CAMEL ANALYSIS OF COMMERCIAL BANKS IN NEPAL

(Performance comparison   among Machhapuchchhre bank ltd, NMB bank ltd, Everest bank ltd)

A Thesis

By

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RECOMMENDATION LETTER

It is certified that thesis entitled **"CAMEL Analysis of commercial Banks in Nepal"** has been prepared by Sher Bahadur Khadka is an original piece of research work carried out by the candidate under my supervision. Literary presentation is satisfactory and the thesis is in a form suitable for publication. Work evinces the capacity of the candidate for critical examination and independent judgment. The thesis is forwarded for examination.

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APPROVAL SHEET

We, the undersigned, have examined the thesis entitled **"CAMEL Analysis of Commercial Bank in Nepal"** presented by Sher Bahadur Khadka, a candidate for the degree of **Master of Business Studies** (MBS) and conducted the viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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CERTIFICATION OF AUTHORSHIP

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

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

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Sher Bahadur Khadka

Date:

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Date: - ……………….   _____

                                                                    Sher Bahadur Khadka

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ABBREVIATIONS

ABBS	Any Branch Banking System
C & B balance	Cash and Bank Balance
CAMEL	Capital, Assets Management Earning Liquidity
CCR	Core Capital Ratio
CRR	Cash Reserve Ratio
EBL	Everest Bank Limited
EPS	Earning per share
FIs	Financial Institutions
IGSR	Investment in Government Security Ratio
LLP	Loan Loss Provision
MBL	Machhapuchre Bank Ltd.
NEPSE	Nepal Stock Exchange
NMB	Nepal Marchent Bank Limited
NPL	Non Performing Loan
NRB	Nepal Rastra Bank
PE	Profit Earning
ROA	Return on Assets
ROE	Return on Equity
TU	Tribhuvan University
US	United States

CHAPTER I
INTRODUCTION

1.1   Background

Innovation, Deregulation and Globalization in banking sector have contributed to making banking business more complex and potentially riskier. This has presented new challenges to bank supervisors with respect to the structuring of their ongoing supervision. In response, supervisors have developed new methods and processes for monitoring and assessing banks on an ongoing basis. Particular attention is being paid in this regard to improving the quality of bank examinations and to the development of systems that can assist supervisors and examiners in identifying changes, particularly deterioration, in banks' financial condition as early as possible. Amongst the various new initiatives that have been taken or are being taken in this respect are the development of more formal, structured and quantified assessments not only of the financial performance of banks but also of the underlying risk profile and risk management capabilities of individual institutions.

The ability to monitor financial sector s

Soundness presupposes the existence of valid indicators of the health and stability of financial systems. These macro prudential indicators (MPIs) allow for assessments to be based on objective measures of financial soundness. If MPIs are made publicly available, they enhance disclosure of key financial information to the markets. In addition, if the indicators are comparable across countries they facilitate monitoring of the financial system, not only at the national but also at the global level. The latter is crucial in view of the magnitude and mobility of international capital, and the risk of contagion of financial crises from one country to another.

Hilbers, Krueger & Moretti (September 2000) in their publication recommended CAMELS framework as one commonly used framework for analyzing the health of individual institutions, which looks at six major aspects of a FI: *c*apital adequacy, *a*sset quality, *m*anagement soundness, *e*arnings, *l*iquidity, and *s*ensitivity to market risk. has shown that certain macroeconomic trends have often preceded banking

crises. Assessments of financial soundness, therefore, need to incorporate the broad picture—particularly an economy's vulnerability to capital flow reversals and currency crises.

On November 13, 1979, Federal Financial Institutions Examination Council (FFIEC), USA, adopted an internal rating system, the Uniform Financial Institutions Rating System (UFIRS). UFIRS is used by the Federal supervisory agencies and State supervisory agencies of USA for evaluating the soundness of FIs on a uniform basis and for identifying those institutions requiring special supervisory attention or concern. Explaining the importance of UFIRS, the FFIEC Federal Register Press Release Notice (December 1996) states that UFIRS takes into account of evaluation of managerial, operational, financial, and compliance performance factors common to all institutions and provides a means for the supervisory agencies to monitor, the types and severity of problems that institutions may be experiencing. The Fereral Register Press release further affirms in its introduction text of the revised UFIRS that it has over the years proven to be an effective internal supervisory tool for evaluating the soundness of FIs on a uniform basis and for identifying those institutions requiring special attention or concern. The press release reasons number of changes, have occurred in the banking industry and in the Federal supervisory agencies' policies and procedures, for the revision of 1979 rating system. The revisions to UFIRS with inclusion of the sixth component addressing sensitivity to market risks will be in effect from January 1, 1997.

The direct public beneficiaries of private supervisory information, such as that contained in CAMELS ratings, would be depositors and holders of banks' securities. Small depositors are protected from possible bank default. Rather than evaluating a bank's solely on its performance to date or focusing on areas of minimal risk, it is imperative to evaluate both bank's performance and management's ability to identify, measure, monitor, and control risk.

Nepal Rastra Bank (NRB), the Financial Institutions' regulatory authority in Nepal, directed this concept on capital adequacy framework 2015 minimum capital requirement. Bank are required to maintained a capital conservation buffer of 2.5%

comprised of common equity tire I the reqlatory minimum capital requirement of 8.50 %. CAMEL based on the performance analysis of the A class financial institutions.

1.1.1   Introduction of Sample Banks

a)   Machhapuchchhre Bank Limited (MBL)

Machhapuchchhre Bank Limited, registered in 1998 is the first commercial bank in the western part of the Kingdom of Nepal having head office in Pokhara. The bank has its own land and well-built three storied office building with sufficient parking area and electronic surveillance system.

The bank with perception of tremendous business potentials outside Kathamandu, in a very short span of time, expanded branches in Kathmandu, Damauli, Bhairahawa, Birgunj, Mahendrapul (Pokhara), Rambazar (Pokhara) and in Bagar (Pokhara). A full-fledged banking branch is opened in Jomsom too. The bank aims to serve the people of urban and rural areas.

Machhapuchchhre Bank Limited is a pioneer in introducing the latest technology in banking in the country. It is the first bank to introduce centralized banking software named GLOBUS BANKING SOFTWARE developed by Temenos NV, Switzerland.

The bank provides modern banking facilities such as Anywhere Banking and Internet Banking to its valued customers.

Machhapuchchhre Bank Limited Strives to facilitate its customer needs by delivering the best services in combination with the state of the art technologies and best international practices.

b)   NMB Bank

NMB Bank limited established in 1996, is the first commercial bank in the history of Nepal that has been successful graduate as A class bank from C class financial company. Now FMO Netherland become a joint venture partner with the bank with 20% share. Now NMB Bank has capital fund of Rs 11.393 million, deposit Rs 73.224 million and credit portfolio of Rs 62.609 million. It now service its customer through

110 branch office 4 extension counters 97 ATM two subsidiary units. And reprehensive office in Maleysia. The bank has continuous to promoter return innovation and operation in transformation.

c)   Everest Bank Ltd (EBL)

Everest Bank Limited (EBL) was established in 1994 and started its operations with a view and objective of extending professionalzed and efficient banking services to various segments of the society. EBL joined hands with Punjab National Bank (PNB), India as its joint venture partner in 1997. PNB is the largest Public Sector Bank of India having 109 years of banking history with more than 4400 offices all over India and is known for its strong systems and procedures and a distinct work culture

The Bank's Paid-up Capital has increased to 455 million against the Authorized Capital of 750 million whereas the Core Capital of the Bank is around 700 million. The local Nepalese promoters hold 50% stock in the Bank's equity, while joint venture partner PNB contributes 20 % of equity whereas the public holds remaining 30%.

Despite fragile law and order situation especially during last 2-3 years, the Bank has doubled its deposits, advances as well as profits during the period. Its operating profit have grown by 55% during the financial year 2060-61, the net profit has increased by 52%. The average credit growth has been over 26% reaching a figure of 6099 million, deposits having reached a figure of 8064 million, a notable feature of the bank's achievement is its containment of NPAs with gross NPAs restricted to 1.72% of the total credit whereas net NPA is being reduced to nil.

1.2   Statement of the Problem

Establishment of Joint Venture banks concentrate only in urban area has raised certain questions. This application is not able to contribute the socio- economic development of the country where around 80% people live in rural and 70% of the population depends upon agriculture. These banks should expand their operation in rural areas. NRB, as the central bank has ruled that joint venture banks should invest 10% of their

total investment in the rural areas. These banks are inclined to pay fines rather than investing their resources to such less profitable sector. The main objective of the bank is to collect deposits as much as possible from the customer and to mobilize into the most profitable and preferable sector. The present study basically focused on the financial performance of Joint venture Banks in Nepal. In Nepal many banks and financial companies have opened up within a span of few years. Although joint venture banks have managed to perform better than other local commercial banks within the short period of time they have been facing a neck competition against one another. Therefore, it is necessary to analyze the financial performance of Nepalese Joint Venture Banks. Thus the present study seeks to explore the efficiency and comparative financial performance of respective banks. The problem of the study will ultimately find out the reasons about difference in financial performance. A comparative analysis of financial performance of the banks would be highly beneficial for pointing out their strength and weakness. Although joint venture banks are considered efficient, but how far are they efficient? This question does emerge in banking sector. At present we have twenty-eight commercial banks. In spite of rapid growth, some indicators show performance is not much encouraging towards the service coverage. In such a situation the study tries to analyze the present performance of banks based on CAMEL model, which would give the answers of following queries.

a) What are the effect on capital adequacy, assets, management, earning, and liquidity ratio of selected banks?

b) Do they have sound operation result in relation on their profitability?

c) What is the liquidity position of commercial bank?

1.3 Objectives of the Study

The objectives of this study are derived from the above-mentioned research problems. The objectives reflect the orientation of this study, which focuses on the mutual relationships between banks' financial performance. Accordingly, the objectives are outlined as follows:

- To examine the capital adequacy of the selected bank.

- To identify the assets quality.
- To analysis of management efficiency.
- To examine the earnings, liquidity and profitability of selected banks.

1.4   Significance of the Study

Analysis of financial position and statement is a crucial part of financial decision making of business enterprise. Poor financial management affect adversely on liquidity, turnover and profitability. It is required to measure the financial position of the enterprise periodically in order to ensure smooth functionally and enterprise of great national concern. Thus, the study is made to evaluating the financial position of Nepalese commercial Banks. In an every organization, the availability resources are scare and out of these scare resources, the objectives of the organization are to be accomplished. To answer the question, an analysis of their present financial performance is necessary. A well performance resembles the well combination of all factors. So the effectiveness of policy, managerial skill, mobilization of funds and assets will be reflected by the achievement.

In fact, efficient financial performance is a mirror, which shows the weakness and strength of the banking sector. Therefore, the paramount significant is not the establishment of banks but how effectively they are doing their performance. Thus, the study for purpose only takes into consideration the financial performance of the commercial banks.

