpose of capital adequacy measurement, bank capital is divided into Tier I (core/primary) capital and Tier II (supplementary) capital. Risk based capital ratio, core capital adequacy ratio, supplementary capital ratio, past due loans/total loans, total loans to a single Borrower/ total loans, total loans to a single Borrower/ core capital & actual provisioning to required provisioning are the ratios used to analyze the capital adequacy ratio.(www.en.wikipedia.org)

4.1.1 Capital Adequacy Ratio

A ratio that can indicate a bank's ability to maintain equity capital sufficient to pay depositors whenever they demand their money and still have enough funds to increase the bank's assets through additional lending. Minimum capital adequacy ratios have been designed to ensure banks can absorb a reasonable level of losses before becoming insolvent. The higher the capital adequacy ratios a bank has, the greater the level of unexpected losses it can absorb before becoming insolvent. 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. Risk Weighted Assets, Core Capital and Supplementary Capital are major figures used to calculate Capital Adequacy Ratio.

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

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

A bank should maintain adequate capital ratio as set by NRB. NRB has fixed a minimum standard of capital adequacy ratio of 11 percent .It is measured as the ratio of total capital fund to

total risk weighted assets of the bank. More the capital adequacy ratio is more the risk weighted assets are backed up by the capital fund. The excess capital fund also indicates that the bank has capacity to book additional risk based assets. Capital Adequacy ratio is calculated as follows:

Table 4.1 shows the capital adequacy ratio of Kumari Bank limited and Everest bank limited. As per the NRB guidelines, capital adequacy ratio is sufficient during all the study period.

Table 4.1 Capital Adequacy Ratio

(in %)

Banks\FY	2062	2063	2064	2065	2066
Everest Bank Ltd.	13.53	12.34	11.19	11.43	11.20
Kumari Bank Ltd.	11.15	12.34	11.19	15.98	13.56
NRB Standard	10	10	10	10	10

Source: Appendix I

The above table no.4.1 shows the Capital Adequacy Ratio of EBL and KBL for five years study period. Capital Adequacy ratio of EBL has decreasing trend throughout the study period and KBL has fluctuating trend during the study period. EBL has CCR 13.53% in FY 2061/62 and KBL has 11.15%. In FY 2062/63 and FY 2063/64 both the banks have CCR 12.34% and 11.19% respectively. In FY 2064/65 EBL's CCR has increased to 11.43% and KBL's CCR has increased to 15.98%. In FY 2065/66 the ratio of EBL has further decreased to 11.20% and KBL's ratio has also decreased to 13.56%. As compared to the NRB standard, the capital adequacy ratio of both the banks were excess in all study period and also meeting the ratio as per BASELII Capital Adequacy Ratio 11%. Thus we can say that the capital adequacy ratio of both the banks have sufficient CAR to meet the standard as per the NRB guidelines and BASELII.

Figure 4.1 Capital Adequacy Ratio

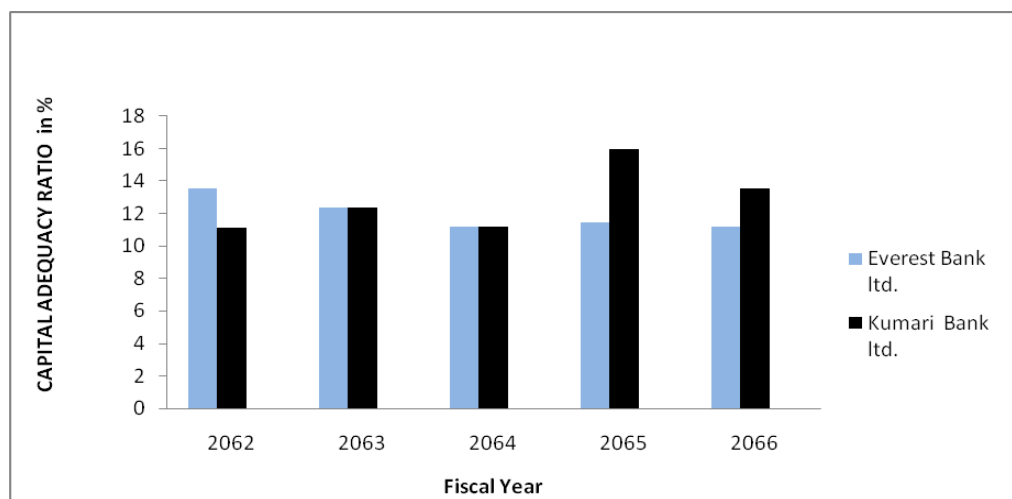
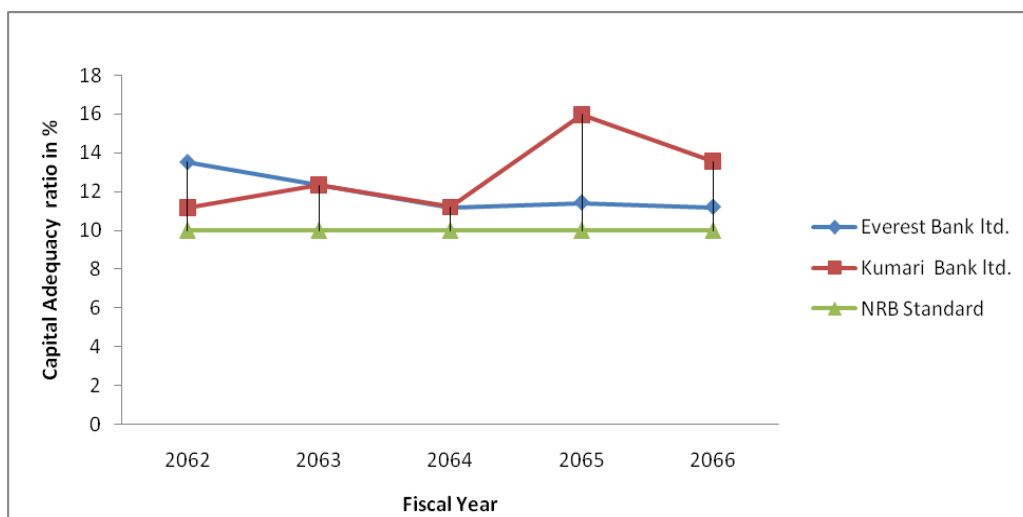


Figure 4.1 is the bar diagram presenting the above tabulated numerical data of Capital Adequacy Ratio between two banks.

Furthermore figure 4.2 helps to find out the trend of two banks Capital Adequacy Ratio cover the last five years period.

Fig.4.2 Comparing Capital Adequacy Ratio with NRB Standard



As shown in fig. 4.2, is a trend line of capital adequacy ratio during five years study period. The risk based capital adequacy ratio of EBL and KBL are above NRB standard in all the year. The graph further shows that both the banks have met NRB standard in all the years. It implies that both the banks have maintained an adequate risk based capital adequacy ratio in each year of the study period. Hence, EBL and KBL have strictly followed the NRB directives and its capital adequacy requirements. Both banks are in the position to absorb the risk of risky asset and to protect financial instability and inconstancy. Here, KBL has higher CAR than EBL, hence we KBL has sound capital adequacy than EBL during the study period.

4.1.2 Core Capital Ratio (CCR):

Core capital is the primary capital of the bank also known as Owners' fund being utilized more by the bank. It includes paid up capital, share premium, non redeemable preference shares,

accumulated profit and loss amount, etc. This ratio should normally be more than 5.5% which indicates that owners' fund is being proper utilized by the bank. If it is less than 5.5%, it means that the bank has followed the wrong policy. Core capital adequacy ratio is calculated as a percentage of total core capital fund to risk weighted assets of the bank. NRB has set the minimum standard of 5.50% to be maintained.

Table 4.2 Core Capital Ratio

(in %)

Banks/FY	2062	2063	2064	2065	2066
Everest Bank Ltd.	8.85	8.27	7.82	9.03	8.21
Kumari Bank Ltd.	10.14	11.26	10.24	11.68	10.66
NRB Standard	5.5	5.5	5.5	5.5	5.5

Source "Appendix II"

As shown in the table 4.2, the Core Capital Ratio of EBL and KBL form FY 2061/62 to FY2065/66. The Core Capital Ratio of KBL has 10.14% and EBL has 8.85% is in FY2061/62. EBL's CCR has decreased to 8.27% and KBL's CCR has increased 11.26% in FY 2062/63. In 2063/64 Core Capital Ratio of both the banks have decreased, EBL has reached to 7.82% and KBL has reached to 10.24%. In FY 2064/65 the ratio of EBL has increased from 7.82% to 9.03%. Similarly the ratio of KBL has increased from 10.24 % to 11.68%. Finally, in FY 2065/66 the ratio of EBL has decreased to 8.21% and KBL has decreased 10.66%. CAR of both the banks are in fluctuating trend in decreasing order during the study period. CAR indicates the ratio of owners fund utilized by the bank. Higher the ratio safety for depositor side and bank has low risk. Lower CAR ratio means the bank has invested in risky assets and bank risk is high. Here, KBL has higher ratio than EBL, it indicates that KBL has utilized more owners fund than EBL.

Figure 4.3 Core Capital Ratio

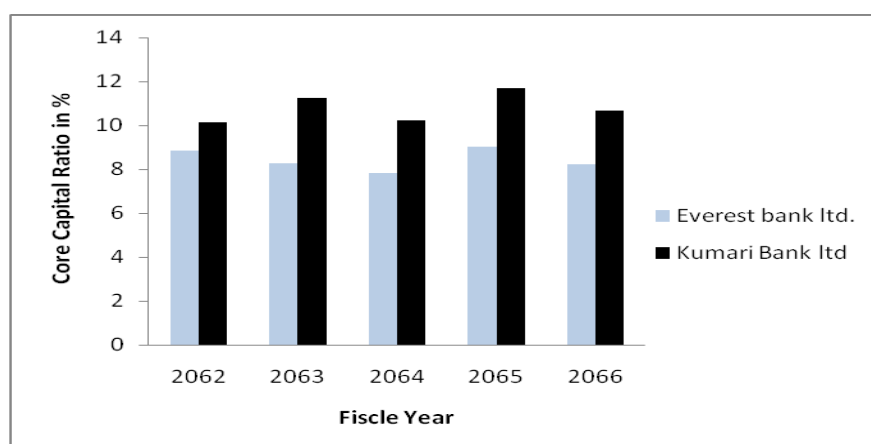
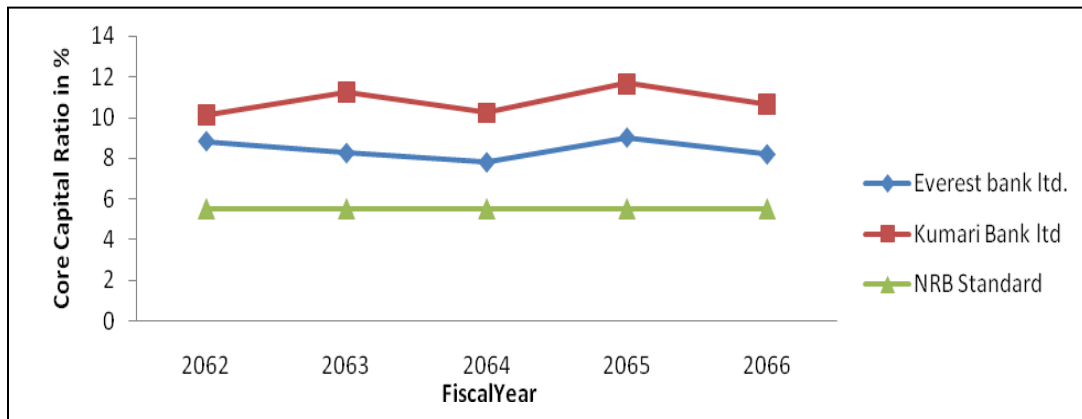


Figure 4.3 is the bar diagram presenting the above tabulated numerical data of Core Capital Ratio between two banks.

Furthermore figure 4.4 helps to find out the trend of two banks Core Capital Ratio cover the last five years period.

Figure 4.4 Comparing Core Capital Ratio of Everest bank Limited and Kumari Bank Limited with NRB



As per Fig. 4.4, the above graph shows core capital ratio of EBL and KBL from FY 2061/62 to 2065/66. CCR of both the banks are more than of the NRB requirement during the study period. First line indicates KBL's CCR which lies between 10.14% to 11.68% in fluctuating trend during the study period. Second line indicates EBL's CCR lies between 7.82% to 9.3% in increasing and decreasing order during the study period. The third line indicates the minimum CCR maintained to NRB. Thus, the risk adjusted core capital ratio of EBL and KBL have adequate as prescribed by NRB. Here KBL has higher ratio as compared with EBL it indicates that KBL has utilized more owners fund than EBL.

Through the study of Capital Adequacy ratio and Core Capital Ratio, KBL has higher ratio as compared with EBL during the study period. Hence KBL has sound capital adequacy than EBL.

