

CHAPTER - I

INTRODUCTION

1.1 Background

Protection of shareholders interests and rights motivates them to mobilize financial resources for the investment in development projects and thereby helps to economic development, in turn, further develop the capital. Thus when shareholders feels that their reasonable interests are fulfilled and if they satisfies with their investment, it motivates them to invest more in that sector. Shareholders' survival and betterment are all associated with the survival of the company so here comes the activities that should protect the shareholders from different aspects.

Shareholders' protection means safeguarding shareholders' rights and interests to encourage the shareholders to invest in productive sector for the economic enhancement of the nation. It is very natural that the investors support the investment sectors when they feel that they are fully protected and supported by the concerned regulating authorities. Shareholders have justifiable reasons for expecting/demanding that the firms satisfy their claim in a responsible manner. In general, stockholders claims for appropriate returns on their investment, participation in distribution of profits, additional stock offering, assets on liquidation, vote of stock, annual general meeting (AGM) held timely, inspection of company books, transfer of stock, election of Board of director, and such additional rights as have been established in the contract with the corporation.

The investors support investment sectors by investing their funds and savings. It is implied that Investors or every body wants to maximize his/her wealth in a proper and safe way, investors always endeavor to invest in such a sector which provide adequate return on their hard earn money. Whatever may be the type of investment; the major motto is to maximize the return with minimizing the risks involved there on.

Nowadays people are becoming more aware to select and invest in proper means of investment. Among them banker's fixed deposit is one of them but the people are not satisfied with the fixed deposit return due to low interest rate. So, people started to invest in productive sector like industrial, trading, service, banking sector etc for better return. The form of investment may be different such as a creditors, equity holders, stock holders etc.

The major investment in financial instruments in Nepal is the investment in ordinary shares i.e. equity share. The holders of ordinary shares, called shareholders or stockholders are the legal owners of the company. Common stock represents equity or an ownership position in a corporation. Equity shareholders are entitled for the dividends. Equity shares do not carry any special or preferential rights in the payment of annual dividend or repayment of capital. The rate of dividend on such shares is not fixed. Dividend on equity shares is paid out of the residual profits left after paying interest on debentures and preference share dividends. But shareholders share in the increasing profits of the company. Shareholders also enjoy voting rights in the management and control of the company. Their liability for the corporation's obligation is limited. Common stock holders may lose their initial investment but not more.

Similarly, equity shareholders are paid at the time of winding up of the company after all debts and preference shareholders have been paid in full, they are entitled to receive what is left after all the prior claims have been settled. Therefore equity shareholders are the real risk bearers; this is the reason why the common stock holder should always keep eyes on each and every activity of a company. Their survival and betterment are all associated with the survival of the company and here comes the activities that should protect the shareholders from different aspects.

Buying of shares provides shareholders ownership of company and this ownership creates the right over the company. This is called shareholders right. Investors naturally want their rights and interest to be protected. Management of stockholder's firm should think toward maximization of shareholders' wealth because good for shareholder is good for company and management as a whole.

As a risk taker shareholders have collective rights and specific rights. Some of the major rights are listed below:

1. Collective Rights

The collective rights of the shareholders are right to approve/disapprove the books of account, to give suggestion to the management, right to approve the change in Memorandum and Articles of Association, right to appoint auditors and rejection of the proposal submitted.

2. Specific Rights

The specific rights include right to see the books of Account, right to participate in Annual General Meeting, right to vote for the election of Representatives, right to get dividend and market benefits and right to get the residual amount at the time of liquidation.

An efficient Capital market is an essential pre- requisite of economic development; and the development of capital market in a country is dependent upon the availability of savings, proper organization of intermediary institutions to bring the investor and business ability together for mutual benefits, regulation of the investment, etc. The shares issued by the company to raise capital for investment is traded in capital market.

