

**FINANCIAL PERFORMANCE MEASUREMENT
THROUGH CAMEL MODEL IN ADBL AND RBBL**

A Thesis Proposal

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1.1 Background of the study

A bank is a financial intermediary that accepts deposits and lends money to the people and an institution providing the service of transferring money and generating income. The word, bank is basically means bench or counter and comes from the middle French word named banque. Due to the significance of banks in the financial system and national economies, they are highly in most countries and now become the part of everybody's life.

In developing countries like Nepal, banks play a major role in financial development. The stability of commercial banks as whole in the economy depends on better financial performance. Better financial performance level has tendency to absorb risks and shocks that commercial banks can face. There are different stakeholders that have interest in evaluations of the performance of banks including depositors, investors, bank managers and regulators (Ibrahim, 2014). For instance central banks and bank regulators may need to identify and call attention to banks that are experiencing chronic financial problems in order that they may fix them before they get out of control. On the other hand, Shareholders need to assess which banks they can deem suitable for financially invest in. The banks evaluate their performance over a given period so that they may determine the efficacy and long term viability of management decisions or goals so that they can alter the course and make changes whenever it is appropriate.

The study is motivated by the fact that, the measurement of financial performance of the banking sector is important for several reasons. First, financial performance is a vital factor for financial institutions wishing to carry out their business successfully, given the increasing competition in the financial markets. Second, in a rapidly changing and more globalized financial market place, governments, regulators, managers and investors are concerned about how efficiently banks transform their expensive inputs input various financial products and services. Third, the financial performance measures are critical aspects of banking sector that enable us to distinguish banks that has the capability to survive and prosper from those that may have problems with competitiveness.

The stage of development of the banking industry is a good reflection of the development of the economy (Misra and Aspal, 2013). To sustain the development of the economy, the performance and health of the banks has to be checked and evaluated

periodically. There are different approaches, used by different regulatory bodies. Among those approaches, most preferred parameters used by the regulators and different scholars are CAMEL (Capital adequacy, assets quality, management efficiency, earnings and liquidity) rating criterion to assess and evaluate the performance and financial soundness of the activities of the bank. The CAMEL supervisory criterion in banking sector is a significant and considerable improvement over the earlier criterion in terms of frequency, check, spread over and concentration (Misra and Aspal, 2013; Basel, 2011). Hence this study intends to analyze the performance of both public sector banks in Nepal by using CAMEL approach.

1.1.1 An Overview of Rastriya Banijya Bank Ltd.

Rastriya Banijya Bank Ltd was established on January, 1966 with a paid up capital of Nrs 858.90 Crore. RBBL is one of the pioneer banks in the country with the history of half century. Earlier constituted under RBB act 2021 with the full ownership of the government of Nepal, the bank has been running under Bank and Financial Institution Act (BAFIA) and Company Act 2063 at present. RBBL which has made glorious history of contributing for the monetization of the economy, eliminating dual currency in the market, initiating preliminary financial literacy, and helps flourish industrial, commercial and financial sector of the country has now emerged as a modern and strong financial institution.

1.1.2 An Overview of Agriculture Development Bank Ltd.

With the main objective of providing institutional credit for enhancing the production and productivity of the agricultural sector in the country, the Agricultural Development Bank, Nepal was established in 1968 under the ADBN Act 1967, as successor to the cooperative bank. The Land Reform savings corporation was merged with ADBN in 1973. Subsequent amendments to the act empowered the bank to extend credit to small farmers under group liability and expand the scope of financing to promote cottage industries. The amendments also permitted the bank to engage in commercial banking activities for the mobilization of domestic resources.

The bank worked as a premier rural credit institution since its establishment, contributing substantial agricultural credit supply in the country. Rural finance has been the principal operational area of ADBN in the past. However, the bank is also involved in commercial banking operations since 1984, to provide commercial banking services.

1.2 Statement of the Problem

Financial institutions soundness is judged on the basis of capital adequacy, asset quality, management efficiency, earning and liquidity (CAMEL). Some financial institutions have very low capital adequacy ratio while some have piled up non-performing assets. Similarly, it appears that financial institutions do not have proper system managing the correctness of credit classification and provision of some commercial banks. The profitability position of a firm is generally known through financial statements but a major question emerges whether they are adequate to reflect the overall performance of company. The fundamental problem of this study is to check up the financial health of Rastriya Banijya Bank Ltd and Agriculture Development Bank Ltd in the framework of CAMEL.

Based on the general problem the following specific problems are set in this study.

1. What is the financial performance of ADBL and RBBL by applying CAMEL Model?
2. What is the relationship of component of CAMEL model and ROE and ROA of ADBL and RBBL?
3. What is the difference between financial performances of the ADBL and RBBL by applying CAMEL Model?

1.3 Objectives of the study

The general objective of this study is to make comparative analysis of the financial performance of Rastriya Banijya Bank Ltd and Agriculture Development Bank Ltd by using CAMEL model and to give implications and suggestions for the improvement of performance and financial position of these two banks. The study will be conducted to accomplish the following specific objectives:

1. To analyze the financial performance of ADBL and RBBL by applying CAMEL Model.
2. To examine the relationship of component of CAMEL model and ROA and ROE of ADBL and RBBL.
3. To compare the financial performance of ADBL and RBBL by applying CAMEL Model.

1.4 Significance of the Study

Research itself has own importance because it aims to gain knowledge and to add the new literature to the existing field. The significance of this study lies mainly in filling a research gap on the study of comparative financial performance analysis of with respect to Rastriya Banijya Bank Ltd and Agriculture Development Bank Ltd. This study will contribute significantly to solve the problem existing in the financial institution and to formulate the policy and strategies to maintain activities effectively. The study will be important for commercial banks, researchers, scholars, investors, students, government and many other stakeholders. So, this study will be helpful to those who want to study in further detail and widely in this field. And it is also expected that the study will add a drop of literature to the field of commercial banks and their comparative financial performance analysis.