4.2 Assets Quality

Assets quality ratio is also known as activity ratio as well as turnover ratio be converted in to cash and equivalent to cash. It determines the strength of any bank. Loan and advances occupies the major portion of bank's earning. Since loan is risky asset so project appraisal is most to determine the financial strength of any bank. Commercial bank holds their assets in the form of liquid assets like cash and bank balance and short term investment etc. This is only profit if the bank is efficient enough to earn profit. It is the process of measuring and assessing the quality of assets of the commercial banks based on indicators like composition of assets, nonperforming loan to total loan ratio, net non-performing loan to total loan ratio it is usually done by NRB. For identifying the assets quality we need to calculate three ratios. They are as follows

4.2.1 Non-Performing loan

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

Table 4.3 Non Performing Loan Ratio

(in %)

Banks/ FY	2062	2063	2064	2065	2066
Everest Bank ltd.	1.63	1.28	0.8	0.68	0.48
Kumari Bank ltd.	0.97	0.93	0.74	1.35	0.44

Source: Appendix III

The above table 4.3 shows the ratio of total non-performing loan to total loan and advances of EBL and KBL from FY 2061/62 to FY 2065/66. In FY2061/62 EBL has 1.63% NPL where as KBL has 0.97%. NPL of EBL has decreased in FY 2062/63 reached to 1.28 % and KBL's NPL ratio has decreased and reached 0.93%. In FY 2063/64 EBL has NPL ratio 0.8% and KBL has 0.74%. The ratio of EBL has continuously decreasing in FY 2064/65 and reached to 0.68% and further in FY 2065/66 the ratio has decreased to 0.48%, where as the ratio of KBL rapidly goes up to 1.35% in FY2064/65 and decrease to 0.44% in FY 2065/66. In the study period the research found EBL has decreasing trend of NPL and KBL has fluctuating trend in decreasing order. It indicates that both the banks are able to recover their loan.

Figure: 4.5 Non-Performing Loan Ratio

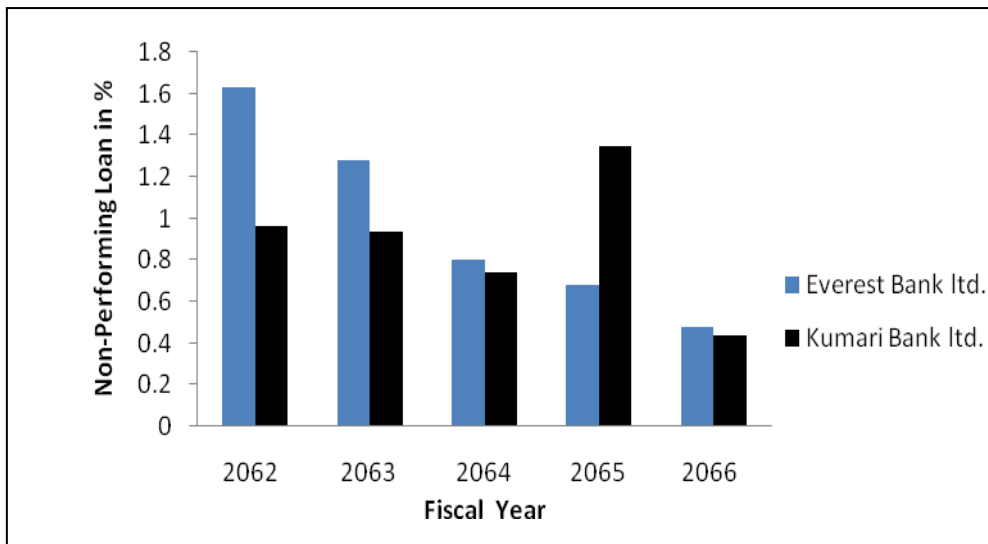


Figure 4.5 is a bar diagram which represents the above tabulated numerical data which helps to compare the Non Performing Loan Ratio between two banks.

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

Figure 4.6 Comparison Non Performing loan Ratio of EBL and KBL

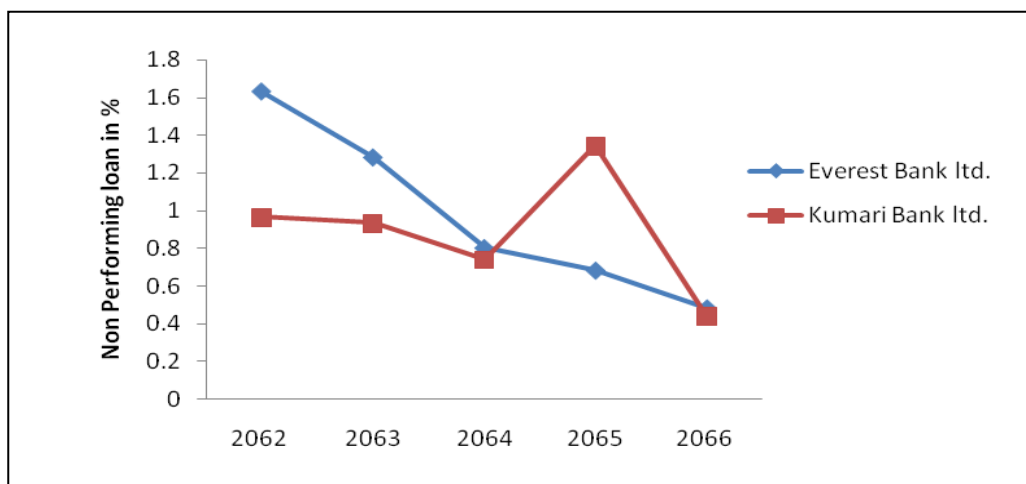


Figure 4.5 shows Non-Performing Loan trend analysis of two banks over the five years study period. As shown in the figure, Non-Performing Loan Ratio of EBL started by 1.63% in FY 2062/62 and thereafter continuously decreased till FY 2065/66 and reached to 0.48%. So, trend analysis shows that EBL has decreased its non performing loan continuously. It is a good indication for the bank.

Similarly, Non-Performing Loan Ratio of KBL started with 0.97% in FY 2061/62 and continuously decreased till FY 2063/64 upto 0.74% and in FY 2064/65 it increased rapidly 1.32% and decreased in same tendency in FY 2065/66 to 0.44%. The ratio is in fluctuating trend in decreasing order during the study period shows KBL has good asset quality.

Both the banks have decreasing trend of NPL ratio while comparing EBL and KBL, KBL has lower NPL ratio and which show that KBL has maintained its loan and advance most efficiently and effectively than EBL during the study period.

4.2.2 Loan Loss Coverage Ratio

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

Table 4.4 Loan Loss Coverage Ratio

(in %)

Banks/FY	2062	2063	2064	2065	2066
Everest Bank Ltd.	218.48	259.17	369.86	390.66	495.72
Kumari Bank Ltd.	178.51	180.15	201.79	122.83	312.84

Sources: Appendix IV

As shown in the table 4.4, the Loan Loss Coverage Ratio of EBL and KBL for five year study period. In FY 2061/62 EBL has LLCR 218.48% and KBL has 178.51% LLCR. In FY 2062/63 the LLCR of EBL has increased and reached to 259.17% and KBL's LLCR has also increased and reached to 180.15%. In FY 2063/64 the ratios of both the banks are continuously increasing EBL has reached to 369.86% and KBL has reached to 201.79%. In FY2064/65 the ratio of EBL further increased to 390.66% and KBL has decreased to 122.83% is the lowest level during the study period. In FY 2065/66 the ratios of both the banks have increased extremely, EBL has reached to 495.72% and KBL has reached to 312.84%. EBL' LLC ratio has increasing throughout the study period and KBL's LLCR has increased in first three years and decreased in FY2064/65 and then again increased in FY 2065/66 to the highest level. Overall KBL has also increasing trend of LLCR. Increasing trend of both the banks indicates that both the banks are able to cover their non-performing loans.

Figure 4.7 Loan loss Coverage Ratio

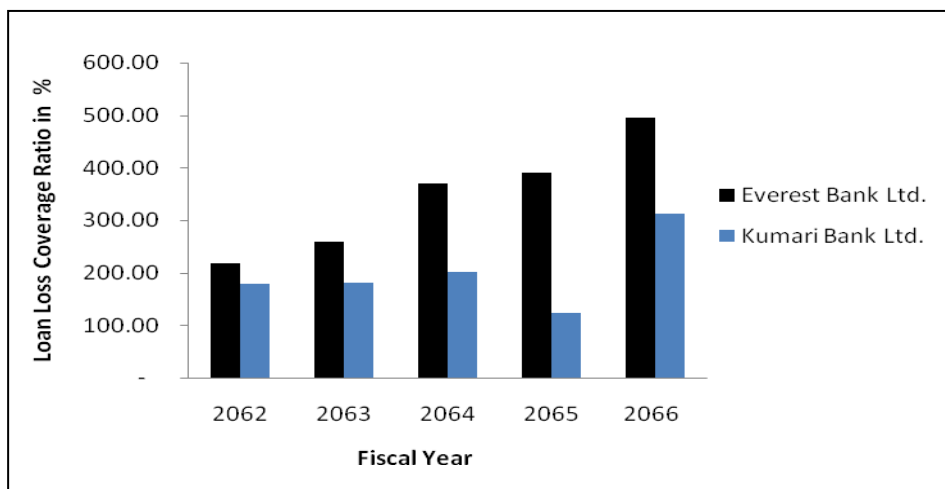


Figure 4.7 is a bar diagram which represents the above tabulated numerical data of Loan Loss Coverage Ratio between two bank.

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

Figure 4.8 Comparing Loan Loss Coverage Ratio of EBL and KBL

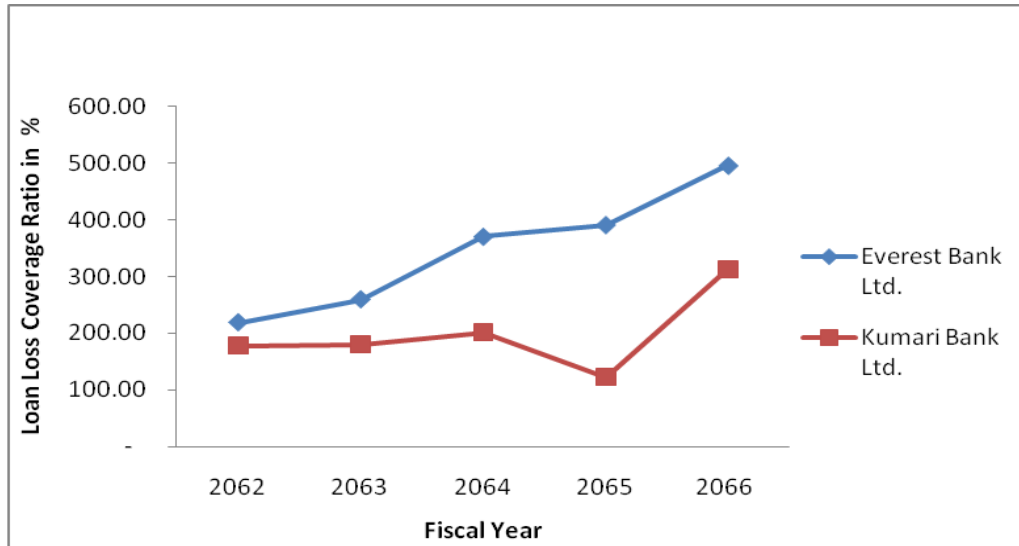


Figure 4.8 is the trend analysis of two banks over the five years study period. As shown in the figure Loan Loss Coverage Ratio of EBL started by 218.48% in FY 2061/62 and after that continuously increased to 495.72% till FY 2065/66. EBL has increasing trend of LLCR.

Similarly, Loan Loss Coverage Ratio of KBL started with 178.51% in FY 2061/62 and continuously increased up to 201.79% till FY 2063/64 after that the ratio has decreased to 121.83% in FY 2064/65 and then again the ratio has increased to 313.84% in FY 2065/66. Overall KBL has increasing trend of LLCR.

Hence higher the loan loss coverage ratio is better for the banks. So from above study EBL has higher LLC ratio as compared with KBL, EBL has better financial position as compared with KBL during the study period from the view point of loan loss coverage ratio.

4.2.3 Loan Loss Provision Ratio

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

Table 4.5 loan loss Provision ratio

(in %)

Banks/FY	2062	2063	2064	2065	2066
Everest Bank Ltd.	3.56	3.31	2.97	2.64	2.45
Kumari Bank Ltd.	1.73	1.68	1.49	1.65	1.38

Soruce : Appendix V

As shown in the table 4.5, the Loan Loss Provision Ratio of EBL and KBL from FY 2061/62 to FY 2065/66. Loan Loss Provision ratio of EBL has 3.56% in FY 2061/62 and KBL's LLP ratio has 1.73%. In FY 2062/63 EBL has 3.31% where as KBL has 1.68%. In FY 2063/64 EBL's LLP ratio has decreased and reached to 2.97% and KBL's LLP ratio has also decreased and reached to 1.49%. In FY 2064/65 the ratio of EBL has further decreased to 2.64% and KBL's LLP ratio has increased and reached to 1.65%. The LLP ratio of EBL has continuously decreased in FY 2065/66 and reached to 2.45% and KBL's LLP ratio has also decreased and reached to 1.38%. Throughout the study period LLPR is in decreasing trend in a creeping movement. Decreasing trends indicates both the banks have better position in asset management.