Security markets provide mobility of the scattered savings. Retail investors with limited capital fund could also participate in the industrial development process of

the country through their investment in the securities. Capital market is the place where the various securities are traded to collect the necessary funds through mobilizing the individual and institutional surplus.

In this context, the influencing role of Stock Exchange Board lies in motivating for the investment of small saving of the country towards security. The board will afford a market place to issuers, in which they can confidently look forward to raising all the finance they need in a smooth, fair and efficient manner. Similarly, the Board will provide a high degree of protection of their rights and interests, through adequate, accurate and authentic information and disclosure of information regularly (*Vaidya; 2001: 165-172*).

Role of Security Board Nepal (SEBO/N) and Nepal Stock Exchange (NEPSE) in Protecting Shareholders' Interest

Security Board Nepal

Securities Board of Nepal (SEBON) was established by the Government of Nepal on June 7, 1993 as an apex regulator of Securities Markets in Nepal. The main objective of SEBON is to regulate and develop the securities market and protect investor's rights. It has been regulating the market under the Securities Related Act, 2006. The major functions, duties and powers of SEBON are as follows.

-) To offer advice, as per necessity, to Government of Nepal on matters incidental to the development of the capital market.
-) To register the securities of any corporate bodies established with the authority to make a public issue of its securities.
-) To regulate and systematize the issue, transfer, sale and exchange of registered securities.
-) To grant permission to operate a stock exchange to any corporate body desirous of doing so, subject to this Ordinance or the rules and bye-rules framed under this Ordinance.

- J To supervise and monitor the functions and activities of stock exchange.
- J To inspect whether or not any stock exchange is executing its functions and activities in accordance with this Ordinance or the rules and bye-rules framed under this Ordinance, and to suspend or cancel the license of any stock exchange which is not found to be doing so.
- J To issue licenses to conduct the business of dealing in securities, subject to this Ordinance, or the rules and the bye-rules framed under this Ordinance, to companies or institutions desirous of conducting the business of dealing in securities.
- J To classify security business persons and fix their standards according to their functions and capability by fulfilling such procedures as prescribed.
- J To supervise and monitor the functions and activities of securities-dealers.
- J To grant permission to operate collective investment schemes and investment fund programs, and to supervise and monitor them.
- J To approve the bye-rules concerning transactions in securities framed by stock exchanges and institutions engaged in the business of dealing in securities, and, for the purpose of making necessary provisions concerning the development of the capital market and protecting the interests of investors investing in securities, issue orders to have necessary alterations made in such bye-rules of stock exchange and institutions engaged in the business of dealing in securities.
- J To systematize the task of clearing accounts related to transactions in securities.
- J To supervise whether or not security dealers are behaving in the manner prescribed in this Ordinance, or the rules and the bye-rules framed under this Ordinance, while conducting business of dealing in securities, and suspend the license to conduct the business of dealing in securities in case any securities dealer is not found to be behaving accordingly.

- J To make or ensure necessary arrangements to regulate the volume of securities transacted and the procedure of conducting such transactions in order to ensure the promotion, development and clean operation of stock exchanges.
- J To make necessary arrangements to prevent insider trading or any other offenses relating to transactions in securities in order to protect the interest of investors in securities.
- J To review or make arrangement for reviewing the financial statements submitted by the corporate bodies issuing securities and security dealers, and issue directives deemed necessary in that connection to the concerned corporate body.
- J To systematize and make transparent the act of acquiring the ownership of a company or gaining control over its management by purchasing its shares in a single lot or in different lots.
- J To establish coordination and exchange cooperation with the appropriate agencies in order to supervise and regulate matters concerning securities or companies.
- J To discharge or make arrangements for discharging such other functions as are necessary for the development of securities and the capital market.

Nepal Stock Exchange

Nepal Stock Exchange is a non-profit organization and is the only secondary market in Nepal. It is the controlling authority of capital market. The Security Exchange Center was converted into Nepal Stock Exchange Ltd. (NEPSE) in 1993, under Securities Exchange Act, 1983. Trading on the floor began on the basis of open out cry system through licensed brokers in 1993 after the conversion of securities exchange counter into NEPSE.