1.5   Limitation of the Study

As each and every study has its limitation. We have limited resources and it may be difficult to explore researcher to find out new aspect. Reliability of statistical tools used and lack of research experience are the major limitation and some other limitations can be enlisted as follows:

- The study is based on mainly secondary data.
- The secondary data are used through the study itself regarded as a limitation.
- It covers the performance of the selected bank past five years data only.

- It focus only quantitative aspect.

1.6 Organization of the Study

The study has been organized into five chapters, each chapter deals with the specific aspects of the study, which is as follows:

First Chapter provides a general introduction to the study. It contains general background, statement of the problems, objective of the study, significance of the study and limitation of the study.

Second Chapter presents the theoretical analysis and review of the related and pertinent literature available. It will include a discussion on the conceptual framework and review of related studies highlighting on its relevant findings.

Third Chapter describes the methodology employed in preparing this study. It deals with research design, population and sample, source of data for the study. It briefly mentions the data collection and analysis technique and inherent limitation of such technique.

Four Chapter of study illustrates the collected data into a systematic format. The analysis of these data is also included in this section. As well as, interpretation of analysis has also been done in this section. The major findings of the study is presented in this chapter

Last Chapter presents summary, conclusion and recommendation of the study. This section incorporates an outlet for future research. Bibliography and appendix are included at the end of the study.

CHAPTER II
CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

The review of literature basically highlights the existing literature and research work related to the present research being conducted with the view of finding out what had been already explained by the authors and researchers and how the current research adds further benefits to the field of research.

Federal regulator in the US developed the numerical CAMEL rating system in the early 1970's to help structure their bank examination process .when examiner evaluate banks health ,they develop a overall rating based on capita adequacy ,Assets Quality ,Management Quality ,Earning Ability, Liquidity Position ,and Sensitivity to risk.

Prior to 1988, there was no uniform international regulatory standard for setting bank capital requirements. In 1988, the Basel Committee on Banking Supervision (BCBS) developed the Capital. Accord, which is known as Basel I, to align the capital adequacy requirements applicable especially to banks in G-10 countries. Basel I introduced two key concepts. First, it defined what banks could hold as. capital, as well as designating capital as Tier 1 or Tier 2 according to its loss-absorbing or creditor protecting characteristics. The second key concept introduced in Basel I was that capital should be held by banks in relation to the risks that they face. The major risks faced by banks relate to the assets held on balance sheet. Thus, Basel I calculated banks" minimum capital requirements as a percentage of assets, which are adjusted in accordance with their riskiness and assigning risk weights to assets. Higher weights are assigned to riskier assets such as corporate loans, and lower weights are assigned to less risky assets, such as exposures to government. The BCBS released the "International Convergence of Capital Measurements and Capital Standards: Revised Framework", popularly known as Basel II, on June 26, 2004. This framework was updated in November 2005 and a comprehensive version of the framework was issued in June 2006. Basel II builds significantly on Basel I by increasing the sensitivity of capital to key bank

risks. In addition, Basel II recognizes that banks can face a multitude of risks, ranging from the traditional risks associated with financial intermediation to the day-to-day risks of operating a business as well as the risks associated with the ups and downs of the local and international economies. As a result, the framework more explicitly associates capital requirements with the particular categories of major risks that banks face.

The Basel II capital framework also recognizes that large, usually internationally active banks have already put in place sophisticated approaches to risk measurement and management based on statistical inference rather than judgment alone. Thus, the framework allows banks, under certain conditions, to use their own „internal" models and techniques to measure the key risks that they face, the probability of loss, and the capital required to meet those losses. In developing the new framework, the Basel Committee incorporated many elements that help to promote a sound and efficient financial system over and above the setting of minimum capital requirements. Keeping this in mind, the Basel II framework incorporates three complementary „pillars" that draw on the range of approaches to help ensure that banks areadequately capitalized in commensurate with their risk profile. The Basel Committee on Banking Supervision (BCBS) released a comprehensive reform package entitled"Basel III: A global regulatory framework for more resilient banks and banking systems" (known as Basel III capital regulations) in December 2010. Basel III reforms are the response of the Basel Committee on Banking Supervision (BCBS) to improve the banking sector"s ability to absorb shocks arising from financial and economic stress, whatever the source, thus reducing the risk of spill over from the financial sector to the real economy. Basel III reforms strengthen the bank-level i.e. micro prudential regulation, with the intention to raise the resilience of individual banking institutions in periods of stress.The Basel Committee on Banking Supervision is a committee of banking supervisory authorities that was established by the central bank governors of the Group of Ten countries in 1975. It consists of senior representatives of bank supervisory authorities and central banks from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden,

Switzerland, the United Kingdom, and the United States. It usually meets at the Bank for International Settlements in Basel, Switzerland where its permanent Secretariat is located.

Besides, the reforms have a macro prudential focus also, addressing system wide risks, which can build up across the banking sector, as well as the procyclical amplification of these risks over time. These new global regulatory and supervisory standards mainly seek to raise the quality and level of capital (Pillar 1) to ensure that banks are better able to absorb losses on both a going concern and a gone concern basis, increase the risk coverage of the capital framework, introduce leverage ratio to serve as a backstop to the risk-based capital measure, raise the standards for the supervisory review process (Pillar 2) and public disclosures (Pillar 3) etc. The macro prudential aspects of Basel III are largely enshrined in the capital

buffers. Both the buffers i.e. the capital conservation buffer and the countercyclical buffer are intended to protect the banking sector from periods of excess credit growth. The Basel Committee on Banking Supervision's (BCBS) recommendations on capital accord are important guiding frameworks for the regulatory capital requirement to the banking industry all over the world and Nepal is no exception. Realizing the significance of capital for ensuring the safety and soundness of the banks and the banking system, at large, Nepal Rastra Bank (NRB) has developed and enforced capital adequacy requirement based on international practices with an appropriate level of customization based on domestic state of market developments. With a view of adopting the international best practices, NRB has already issued the Basel III implementation action plan and expressed its intention to adopt the Basel III framework, albeit in a simplified form. In line with the international development and thorough discussion with the stakeholders, evaluation and assessment of impact studies at various phases, this framework has been drafted. This framework provides the guidelines for the implementation of Basel III framework in Nepal. The Basel III capital regulations continue to be based on three-mutually reinforcing Pillars, viz. minimum capital requirements, supervisory review of capital adequacy, and market discipline of the Basel II capital adequacy framework.

C=Capital Adequacy Requirement

A=Assets Quality

M=Management efficiency

E=Earning Capacity

L=Liquidity

2.1 Concept of Capital Adequacy Requirement.

Bank Capital is money needed to establish and operate a bank. Capital adequacy ratio reflects the overall financial condition of the banks and also the ability of the management to meet additional capital requirement. It defines relationship between capital fund and total risk weighted assets of the bank. According to NRB's guidelines, banks in Nepal should maintain 11% capital adequacy ratio and 6% core capital ratio. These ratios have been maintained to make strong capital base which make banks to enjoy public confidence. If the CAR and CCR is higher than NRB minimum percentage then it is considered as that the interest of depositors is safe. But in concern to shareholders, the excess of CAR means less earning per share.

2.1.1 Source of Bank Capital.

The main source of bank capital is Equity capital of bank and the borrowed capital of bank. The capital of a bank comprise of the amount raised from the following sourced;

1. Ordinary Share

From this source bank gets its capital from the promoter shareholders and the ordinary share holders by selling the share to the public.

2. Preference Share

This source gets preference over the ordinary share, while distributing the dividend and in dissolving the bank.

3. Bonus Share

From this source bank gets capital by issuing share by capitalizing the saving fund from the profitability of company.

4. Retain Earning

This source is simply a earning that is returned after paid-up of regular expenses.

5. Reserve Fund

This source is through the fund that bank must keep as a part of its income for banking transaction as a reserve fund.

6. Undistributed Dividend

Bank gets this capital when it keeps and reinvests some part of dividend in spite of distributing to shareholders.

Capital collected from other source rather than Equity is Borrowed Capital of bank. under this title the following type of source can be described:

1. Sale Of Debenture

The debenture means debenture bond issued by the company against pledge or guarantee of its assets.

2. All Type Of Deposit

This bank capital is an amount deposited in a bank by depositors opening deposit account such as current, saving, and fixed account.

3. Loan From Central Bank

This bank capital is the amount received by commercial bank from the central bank as a loan.

4. Loan From Financial Institution

This bank capital is the loan taken by commercial bank from other financial institution.

5. Loan From The Commercial Bank

This bank capital is the amount taken as a loan by one commercial bank from another commercial bank. During the economic crisis the commercial banks solve the problem by taking the loan borrowed internally.

6. Loan From The Central Office And Branch Office

This bank capital is the amount taken as a loan by central office from its branch or by branch office from central office or from another branch.

2.1.2 Bank Capital Adequacy System

Banking transaction directly affected by adequacy and inadequacy of bank capital .if there is inadequate capital the bank should take step for the adequacy of capital as per legal requirement. The bank should remove the inadequacy of bank capital through the medium of collecting of ownership and borrowed capital. It is not good for a bank to collect borrowed capital in the bank so it has to reduce the amount of borrowed capital as far as possible .The adequacy of the bank capital is necessary for the following function;

1. For The Payment Of All Types Of Deposit

Deposit is liability for a bank so to payback it adequacy of bank capital is necessary for a bank .Hence the adequacy of bank capital is needed to gain trust from its customers.

2. To Meet The Demand Of All Types Of Cash Reserve Funds

Bank has legal obligation to deposit the amount in different types of funds in the Nepal Rastra Bank and its own bank. This legal obligation occur in two ways ,one

way is by the provision of law and another is take place due to circulars ,policy and directives issued by NRB . Therefore to meet this legal obligation bank needs an adequate bank capital.

2.1.3   Concept of Assets

Assets are the most vital factors in determining the strength of the bank. The major asset for the bank is loan and advances. This is the most risky assets item that needs crucial assessment. Banks collect funds in the form of capital, deposits, borrowing, etc. It mobilizes these funds to generate certain returns by giving loans and advances to the users of money to invest in various alternatives. Bank gives loan and advances in high volume from which higher interest is generated as well as there is high risk. A significant part of the banks income is generated from the lending activities. Basically there are two types of loan:

1. Performing Loan

Performing loan is the loan in which the interest is paid timely or overdue up to 90 days. It is also known as good loan or pas loan.

      I.   Pass loan: overdue up to 1 month is called pass loan.

      II.   Watch list: overdue 1 month to 3 month.

2.   Non Performing Loan.

The loan which goes beyond the due date of 3 months falls under NPL. There are three types of Non Performing Loan.