Figure 4.9 Loan Loss Provision Ratio

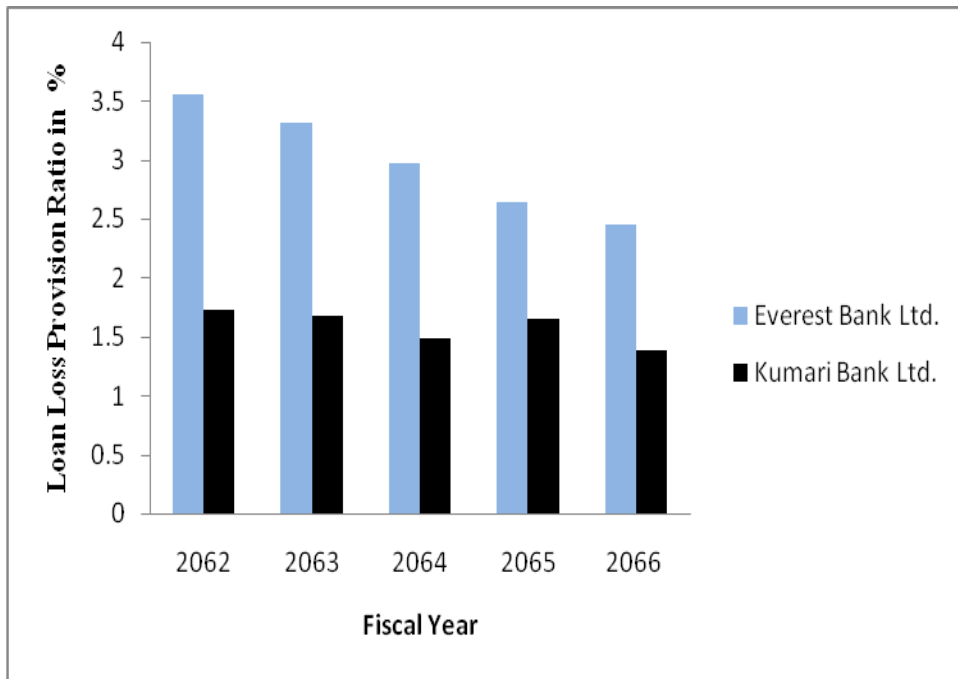


Figure 4.9 is a bar diagram which represents the above tabulated numerical data which helps to compare the Loan Loss Provision Ratio between two banks.

Furthermore figure 4.10 helps to find out the trend of two banks Loan Loss Provision Ratio over the last five years period.

Figure 4.10 Comparing Loan Loss Provision Ratio of EBL and KBL

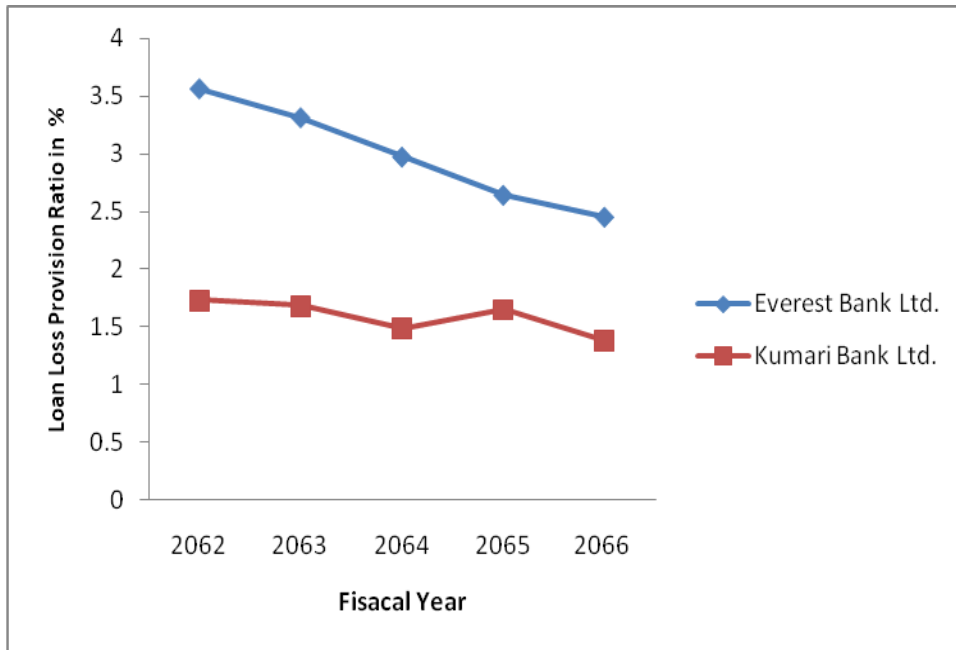


Figure 4.10 is the loan loss provision ratio trend analysis of two banks over the five years study period. As shown in the figure Loan Loss Provision Ratio of EBL started from 3.56% in FY 261/62 and thereafter continuously decreased trend till 2065/66 and reached to 2.45%. EBL has decreasing trend of loan loss provision ratio.

Similarly, Loan Loss Provision Ratio of KBL started with 1.736% in FY 2061/62. The ratio continuously decreased till FY 2063/64 to 1.49%. In FY 2064/65 the ratio has increased to 1.65% and again decreased to 1.38% in FY 2065/66. Overall the ratio seems to be decreasing through the study period.

While comparing EBL and KBL on the basis of LLP ratio EBL has better asset management quality than KBL during the study period.

Through the study of Non-performing loan, Loan Loss Coverage ratio and Loan Loss Provision ratio, the asset quality of KBL is good on the basis of NPL and on the basis of LLP and LLC ratio of EBL is better than KBL during the study period.

4.3 Management

Sound management is a key to financial institutions' performance. Although several indicators can be used as proxies for the soundness of management, such evaluation is still

primarily a qualitative exercise, particularly when it comes to the evaluation of the management of operational risk, that is, the functioning of internal control systems. The productivity of employees is used as a measuring rod for evaluation. Likewise sustainability of earning shows the efficiency of management. Low or decreasing earnings per employee can reflect inefficiencies as a result of overstaffing, with similar repercussions in terms of profitability. Management efficiency ratio is calculated by net profit after tax to total number of staffs.

4.3.1 Management Efficiency ratio

Low or decreasing earnings per employee can reflect inefficiencies as a result of overstaffing, with similar repercussions in terms of profitability. Management efficiency ratio is calculated by net profit after tax to total number of staffs.

Table 4.6 Management Efficiency Ratio

(in Rs.)

Banks/FY	2062	2063	2064	2065	2066
Everest Bank ltd	654,532	775,461	754,222	1,004,941	1,202,887
Kumari Bank ltd.	588,823	585,688	803,127	683,321	1,005,548

Source : Appendix VI

As shown in the table 4.6, the Management Efficiency Ratio of EBL and KBL from FY 2061/62 to FY 2065/66. In FY 2061/62 MER of EBL has Rs.654,532.00 earning per employee and KBL has Rs.588,823.00 earning per employee lower than EBL. In FY 2062/63 EBL's MER has Rs.775461 and KBL' MER has Rs.585688.00 both bank's MER are in decreasing trend. In FY 2063/64 EBL's MER has decreased to Rs754,222.00 but KBL's has increased to Rs.803,127.00 higher than EBL. But in FY 2064/65 the banks has inverse ratio EBL's MER has increased to Rs.1,004,941.00 and KBL's MER has decreased to Rs.683321.00. Finally in FY2065/66 both the banks MER have increased EBL's ratio has reached to Rs.1,202,887.00 and KBL's ratio has reached to Rs 105,548.00.

Figure 4.11 Management Efficiency Ratio

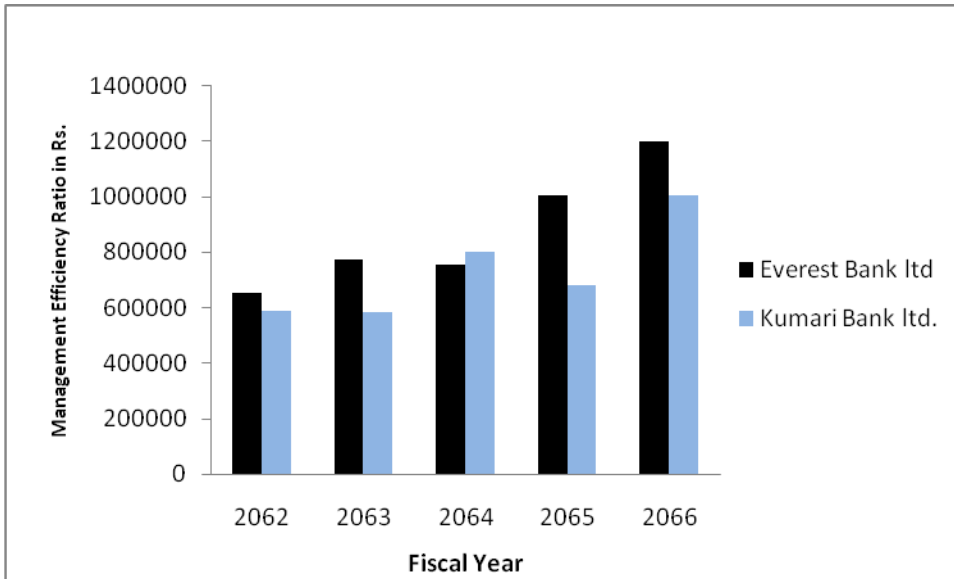


Figure 4.11 is a bar diagram which represents the above tabulated numerical data which helps to compare the Management Efficiency Ratio between two banks.

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

Figure 4.12 Comparing Management Efficiency Ratio of EBL with KBL

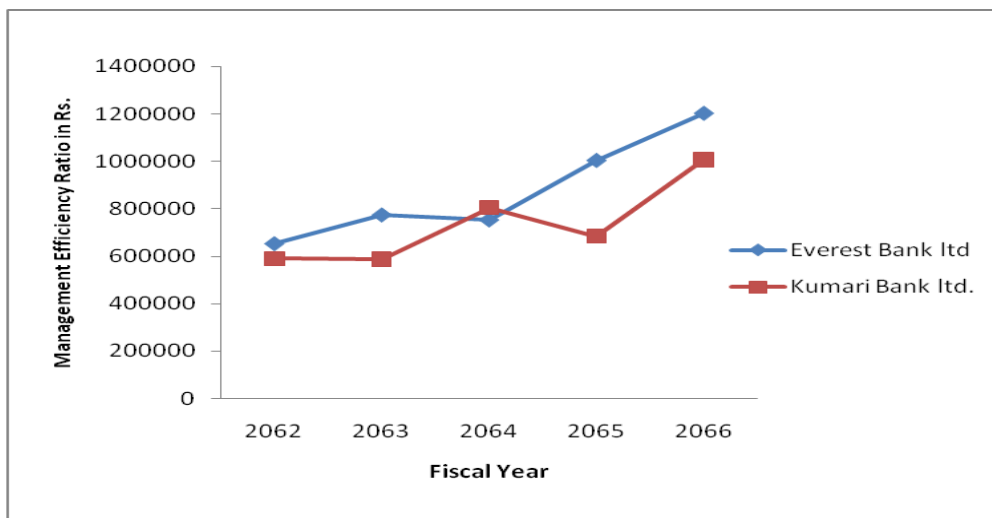


Figure 4.12 is management efficiency ratio the trend analysis of two banks over the five years study period. As shown in the figure Management Efficiency Ratio of EBL started by Rs.654532.00 in FY 2061/62, increased in FY 2062/63 and decreased in FY 2063/64, again increased till FY 2065/66 and reached to Rs.1202887.00. Overall, Management Efficiency Ratio of EBL increasing in fluctuating trend.

Similarly, Management Efficiency Ratio of KBL started with Rs.588,823.00 in FY 2061/62, then increases to Rs.863,127.00 till FY 2063/64 after that the ratio has decreased in FY 2064/65 to Rs 683,321.00 and again increased in FY 2065/66 to Rs.1005,548.00. Overall, Management Efficiency Ratio of KBL is also is in increasing trend.

Comparing both the banks on the basis of high earning per employee, it can be concluded that the employee of EBL is most productive than that of KBL, as a result EBL has highest earning per employee. Thus, it can be assumed that managing the human resources in EBL is superior to that in KBL.