NEPSE is established for the basic objective to provide marketability and liquidity to the government and corporate securities by regulating securities transactions in its trading floor through market intermediaries, protecting interest of investors and providing necessary information to them.

Before the initiation of the planned development, economic, social, physical and other kinds of infrastructure were extremely limited in the Nepalese economy so as to provide a viable base for efforts for rapid economic development of the country. Nepal accepted planning as an instrument of fulfilling national development aspirations. Consequently, her systematic efforts for overall national development on a planned basis began in the mid- fifties with the formulation and implementation of the first five year plan, 1956-1961, in 1956. Since then she has completed nine plans with mixed achievements and tenth plan is in progress, which has given priority to poverty reduction for which the plan has targeted to improve the economic, human and social indicators. An integrated effort of all the sectors has been conceived to reduce poverty.

Appearance of capital market in Nepal, has greatly contributed to development of primary as well as secondary market for corporate securities. Altogether smoothly but it still has been dull and inactive for the simple reason that the companies are not performing according to the expectations of the investors. Not only the stock market in Nepal has been very poor and operates in a traditional way but also the investors are not so rational about their investment decision. But surprisingly the whim to invest the money in a commercial bank is very common and believed to be profitable in Nepal.

Since 1985, government emphasis was on economic policy reforms, foreign investment and technology transfer. Since then several financial and commercial joint venture banks have been established in the process of development and

liberalization of the economy. With the worldwide move towards open and market oriented economic system in the world economy, open market policy has been taken by the government to make competitive industrial environment by giving ample opportunities to the domestic as well as foreign investors to invest their savings in productive areas to support the capital formation. After, liberalization, economic activities have remarkably increased in Nepal. The growth of private sector firms in the field of finance like bank, finance companies, air services, insurance business in Nepal is quite remarkable. Besides, the foreign investment particularly in the form of joint venture has remarkably increased. Thus protection of shareholders' right is an inevitable hot issue to meet the objective of financial liberalization policy of government.

Development problems are usually complex and at times very severe. Economic development is the urge of the present day world. The major concern of many countries of the world has been to accelerate their development process and thereby increase the welfare of their people. This is more so in the least developed country like Nepal, which suffers from various constraints like landlocked position, rugged terrain, and poor resource endowment, rampant poverty, poor stock market and moreover inappropriate economic policies have been responsible for the slow pace of development. Nepal is one such country where her disadvantage for accelerated development emerges from the fact that she had to start her effort for overall national development in extreme unfavorable and hostile conditions.

Nepal is one of the richest countries in the world in terms of bio-diversity due to its unique geographical position and latitudinal variation. Despite being a rich country in terms of natural gifts, Nepal's resources have been under utilized. It is a neighbor to the world's most populous countries, China & India and thus has a huge potential for investment opportunities in wide sectors of the economy. The

Government has adopted a market economy and has a liberal policy towards foreign investors.

Banks are those financial institutions that offer the widest range of financial services-especially credit, savings, and payments services- and perform the widest range of financial functions of any business firm in the economy. Commercial banks are the heart of a financial system. Commercial banks work as the intermediary between depositors and lenders and facilitate in overall development of the economy with major thrust in industrial development (*Vaidya; 2001:29*).

Now a day it is seen that people's interest has been increasing rapidly in investing in banking and financial sector. But listed banks and financial institution have to pay strong managerial role to accept accountability to create sufficient enabling environment to attract public money by providing at least general acceptable rate of return. So, management of the organization must be sensitive towards shareholders' rights if shareholders' interests are to be effectively met.

The problem facing by the investors is not only a low level of return, but there is an inappropriate protection of their rights. This is a strong reason for backward condition of capital market in Nepal. Thus this study is basically targeted to show that shareholders' protection can be the milestone of long-term capital market growth in the country.