     I.   Sub-standard NPL: Loans overdue by more than 3 months up to 6 months.

     II.   Doubtful NPL: Loans overdue by more that 6 months up to 1 year.

    III.   Bad Loan(loss): Loans overdue by more than 1 year.

Table 2.1

Loan classification and provision as per NRB directives:

Typesn of loan	Duration	Provision
Pass loan	1 Month	1%
watchlist	1-3 Month	5%
Substandard	3-6Month	25%
Doutfull	6-12 Month	50%
Baddebt	above 12 month	100%

2.1.4 Criteria for Lending.

For the survival and enlargement of the bank it must follows well set up established criteria for providing loan to the borrowers. According to the Dahal B & S the bank has to consider application 5Cs while screening a loan, that 5Cs are as follows;

1.   Character

Character refers to the personal traits of the borrowers which are very important for lending decision. Good character is indicated by the honesty of the borrower. It is analysis of the applicant as to his ability to meet the obligation put forth by the lending institution .so the character of the borrower must be studied to know the intention to pay loan ,their practice to repay loan, creditworthiness, habit to use acquire funds, past trend regarding the receipt and payment of loan are to be reviewed.

2.   Capacity

capacity of the borrower means his business acumen and managerial ability to deal with men and matters so that he that he would make effective and profitable use of funds and thereby able to repay the loans .His legal capacity to borrow money and the quality of management must analyze to grant loan .Qualification, experience, past dealing of the part in bank and enquires the capacity of the borrower which must be checked out.

3.   Capital

Capital refers the funds invested in the business by the borrower .More capital means most of the assets are acquired from own funds and the more of their stake which is the safe part for the bank .the business started with negligible capital lacks efficient management. The bank provides loan only if the borrower has enough capital.

4.   Condition

Condition refers to the general economic condition beyond the control of the borrower that affects the borrower's business. It is security, political and social conditions under which the business has to run .Bank grants loan only if the lending official feels the conditions are favorable.

5.   Collateral

Another provision for granting loan is the government security paper. By offering the fixed deposit receipt, the depositor can collect loan up to 90% of its receipt value. The bank also provides loan against the security of shares of various recognized financial institution such as public enterprises, companies etc.

2.1.5   Concept of Management Efficiency

The word Management is widely used in various areas and time periods. Human needs are unlimited, so limited resource should meet these need. To meet the unlimited needs from limited resources, management is very essential. Without management people, organization and government undertaking cannot meet their objectives. Therefore, everyone has different opinions about the term management. Management has been defined in several meanings, depending on their needs, context and purpose. Therefore, there is no universally accepted definition of management .It is also very difficult and practically impossible to give single definition covering all aspects of management because it is concerned with human beings. Their behaviors are highly uncertain and unpredictable.

2.1.6   Concept of Earning Capacity

Profit earning capacity is also called profitability of the organization. Profit earning is a measure of efficiency and the search for it provides an incentive to achieve efficiency. Profit earning ability also indicates public acceptance of the product and shows that the firm can produce competitively. Moreover, profits provide the money for repaying the debt incurred to finance the project and the resources for the internal financing of expansion. The earning of a firm can be measured by its earning ratios. In other words, the earning ratios are designed to provide answers to questions such as (a) is the profit earned by the firm adequate? (b) What rate of return does it represent? (c)What is the rate of profit for various divisions and segments of the firm? (d) What is the earning per share? (e) What amount was paid in dividends? (f) What is the rate of return to equity –holders?

Profit earning ratio indicates the degree of success in achieving desired profit. It furnishes answers to how efficiently the bank is being managed. Although profit earning ratio mainly studies the earning power of the bank, it depicts almost entire performance of the bank.

Commercial banks are established to earn profit. Without profit, they cannot survive for the long period of time. All the stakeholders of the bank put pressure on the bank management to earn profit for their own sake. Without profit these stakeholders cannot be satisfied and without them bank cannot exists. So, bank wants to invest all of its funds in those sectors which ensure higher return. Further more, there id always positive attitude of depositors and other lenders towards the highly profitable banks. As a result, bank can acquire easily can spend their transactions.

2.1.6.1 Principle of Profitability / Earning

Commercial banks are the profit-oriented business organization. They are established by issue of shares to general public, who purchase share to earn profit in terms of dividend. Therefore, earning should be the cardinal principle for making investment. According to principle of profit earning, banks should invest their funds in such sectors, which ensures higher rate of return. Bank must earn sufficient profit to meet

all expenses for daily administration, expansion and growth as well as payment of dividend to shareholders. That is why; it should invest in profitable sectors, which assure a fair and stable return on the funds invested.

Bank can either invest their funds in securities or advance loans to productive sectors to generate profit. The earning capacity of securities and share depends upon the interest rate, the dividend rate, and the tax benefits they carry. It is largely, the government securities that carry the exemption of taxes. The bank should invest more in such tax –free securities. New companies also carry tax exemption. This is because shares of new companies are not considered as safe investments.

In loan sectors, bank should grant loans to those sectors generating high rate of return. Still they cannot neglect the risk and liquidity factors. Higher return involves higher risk, thus, there should be a proper check and balance between risk and return for investment. Bank should select the loan proposal bearing high return with proportionately low risk.

2.1.7 Concept of Liquidity

Liquidity means allocation of funds in close relation to their respective source. Liquidity is the status and part of the assets which can be used to meet the obligation. Liquidity can be viewed in term of liquidity store in the balance sheet and in terms of liquidity available through purchase funds. The degree of liquidity depend upon the relationship between cash assets plus those assets which can be quickly turned into cash and the liability awaiting payment .Generally ,the definition of liquidity can't be found in the same way , in the countries of whole world. Because .it is known .as much as the development of the monetary sector take place or the use of monetary devices increases, so much the definition of it goes wider. Liquidity means the whole money stock of money.

Liquidity is the availability of cash in the amount and at the time needed at a reasonable cost. One of the most important tasks faced by the management of any bank is insuring adequate liquidity. A bank is considered to be liquid if it has ready access to immediately spend able funds at reasonable cost of precisely the time those

funds are needed. This suggests that a liquid bank either has the right amount of immediately spend able funds on hand when they are required or can quickly raise liquid funds by borrowing or by selling assets.

2.1.7.1 Criterion for Measuring Bank Liquidity

It is very important to study criteria for measuring bank liquidity. The bank liquidity is the most important aspect of a bank. If there is less bank liquidity, the bank can't be run. If there is much liquidity, the bank should bear great loss economically. Both high liquidity and low liquidity are not good omen for the bank. The bank should be able to keep the liquidity in balance. This is very difficult task. However the bank liquidity can be measured by the following criterion;

1.   Deposit Investment Ratio

Liquidity can be measured by the deposit investment ratio. The depositors deposit the cash in the current, saving and fixed accounts. The bank receives the most liquidity as deposit. The bank invests the capital collected by much profit from it, the bank can get a lot of amount from the depositors and taking higher interest from the place it invested. And the bank doesn't invest all the cash as loan. Apart from the deposit invested, the bank also has other cash. Thus the criteria of liquidity can be found from it.

2.   Investment In Assets

The criteria of measuring liquidity in a bank, depends on the type if asset which the bank has made investment. The bank doesn't waste cash stock received from different source of capital. The bank can invest the money, it possesses in different types of assets. In such condition, the bank has low liquidity because the investment made in such nature of assets need much cash. And the bank gains income very low from such nature of assets. But in contrast to it, if the bank has invested in the share of various companies, the investment in government securities and treasury bills and in the debentures of different business instruction, bank liquidity is abundant. In this way, the investment that it did can be used as the criteria of measuring liquidity.

3.   Cash Reserve Ratio

The cash reserve ratio too can be taken as criteria of measuring bank liquidity. The commercial bank should maintain the cash reserve ratio as fixed by the central bank by opening an account in central bank and also should maintain the statutory liquidity ratio, in its own treasury. It changes from time to time. Thus, bank liquidity can be measured from this too.

4.   Profitability

The bank should be able to earn income from the medium of investment because if is a legal person. The objective of the bank is intensified with the concept of gaining profit. The bank should invest its money to gain the profit. The bank can incest in various ways .A great deal of cash is deposited in a bank from different accounts as deposit. The bank invests as loan, the cash fund and the cash collected from various other sources. In ad dition to it, the bank spreads its investments in various profitable sectors. The bank provides various banking services to its customers. The bank becomes successful if it generates income from such all investments and functions. But the bank certainly provides little interest to the account holders who deposit the money in the bank. Thus, the liquidity can be guessed from the profit of which a bank has gained.

5.   Investment In loan

The bank distributes loans in different sectors. The source of loan investment is important for the various sources of income of the bank .It is an important to know what sort of loan and how much loans the bank   has distributed, while the bank distributes the loan . If the bank is intensified with heconcept of gaining profit, the bank flow loans on a long term and mid term basis. If it has paid its attention to the safety, it invests in short term loan. If a great deal of amount is investment too can be the criteria of measuring the liquidity.

6.   Structure Of Bank

The organizational structure of a bank too gives speculation of bank liquidity. If the structure of the bank is in single nature, there is higher liquidity in the bank. If the banks have many branches, liquidity is lower because the liquidity remains scattered in different branches and sub-branches. In this way, the bank liquidity can be found out from the organization structure of a bank.

7.   Position Of Business

If the business environment of the bank is good, then liquidity remains low. On the contrary, if the business environment is not good then liquidity remains high in the bank. In this way, the position of the business can be the medium to guess the criteria of measuring liquidity.

2.2   Review of NRB's Directives;

Nepal Rastra Bank (NRB) is the central bank, which has a responsibility of making fiscal policy, monetary policy, and rules regarding the commercials banks to maintain the sustainable economic growth of the nation. So that, it formulate the policy, and rules time to time according to domestic and international economic and social environment. to mobilize the banks deposit in different sectors of thee different parts of the nation and to prevent them from the financial problem, Nepal Rastra Bank makes various rules and regulation in term of capital fund, cash reserve requirement provision for priority sector , loan loss provision and interest spread etc. A commercial bank are directly related to the fact that how much fund must be collected as paid up capital while being established at a certain place of the nation, how much fund is needed to expand the branch and counters, how much ,flexible and helpful the NRB rules are also important . Here we discuss only those, which are related to investment function, some rules and regulation. Nepal rastra bank regulate the financial institution under CAMEL analysis.

Capital requirement to the banking industry all over the world and Nepal is no exception. Realizing the significance of capital for ensuring the safety and

soundness of the banks and the banking system, at large, Nepal Rastra Bank (NRB) has developed and enforced capital adequacy requirement based on international practices with an appropriate level of customization based on domestic state of market developments. With a view of adopting the international best practices, NRB has already issued the Basel III implementation action plan and expressed its intention to adopt the Basel III framework, albeit in a simplified form. In line with the international development and thorough discussion with the stakeholders, evaluation and assessment of impact studies at various phases, this framework has been drafted. This framework provides the guidelines for the implementation of Basel III framework in Nepal. The Basel III capital regulations continue to be based on three-mutually reinforcing Pillars, viz. minimum capital requirements, supervisory review of capital adequacy, and market discipline of the Basel II capital adequacy framework.