4.4 Earning

Earning is a yardstick indicating the management, shareholders and depositors to evaluate the performance of the banks, sustainability of earnings and to forecast growth of the bank. The success of the bank heavily relays upon the efficiency of its management to drive the bank to earn good profits. Net profit is the major yardstick to measure such profits. A required level of profit is necessary for the firm's growth and survival in the competitive environment. Profitability is vitally more important for assuring that a bank stays in business or activity. Net profit of any bank decreases resulting from high non-performing loans, lack of avenues for earning fee based income and operating in-efficiencies. Earning Per share, Return on Equity and Return on Asset are used to assess the earning of the bank.

4.4.1 Earning Per Share

Earnings per share serve as an indicator of bank profitability on per share basis. It shows the earning available to each shareholder out of the total earning. The ratio establishes the relationship between Net profit after tax and total number of shares.

Table 4.7 Earning Per Share

(in Rs.)

Bank/FY	2062	2063	2064	2065	2066
Everest Bank Ltd.	53.4	62.78	78.42	91.82	99.99
Kumari Bank Ltd.	16.84	16.59	22.7	16.35	22.04

Source :Appendix VII

As shown in the table 4.7 the Earning per Share of EBL and KBL from fiscal year 2061/62 to fiscal year 2065/66. In FY 2061/62 EBL has earning per share Rs.53.40 and KBL has Rs.16.84. In FY 2062/63 EBL has EPS Rs.62.78 and KBL has 16.59. In FY 2063/64 EBL has EPS of Rs.78.42 and KBL has EPS Rs.22.70. In FY 2064/65 EBL has Rs.91.82 and KBL has 16.35 and at the end of study period that is FY 2065/66 EBL's EPS has reached to Rs.99.99 where as KBL's EPS has reached to Rs.22.04. Both the banks EPS have being increasing throughout the study period but there is vast difference between EBL and KBL's earning per share. All through the study period EBL has highest EPS than KBL.

Figure 4.13 Earnings per Share

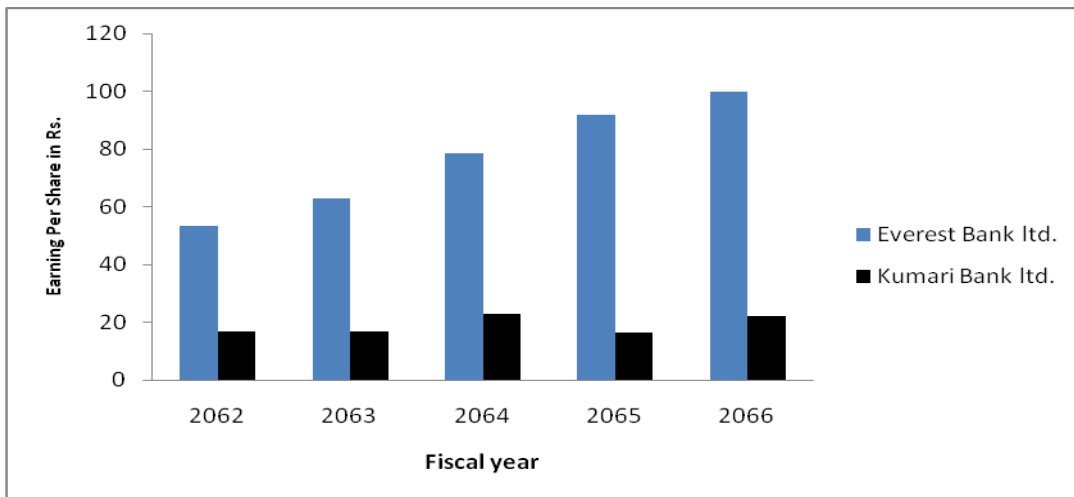


Figure 4.13 is a bar diagram which represents the above tabulated numerical data which helps to compare the Earning per Share between two banks.

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

Figure 4.14 Comparing Earning per Share of EBL and KBL

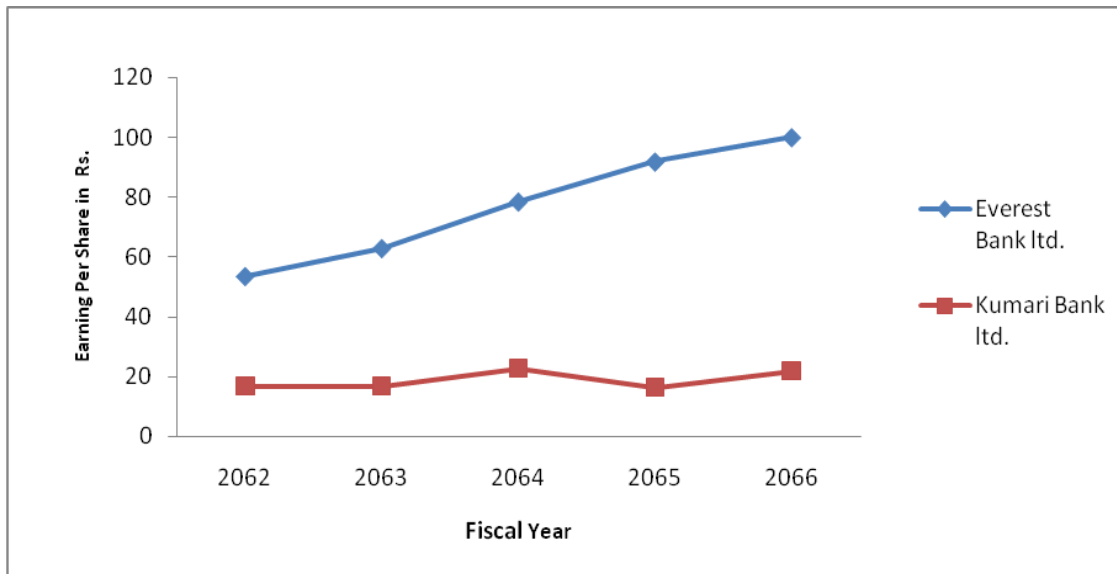


Figure 4.14 shows Earning per share trend analysis of two banks over the five years study period. As shown in the figure, Earning per Share of EBL started by Rs.53.40 in FY 2061/62, increased rapidly there after till FY 2065/66 and reached to the optimum level Rs.99.99 in FY 2065/66. Overall Earning per Share of EBL has increasing trend.

Similarly, Earning per Share of KBL started with Rs.16.84 in FY 2061/62, then increased till FY 2063/64, the ratio has decreased in FY 2064/65 and again it has increased till FY 2065/66. The range of EPS lies from Rs.16.59 to Rs.22.40. Overall Earning per Share of KBL has increasing trend.

Hence the study shows that EBL had performed better than KBL with more EPS.

4.4.2 Return on Equity

One of the most important profitability metrics is return on equity (or ROE for short). Return on equity reveals how much profit a company earned in comparison to the total amount

of shareholder equity found on the balance sheet. Shareholder equity is a creation of accounting that represents the assets created by the retained earnings of the business and the paid-in capital of the owners. A business that has a high return on equity is more likely to be one that is capable of generating cash internally. For the most part, the higher a company's return on equity compared to its industry, the better. It is the ratio of net profit after tax to Share holders Equity. ([www.beginnersinvest](http://www.beginnersinvest.about.com). about.com)

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

Table 4.8 Return on Equity

(in %)

Return on Equity	2062	2063	2064	2065	2066
Everest Bank Ltd.	20.21	24.65	24.67	23.49	28.99
Kumari Bank Ltd.	13.12	12.01	16.61	12.82	16.09

Source: Appendix VIII

The table 4.8 shows that the achievement of each bank as return on the amount invested by shareholders from fiscal year 2061/62 to 2065/66. ROE of both the banks have fluctuating trend in increasing orders. In fiscal year 2061/62 EBL has 20.21% ROE and KBL has 13.12% .In FY 2062/63 the ratio of EBL has increased by 4.53% and reached to 24.65% where as KBL's ROE has decreased by 1.11% and reached to 12.01%. In FY 2063/64 EBL's ROE slightly increased by 0 .02% and reached to 24.67% and KBL's ROE increased by 4.6% and reached to 16.61%. In FY 2064/65 ROE of EBL has declined by 4.6% reached to 23.49% and KBL's ratio has declined by 3.7% and reached to 12.82%. Finally in FY 2065/66 the ratio of both banks has increased, EBL's ratio has increased by 5.5% and reach to 28.99% and KBL has increased by 6.45% and reached to 16.09%. Overall both the banks have increasing trend of ROE in the five year study period. The improving ratios indicate that both the banks are providing encouraging return on the shareholder's fund.

Figure 4.15 Return on Equity

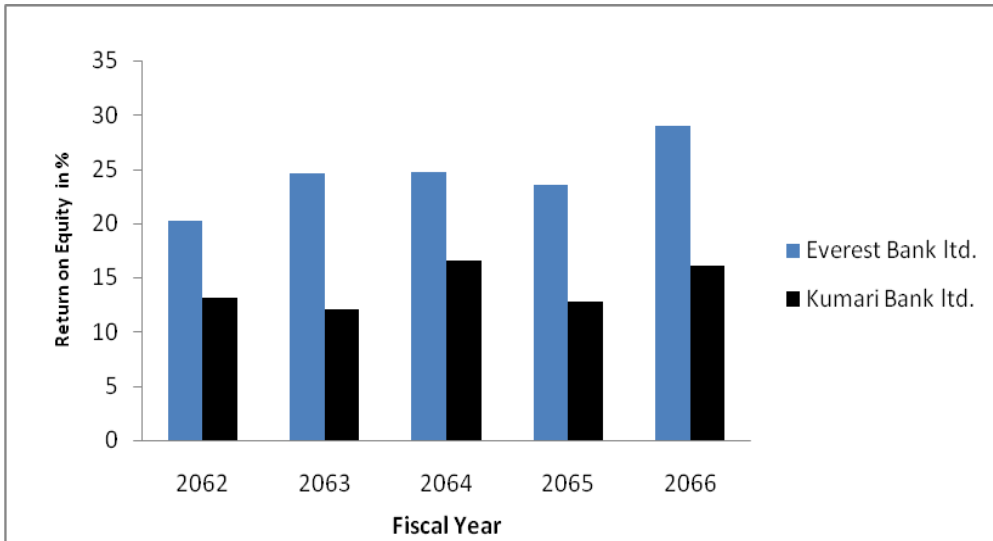


Figure 4.15 is a bar diagram which represents the above tabulated numerical data which helps to compare the Return on Equity between two banks.

Furthermore figure 4.17 helps to find out the trend of two banks Return on Equity over the last five years period.

Figure 4.16 Comparing Return on Equity of EBL and KBL

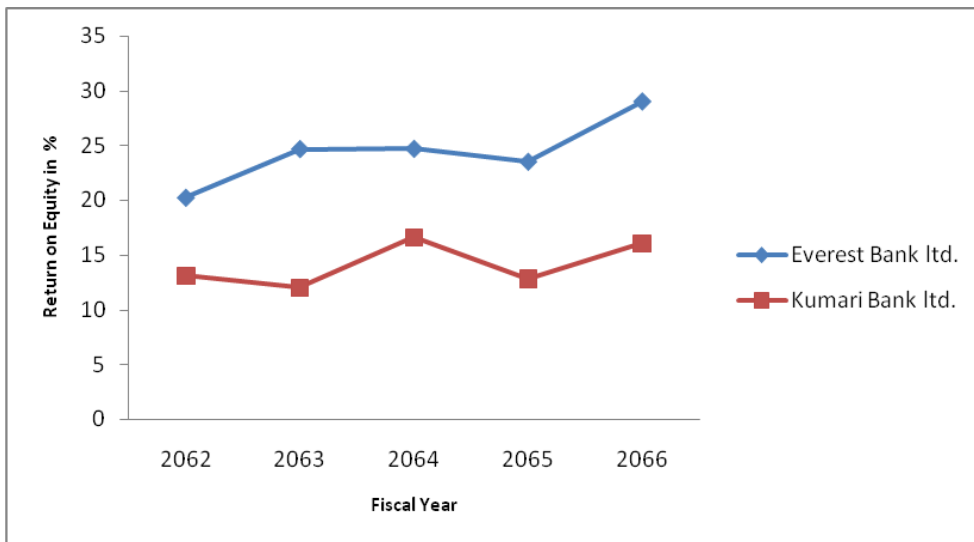


Figure 4.16 is the trend analysis of two banks over the five years stud period. As shown in the figure Return on Equity of EBL starts from 20.21% in FY 2061/62 EBL and increased to

24.67% till FY 2063/64 and the ratio has declined to 23.49% in FY 2064/65 and again it has increased to 28.99% FY 2065/66. Overall, Return on Equity of EBL has increasing trend.

Similarly, Return on Equity of KBL started from 13.12% in FY 2061/62 and declined in FY 2062/63 by 12.01% and the ratio has increased in FY 2063/64 by 16.61% and again it has decreased in FY 2064/65 to 12.82%. Finally in FY 2065/66 the ratio has increased to 16.09%. Overall, KBL has fluctuating trend in increasing order during the five year study period.

The improving ratio indicates that the bank is providing encouraging return on the shareholder's fund. Hence in comparison to EBL and KBL, EBL has earned a satisfactory return from its equity share holders.