1.2 Introduction of Nepal Investment Bank Limited

Nepal Investment Bank Limited was the second and major joint venture bank in the country with the key points of representation in major places of the kingdom of Nepal. It was established on 28th February 1986 as a joint venture between Nepalese and French partners had the official name Nepal Indosuez Bank Ltd. The French partner (holding 50% of the capital of NIBL) was Credit Agricole

Indosuez, a subsidiary of one the largest banking group in the world. With the decision of Credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, has acquired on April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd.

The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's office with the following shareholding structure.

Among the total share 50% of the total shares are owned by a group of companies, 20% by local Nepalese public and remaining by Rastriya Beema Sanstha and Rastriya Banijya Bank in equal percentage. It has the largest number of branches among the private banks i.e. 40 branches. A team of qualified and highly experienced professionals manages the Bank. In terms of the numbers of staffs employed also it comes in the list with 877 staffs including 41% are female staffers and 80 staffs members have completed more than 10 years of service in the institution(Source:www.nibl.com.np).

Achievements of the Bank (Bank of the Year)

NIBL has been awarded the prestigious "Bank of the Year 2008" by the London-based Financial Times Group's The Banker – making it the first Nepali Bank to win the award two times in three years. NIBL had also won the "Bank of the Year 2003 & 2005" award. NIBL was selected for this honor amongst the Nepali banks by meeting the stringent benchmark criteria set by The Banker. The Award is based on the growth and performance in terms of capital, assets, and return on equity and management quality.

NIBL is the pioneer in introducing many innovative products and marketing concept in banking sector of Nepal with 40 branches and some specific counters in all major cities.

Success of NIBL is a milestone in the banking history of Nepal as it paved the way for the establishment of many commercial banks and financial institutions. It ranks among the "List of top ten companies on the basis of traded amount and market capitalization" according to NEPSE record. NIBL is also a significant player in financing entities involved in various infrastructure projects.

Equity Participation of Nepal Investment Bank Limited

Organized Institutions	50%
General Public	20%
Rastriya Banijya Bank	15%
Rastriya Beema Sansthan	15%
Total	100%

Capital Structure

Authorized Capital	Rs. 4,000,000,000.00
Issued Capital	Rs. 2,409,097,700
Paid Up Capital	Rs. 2,409,097,700
(24,090,977 shares of Rs. 100 each)	

1.2.1 Product & Services

Nepal Investment Bank Ltd. Has provided the following products and services:

-) Deposit, Lending, Documentary Credits, guarantee, collection
-) Fund Transfer – Fax, Telex, Mail & SWIFT
-) Automated Teller Machine – ATM Card.
-) Safe Deposit Locker.
-) Credit Cards: Visa Card, Master Card & Diners Club.

- J Consumer Finance.
- J Corporate Finance
- J Telebanking
- J NTC Mobile Bill Payment, Vehicle Loans
- J 365 days banking service

1.2.2 Principal Activities

For the first time in the country, NIBL has formed consortium of banks and financial institutions for issuance and acquiring of Visa products. Kumari Bank has already started card operation under this scheme. The scheme allows member banks' cardholders to use other bank's ATMs at a very subsidized rate. This scheme has simultaneously enabled member banks to increase their points to representation in terms of ATMs and POS machine. Other Banks such as Nepal SBI Bank Limited, Rastriya Banijya Bank and Nepal Development Bank have also signed to become member of this consortium.

For convenience of customers, NIBL has introduced Mobile Bill Payment through e-Banking (internet banking) for all of its branches in addition to existing modes of payment through ATMs and over the-counters. The service is available 24*7. It is also a member of Society For Worldwide Financial Telecommunication (SWIFT).