2.3   Objective:

The main objective of this framework is to develop safe and sound financial system by way of sufficient amount of qualitative capital and risk management practices. This framework is intended to ensure that each bank maintain a level of capital which,

(i)   is adequate to protect its depositors and creditors.

(ii)   is commensurate with the risk associated activities and profile of the banks.

(iii)   promotes public confidence in the banking system.

2.4   Pre-Requisites:

The effective implementation of this framework is dependent on various factors. Some such prerequisites are:

(i)   Implementation of Basel Core Principles for effective Banking Supervision

(ii)   Adoption of the sound practices for the management of Operational Risk

(iii)   Formulation and adoption of comprehensive risk management policy

(iv)   Adherence to high degree of corporate governance

2.5   Responsibility:

The board of directors of each bank shall be responsible for establishing and maintaining, at all times, an adequate level of capital. The capital standards herein are the minimum that is acceptable for banks that are fundamentally sound, well managed, and have no material financial or operational weaknesses. Thus, banks are generally expected to operate above the limits prescribed by this framework.

2.6   Review of Articles

Nepal's financial sector has attained ascertain level of complexity in that are just the beginning years of twenty –first century. Financial sector in general and banking sector in particular has been flipped with liquidity in the last few years owing to the high level of deposits from remittances – despite historically low rates and lack of demand from genuine credit in the market . the mushrooming financial sector and phenomenal growth in stock market ,however, do nit have a strong positive correlation vis-à-vis feedback effect , as in common elsewhere around the world , with economic growth ,thereby casting doubts on the efficiency of the financial instrument , Nepali policymakers will have to take into account such interrelationships while further expanding financial sector.

Within the structure of established liberal and open policy regime, it is difficult to control the number of banks and financial institutions springing up in urban centers across the country. however ,people's expectation in establishing new banks and financial institution does not seem to be linked with economic viability and financial institution even while the promoters self –finance makes people even more surprised. The takeover by the regulator in case of misuse of funds by promoter groups amounts to doing virtually nothing to punish the wrongdoers, who could otherwise have been made to walk a straight path with strict measure in place.

Since, the interest rates in Indian financial market are higher, it is but natural for the capital to flow into India from Nepal .there in co denying the fact that investing in Nepal even by borrowing from the Nepali banks offers higher returns than investing in Nepal itself, it is however a matter of concern for those who easily offer easy personal /corporate accessibility for investment in India and other markets. Similarly ,it is obvious that big fishes in Nepali financial market have been opportune enough to put money into not only the Indian market but third countries with structural loopholes (The Himalaya Times, 4th Feb. 2013, p6).

According to President of Nepal Banker's Association Radhesh Pant "After 2010, there will be new international entrants in the market. We must remain very competitive. We have to operate at international standard. However, I don't think we need to fear. I believe there are seventeen commercial banks, but all of their capital combined would not even equal to the capital of a small bank in developed countries. If somehow, Nepal is able to capitalize on the growth of china and India, there is no truing bank for the banking sector. There will be opportunities for all types of banks. So, we need to work together to address the challenges of the WTO,"(Pant, Radesh, President of Nepal Bankers Association and CEO of Bank Of Kathmandu).

Narayan Prasad Poudle have said that , the users of the financial statement of a bank need relevant , reliable and comparable information which assists them in evaluating the financial position and performance of the bank and which is useful to them in making economic decisions, Bank regulating bodies, stock analysis banks, shareholders, directors and government have needs of different users of financial statements ,the purpose of the analysis of financial statements depends on the needs of the user. The bank regulators seek to analyze the financial statements from safety and stability point of view and thereby protecting the economic interest of depositor and general public whereas the bank analyses from shareholders point of view.

Poudle Narayan pd, in his article," Commercial Banks Comparative Performance Evaluation" ,concludes that JVBs are new, operationally more efficient, having superior performance comprisals with local banks .Better performance of JVBs is due to their performance comprisals with local banks. Better performance of JVBs is due

to their sophisticated technology, modern banking method, and skill. Their better performance is also due to the government's branching policy is rural areas and financing pees. Local banks are efficient in rural sector. Despite having number of deficiencies, local banks have to face growing constraints of JVBs commanding significant banking business of other spectrum (Shrestha M.K, 2047).

Mr. Chiranjibi Nepal, in his interview to Business age said that in short they have threats, all the banks are operating efficiently and earning a lot of money and paying handsome dividends to shareholders. Hence, the price of their share has gone up in near future .in near future it depends on peace and security situation in the country. If the situation doesn't improve in the next two or three years, then only the top layer bank will survive while the other bank and finance companies will find it very hard. They spend a money in rural development.

2.7   Research Gap

The previous studies conducted by different researchers have basically focused on the secondary sources. They have analyze and presented the study on the basis of secondary data i.e. from the Annual Report of the banks. the most interesting point of that most of the in formations supplied and analyzed by them are already in the annual report of the respective banks . If we see the annual reports if the respective banks, then we can find nothing new in their study apart from their theoretical review. In today's context, mostly all the banks have prepared their annual report in such a way that most of the ratios are calculated and mentioned as financial indicators. But here, any of my word does not mean that my study is superior to that study made by previous researchers. Moreover, I am also not criticizing previous studies. Each study has their own value and perception. I just mean, I have tried my best to conduct this study to give some new perception in this topic by providing some primary information through personal observations and perception.In this study, I have analyzed the management quality of selected banks. in the previous studies management quality is not analyzed ,might be because it is the internal matter of that organization. To analyze management quality I have use Management Efficiency Ratio as financial analysis tool and ranking of selected banks on the basis of customer

handling as a subjective analysis tool. And also I have used more financial indicator that that are already listed in annual report of the concerned bank and also done trend analysis to analysis their past, present and future move. I also analysis the based an Nepal Rastra bank policy on CAMEL framework 2015.

CHAPTER III
RESEARCH METHODOLOGY

3.1   Introduction

Research methodology is composed of two words: 'Research' and 'Methodology'. Research is the systematic and organized effort to investigate a specific problem that needs a solution. This process of investigation involves a series of well thought out activities of gathering, recording, analyzing and interpreting the data with the purpose of finding answer to problem. Thus, the entire process by which we attempt to solve problem is called research, while 'methodology' is the research method used to test hypothesis. A sound and systematic methodology is required to carry out any study, if it is to be worthwhile.

Research refers to the search for knowledge. The Webster International Dictionary gives a very inclusive definition of research as "A careful critical inquiry or examination in seeking facts and principles; diligent investigation in order to ascertain something" (Saravanavel, 1990).

Research Methodology is a way to systematically solve the research problem (Kothari, 1990). It may be understood as a science of studying how research is done scientifically. In it, we study the various steps that are generally adopted by a researcher, studying his/her research problem among with the logic behind them.

A research methodology helps us to find out accuracy, validity and suitability. The justification on the present study cannot be obtained without help of proper research methodology. For the purpose of achieving the objectives of study, the applied methodology will be used. The research methodology used in the present study is briefly mentioned below.

This topic presents the short outline of the methods applied in the process of the financial performance analysis of the selected joint venture banks. Research is a systematic method of finding out the solution to a problem where as research

methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objective in view.

3.2   Research Design

Now a days there is an increasing tendency on the part of students and teachers to do research. Having identify the variables in a problem situation and developed the theoretical framework, the next step is to design the research in a way that the requisite data can be gathered and analyzed to solve the problem. The research design has been considered a blueprint for research dealing with a least fore problem what questions to study what data are relevant what data to collect and how to analyzed the results? A research design is the arrangement of conditions for collection and analysis of data that aims to combine relevance to the research purpose with economy in procedure. Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variances. To achieve the objective of this study, descriptive and analytical research design has been used.

3.3   Population and Sample

In this study convenience sampling method is used. At present these are 28 commercial banks operating in Nepal and certified by NRB. Hence, the population consists of twenty-eight commercial banks. Out of 28 commercial banks Machhapuchhre bank, NMB bank and Everest Bank Ltd are selected as sample for this study. On the basis of convenience sampling method

3.4   Period of the Study

Four Years Annual Report has been taken of respective banks which are published by the bank after audit to the general public. It covers the fiscal year of 2013/14 to 2016/17.

3.5 Nature and Sources of Data

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

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

3.6 Data Analysis Tools

Various financial and statistical tools have been used in this study to get the meaningful result and to meet the research objective. Financial ratios are the major tools for the analysis. In addition to the financial tools, other simple statistical (descriptive) tools were also used. The major tools applied in this study are described in the following sections.

3.6.1 Financial Ratio Analysis Tools

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

3.6.1.1 Capital Adequacy Ratio (CAR)

Risk based capital ratio can be defined as the numerical expression of total capital fund to total risk adjusted assets. Capital is important for an organization. Holding excess capital than required may have higher holding cost and low return from

investment. Similarly holding too little capital may have inefficiency in paying liabilities of a firm.

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

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

(Minimum requirement as per NRB Directive is 11%)

Core Capital Ratio:

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

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

(Minimum requirement as per NRB Directive is 6%)

Where,

Total Capital Fund = Core Capital + Supplementary Capital

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

3.6.1.2 Assets Quality

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

every heading consist of risk. Thus bank should be capable of classifying such asset underperforming and non-performing loans.

1. Performing Loans

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

2. Non-Performing Loans (NPL)

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

Table 3.1

Classification of Loan / Asset

Typesn of loan	Duration	Provision
Pass loan	1 Month	1%
watchlist	1-3 Month	5%
Substandard	3-6Month	25%
Doutfull	6-12 Month	50%
Baddebt	above 12 month	100%

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

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

Where,

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

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

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

Where,

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

Total Non-Performing Loan (NP*-L) = Sub Standard Loan +Doubtful Loan +Bad Loan

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

Where,

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

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

3.6.1.3 Management

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

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

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

Management analysis can be done by using following formula;

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

3.6.1.4 Earning

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

Following ratios depicts the earning position of MBL,NMB and.EBL

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

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

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

3.6.1.5 Liquidity

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

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

- Cash Reserve Ratio (CRR)

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

The reserve ratio is sometimes used as a tool in monetary policy, influencing the country's economy, borrowing and interest rates. Western central banks with low excess reserves; they prefer to use open market operations to implement their monetary policy. An institution that holds reserves in excess of the required amount is said to hold excess reserves. Commercial banks directed by NRB to maintain 6% of their deposits as CRR to ensure liquidity. It is maintained on a weekly basis. If banks fail to maintain a minimum of CRR, it is liable to pay penalty and even bears vulnerable conditions towards liquidity crunch.

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

Since, we cannot find the daily deposit amount in annual report and also cannot access it, we cannot find cash reserve ration and compare it as mandatory set by NRB of 6% on average of total deposit of bank on weekly basis. So, it will give false information or mislead to others if we calculate it on the figure that is given on year ending Balance Sheet.

- Cash and Bank Balance Ratio (CBR)

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

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

- Investment in Government Security Ratio (IGSR)

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

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

It finds out the investment on government security ratio. It is a risk free asset of the bank.