4.4.3 Return on Assets

Return on assets explains the contribution of assets to generating net profit. Major assets of banks are loan and advances, ROA reveals how efficiently the total recourses have been utilized and measured the return on assets productive sectors that can generate profit for the banks. Higher ROA shows the better utilization and management on the assets and extend profit level. This ratio depicts how efficiently a bank is utilizing and mobilizing its assets to generate profit. Return on total assets is calculated by dividing net profit after tax by total assets of the company. Higher return on total assets indicates the higher efficiency in the utilization of total assets and vice-versa.

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

Table 4.9 Return on Asset

(in %)

Banks/ FY	2062	2063	2064	2065	2066
Everest Bank ltd.	1.43	1.49	1.38	1.66	1.73
Kumari Bank ltd.	1.13	1.15	1.43	1.16	1.41

Source: Appendix IX

The table 4.9 depicts that efficiency of bank in mobilizing the assets to generate profit. The table illustrate the ROA of both the banks have irregular trend. Return on Assets of EBL

1.73% and KBL 1.41% are the highest during the study period. In FY 2061/62 the ratio of EBL has started by 1.43% and KBL by 1.13%. In FY 2062/63 ROA of EBL has increased by 0.06% reached to 1.49% in the same way KBL's ROA has also increased by 0.02% and reached to 1.15%. In FY2063/64 EBL' ROA decreased by 0.11% and reached to 1.38% while KBL's ROA further increased by 0.28% and has reached to 1.43%. But in FY 2064/65 there is inverse effect on two banks EBL's ROA increased by 0.28% and reached to 1.66% where as KBL's ROA has decreased by 0.27% and reached to 1.16%. Finally in FY 2065/66 EBL's ROA has increased by .07% and reached to 1.73% and KBL's ROA increased by 0.25% and reached to 1.41%. Overall both the banks have increasing trend of ROA.

Figure 4.17 Return on Asset

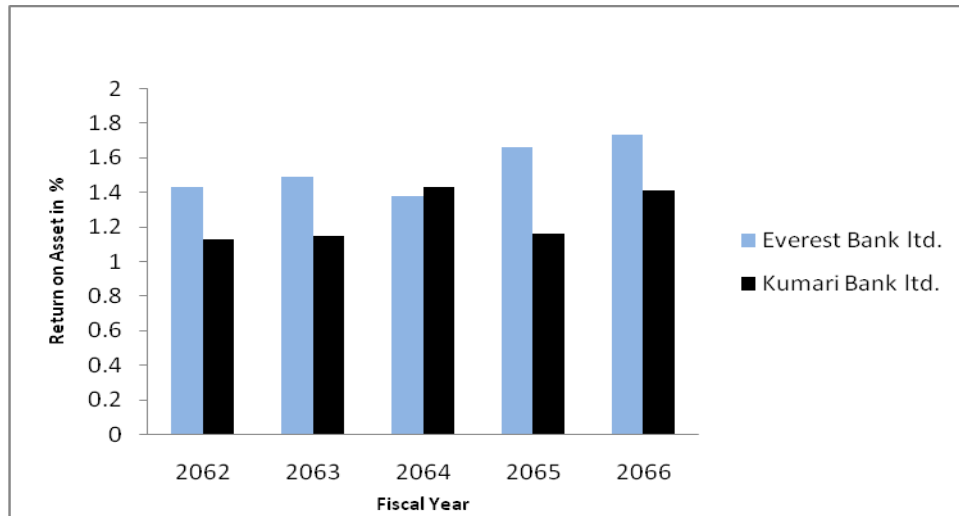


Figure 4.17 is a bar diagram which represents the above tabulated numerical data which helps to compare the Return on Assets between two banks.

Furthermore figure 4.18 helps to find out the trend of two banks Return on Assets over the last five years period.

Figure 4.18 Comparing Return on Asset of EBL and KBL

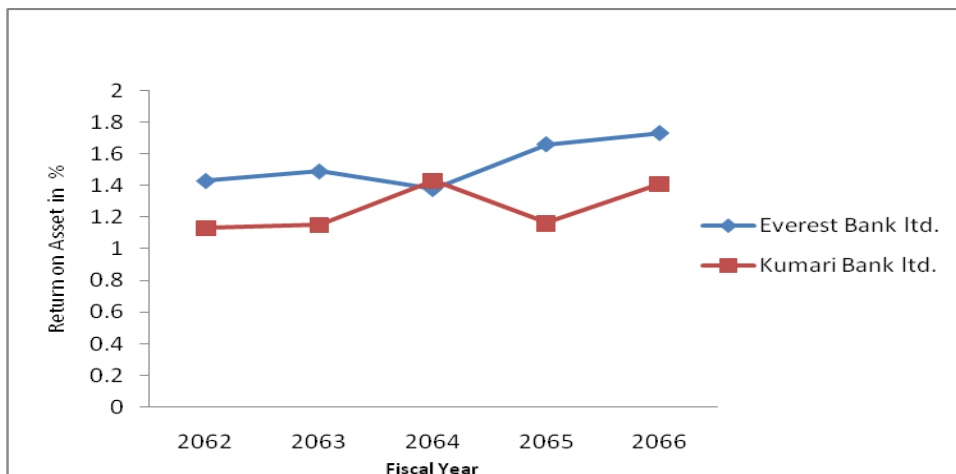


Figure 4.18 is the trend analysis of two banks over the five years study period. As shown in the figure Return on Assets of EBL started by 1.43% in FY 2061/62, the ratio has increased in FY 2062/63 and then decreased in FY 2063/64. ROA of EBL has increased thereafter till FY 2065/66 and reached to 2.25%. Overall, Return on Assets of EBL has increasing trend through the study period.

Similarly, Return on Assets of KBL started with 1.13% in FY 2061/62, then increased till FY 2063/64 and reached to 1.43% in the FY 2063/64. The ratio has declined in FY 2064/65 and reached to 1.16% and again the ROA of KBL has increased to 1.41% in FY 2065/66. Overall, Return on Assets of KBL also is in increasing trend through the study period.

Comparing both the banks on the basis of high return on assets, it can be concluded that EBL has most efficiently mobilized the total assets in generating income, while the performance of KBL in mobilizing total assets to generate profit is not so good.

On the basis of the study of Earning per share, Return on Equity and Return on Asset, earning performance of EBL is better than KBL during the study period.

4.5 Liquidity

Liquidity is the ability to meet obligations when they come due without incurring unacceptable losses. Managing liquidity is a daily process requiring [bankers](#) to monitor and project cash flows to ensure adequate liquidity is maintained.

It is the comparison between short-term obligations and short-term resources available to meet such obligations. Bank keeps liquidity for various purposes such as transaction purpose, speculative purpose, precautionary purpose, and statutory purpose. Liquidity measure the ability of a bank to meet the demand from demand deposits in a particular year. Liquidity position of bank is measured through three ratios they are Cash reserve ratio, Cash and bank balance ratio and investment in government security ratio.

4.5.1 Cash Reserve Ratio

Cash Reserve Ratio is a bank regulation that sets the minimum reserves each bank must hold to customer deposits and notes. These reserves are designed to satisfy withdrawal demands, and would normally be in the form of fiat currency stored in a bank vault (vault cash), or with a central bank. The reserve ratio is sometimes used as a tool in monetary policy, influencing the country's economy, borrowing, and interest rates. (www.stockthoughts.wordpress.com)

It is the comparison between short-term obligations and short-term resources available to meet such obligations. Commercial banks are directed by NRB to maintain 5.5% of their deposits as CRR in NRB's account to ensure adequate liquidity. As per NRB regulations banks has to maintain CRR on a weekly basis. Therefore, rather than disclosing the CRR of year-end, banks should report the exact CRR ratio maintained during the week, in which year-end falls. It should not be less as well as not more in order to run the organization successful. It is calculated by dividing NRB balance to total deposit.

Table 4.10 is the observed Cash Reserve Ratio of two banks during the study period in numerical terms which is presented below.

Table 4.10 Cash Reserve Ratio

(in %)

Banks/ FY	2062	2063	2064	2065	2066
Everest Bank ltd.	7.72	8.26	6.48	4.51	14.25
Kumari Bank ltd.	5.3	2.71	3.65	1.91	6.94

Source: Appendix X

Table 4.10 shows the liquidity position of the bank during the five year study period. The Cash Reserve Ratio of EBL started from 7.72% and KBL started from 5.30% in FY 2061/62 .In FY 206/63 the ratio of EBL has increased by 0.54% and reached to 8.26% but KBL CRR declined by 2.59% and reached to 2.71%. In FY 2062/64 CRR of EBL also decreased by 1.78% and reached to 6.48% and KBL'CRR increased by 0.94% and reached to 3.65%. In FY 2064/65 both the banks CRR decreased and reached to 4.51% of EBL and 1.91% of KBL. In FY 2065/66 the ratio of EBL increased adversely and reached to 14.25% and KBL's CRR reached has to

6.94%. Overall both the banks have decreasing trend of CRR. EBL has met the requirement set out for Cash Reserve ratio by NRB, and KBL has not met the standard till FY 2064/65 and in FY 2065/66 it has met the Cash Reserve Ratio 5.5%. The study shows that KBL has poor liquidity condition.

Figure 4.19 Cash Reserve Ratio

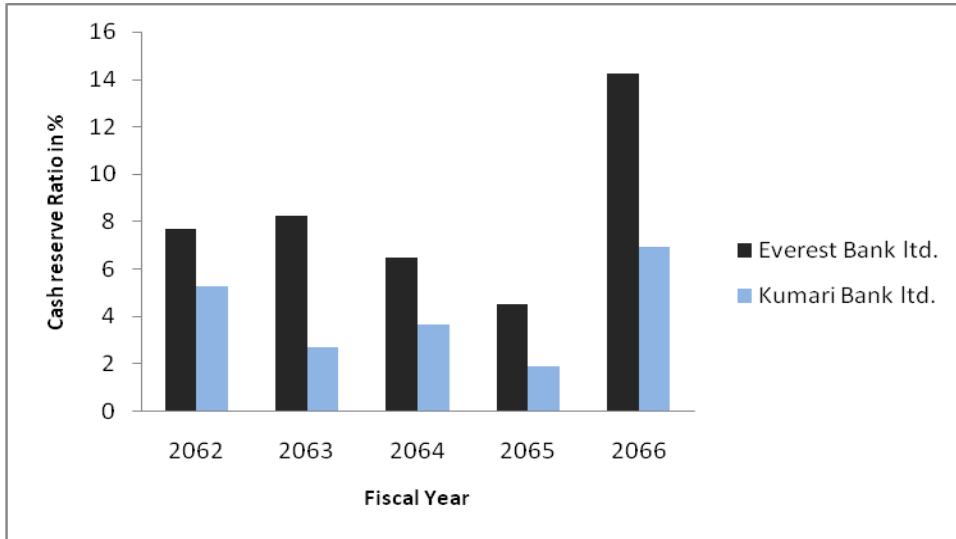


Figure 4.19 is a bar diagram which represents the above tabulated numerical data which helps to compare the Cash Reserve Ratio between two banks.

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

Figure 4.20 Comparing Cash Reserve Ratio EBL with KBL

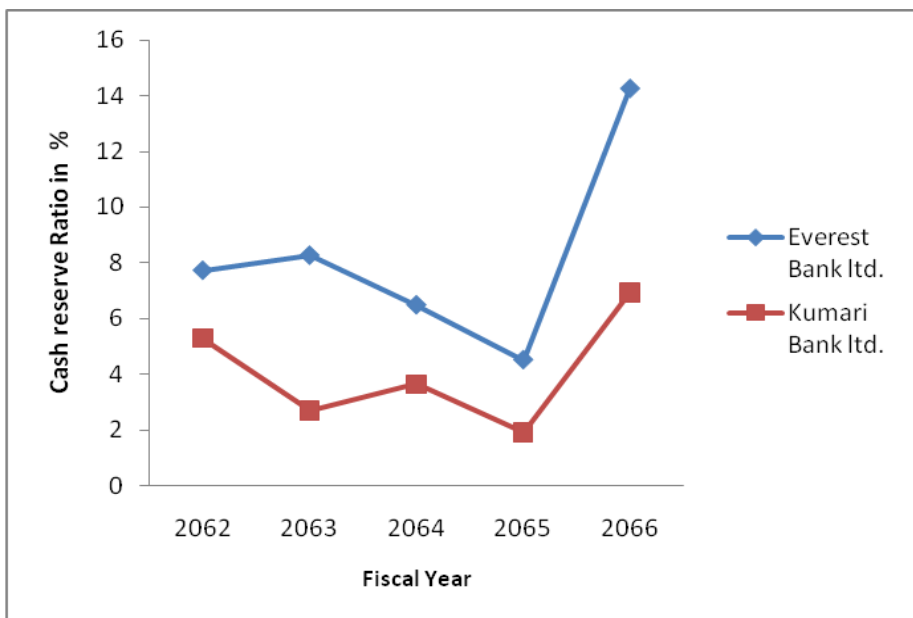


Figure 4.20 is the trend analysis of two banks over the five years study period. As shown in the figure Cash Reserve Ratio of EBL started by 7.72 % in FY 2061/62, and it decreased till FY 2064/65 to 4.51 and finally Cash Reserve Ratio increased in FY 2065/66 and reached to 14.25%. Aside from FY 2064/65 in the entire study period it is above 5.5%. Hence the bank has been found to have maintained the required CRR ratio.