NIBL has tied-up with ARY Speed Remit – UAE and Doha Bank – Qatar to increase our market share in remittance business. Its has also appointed 54 remittance disbursement agents all over Nepal for speedy distribution of remittance.

1.3 Focus of the Study

Now a day it is seen that the public interests has been increasing rapidly in investing banking and financial sector. Moreover, the participation of a large

number of shareholders in annual general meeting and voice raised by them shows how much they are interested in the growth and prosperity of their companies. This gives the challenge to companies and also Government regarding how they can protect the shareholders' rights as custodian. Thus, many organizations promise protection of almost interest of shareholders. But in actual practice the study of various companies' activities gives controversial issues. The expected dividends has not been paid timely, the annual general meeting has not been arranged timely, wealth maximization objectives of shareholders' has not been met, the public director elected from shareholders has minor voice against the government domination etc. thus, the shareholders are exploited dramatically in the slogan of committing promises by company management. Thus, considering all these factors this study mainly focuses on the protection of shareholders interests in Nepal Investment Bank Ltd.

1.4 Statement of the Problem

Even though Nepal has poor capital market and lacks the rational investors but the whim to invest in commercial bank worth mentioning. The problem is that these investors who rarely know about stock market, market indexes, stock behavior invest their money and hope for the better result. They are even not concerned with the protection of investor's interest.

A study on stock market behavior reveals that higher dividend, higher book value, better liquidity position, higher dividend payout ratio (DPR), earning per share (EPS), higher profits, bonus etc are some key factors which always draw the attention of the investors.

There are several studies conducted to analyze the financial performance of different banks. But what is notable is that their performance from the point view of shareholders and with the protection of their interests like voting rights,

transparent information, timely held annual general meeting etc. are not analyzed. Thus thinking about the problem of investor or protection of their rights is a matter of concern to this study, thus this study is therefore directed to highlight the following issues.

1. Are shareholders conscious and have knowledge about the matters relating to protection of their rights?
2. Is protection of shareholders' interest is properly mentioned in company act?
3. Are the earnings of the firm adequate?
4. Are the financial ratios of NIBL in a good position?
5. What is the dividend policy of the company?
6. Are the complete information are disclosed to shareholders and related parties?
7. What is the position of share on stock market?

1.5 Objective of the Study

Private investors are regarded as comprised foundation of industrialization for successful privatization. Their interests and rights should be protected to motivate them to invest in public limited companies. Considering this fact in mind the study is undertaken, the main objective of this study is to analyze the performance of NIBL from the viewpoint of the shareholders. Thus, this study concentrates on how far the shareholders' rights are being protected in NIBL.

Thus, the basic objectives of this study are as follow:

1. To highlight all the protective matters needed to protect the investors of the NIBL.
2. To examine the performance of the NIBL in terms of liquidity, profitability and other financial ratios.
3. To study the present state of affairs of the bank and provide suggestions.
4. To study whether NIBL has been providing transparent information or not.

5. To examine whether NIBL is concerned about the protection of investors' interest or not.
6. To examine whether the shareholders are rational enough to know about the protection of their rights and interests or not.

1.6 Selection of Enterprise

At the present context, there are 25 commercial banks being operated in Nepal. This study has chosen Nepal Investment Bank Limited for research because this organization looks to provide more information and data conveniently. Beside this, it is one of those few commercial banks in Nepal, which is highly recognized in the form of income statement, balance sheet, financial ratios etc.

1.7 Limitation of the Study

Nothing is perfect in itself. Everything has its own limitation. Likewise there are certain limitations observed in the study while writing this thesis.

1. This study is to fulfill the partial requirement for the master's degree in management. So it is not a comprehensive study and it is focused to analyze certain aspects of NIBL in Nepal.
2. This study is being done in a limited time, cost and manpower.
3. This study is based on published and secondary data. It considers the period of 5 years from 2004-2008 for this propose and the local sources are used for the research.
4. Finding of the study would be fully dependent on the accuracy and the reliability of the data provided by the respected organization and respondents.