CHAPTER 4

DATA PRESENTATION AND ANALYSIS

This chapter deals with the presentation, analysis and interpretation of relevant data of MBL,NMB,EBL Which were collected from various sources, are changed into an understandable presentation using financial as well as statistical tools mentioned in the previous chapter i.e., research methodology. In general, Financial Performance Indicators is an authoritative reference source of key financial ratios of related organization. It is based on up-to-date, reliable and comprehensive data, derived from Statistics of financial statements. The indicators will be helpful to serve as financial performance of individual bank. Such indicators show the overall financial position at a glance. Financial performance indicators in the form of ratios cover a number of concepts and are grouped as: profitability; liquidity; utilization; financial structure; and investment – shareholder ratios. The analyses of data consist of organizing, tabulating and performing financial as well as statistical analysis.

4.1 Financial Analysis

In this section the collected data and information are presented, various tables, charts and graphs are used to best present the data. The data and information has been presented below:

4.1.1 Capital Fund

Capital fund of a bank consists of two types of components: tier-1 capital and tier-2 capital. Tier-1 capital is known as core capital and Tier-2 capital is known as supplementary capital. So, the total capital fund of a bank derived by adding these two components. The capital fund of MBL, NMB, and EBL has been presented below:

4.1.1.1 Capital Fund of MBL

MBL has increasing its capital fund and reached Rs. 3456483 (Rs. In '000) in 2013/14, the core capital at 3150818 (Rs. In '000) the capital fund of MBL over the period of last four years has been presented below:

Table 4.1

Capital Fund of MBL

(Rs. in '000)

Fiscal Year	Core capital	Supplementary Capital	Total Capital Fund
2013\14	3150818	305665	3456483
2014\15	3959269	392646	4351915
2015\16	5,245,117	480,936	5,726,053
2016\17	8,530,759	560,419	9,091,177

Source: Annual Report of MBL.

The above table shows that the capital fund of MBL has been increasing throughout the review period. The core capital and supplementary capital has been significantly increased over the four years period. The total capital fund of MBL seems to be growing consistently. The capital funds of bank are largely depends upon share capital. The capital fund of MBL is presented in the figure 4.1.

Figure 4.1

Capital Fund of MBL
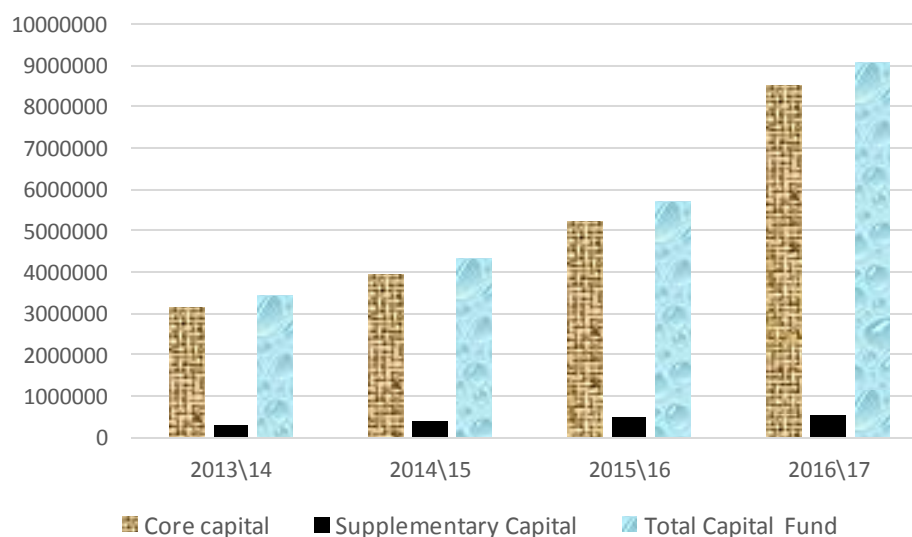
4.1.1.2 Capital Fund of NMB

The capital fund of the NMB is shown in the table below which includes the core capital and supplementary capital of the 4 years which is from 2013/14 to 2016/17 and the amount is increased from the 291 million to 1139 million in FY 2016/17.

Table 4.2

Capital Fund of NMB

(Rs. in '000)

Fiscal Year	Core capital	Supplementary capital	Total Capital Fund
2013\14	2689898	22894	2918892
2014\15	3163615	819258	3982873
2015\16	6629696	1160818	7790514
2016\17	10371570	1022115	11393685

Source: Annual Report of NMB

The above table shows that the capital fund of NMB has been increasing. The core capital and the supplementary capital of NMB have been gradually increased over the four years period except in last year where supplementary capital slightly reduced. Therefore, the total capital fund of NMB increased form 291 million to 1139 million in the FY 2016/17. The capital fund of NMB has been presented in the figure below:

Figure 4.2

Capital Fund of NMB

Capital fund of NMB in figure
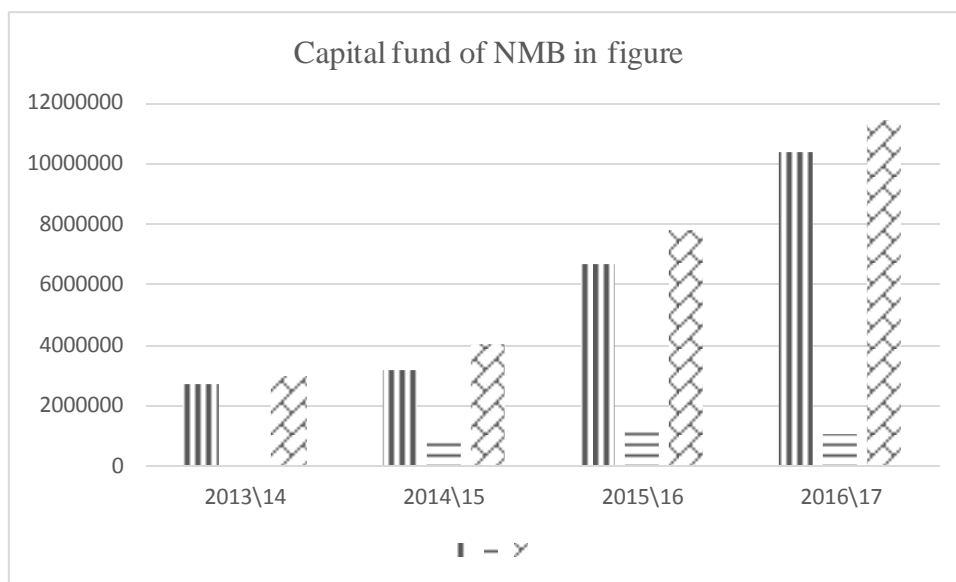
4.1.1.3 Capital Fund of EBL

The capital fund of the EBL is shown in the table below which includes the core capital and supplementary capital of the 4 years which is from 2013/14 to 2016/17 and the amount is increased from the 642 million to 1306 million in FY 2016/17.

Table 4.4

Capital Fund of EBL

(Rs. in '000)

Fiscal Year	Core capital	Supplementary capital	Total Capital Fund
2013\14	5307829	1114428	6422257
2014\15	6624423	1832600	8457023
2015\16	8240695	1854019	10094804
2016\17	11309301	1754401	13063702

Source: Annual Report of EBL

The above table shows that the capital fund of EBL has been increasing throughout the review period. The core capital and supplementary capital has been significantly increased over the five years period. The capital fund of EBL is presented in the figure below:

Figure 4.4

Capital Fund of EBL
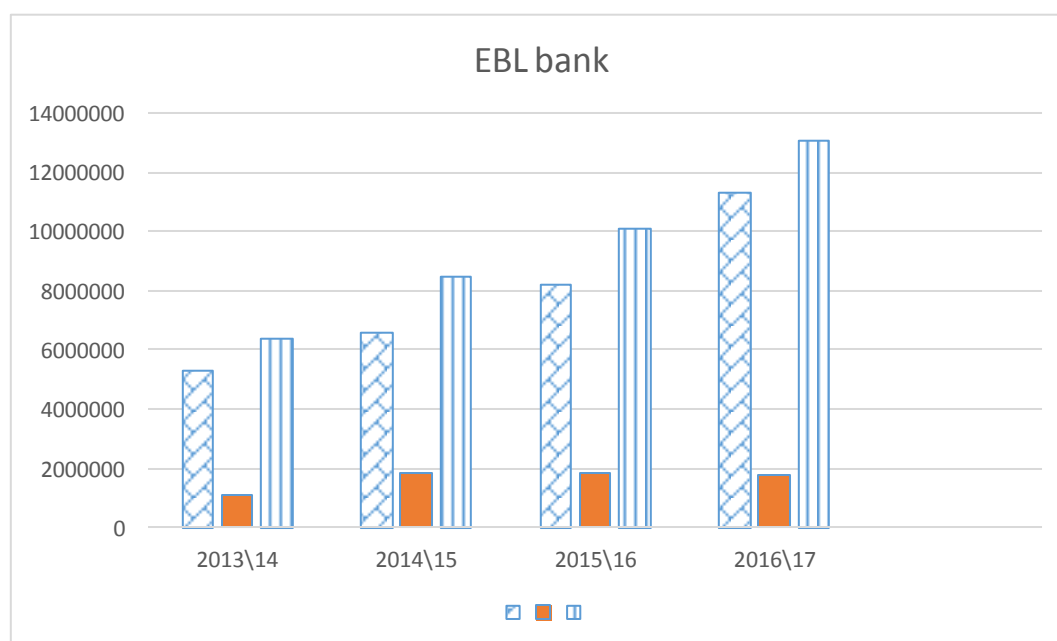
4.1.2 Risk –Weighted Assets of MBL, NMB and EBL

Capital adequacy ratio deals with the asset side of the balance sheet of the banks. For this purpose, first the bank calculates the total risk weighted assets, both the on balance sheet assets and the off- balance sheets are considered for the purpose of calculation of total risk weighted assets. The assets are categorized into four types while assigning weight- age then NRB has assigned weight-age of 0%, 20%, 50% and 100% according to their nature of risk bearing which is based on the standard of bases committee. On the basis of the data collected from MBL, NMB and EBL the total risk-weighted assets have been presented below:

Table 4.5

Risk- weighted Assets of MBL, NMB and EBL

(Rs. In '000)

Fiscal Years	MBL	NMB	EBL
20013\14	32528811	26427062	56780161
2014\15	35544370	34867076	63451114
2015\16	46342576	69110674	79711762
2016\17	54053406	83684940	88929577

Source: Annual Report of MBL, NMB and EBL

4.2   Financial Analysis through CAMEL

Financial Analysis is a process of evaluating relationship between component parts of financial statements, i.e. balance sheet and profit and loss account to obtain a better understanding of the banks position and performance. It is based on up-to-date, reliable and comprehensive data, derived from Statistics of financial statements. The indicators will be helpful to serve as financial performance of individual bank. Such indicators show the overall financial position at a glance. The best tool for financial analysis is ratio analysis.