Similarly, Cash Reserve Ratio of KBL starts by 5.3% in FY 2061/62 and it has decrease till FY 2064/65 to 1.91 and finally cash reserve ratio increased in FY 2065/66 and reached to 6.94%. In the entire study period it is below 5.5% aside from FY 2065/66 it is above 5.5%. Hence it has been found that the bank has not maintained the required CRR ratio.

Hence the comparative study of two banks have found that EBL has maintained CRR as sufficient to ensure the deposit security whereas KBL has not maintained CRR ratio as required. It means KBL has not sufficient liquidity to ensure the deposit security.

4.5.2 Cash and Bank Balance ratio

Cash and bank Balance ratio is calculated as Cash and bank balance to total deposit ratio is used to measure the bank’s ability to meet immediate obligation, mainly cash withdrawal by depositors. Lower ratio indicates that bank might face a liquidity crunch while paying its obligations, where as a very high ratio points out that the bank has been keeping idle funds and not deploying them properly.

This ratio is used to measure how much liquidity institution has set aside as cash and bank balance out of total deposit. Higher ratio shows high liquidity position of the bank and ability to cover the deposit. According to NRB, minimum ratio should be 10%

Table 4.11 Cash and Bank Balance Ratio

(in %)

Bank/ FY	2062	2063	2064	2065	2066

Everest Bank Ltd.	10.4	11.25	13.15	11.13	18.5
Kumari Bank Ltd.	8.51	5.02	6.37	7.31	11.31

Source : Appendiex XII

Table 4.11 shows the Cash and Bank Balance ratio for five year study period of two banks. It measures the capacity of bank to pay the immediate requirement. The table shows that the cash at vault to total deposit of each bank is in fluctuating trend. The cash at vault to total deposit ratio EBL as ranged from 10.41% to 18.50% and KBL range from 5.15% to 11.31%. In FY 2061/62 EBL has 10.4% Cash and Bank Balance Ratio and KBL has 8.5% .The ratio of EBL has increased in FY 2062/63 to 11.25% but KBL's ratio has reached to 5.02% to the lowest level. In FY 2063/64 CBBR of EBL has further increased by 1.9% and reached to 13.15% and KBL's ratio has also increased by 1.36% and reached to 6.37%. In FY 2064/65 the ratio of EBL declined by 2.02% and reached to 11.13% where as the ratio of KBL has increased by 0.94% and reached to 7.31%. Finally in FY 2065/66 the ratios of both the banks have increased to highest point. EBL's ratio has increased by 7.37% and reached to 18.5% and KBL's ratio has increased by 4% and reached to 11.31%. Overall both the banks have fluctuating trend in increasing order through the study period.

Figure 4.21 Cash and Bank Balance ratio

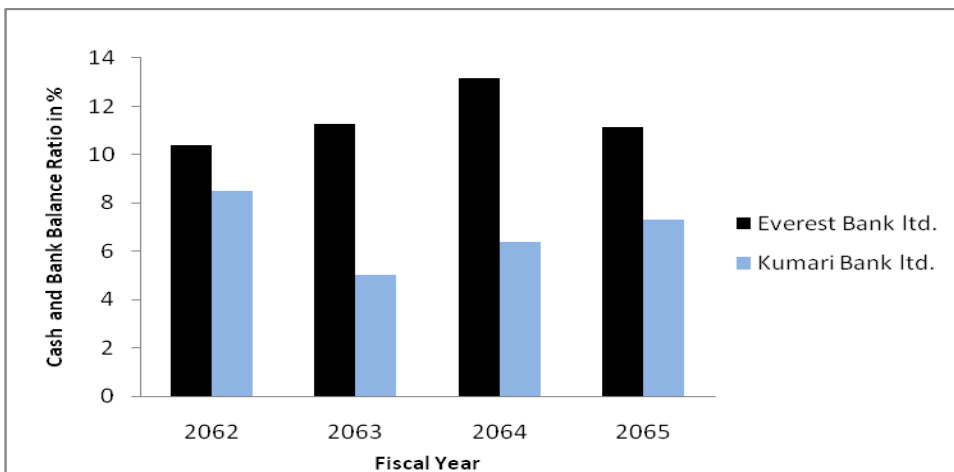


Figure 4.21 is a bar diagram which represents the above tabulated numerical data which helps to compare the Cash and Bank balance ratio between two banks.

Furthermore figure 4.22 helps to find out the trend of two banks Cash and Bank Balance Ratio over the last five years period.

Figure 4.22 Comparing Cash and Bank Balance Ratio of EBL with KBL

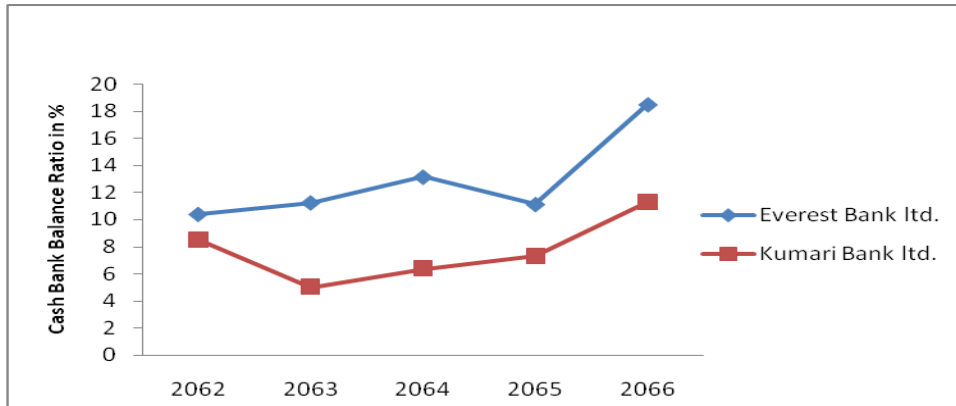


Figure 4.22 is the Cash and Bank Balance Ratio trend analysis of two banks over the five years study period. As shown in the figure CBBR of EBL started by 10.40% in FY 2061/62, there after it has increased till 2063/64 and decreased in FY 2064/65, again increased in FY 2065/66 and the ratio had reached to highest level 18.50% in FY 2065/66. Overall, Cash and Bank Balance Ratio of EBL has increasing trend and has maintained the minimum requirement as per NRB 10% over the study period.

Similarly KBL's Cash and Bank Balance Ratio starts from 8.5% in FY 2061/62 and decreased in FY 2062/63 and it has increased till FY 2065/66 and reached to 11.31%. The ratio shows the increasing trend but it lacks to maintain the Cash and Bank balance as prescribed by NRB till FY2064/65 and in final year KBL is able to the requirement

Higher ratio shows high liquidity position of the bank and ability to cover the deposit. Hence, while comparing to EBL and KBL, EBL has enough liquidity to cover the deposit.

4.5.3 Investment in Government Security Ratio

Government securities are risk free security which can be easily converted into cash at anytime to meet the short term obligation. Bank invests a significant portion of their deposit in government securities because in spite of adequate CRR and CRB balance cannot be considered sufficient for liquidity maintenance. Generally treasury bills and bonds are liquid in nature.

Table 4.12 is the observed Investment in Government Security Ratio of two banks during the study period in numerical terms which is presented below:

Table 4.12 Investment in Government Security Ratio

(in %)

Bank /FY	2062	2063	2064	2065	2066
Everest Bank Ltd.	20.8	25.71	25.87	20.11	15.44
Kumari Bank Ltd.	34.8	14.34	12.29	11.5	5.74

Source : Appendix XII

Tables 4.12 demonstrate investment in government security of two banks for the five year study period. The ratio lies between 15.44% to 20.87% of EBL and 5.74 to 34.8% of KBL during the study period. In FY 2061/62 the ratio of EBL has started from 20.8% and KBL has started from 34.8%. In FY2062/63 EBL's the ratio increased by 4.91% reached to 25.71% and KBL's ratio has decreased by 20.46% and reached to 14.34%. In FY 2063/64 EBL's ratio has again increased to 25.87% but KBL's ratio has decreased to 12.29%. In FY 2064/65 EBL's ratio has declined to 20.11% and KBL's ratio has further decreased to 11.5%. In FY 2065/66 both the banks IGSR have decreased to lowest level EBL has reached to 15.44% and KBL has reached to 5.74%. Both the banks have decreasing trend of Investment in Government Security Ratio.

Figure 4.23 Investment in Government Security Ratio

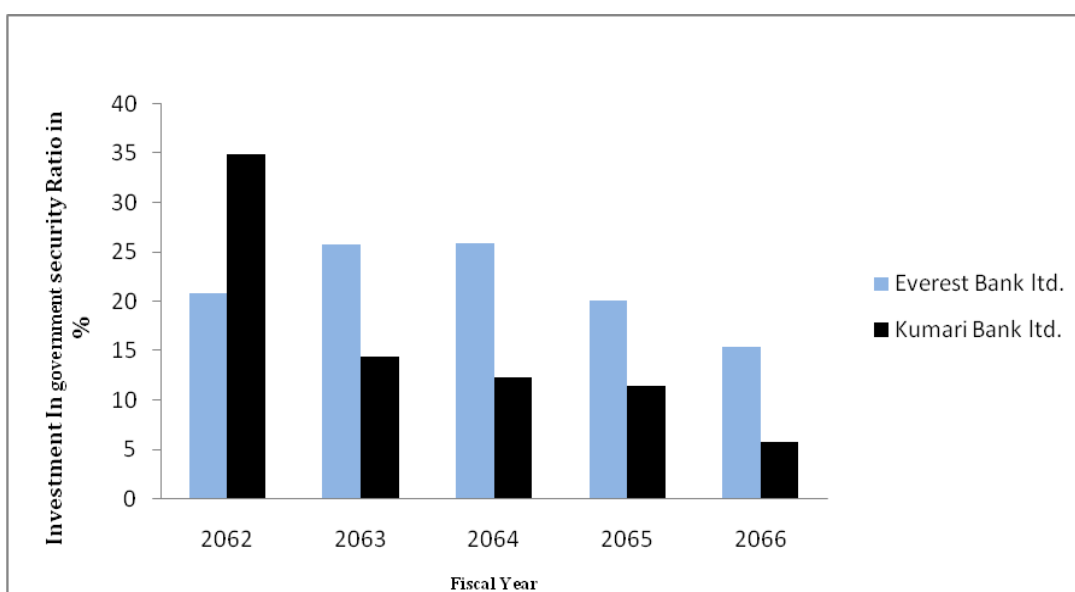


Figure 4.23 is a bar diagram which represents the above tabulated numerical data which helps to compare the Investment in Government Security Ratio between two banks.

Furthermore figure 4.24 helps to find out the trend of two banks Investment in Government Security Ratio over the last five years period.

Figure 4.24 Comparing Investment in Government Security Ratio of EBL with KBL

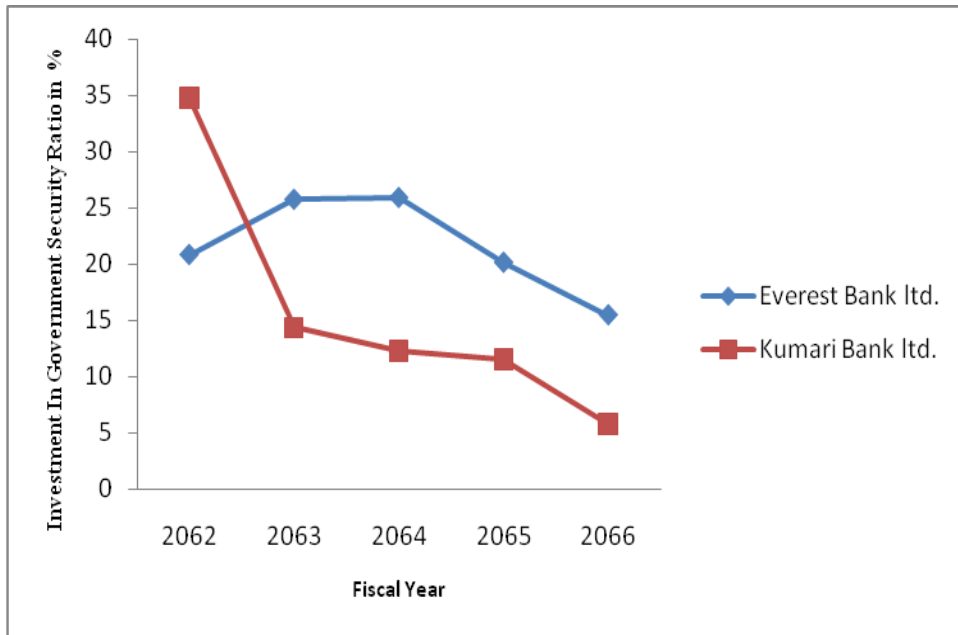


Figure 4.24 is the trend analysis of two banks over the five years study period. As shown in the figure Investment in Government Security Ratio of EBL started from 20.80% in FY 2061/62, the ratio has increased till FY 2063/64 and it has decreased to 20.11% in FY 2064/65. In FY 2065/66 it has decreased to lowest point 15.44%. Overall, Investment in Government Security Ratio of EBL has decreasing trend.