Despite these limitations, best possible efforts have been made to ensure that these limitations do not affect the findings of the study in a significant manner.

1.8 Organization of the Study

The whole study is divided in five different chapters.

Chapter –I Introduction

This first chapter consists of background of the study, statement of problem, objectives of study, focus of the study and limitation of the study.

Chapter -II Literature Review

Review of literature consists of the conceptual framework along with review of different relevant books, journals, policy document review, previous thesis and minute book etc.

Chapter -III Research Methodology

The third chapter which explains the methods used in the study including presentation of the research design, source of data, data collection procedure, financial and statistical tools used.

Chapter-IV Data Presentation and Analysis

The forth chapter is the main body of research which consists of data from the selected company NIBL has been taken into reference.

Chapter - V Summary, Conclusion and Recommendations

The fifth chapter summarizes the whole study. Moreover, it draws the conclusion and forwards the recommendation.

CHAPTER - II

LITERATURE REVIEW

The basic ideas about the research study on the "Protection of Shareholders' Interest" has drawn from the past research study, different books, articles and journals.

The literature review chapter includes:

-) Conceptual review
-) Review of Journals and Articles
-) Thesis review

2.1 Conceptual Review

2.1.1 Meaning of Shareholders

"A shareholder or stockholder is an individual or institution (including a corporation) that legally owns one or more shares of stock in a public or private corporation. Shareholders own the stock, but not the corporation" (*Fama and French; 1982: 27-65*).

"Stockholders or shareholders as considered by some to be subset of stakeholders, which may include anyone who has a direct or indirect interest in the business entity. For e.g:- labor, suppliers customers, the community etc are typically considered stakeholders because they contribute value and/or are impacted by the corporation. Shareholders in the primary market who buy IPO's provide capital to corporation however, the vast majority of shareholders are in the secondary market and provide no capital directly to the corporation" (www.wikipedia.com).

"Shareholders or stockholders own parts or shares of companies. In large corporations, shareholders are people and institutions that simply invest money for future dividends and for the potential increased value of their shares, whereas in small companies they may be the people who established the business or who have a more personal stake in it. When investors buy shares of companies, they receive certificates that say how many shares they own. Owning shares of a company often entitles an investor to a part of the company's profits, which is issued as a dividend. In addition, shareholders are typically offered a fixed payout per share if the company is bought out. Because they are partial owners of a company, shareholders are allowed to vote at shareholder meetings for certain company actions (such as approving or rejecting a merger proposal), review company accounts, and receive periodic reports on company performance. If shareholders cannot attend annual meetings, they are permitted to vote by proxy by mailing in their vote. Furthermore, if a company decides to issue more shares, current shareholders have the option to buy shares before they are offered to the public.

Shareholders are entitled to vote on a variety of issues, although the specific areas where shareholders have a say are determined by state laws and corporate by laws. Generally, shareholders have the right to appoint a corporate president, elect members to a board of directors, and vote on significant changes in a corporation. Shareholders may vote only during a corporation's annual shareholder meeting or at a special shareholder meeting, which would normally be called by the board of directors. A notice of the meeting and a notice of the agenda must be provided before each shareholder meeting. Shareholder voting power is proportionate to the number of shares each shareholder owns. For example, if a corporation had two shareholders – one with 400 shares and one with 100 shares – the one with 400 shares would wield far greater voting power.

Shareholders may own two kinds of stock: common stock and preferred stock. Owners of common stock have the last claim to company profits and assets and

they may receive dividends at the discretion of a company's board of directors. In addition, common stock does not have a fixed value. On the other hand, owners of preferred stock have claim to a company's profits and assets" (www.referenceforbusiness.com)

In Nepal, the concept of shareholders rights is of recent origin and no effort has been recorded in book. Other books are prepared and created under so many years practice by scholars. So, it is considered here to put the view of these scholars' view regarding the investors' protection. What they have spelled out and in what way investors should be protected regarding their right and interest is worth mentioning for my study.