1.5 Limitations of the study

The study has been carried out subject to the following limitations.

- 1) This study will concern with public sector banks which cannot be representing the entire banking sector and results of the study are limited to these two particular banks only. Hence, the results may be not applicable to the entire banking sector.
- 2) The study will be based on secondary data which will be collected from published annual reports of banks and various relevant internet sources. The data obtained through is subject to window dressing and may not show the actual position of the banks.
- 3) The study will cover a period of only five years.

1.6 Review of Literature

The financial performance of banks has been analysed by academicians, scholars and administrators using CAMEL model in the last decade. A summary of some of the studies is given below:

Baral, (2005) has conducted a research and published his paper in the journal of Nepalese business studies. "*On Health Check-up*" published his paper abstract in the Journal of Nepalese Business Studies (Volume II No.1, December 2005) of commercial bank in the framework of CAMEL, a case study of joint venture Banks in Nepal. The paper examined the financial health of joint venture Banks in the CAMEL framework for a period ranging from fiscal year 2001 to 2004. Three joint venture commercial

banks of Nepal were randomly selected for the study. The study was based on historical data disclosed by annual reports of Commercial Banks. It has covered four fiscal years data for the purpose of study. The study was based totally on the CAMEL framework.

Jha, and Hui, (2012) tried to find out the factors affecting the performance of Nepalese Commercial Banks by using various CAMEL ratios such as return on asset (ROA), return on equity (ROE), capital adequacy ratio (CAR) etc. As public sector banks have higher total assets compared to joint venture or domestic private banks, thus ROA was found higher whereas overall performance of public sector was unsound because ROE and CAR of joint venture and private banks was found superior. The financial performance of public sector banks is being eroded by other factors such as poor management, high overhead cost, political intervention, low quality of collateral etc.

Joshi, (2014) carried out a study on-“Financial Performance Analysis of Nepal SBI Bank in the framework of CAMEL.” She has used the data for six years period from 2064/65-2069/70. Her objectives are to analyze the performance of the bank through CAMEL framework. She got that bank is performing satisfactory. Some sectors are to be improved by the bank like maintain the liquidity in optimal condition, managing the loan loss and non-performing loan etc.

Dipesh B Nathwani (2015) attempt to study the six selected banks three from public sector i.e. State Bank of India, Bank of Baroda and Punjab National Bank and three banks from public sector i.e. Axis Bank, HDFC Bank and ICICI Bank for a period of ten years from 2004/05 to 2013/14 with respect to CAMEL Model. This research work has been divided into six chapters with five major CAMEL model parameters Capital Adequacy, Assets Quality, Management Efficiency, Earning Quality, and Liquidity. For each bank and each group, different types of parameters used with the help of ratios to evaluate the financial performance. In this study, it was concluded that the public sector banks in terms of overall profitability.

1.7 Research Methodology

Research methodology will follow to achieve the objectives of this study. The research methodology includes research design, population and sample, sources of data and data analysis tools and techniques.

This study will be completely using descriptive research method by secondary data according to the objectives of the study with the aim of comparison of financial performance of public sector banks i.e. Rastriya Banijya Bank Ltd and Agriculture Development Bank Ltd. This study will be completed after the analysis of collected data to meet the study objectives followed by drawing some finding, conclusion and recommendation.

1.7.1 Research Design

CAMEL is a ratio-based model used to evaluate the performance of banks with the help of different criteria, viz. Capital Adequacy, Asset Quality, Management Quality, Earnings and Liquidity. The present study will be a descriptive research study based on analytical research design.

1.7.2 Population and Sample

At present, there are 27 commercial banks which are operating in Nepal. Due to time and resource factors, it is not possible to study all of them regarding the study topic. So, all the commercial banks that are operating in Nepal are considered as the population. Among them public sector bank i.e. Rastriya Banijya Bank Ltd and Agriculture Development Bank Ltd are taken as a sample for study. RBBL and ADBL is one of the pioneer banks in the country with the history of above half century with the highest public confidence. So, these two banks will be considered as a sample for comparison of financial performance in this study. In this study five years period will be taken for the purpose of the study and analysis.

1.7.3 Nature and Sources of Data

The study will be based on secondary data. The data will be collected from the published annual reports of Rastriya Banijya Bank Ltd and Agriculture Development Bank Ltd, their websites, NRB reports and bulletins and its website, magazines and journals on finance, research report and previous dissertations.

1.7.4 Analysis of Data

The following financial and statistical tools will be applied for the analysis and interpretation of data:

- 1. Financial Tools**
 - i. Capital adequacy

- ii. Assets quality
- iii. Management efficiency
- iv. Earning capacity
- v. Liquidity

2. Statistical Tools

Statistical tools which are presented for the study are given below:

- i. Mean
- ii. Standard deviation (S.D)
- iii. Coefficient of Variation (C.V)

1.8 Chapter plan

Chapter-I: Introduction

This chapter deals with the background of the study, statement of the problems, objectives of the study, significance of the study, limitations of the study and chapter plan.

Chapter-II: Literature Review

This chapter reviews the previous published literature. It contains theoretical and empirical literatures from Journal/article and thesis.

Chapter-III: Research Methodology

This chapter deals with the methodology incorporated in the study. It contains research design, sources of data, data analysis tools and techniques, etc.

Chapter-IV: Results and Discussion

The fourth chapter includes the data analysis, interpretation of the result and discussion.

Chapter-V: Summary and Conclusion

The last chapter is related with summary, conclusion and implications for further research.

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