4.2.1   Capital Adequacy Ratio Analysis

The ratio analysis is the most powerful tool of the financial analysis and it is used in analyzing the financial information to indicate the operating and financial efficiency

and growth of the bank. The following ratios are used to evaluate the financial statement of MBL, KBL and EBL in regard of the capital adequacy and capital fund.

4.2.1.1 Capital Adequacy Ratio of MBL, NMB and EBL

Capital adequacy ratio is the ratio of the total capital fund of the bank to the total Risk-Weighted assets (are required to TRWA). NRB requires banks to maintain a certain capital adequacy ratio based on the total risk weighted assets in order to safe guard the money of the depositors against any possible loss. The first of the eleven different directives issued by NRB under the prudential norms to be followed by the banks contains detailed instructions with respect to the maintenance of capital adequacy ratio, its calculation and the possible penalties for its noncompliance. Banks maintain capital adequacy mainly in three different ways, the core capital adequacy ratio, the supplementary capital adequacy and the total capital adequacy ratio. The calculation of capital adequacy ratios of MBL, NMB and EBL has been presented in Appendix-I. The below table 4.5 shows the capital adequacy ratio for the period of five FY starting from 2013\14 to FY 2016/17.

Table 4.6

Adequacy of Capital Fund on Risk –Weighted Assets

Fiscal Year	MBL Percentage of Total Capital	Percentage of Core Capital	NMB Percentage of Total Capital	Percentage of Core Capital	EBL Percentage of Total Capital	Percentage of Core Capital
2013\14	10.63%	8.26%	11.04%	10.17%	11.31%	9.35%
2014\15	12.24%	8.90%	11.42%	9.07%	13.32%	10.44%
2015\16	12.35%	14.30%	11.27%	9.59%	12.67%	10.34%
2016\17	16.81%	19.18%	13.61%	12.39%	14.69%	12.72%
Average	13.011 %	12.66%	11.83%	10.31%	12.99%	10.71%

Details calculation shown in Appendix

The above table shows that the capital adequacy ratio of MBL, NMB and EBL are able to comply with the requirement of NRB. Since the prescribed proportion of minimum capital fund by NRB for the FY 2013/14 to 2016\17 were total capital fund at 11%, 11% in 2015/16 onwards minimum capital adequacy required on the basis of

NRB directives capital adequacy requirement framework 2015 and Core capital is 5%, 5.5%, and 6% % on total risk weighted assets.

Total capital fund In FY 2013\14 to 2016\17 NMB has maintained the average total capital fund at 11.83% and average core capital 10.31% of total risk weighted assets which is nearby to the framework given by the NRB. While required of norms directed by NRB was 9% to 11%. So, NMB have higher capital adequacy ratio than prescribed ratio. MBL and EBL has also maintained the average total capital fund at 13.017% and 12.99% average core capital 12.66% and 10.71% of total risk weighted assets. MBL has maintained the average total capital fund at 13.071% and average core capital 12.66% of total risk weighted assets. So, MBL have higher capital adequacy ratio than prescribed ratio by NRB.

4.2.1.2 Credit\Deposit Ratio of MBL, NMB, and EBL

The credit\deposit ratio is one of collected from the most important ratios for commercial banks. The major tool to examine the liquidity of a bank is credit \deposit ratio. This ratio shows how effectively the banks have been using the fund they deposit. If 80% of amount deposited by the customers are invested in various sectors, it is considered satisfactory. It is a good sign.

The calculation of credit\deposit ratio of MBL, NMB and EBL are shown in Appendix.The table 4.8 shows that credit\deposit ratios for the period of five FY starting from FY 2013/14 FY 2016\17.

Table 4.8

Credit \Deposit Ratio of MBL, NMB, and EBL

Fiscal Year	MBL	NMB	EBL
2013/14	79.56%	76.73%	71.84%
2014\15	78.77%	75.32%	75.06%
2015\16	84.59%	84.07%	69.04%
2016\17	88.47%	85.05%	76.24%
Average	82.84%	80.29%	73.05%

Calculation shown in Appendix

The above table shows that credit to deposit ratio of MBL, NMB, and EBL has been found satisfactory. The credit deposit to deposit ratio of MBL was 79.56% at the end of FY 2013/14 which is increased to 88.47% at the end of FY 2016/17. The average C/D ratio of MBL is 82.84%, whereas NMB was 76.73% at the end of FY 2013/14 which is increased to 85.05% at the end of FY 2016/17. The average C/D ratio of NMB is 80.29%. Similarly, EBL was 71.84% at the end of FY 2013/14 which is increased to 76.24% at the end of FY 2016/17. The average C/D ratio of EBL is 73.05%.

4.2.2 Analysis of Assets Quality

4.2.2.1 Non Performing Loan Ratio

This ratio is used to identify the share of bad debts or useless credits in the total credit & advances of banks. In other words, this is the share of credits, which are failed to generate regular earnings. It is always expressed in percentage. Lower and lower ratio is desirable for banks.

Table 4.9

Non-Performing Loan Ratio of MBL, NMB, and EBL

Fiscal Year	MBL	NMB	EBL
2013\14	1.78%	0.55%	0.57%
2014\15	0.64%	0.43%	0.37%
2015\16	0.55%	1.81%	0.38%
2016\17	0.38%	1.67%	2.54%
Average	0.83%	1.11%	0.95%

Calculation shown in Appendix

The non-performing loan ratios of MBL in the fiscal years 2013/14, 2014/15, 2015/16, and 2016/17 were 1.78%, 0.64%, 0.55%, 0.38% respectively.

The non-performing loan ratios of NMB in the fiscal years 2013/14, 2014/15, 2015/16, and 2016/17 were 0.55%, 0.43%, 1.81%, and 1.67% respectively. The non-performing loan ratios of EBL in the fiscal years 2013/14, 2014/15, 2015/16, and

2016/17 and were 0.57%, 0.37%, 0.38% and 2.54% respectively. The average non - performing loan ratios of MBL, NMB and EBL 0.83% , 1.11% and 0.95% respectively. NMB has highest non-performing loan ratios among three sample banks.

The comparison of non- performing loan ratio to total credit and advance showed that NMB had the highest non-performing loans ratios among the three banks. MBL has the lowest average non-performing loan ratio over the period among the three sampled commercial banks. The average non-performing loan ratio of NMB and EBL is higher than overall average.

4.2.2.2 Loan Loss Provision Ratio

This ratio is also known as covering of the possible cause of loan loss as compared to non-performing assets. or commercial bank It help to find out how much amount (%) is set aside as loan loss provision to cover the possible cause of loan loss as compared to non-performing assets. Lower ratio is desirable for all firms. This ratio for banks is given by dividing the total loan loss provision by the non-performing assets of the bank as shown hereunder:

$$\text{LLP Ratio} = \frac{\text{Total Loan Loss Provision (TLLP)}}{\text{Total Non Performing Loan (TNPL)}} * 100\%$$

Table 4.10

Loan Loss Provision Ratio of MBL, NMB, and EBL

Fiscal Year	MBL	NMB	EBL
2013\44	1.65%	1.52%	1.05%
2014\15	1.26%	1.34%	1.73%
2015\16	1.35%	2.54%	1.38%
2016\17	1.34%	2.31%	1.27%
Average	1.4%	1.92%	1.35%

Calculation shown in Appendix

The non-performing loan to loan loss provisioning ratios given by non-performing loan to loan loss provision of MBL in the fiscal years 2013/14, 2014/15, 2015/16 and 2016/17 were 1.65%, 1.26%, 1.35%, and 1.34% respectively.

The non-performing loan to loan loss provisioning ratios, given by non-performing loan to loan loss provision of NMB in the fiscal years 2013/14, 2014/15, 2015/16, and 2016/17 were 1.52%, 1.34%, 2.64%, and 2.31% respectively. Similarly non-performing loan to loan loss provision of EBL in the fiscal years 2013/14, 2014/15, 2015/16, 2016/17 and 2017/18 were 1.05%, 1.73%, 1.38%, and 1.27% respectively.

The above study suggests that NMB had the highest average non-performing loan to loan loss provisioning ratios, given by non-performing loan to loan loss provision ratio, while MBL had been recovering its non-performing assets for possible cause of loan loss as compared to lowest average non-performing assets to loan loss provision ratio over the study period. The average non-performing loan to loan loss provision ratio of NMB lied in between these two. It indicates that NPA in an efficient way as compared to the other two banks. However, MBL seemed little backward in recovering its non-performing loan for possible cause of loan loss.

4.2.3 Analysis of Management

An Institution can achieve their objectives and goals only when the management has its strategic mission, vision and objectives. Sound Management practices are demonstrated by active ut not good move right by the Board of Directors and Management, competent personnel, adequate policies , processes and controls taking into consideration the size and sophistication of the bank/nonblank ; maintenance of an appropriate audit program and internal control environment ; and effective risk monitoring and management information system. Therefore what it can be said is a bank having all other factors viz. adequate capital, large no. of staffs, good location, good market etc management can do nothing as it has been rightly said "good management can make, bad management can break." In addition to the physical observation of the management, one of the very important financial ratios has been used to analyze the management efficiency.

4.2.3.1 Management Efficiency Ratio

Management Efficiency Ratio is the ratio of net income of any bank to its number of working employees. This ratio shows the contribution of each employee in generating total net income. A good management always has sufficient number of efficient, motivated, responsible and dedicated manpower in the team. It is always confident at

its system. The higher ratio indicates existence of efficient management and vice versa. It can be calculated by using following formula:-

$$\text{ME Ratio} = \frac{\text{Net profit after tax}}{\text{No of employees}}$$

Table 4.11

Management Efficiency Ratio of MBL, NMB and EBL

(In million)

Fiscal Year	MBL	NMB	EBL
2013\14	0.741	1.273	2.259
2014\15	1.032	1.403	2.261
2015\16	1.354	3.547	2.354
2016\17	1.755	0.898	2.682
Average	1.221	1.782	2.389

Calculation shown in Appendix

The above table shows that the average ratio of EBL is highest where as the average ratio of NMB and MBL are lowest. The ratio of EBL is the highest in the F/Y 2013/14 to 2016/17. The ratio of EBL in the F/Y 2013/14 is lower than unity. The movement of the ratio is in increasing trend in case of MBL after 2014/55. Similarly the ratio is in increasing trend in case of NMB. of the This has happened because the number of staffs in each bank has been increased but at the same time the income banks has been increased in the more than proportion. As effectively the human resources are mobilized, the better earning the bank gain. So, the remedy would be either to reduce no of staffs or to increase efficiency or to increase profit volume.

4.2.4 Analysis of Earning

Earning is the difference between- income and expenses. Higher earning indicates higher income and lower expenses. Higher earning is always a result of better performance. Therefore earning is one of the measuring rods of any banks' financial performance.