Similarly IGSR of KBL started from 34.8% in FY 2061/62. The ratio has decreased thereafter till F2065/66. In FY 2055/66 the ratio has decreased to lowest point 5.74%. IGSR of KBL has decreasing trend during the study period.

The study shows that both the banks investment in risk free asset have decreasing trend. It shows that the investment in risk free security that can be easily converted into cash has decreased throughout the study period. It indicates that both banks may face liquidity crisis in future.

Throught the study of Cash Reserve Ratio, Cash and Bank Balance Ratio and Investment in Government Security Ratio both the banks have declining trend in all ratios. While comparing EBL with KBL during the study period, EBL has stronger liquidity position then KBL.

4.6 Major Findings of the Study

The major findings of the comparative study on financial performance of Indo Nepal Joint venture Bank- Everest Bank limited and Nepalese venture Bank- Kumari Bank Limited in CAMEL Analysis are as follows:

- Total Capital Adequacy Ratios (CAR) of EBL lies between 13.57% to 11.20% during the study period in decreasing trend. The ratio of KBL lies between 11.15% to 15.98% in fluctuating trend in decreasing order during the study period. Both the banks were able to maintain CAR as per NRB standard during the study period i.e. 10% and they have also meet the BASEL II CAR requirement 11%.
- The Core Capital Ratio (CCR) of EBL has fluctuating trend. The ratio of EBL has ranged from 9.03% to 7.82% during the study period. The CCR of KBL has fluctuating trend. The ratio ranged from 10.14% to 11.68% during the study period. However, it was found that both the banks have maintained CCR more than CCR requirement as prescribed by NRB during the study period.
- Non Performing Loan Ratio of both the banks have decreasing trend during the study period. It means both the banks were able to collect the loans. The ratio of EBL ranged from 1.63% to 0.48% and the ratio of KBL ranged from 0.97% to 0.44% during the study period. The ratio of EBL has greater than KBL during the study period. It seems that EBL has high non performing loan as compare to KBL. It indicates that KBL has maintained its loan and advance most efficiently and effectively than EBL.
- Loan Loss Coverage Ratios (LLCR) of EBL has 218.48% in FY 2061/62 and it was increasing up to 495.72% in FY 2065/66. The ratio of KBL has started from 178.51% in FY 2061/62. It has increased upto 201.79% in FY 2063/64 and decreased in FY 2064/65 to 122% .The ratio has increased to 312.84% in FY 2065/66. EBL has highest loan loss coverage ratio which shows the better financial position. The loan loss provision has been maintained for KBL and has been increasing. It is a good indication too.
- The Loan Loss Provision Ratio (LLPR) of both the banks were in decreasing trend. LLPR of EBL has started from 3.56% which was highest ratio in FY 2061/62 and it has decreased to lowest ratio 2.45% in FY 2065/66. Loan Loss Provision Ratio of KBL has started from 1.78% which was the highest ratio in FY2061/62 and it has decreased till 2065/66 reached

to lowest 1.38% in FY 2065/66. KBL has the lowest loan loss provision ratio which indicates that the KBL has better quality loan. EBL has highest ratio which means EBL has not enough good loan compare to KBL on the basis of loan loss provision ratio during the study period.

- Management efficiency ratios (MER) of both the were fluctuating trend in increasing order. The ratio of EBL ranged from Rs.654,532 to Rs.1,202,887 during the study period. The ratio of Rs.1,202,887 was maximum in FY 2065/66 and ratio of Rs.654,532 was minimum in FY 206061/62. The ratio of KBL ranged from 585,688 to 1,005,548 during the study period. The ratio of Rs.1,005,548 was maximum in FY 2065/66 and the ratio of Rs.585,688 was lowest in FY2065/66. EBL has highest management efficiency ratio as compared with KBL during the study period. It indicates that EBL has earned reasonable profit to grow, support and efficiently mobilized its staff than KBL on the basis of earning per employee.
- When net profit of bank is high, the Earning per share (EPS) of the bank will also be high which shows the bank is in good condition. EBL has increasing trend. The ratio ranged from 53.4% to 99.99% during the study period. KBL's has fluctuating trend. The ratio ranged from 16.35% to 22.70% during the study period. EBL has highest EPS which shows that the bank is in best position as compared with KBL. This is a good indication to the shareholders. It shows that KBL's earning is not consistent. EBL has good position of asset on the basis of EPS.
- The Return on Equity (ROE) consists of ratio between net profit after tax to shareholders fund. The ratio of EBL has fluctuating trend. ROE of EBL has started from 20.21% in FY 2061/62 and increased till FY 2063/64 by 24.67%. It has decreased in 2064/65 and then increased in FY2065/66 to 28.99%. ROE of KBL has also fluctuating trend. KBL's ROE has started from 13.12% in FY 2061/62. It has decreased in FY 2062/63 and again increased in FY 2063/64 to 16.61%. In FY 2064/65 the ratio has decreased and in FY 2065/66 the ratio has increased to 16.09%. A return on equity calculates to see the profitability of the owner's investment. Higher ratio shows that profitability of owner's investment is increasing. While comparing these two banks, EBL had earned satisfactory return on equity than KBL during the study period.

- Return on assets (ROA) comprises net profit after tax and total assets. It shows the percentage of return that a firm gets from the total assets. It measures the productivity of asset employed by the bank to generate profit. The ROA ratio of EBL has started from 1.43% in FY 2061/62. It has increased in FY 2062/63 and decreased in FY 2062/63 to 1.38%. The ratio has increased thereafter till FY 2065/66 to 1.73%. Overall, EBL has increasing trend of ROA. The ratio of KBL has started from 1.13% in FY 2061/62. It has increased till FY 2063/64 to 1.43% and decreased in FY 2064/65 to 1.16% and again increased in FY 2065/66 to 1.41%. Overall, KBL has also increasing trend of ROA. Both the banks have increasing trend of ROA. Higher the ratio means better the utilization of asset and resources. EBL has higher ratio than KBL, it indicates that EBL has better utilized its asset and resources than KBL on the basis of ROA.
- The balance maintained with NRB is one of the key factors in CRR calculation. The regulatory requirement of CRR is at 5% of the total deposits whereas the bank has maintained at least 50% of the amount of CRR as NRB Balance. However, there is limitation in CRR ratio calculation as it is based on year end volume only rather than weekly average and hence cannot be justifiable when compared with NRB norms. As per the data, EBL has 7.72% in FY2061/62. It has increased in FY 2062/62 to 8.26% and it has decreased to 6.48% in FY 2063/63 and it has further decreased to 4.51% in FY 2064/65. The ratio of EBL has increased to 14.25% in FY 2065/66. The Bank has maintained CRR in excess of 5% during the study period except in FY 2064/65. CRR of KBL has started from 5.3% in FY 2061/62 and it decreased till FY 2064/65 and reached to 1.91% and in FY 2065/66 it has increased to 6.94%. KBL has decreasing trend. Hence the liquidity position of EBL is considered to be good enough but KBL has unsatisfactory liquidity position and did not maintained CRR requirement of 5% in FY 2062/63 to FY 2064/65.
- The Cash and Bank Balance ratio (CBBR) is the ability of the bank to meet immediate obligations mainly cash withdrawal by the depositor. Generally banks are found maintaining 10% CBBR. Cash and Bank Balance ratio of EBL has fluctuated over the period. In the first three year, the cash and bank balance ratio has increased and then decreased in FY 2063/64, after that increased in FY 2065/66 and reached to 18.50%. Over the study period EBL has excess 10% CBBR. KBL has also fluctuating trend of CBBR.

KBL has maintained CBBR 8.51% in FY 2061/62 and it has decreased in FY 2062/63 to 5.02% and then increased there after till 2065/66 to 11.31%. Throughout, the study period KBL's CBBR was lower than 10% except in FY 2065/66. Hence, EBL has good ability to meet the immediate obligation in the bank as compared to KBL during the study period.

- The Investment in Government Security Ratio (IGSR) is the ratio that the banks invest in risk free securities such as treasury bills and bonds to total deposit. IGSR of EBL has fluctuating trend during the study period. EBL has maximum IGSR of 25.87% in FY 2063/63 and minimum IGSR of 15.44% in FY 2065/66. The ratio of KBL has started from 20.80% in FY 2061/62 and increased till FY 2063/64 to 25.87% and the ratio has continuously decreased in FY 2064/65 and 2065/66 reached to 15.44%. KBL has maximum IGSR of 34.8% in FY 2061/62 and it has decreased entire the study period to 5.74% is the minimum level of IGSR in FY 2065/66. Both the banks have decreasing trend of IGSR. While comparing EBL and KBL, EBL has satisfactory liquidity position than KBL on the basis of IGSR during the study period.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Financial institutions play very important role in the process of economic growth of the developing country. Among the financial institutions, commercial banks are important enterprises that serve as primary means of intermediation for financial resources mobilization. Commercial banks are one of the vital aspects of this sector which deals in the process of channelizing the available resources in the needed sector. Major function of commercial banks are accepting deposit, loans and advance, cash credit, overdraft, credit creation, agency services etc. They come into existence mainly with objective of collecting the ideal funds, mobilizing them into the productive sector and causing overall economic development. The bankers have the responsibility of safe guarding the interest of the deposit, the shareholders and towards society

There is not long history of commercial bank in Nepal. Nepal bank Limited was established on 16th Kartik,1994 as a first commercial bank of Nepal. At the present 30 commercial banks have been extending their service in different part of the country.

The research study is focused on assessing the financial performance of Indo –Nepal joint venture bank and Nepalese bank with reference to Everest Bank Limited and Kumari Bank Limited, with the objective of capital adequacy level and trend of risk weighted assets, asset composition and quality of loan assets, management efficiency, level and trend of earnings and liquidity position. Various materials were reviewed in order to build up the conceptual foundation and reach to the clear destination of research. During the research the areas that formed part of the research review were; Functions of Commercial Bank, Concept of Bank, evolution of bank, Concept of CAMEL rating system and component evaluation system, Basel Capital Accord, NRB guidelines. Besides these, review of research papers, work papers, dissertations and related reports were conducted.

For this purpose, descriptive and analytical research design has adopted. Out of total population of 30 commercial banks, 2 banks were taken as a sample banks using judgmental and non-random sampling method has been used. Everest bank limited was selected from Indo-Nepal joint venture bank and Kumari Bank Limited was selected from Nepalese joint venture bank. Specially, secondary data have been used in the study. The bank's audited annual reports from the period 2061/62 to 2065/66 are the primary source of information and treated as authentic. Data has been collected through five years annual report of concern banks, books, journals, websites and other publications. The data collected from various sources are recorded systematically and presented in appropriate form of table and chart. Financial ratios of acronyms CAMEL and graphical tools has been applied to analyze the data.

The analysis has been made to analyze the bank's ratios with NRB standard, industrial average and analyze the trend of ratios. The capital adequacy ratios of both the banks are generally above than NRB standard during the study period which means both the banks were running with adequate capital. Core Capital ratio of both banks have found fluctuating trend throughout the study period. Both the banks were able to maintain more than 5.5% CCR above the NRB requirement during the study period.

The asset is mainly composed of Loans and advances. The non-performing loans ratio, loan loss coverage ratio and loan loss provision ratio were used to analyze the asset quality of EBL and KBL. Non-Performing loan (NPL) to total loans and advances of both the banks were decreasing over study period. It means both the banks were able to collect the non performing loans. While comparing EBL and KBL on the basis of non-performing loan, KBL has maintained its loan and advances most efficiently. Loan Loss Coverage Ratio (LLCR) of both the banks have increasing trend. Higher the ratio indicates better financial strength of the bank. EBL has higher LLCR than KBL, which shows the better financial position. KBL has also increasing LLCR it is a good indication too. Similarly, Loan Loss Provision Ratio (LLPR) of both the banks were decreasing trend. KBL has the lowest loan loss provision ratio which indicates KBL has better quality loan than EBL and vice versa

The management efficiency ratio (MER) indicates the better operation of the bank and better profitability. MER of both the banks are in fluctuating trend over the study period. EBL

has highest earning per employee than KBL. It indicates that EBL has efficiently mobilized its staff.

When net profit of bank is high, the Earning per share (EPS) of the bank will also be high which shows the bank is in good condition. EPS of EBL has increasing trend and KBL has fluctuating trend. Return on Equity (ROE) consist a ratio between net profit after tax to shareholders fund. It is calculated to see the profitability of the owner's investment. Both the banks have fluctuating trend. Similarly, Return on Asset (ROA) shows the percentage of return that a firm gets from the total assets. Both the banks have increasing trend. Increasing trend indicated better utilization of assets and resources.

Cash reserve ratio (CRR) of EBL has increasing trend with fluctuation. The ratio of EBL has above than NRB requirement during the study period where as KBL has decreasing trend of CRR. KBL did not maintained CRR requirement 5.5% in the first four years. However, there is limitation in CRR ratio calculation is based on year end volume only rather than weekly average and hence cannot be justifiable when compared with NRB norms. Cash and Bank Balance Ratio (CBBR) is the ability of the bank to meet the immediate obligations mainly cash withdrawal by the depositor. The ratio of both the banks have fluctuating trend. While comparing with EBL and KBL, EBL has higher ratio than KBL during the study period. Investment in Government Securities ratio (IGSR) is the ratio that bank invest in risk free securities such as treasury bills and bonds to total deposit. Both the banks have decreasing trend of IGSR. EBL has higher ratio than KBL which indicates EBL has stronger liquidity position as compared with KBL.

5.2 CONCLUSION

Based on the findings, of the comparative study on financial performance of Indo-Nepal Joint venture bank-Everest Bank Limited and Nepalese Joint venture bank- Kumari Bank Limited the following conclusion have been made :

- 5.2.1 Capital Adequacy Ratio (CAR) reveals that both the bank are running with the adequate capital and the capital fund of the both bank have sound and sufficient to meet the banking operation as per the NRB standard and BASEL II. CAR of both banks are above the NRB standard. Both banks are in the position to absorb the risk of risky asset and to protect financial instability and inconstancy. Here, KBL has

higher CAR than EBL, hence we can conclude that KBL has sound capital adequacy than EBL during the study period.

- 5.2.2 Core Capital Ratio (CCR) measured in terms of core capital to risk weighted asset is as per NRB standard. It means the bank is using adequate amount of the internal sources or core capital during the study period. In this point of view the bank is financially sound and strong. Higher the ratio safety for depositor side and bank has low risk and lower CAR ratio means the bank has invested in risky assets bank risk is high. Here KBL has higher CCR than EBL. It indicates that KBL has utilized more owners fund than EBL.
- 5.2.3 The decreasing trend of non-performing loans ratio helps to conclude that both the banks were aware of non- performing loans and adopting the appropriate policies to manage this problem and to increase the quality of assets. As compared to EBL with KBL, KBL has lower non-performing loan ratio. It indicates that KBL has maintained its loan and advance most efficiently and effectively than EBL.
- 5.2.4 The increasing trend of loan loss coverage ratio shows that the banks are taking appropriate recovery policy. Both the banks have increasing trend of LLC ratio throughout the study period. As compared with EBL and KBL, EBL has higher Loan loss coverage ratio which indicates EBL has better financial position than KBL.
- 5.2.5 The decreasing trend of loan loss provision ratio indicates that the quality of loans becoming upgrading year by year. It seems that amount of non- performing loans and possibility of default in future is decreasing. This study has found that Loan loss provision ratio of both the banks had been decreasing throughout the study period that is indication sign for both the banks. While comparing the LLP ratio of EBL and KBL, KBL has lower ratio than EBL during the study period. Hence KBL has high volume of good loan than EBL during the study period.
- 5.2.6 The management efficiency ratio depicts efficiencies and productivity as a result of well managed of human resources in terms of profitability. The research has found that earning per employee of both the banks have increasing trend. As compared EBL with KBL, EBL has higher MER than KBL during the study period. We can

conclude that EBL had earned reasonable profit to grow and support. It has highly mobilized productive and efficient staff as compared with KBL during the study period.

- 5.2.7 The increasing trend of EPS depicts that the return flowing to the banks owner is increasing. This tendency reflects the strength of the share in the market is also increasing. Both the banks have increasing trend of EPS during the study period. Hence the study shows that EBL has better position than KBL on the basis of EPS
- 5.2.8 The increasing trend of ROE shows that the rate of return flowing to the bank shareholders is upgrading year by years. The study found that both the banks have fluctuating trend of ROE in increasing order. Higher ratio indicates that the profitability of owners investment. In the study of two banks, EBL has higher ratio as compared to KBL. Hence EBL has earned satisfactory return on equity than KBL.
- 5.2.9 The increasing trend of ROA concludes that the net income for each unit of assets of the bank is increasing. This shows that the capability of the management to convert the assets employed by the bank to generate profit. Higher ratio indicates better utilization of resources. While comparing ROA of EBL and KBL, EBL has higher ratio than KBL during the study period. Hence EBL has better utilized its asset and resources than KBL during the study period.
- 5.2.10 The Cash Reserve Ratio reserves are designed to satisfy withdrawal demands, and would normally be in the form of liquid currency stored in a bank vault (vault cash), or with a central bank. NRB CRR requirement is 5.5% EBL has maintained the requirement as per NRB where as KBL lacks to maintain the CRR requirement. Hence in the basis of CRR, liquidity position of EBL is considered to be satisfactory than KBL during the study period.
- 5.2.11 The Cash and Bank Balance to total deposit ratio of both the banks are in fluctuating trend. The ratio of EBL has the highest CBBR than KBL during the study period. Hence, EBL has good ability to meet the immediate obligation in the bank as compared with KBL during the study period.

- 5.2.12 The Investment in Government Security Ratio of both banks are fluctuating trend in decreasing order. In this case also, EBL has highest ratio than KBL, EBL has presents itself as most secured from the liquidation risk as compared with KBL.

5.3 RECOMMENDATION

The following recommendations are made based on the basis of conclusions to overcome the weakness as regard to financial performance of Everest Bank Limited (EBL), and Kumari Bank Limited (KBL)

- 5.3.1 Capital Adequacy Ratio and Core Capital Ratio of both banks are maintained as per NRB standard over the study period but the ratios are in fluctuating trend. So recommendation is made to and maintain stable if possible increase core capital fund to increase Capital Adequacy Ratio and Core Capital Ratio.
- 5.3.2 The assets quality ratios of both the banks are in satisfactory level and being better each year. So, the recommendation is to maintain non performing loan ratio as lower as possible and try to give additional attention in recovering the sub standard, doubtful and loan loss in future and try to increase its performing loan ratio.
- 5.3.3 The management efficiency ratio of EBL is satisfactory as compare to KBL. So, the recommendation is that the KBL should increase Net Profit after Tax and should not appoint extra employee in organization.
- 5.3.4 The earning quality ratios of banks like EPS, ROE and ROA are fluctuating in increasing trend. So, both the banks are recommended to increase more profit of the bank should minimized its operating cost by increasing the operating efficiency of its employees.
- 5.3.5 Liquid assets of the commercial banks play an important role to meet the day to day and short term obligation. If a liquid asset of the bank is not maintained properly then there is a high probability of banks going into liquidation. The liquidity ratio of EBL seems to be satisfactory than KBL. So, KBL is recommended to strictly follow CRR requirement as prescribed by NRB and maintained accordingly. Both the banks should be careful and try to increase liquidity position by increasing Cash and Bank Balance Ratio and Investment in Government Security Ratio.

BIBLIOGRAPHY

Books:

A hand book of KFA General Banking Course Materials.

Adhikari, N.K. & Shrestha, P. (2063). *A Text Book on Corporate Finance*. Kathmandu: Khushbu Prakasan Pvt. Ltd.

Barealy, R. & Stewart M. (2000). *Principle of Corporate Finance*. India: Tata McGraw -Hill Publishing Company Limited,

Brigham, E. & Houston, J.(2000). *Fundamental of Financial Management, 3rd edition*. New York: Harcourt College Publishers.

Brigham, E.F. & Gaspenski, L.C. (1985). *Financial Management, Theory and Practice*. New York: The Dryden Press.

Cheney, J.M. & Moses, E.A. (1993). *Fundamental of Investment*. St.Paul: West Publishing Co. Encyclopedia, *The World Book*, America: Grolier Incorporated. Kathmandu: Asmita Books Publishers and Distributors.

Gilbert, R. Alton, Andrew P. Meyer and Mark D.Vaughan.(2000). "*The Role of a CAMEL Downgrade Model inBank Surveillance*." Working Paper 2000-021A, The Federal Reserve Bank of St. Louis. Nov.1,2005(<http://research.stlouisfed.org/wp>)

Hilbers, Paul, Russell Krueger, and Marina Moretti(2000). New Tools for Assessing Financial System Soundness. *Finance and Development* 37 :8-12

Kothari, C.R. (1978). *Quantitative Techniques*. New Delhi: Vikash Publishing House Pvt. Ltd.

Madhu Sudhar Shrestha (2009). "*Fundamentals of Banking*." 3rd Edition. Kathmandu: Buddha Academic Publisher & Distribution Pvt. Ltd.

Madura, J. (1999). *Financial Institutions and Markets*. New Delhi: Akash Press.

McNally, Edward A.(1996). "*Basic Topics in Sound Bank Management.*" EDI Working Paper, Washington DC: The World Bank.

Neupane D.K & Thapa K. (2008) *Banking and Insurance Kathmandu*: Asmita Publication Kathmandu

Sharma, Puspa Raj (2007). *Research Methodology with SPSS (Useful for Thesis, Project Work and Report Writing)*. Kathmandu: Resunge Computer, Kirtipur.

Singha H.B (2008) *Banking and Insurance Kathmandu*; Asia Publication

Thapa, K. (2060). *Corporate Financial Management, Theory and Practice*. Kathmandu: Khanal Books and Stationary.

Thapa, K., Bhattra, R., & Basnet, D. (2006). *Investment: Theory and Solution*.

Weston, J.F. & Copeland, J.F. (1992). *Managerial Finance*. Chicago: The Dryden Press.

Wolf, Howard & Pant, Prem R. (2000). "*A hand Book for Social Science Research and Thesis Writing.*" 3rd Edition. Kathmandu: Buddha Academic Publisher & Distribution Pvt. Ltd.

Journals, Articles and other Publications:

Annual Reports,(2061/62- 2065/66)- Everest Bank Limited

Annual Reports,(2061/62- 2065/66)- Kumari Bank Limited

Atikoğulları, M. (2009). An Analysis of the Northern Cyprus Banking Sector in the Post 2001 Period Through the CAMELS Approach. *International Research Journal of Finance and Economics*. Gazimağusa: Euro Journals Publishing Inc. II (2): 1-21.

Baral, Keshar J. (2005). *Health Check-up of commercial Banks in the Framework of CAMELS: A Case Study of Joint Venture Banks in Nepal*. The Journal Of Nepalese Business Studies, Vol. II No. 1 Dec.

Berger, A.N., Kyle, M.K. and Scalise, J.M. (2001). Did U.S. Bank Supervisors Get Tougher during the Credit Crunch? Did They Get Easier during the Banking Boom? Did It Matter to Bank Lending? *Journal of Money, Credit, and Banking*. Columbus: Ohio Press. XII (6): 122-124.

Cole, R.A. and Gunther, J.W. (2008). Predicting Bank Failures: A Comparison of On- and Off-Site Monitoring Systems. *Journal of Financial Services Research*. Boston: Kluwer Academic Publishers. XIII (2): 102-105.

Derviz, A. and Podpiera, J. (2004). *Predicting Bank CAMELS and S&P Ratings: The Case of the Czech Republic. The working Paper Series*. Czech Republic: Czech National Bank. VI (1): 1-25

Nepal Rastra Bank (2009/10) Monetary Policy

Nepal Rastra Bank(2066) Directives

Unpublished Master Degree Thesis:

Bhandari, Krishna (2006). *"The financial Performance of Himalayan Bank Ltd in the framework of CAMEL."* Master diss., T.U.

Bhattarai, Shama (2004). *"Implementation of Directives Issued by Nepal Rastra Bank, A comparative Stud of Nepal SBI Bank Limited and Nepal Bangladesh Bank limited"*, Master diss., T.U.

Chand, Digendra (2006). *"Financial Performance Analysis of NABIL Bank Limited in the framework of CAMELS."* Masters diss., T.U.

Deoja, S. (2001). *"A comparative study of the financial Performance between Nepal State Bank of India Ltd. and of Nepal Bangladesh bank Ltd."*, Masters diss., Trubhuvan University.

Gurung ,V.C (1995). *"A financial Study of Joint Venture Bank in Nepal"*. Masters diss.,T.U

Gurung, Til Bahadur (2008). *"A case study on Financial Performance analysis of Standard Chartered Bank Nepal Limited in framework of CAMEL."* MBS diss., T.U.

Khadka, Anju (2002). *"A Comparative Study on Investment policy of Commercial Banks"* MBS diss. TU

Marasini, Bal Ram (2008). *"Financial Performance Analysis of Rastriya Banijya Bank in the framework of CAMEL."* MBS diss., T.U.