4.2.4.1 Return on Equity

It measures a company's success in earning a return for the common stockholders. Higher ROE indicates better utilization of capital fund. The Return on Equity ROE is derived by dividing net profit after tax by total equities. Mathematically,

$$ROE= \frac{Net\ Profit\ after\ Tax\ (NPAT)}{Total\ Equities\ (TE)}*100\%$$

Table 4.12

Return on Equity of MBL, NMB, and EBL

Fiscal Year	MBL	NMB	EBL
2013\14	28.33%	17.08%	24.75%
2014\15	34.30%	18.33%	20.57%
2015\16	23.24%	20.12%	20.61%
2016\17	19.73%	10.84%	17.37%
Average	26.40%	16.59%	20.82%

Calculation shown in Appendix

The above table shows that the average return on equity ratio of MBL is highest, which is 26.40%. Whereas the ratio of EBL and NMB are the lowest which are just 20.82% and 16.59%. The ratio of MBL in the F/Y 2014/15 is the highest among all the ratios which indicates the bank was most successful in mobilizing its equity to yield highest return. However the movement of ratio of all the banks is in increasing trend throughout the study period.

4.2.4.2 Return on Assets (ROA)

It measures a company's success in earning a return for all providers of capital. Higher ROA means optimum utilization and management of the total assets. This ratio is calculated by dividing the net profit after tax by total assets, it can be expressed as,

$$ROA= \frac{Net\ Profit\ after\ Tax\ (NPAT)}{Total\ Assets\ (TA)}*100\%$$

Table 4.13

Return on Assets of MBL, NMB and EBL

Fiscal Year	MBL	NMB	EBL
2013\14	1.12%	1.36%	2.25%
2014\15	1.26%	1.21%	1.85%
2015\16	1.51%	1.49%	1.61%
2016\17	1.89%	1.69%	1.72%
Average	1.46%	1.42%	1.86%

Calculation shown in Appendix

The above table shows that the average return on assets ratio of EBL is highest, which is 1.86%. Whereas the ratio of MBL and NMB are the lowest which, are 1.46% and 1.42% respectively. The ratio of EBL in the F/Y 2013/14 is the highest among all the ratios which indicates the bank was most successful in mobilizing its assets to yield highest return. However the movement ratio of all the banks is in fluctuating trend through out the study period. The average return of EBL is high so the performance of the EBL is satisfactory.

4.2.4.3 Earning Per Share (EPS)

It measures the amount value of shareholders gain from each share held. It is an important ratio for an investor because of its relationship to dividends and market price. Higher EPS indicates higher return for the shareholders.

$$\text{EPS} = \frac{\text{Net Profit after Tax (NPAT)}}{\text{No. of Shares}}$$

Table 4.14

Earning Per Share of MBL, NMB and EBL

Fiscal Year	MBL	NMB	EBL
2013\14	18.34.	20.5	86.08
2014\15	12.20	25.05	78.04
2015\16	25.04	27.78	65.97
2016\17	24.00	26.88	44.32
Average	19.89	25.05	68.60

Calculation shown in Appendix

The above table shows that the average EPS of EBL is the highest which is Rs 68.60.0 where as the average EPS of MBL is the lowest which is Rs 19.89 EBL has the highest EPS in the F/Y 2013/14 which is Rs 86.08 The movement of EPS of all sample banks seems to be in increasing decreasing in all fiscal year. There is no standard value prescribed for EPS but higher value is preferable. Higher volume of profit is required to have higher level of EPS. So the banks need to increase profit volume to increase the EPS

4.2.4.4 Price Earning Ratio (P/E ratio):

This ratio reflects the price currently being paid by the market for each rupee of currently reported EPS. This ratio helps security analysts to asses a bank's performance as expected by the investors. Higher ratio indicates better place for the investment and vice versa. It can be calculated by using following formula:-

$$\text{P/E ratio} = \frac{\text{Market Price per Share}}{\text{Earning per share}}$$

Table 4.15

Price Earning Ratio of MBL, NMB and EBL

Fiscal Year	MBL	NMB	EBL
2003\04	31.40	25.13	30.58
2004\05	25.40	20.24	27.17
2005\06	27.15	29.15	51.31
2006\07	15.00	20.27	30.53
Average	24.73	23.69	34.89

Calculation shown in Appendix

The above table shows that EBL has the highest value of average ratio which is 34.89. Whereas NMB has the lowest average ratio of 23.69. EBL has the highest ratio in the F/Y 2015/16 which is 51.31 which signifies that the public have more trust on the bank's earning as well as its performance. They have seen future potentiality of the

bank's even better performance. The movement of the ratio is in increasing or decreasing trend.

4.2.5 Analysis of Liquidity

Banks pay the depositors their money when demanded and if this is not met, it damages bank's image. before banks keep a certain percentag4e of their fund on such assets that can be utilized as need arises, The confidence of the public will be lost and this leads the bank towards its down fall. So, banks should not invest all the money it has on exposure based assets only, as it will not be repaid when required. The which is known as liquid assets. To maintain Liquidity we have to analyze few ratios, which are as follows:

4.2.5.1 Calculation of Cash Reserve Ratio

As we know that every bank has to maintain a reserve with Nepal Rastra Bank (NRB) equal to 5% of total local currency deposit. This is done so that there will be no problem relating to deficiency of liquid cash as it affects the goodwill of the banks. How much CRR a bank has maintained can be calculated by using following formula:-

4.2.5.1 Calculation of Cash Reserve Ratio

As we know that every bank has to maintain a reserve with Nepal Rastra Bank (NRB) equal to 5% of total local currency deposit. This is done so that there will be no problem relating to deficiency of liquid cash as it as

$$CRR= \frac{\text{Cash balance in NRB}}{\text{Total deposit}}$$

Table 4.16

Cash Reserve Ratio of MBL, NMB and EBL

Fiscal Year	MBL	NMB	EBL
2013\14	8.52	13.72	16.91
2014\15	10.4	13.32	24.27
2015106	7.28	10.81	16.61
206\17	9.31	7.72	16.52
Average	8.87	11.39	18.57

Calculation shown in Appendix

As prescribed by NRB the commercial banks have to maintain a reserve of 6% against their deposits. The above calculated data of the three observed banks show that MBL, NMB, and EBL are able to maintain the average reserve of 8.87, 11.39, and 18.57 respectively. This annual end calculation shows that all sample banks may be able to pay its depositors when needed whereas the MBLcash idle in bank. As NRB wants bank to maintain CRR on weekly basis the above shown CRR may not reflect actual position of banks. The provision of showing weekly CRR at the Year end in the annual report is thus required.

4.2.5.2 Cash and Bank Balance to Total Deposit

This Ratio is designed to measure the Banks ability to meet immediate obligation, mainly cash withdrawal by depositors. Lower Ratio indicates that banks might face a liquidity crunch while paying its obligations whereas very high ratio indicates that the bank has kept idle funds and not deploying them properly. Cash and Bank Balance Ratio is derived by dividing the cash and bank balance by total deposits. Symbolically,

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

Table 4.17

Cash and Bank Balance to Total Deposit Ratio of MBL, NMB and EBL

Fiscal Year	MBL	NMB	EBL
2013\14	17.62%	21.4%	21.20%
2014\15	18.97%	27061%	30.22%
2015\16	15.29%	16.26%	22.58%
2016\17	16.51%	17.35%	22.48%
Average	17.09%	20.65%	24.12%

Calculation shown in Appendix

This ratio reflects the banks ability to pay short term and immediate obligation to the average that customers. EBL has the highest average ratio of 24.12% among the three

banks, whereas MBL has the lowest of 17.09%. It can be show the ratios are in fluctuating trend in all the three banks which shows that the banks are trying to manage their cash effectively so that their won't be extra idle cash and the obligation should also meet.

4.2.5.3 Investment in Government Securities

Liquidity is a sensitive factor for the banking sector. All the banks all over the world invest a significant amount of total deposit on the government securities in their Liability respective central banks to ascertain to meet the liquidity shortages in the banks incase of huge unanticipated withdrawals. Banks are highly encouraged to invest in the government securities because it is as good as liquid assets and there is no risk in government securities. In case of Nepal, since October 1974, NRB instructed banks to maintain Statutory Reserve Ratio (SRR) of 32% of total deposit in the form of government securities and CRR. Since July 1997, this provision of SLR was fully removed as this hindered the bank's capacity to lend and created obstruction on the credit expansion of the banks. Thus NRB has not laid down any specific rule regarding the percentage to be invested in the government securities like treasury bills, development bonds, and national saving bonds. The ratio is calculated by dividing the investment in government securities by total deposits. Mathematically,

$$\text{Investment in Government Securities} = \frac{\text{Investment in Government Securities}}{\text{Total Deposit}} * 100\%$$

Table 4.18

Investment in Government Securities Ratio of MBL, NMB and EBL

Fiscal Year	MBL	NMB	EBL
2013\14	7.99%	7.84%	4.09%
2014\15	5.97%	12.16%	10.33%
2015\16	8.47%	13.10%	11.05%
2016\17	7.87%	9.17%	8.97%
Average	7.56%	10.56%	8.61%

Calculation shown in Appendix

Government securities are easily liquid able assets and to meet shot term obligation. The banks invest some percentage of their deposit in these risk free assts. The above table shows that investing NMB has invested the highest proportion of its deposit in the government securities i.e. 10.56%. other bank are investing in government security less the NMB bank which is 8.61% and 7.56. This scenario shows that the banks are adopting their own initiation and in government securities accordingly. Generally the investment depends on the combination of deposits the bank has. The more the percentage of fix deposits higher the investment in government securities. The higher percentage shows the better liquidity position of the bank.

4.3 Percentage of Pass, watch list Doubtful, Bad Loan to Total Loan of Total Commercial Banks

There should be 1%, 5%, 25%, 50% and 100% provisioning for pass loan, watchlist, substandard loan, doubtful loan and. So, bad loan as per regulatory requirement. When pass loan and watchlist increases and other loan decreases, the requirement of provisioning will be lower and it will increase the profitability due to low amount of provisioning for increased amount of profitability, position of pass loan, substandard loan, doubtful loan and bad loan are studied here if the pass loan and watch list loan are increase other loan are decrease then the banks profitability is increase.

4.4 Major Findings of the Study

The thesis has been concentrated on the financial analysis based on CAMEL of MBL,NMB, and EBL, certain findings based on the analysis are given below:

the capital adequacy ratio of MBL, NMB and EBL are able to comply with the requirement of NRB. Since the prescribed proportion of minimum capital fund by NRB for the FY 2013/14 to 2016\17 were total capital fund at 11%, 11% in 2015/16 onwards minimum capital adequacy required on the basis of NRB directives capital adequacy requirement framework 2015 and Core capital is 5%, 5.5%, and 6% % on total risk weighted assets.

Total capital fund In FY 2013\14 to 2016\17 NMB has maintained the average total capital fund at 11.83% and average core capital 10.31% of total risk weighted assets which is nearby to the framework given by the NRB. While required of norms

directed by NRB was 9% to 11%. So, NMB have higher capital adequacy ratio than prescribed ratio. MBL and EBL has also maintained the average total capital fund at 13.017% and 12.99% average core capital 12.66% and 10.71% of total risk weighted assets. MBL has maintained the average total capital fund at 13.071% and average core capital 12.66% of total risk weighted assets. So, MBL have higher capital adequacy ratio than prescribed ratio by NRB.

credit to deposit ratio of MBL, NMB, and EBL has been found satisfactory. The credit deposit to deposit ratio of MBL was 79.56% at the end of FY 2013/14 which is increased to 88.47% at the end of FY 2016/17. The average C/D ratio of MBL is 82.84%, whereas NMB was 76.73% at the end of FY 2013/14 which is increased to 85.05% at the end of FY 2016/17. The average C/D ratio of NMB is 80.29%. Similarly, EBL was 71.84% at the end of FY 2013/14 which is increased to 76.24% at the end of FY 2016/17. The average C/D ratio of EBL is 73.05%.

The non-performing loan ratios of MBL in the fiscal years 2013/14, 2014/15, 2015/16, and 2016/17 were 1.78%, 0.64%, 0.55%, 0.38% respectively.

The non-performing loan ratios of NMB in the fiscal years 2013/14, 2014/15, 2015/16, and 2016/17 were 0.55%, 0.43%, 1.81%, and 1.67% respectively. The non-performing loan ratios of EBL in the fiscal years 2013/14, 2014/15, 2015/16, and 2016/17 and were 0.57%, 0.37%, 0.38% and 2.54% respectively. The average non -performing loan ratios of MBL, NMB and EBL 0.83% , 1.11% and 0.95% respectively. NMB has highest non-performing loan ratios among three sample banks.

The comparison of non- performing loan ratio to total credit and advance showed that NMB had the highest non-performing loans ratios among the three banks. MBL has the lowest average non-performing loan ratio over the period among the three sampled commercial banks. The average non-performing loan ratio of NMB and EBL is higher than overall average.

The non-performing loan to loan loss provisioning ratios, given by non-performing loan to loan loss provision of NMB in the fiscal years 2013/14, 2014/15, 2015/16, and 2016/17 were 1.52%, 1.34%, 2.64%, and 2.31% respectively. Similarly non-performing loan to loan loss provision of EBL in the fiscal years 2013/14, 2014/15, 2015/16, 2016/17 and 2017/18 were 1.05%, 1.73%, 1.38%, and 1.27% respectively.

the average ratio of EBL is highest where as the average ratio of NMB and MBL are lowest. The ratio of EBL is the highest in the F/Y 2013/14 to 2016/17. The ratio of EBL in the F/Y 2013/14 is lower than unity. The movement of the ratio is in increasing trend in case of MBL after 2014/55. Similarly the ratio is in increasing trend in case of NMB. of the This has happened because the number of staffs in each bank has been increased but at the same time the income banks has been increased in the more than proportion. As effectively the human resources are mobilized, the better earning the bank gain. So, the remedy would be either to reduce no of staffs or to increase efficiency or to increase profit volume.

As prescribed by NRB the commercial banks have to maintain a reserve of 6% against their deposits. The above calculated data of the three observed banks show that MBL, NMB, and EBL are able to maintain the average reserve of 8.87, 11.39, and 18.57 respectively. This annual end calculation shows that all sample banks may be able to pay its depositors when needed whereas the MBLcash idle in bank. As NRB wants bank to maintain CRR on weekly basis the above shown CRR may not reflect actual position of banks. The provision of showing weekly CRR at the Year end in the annual report is thus required.

CHAPTER FIVE
SUMMARY, CONCLUSION AND IMPLICATION

5.1   Summary

The study has been done with the help of the concept of "CAMEL" using various financial ratios and statistical tools. Financial analysis helps the judgment about the operating performance of financial position while through the use of statistical tools, the trends of position of the bank can be found. The study is based on the capital funds of the bank which is supposed to be adequate as per the Nepal Rastra Bank directive on the capital adequacy framework 2015, which is related with the capital adequacy norms for commercial banks. Basically, the norms emphasize on the basic requirements of the capital fund that a commercial bank should possess. The basic objective of the norms is to safeguard the interest of the depositors. The thesis report is generally focused on accordance of the capital adequacy norms of Nepal Rastra Bank by these commercial banks. As stated by these norms, bank's capital has been divided into two categories which are usually known as Tier-1 and tier-2. At present, 28 commercial banks have been established in the country. The report as comparative study, analyzes the matters, issues and problem related the performance of commercial banks through CAMEL of Machhapuchchhre Bank Limited (MBL) and NMB bank limited (NMB) which is struggling to include and Everest Bank Ltd (EBL) which is believed to be of the strong joint venture banks of the country. Generally, the thesis report is focused on CAMEL and on accordance of the capital adequacy norms of Nepal Rastra Bank by these commercial banks.

Financial institutions like banks are the replica of modernization of the society and play a vital role in the development of economic growth of the country. Commercial banks furnish necessary capital needed for trade and commerce for mobilizing the dispersed saving of the individuals and institutions. The primary functions of commercial banks are raise and utilization of funds. Commercial banks collect a large amount of deposit from general public capital is one of the most important components for an organization. Actually, no organization can exist without capital. Although the banks are the major banks have obligations to mass people, its

depositors. Thus, the bank should hold an adequate source of capital, they also have to raise capital to run business. Especially, the bank capital has significant role to play as the capital secure the interest of depositors.

The study showed that the capital fund of MBL, NMB & EBL meet the requirement of the norms. Capital adequacy ratio shows the strength of a bank. Capital to deposit adequacy ratios have been calculated to check the adequacy as per the norms. The capital adequacy ratio of MBL, NMB and EBL shows that the all three banks are able to comply with the requirements of NRB. The capital ratio has a significant role in measuring capital adequacy ratios of banks. C/D ratios, which are key ratios of commercial banks, have also been checked. The relationship of capital fund with credit and deposit has been calculated.

The thesis report also studies the responses of ten bank officials has been done through research interview. The financial statement of four years from 2013\14 to 2016\17 had been examined to fulfill the objective of the study.

5.2   Conclusion

After the summarizing the objective of the study, we will now go to the conclusion section. With some twenty-eight commercial banks operating in Nepal, the market seems over crowded and the banks are now finding a tough competition among themselves. commercial banks in Nepal are doing well but they are not giving satisfactory results due to some internal and external factors.

Commercial banks of Nepal are bound by the directives of NRB. The directives No. 1 has set norms on capital adequacy for commercial banks. Every commercial bank has to meet the requirement of capital adequacy as stated by the directives. Capital adequacy is the portion of capital fund in regard of risk-weighted assets that commercial banks hold. Capital adequacy is required to the money of the depositors as the banks are playing with the money they collected from the depositors.

The study showed that the capital fund of MBL, NMB & EBL meet the requirement of the norms. Capital adequacy ratio shows the strength of a bank. Capital to deposit

adequacy ratios have been calculated to check the adequacy as per the norms. The capital adequacy ratio of MBL, NMB, and EBL seem to be satisfied. The lack of policy in regard of these types of ratios caused to the relaxation of the banks not to meet the adequate rations.

5.3   IMPLICATION

The recommendation of this study may be the important information for those who are very much concerned directly with the performance of the concerned banks and capital adequacy norms. Thus, following recommendation and suggestion can be outlined.

   a) The capital fund of sampled commercial bank i.e. MBL, NMB and EBL are largely depend upon share capital. It is recommended to the commercial banks to follow optimal capital structure which maximizes the market value of the firm. The banks should use some sort of debt financing depending upon its viability. Still in Nepal, debt financing is an accustomed source of financing for commercial bank.

   b) l banks. But it is notable that MBL has already started the debt financing.

   c) Capital to deposit ratio of MBL, NMB and EBL seems to be inadequate. It is less than what actually required. There is lack of standard on such type of ratio. So, NRB should set appropriate standard for capital to deposit ratio to be maintained by commercial banks. It is assumed that capital to deposit ratio should be in between 8% to 11%. So, sampled banks are suggested to keep the balance as required by NRB.

   d) The study showed that the capital fund of MBL, NMB & EBL meet the requirement of the norms. Capital adequacy ratio shows the strength of a bank. Capital to deposit adequacy ratios have been calculated to check the adequacy as per the norms. The capital adequacy ratio of MBL, NMB are comparatively less than that of EBL. This ratio shows how effectively the banks have been using the fund they collected from depositors. It is recommended to MBL that it should concentrate more on credit and

investment. The bank shall expand its branches in rural areas and search investment opportunity there. The C/D ratios of EBL in nearer to this standard but overall point of view, EBL cannot relax with such C/D ratios. More credit flows are required to verge on the optimum C/D ratio.

e) MBL, NMB and EBL are quite successful in maintaining capital The study showed that the capital fund of MBL, NMB & EBL meet the requirement of the norms. Capital adequacy ratio shows the strength of a bank. Capital to deposit adequacy ratios have been calculated to check the adequacy as per the norms. The capital adequacy ratio of MBL, NMB. It should be noted here that shortfall in the supplementary capital can be compensated by the use of the excess amount of core capital. Therefore, it is recommended that sampled banks should improve their supplementary capital.

f) The bank should increase its core capital in order to expose itself to more credit risk. With the reduction in the single obligor limit, there are only two choices for the bank to limit its clients within standards or to increase the core capital. While staying with the existing core capital, MBL, NMB and EBL are exposing to the risk of losing huge and good clients to other banks with huge amount of core capital that can withstand the loan exposure of such client. On doing this, MBL, NMB and EBL will on one way not be able to mobilize its deposits and on the other will have to stick to small client. The increase in the number of small client will take the operating costs of the bank up, thus decreasing the profitability.

g) While lending loans and advances, banks should keep in account that the fund they are going to lend is collected from public and hence should be carefully treated on behalf of the depositors to protect their interest.

h) The existing capital adequacy directives issued by Central bank of Nepal (Nepal Rastra Bank) had been prepared considering only credit risk. So, it is recommended that Nepal Rastra Bank should issue new directives on capital adequacy which can cover other risk in banking sectors such as

operational risk, market risk, liquidity risk, reputational risk, strategic risk etc. For this purpose, new BasleIII capital Accord 2015.

i) For the preparation and successful implementation of new capital adequacy framework 2015, concerned authorities should initiate following activities. :

a. Capacity Building in financial sector:
   ➢ by developing supervisory and regulatory activities,
   ➢ Home/Host Supervisions,
   ➢ Cross Boarder Supervision

b. Developing financial infrastructure:
   ➢ By establishing Credit Rating Agency and Asset Management Company.
   ➢ By issuing prudential rules and regulations on securities firms

c. Developing Management Information System and risk management practices
   ➢ By improving portfolio management skills in banking sectors
   ➢ By improving traditional risk management/manual banking practices
   ➢ By solving the problem with huge negative net worth problem
   ➢ By strengthening corporate governance in banking sectors

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