In the book, "Shareholder's Democracy and Annual General Meeting Feedback" Prof. Manohar Kumar Shrestha has focused various issues related to the protection of shareholders expectations. Success of companies directly depends on the protection their owners. Now how can this be accomplished is the main question. Thus, it is necessary to develop a possible guidance for enhancing the efficiency for public limited companies to contribute directly in the growth of national economy on one hand and ensuring handsome return to the shareholders on the other hand to make their investment meaningful and worthwhile. At present, the overall shareholders' democracy in terms of protection on their interest is basically focused on the payment of satisfactory dividend and maximization of shareholders' wealth by appreciating the value of shares they sold (*Shrestha; 1999:25*)

"Shareholders interests are typically equated with share price. This assumption may not always hold though. For example, if a firm is a takeover target and its share price spikes in the short run, that might appear to be in shareholders' interests. However, if that same takeover strategy results in the killing of an industry category, then it might not be good for shareholders with diversified

portfolios. The many diversified shareholders, including large institutional investors, do not maximize their return based on the performance as a single firm; firm externalities may diminish overall portfolio performance. Even when these dynamics are understood, incentives for managers to maximize industry performance have not been employed” (www.wikipedia.com).

"The goal of the firm, and of all managers and employees, is to maximize the wealth of the shareholders for whom it is being operated. The wealth of corporate owners is measured by the share price of the stock, which in turn is based on the timing of returns (cash flows), their magnitude, and their risk. When considering each financial decision alternative or possible action in terms of its impact on the share price of the firm's stock, financial managers should accept only those actions that are expected to increase share price. Because share price represents the owner's wealth in firm, share-price maximization is consistent with owner-wealth maximization. Return and risk are the key decision variables in the wealth maximization process. It is important to recognize the earning per share because they are viewed as an indicator of the firm's future returns, often appear to affect share price.

Although shareholder wealth maximization is the primary goal, in recent years many firms have broadened their focus to include the interest of stakeholders as well as shareholders. Stakeholders are groups such as employees, customers, suppliers, creditors, owners, and others who have a direct economic link to the firm. A firm with a stakeholder focus consciously avoids actions that would prove detrimental to stakeholders. The goal is not to maximize stakeholder well-being but preserve it.

The stakeholder view does not alter the shareholder wealth maximization goal. Such a view is often considered part of the firm's "social responsibility" and is

expected to provide maximum long-run benefit to shareholders by maintaining positive stakeholder relationships. Such relationships should minimize stakeholder turnover, conflicts, and litigation. Clearly, the firm can better achieve its goal of shareholder wealth maximization with the cooperation of - rather than conflict with – its other stakeholders" (*Gitman; 2001:17-18*).

“The primary motive for buying a stock is to sell it subsequently at a higher price. In many cases, dividends will be expected also. Dividends and price changes are the principal ingredients in what investors regard as return or yield.

If an investor had impeccable information and insight about dividends and stock prices over subsequent periods, he would be well on his way to great riches. But the real world of investing is full of political, economic, social, and other forces that we do not understand sufficiently to permit us to predict anything with absolute certainty. Forces intermix and flow at crosscurrents. Nothing is static.

For the security analyst, what primary influences will determine the dividends to be paid on a stock in the future and what the stock price will be in the future are the ultimate questions to be answered. A logical systematic approach to estimating future dividends and stock price is indispensable.

In order to estimate stock price changes, an analyst must spend more than a little time probing the forces operating in the overall economy like economic growth, economy activity and must decide if the time is right to invest in securities at all: and if so he must decide whether to purchase common stocks, options, preferred stocks, bonds, or some combination there of" (*Fisher and Jordan; 2000: 101-102*).

"Common stock certificates are legal documents. Each common stock certificate represents a share of ownership (or equity) in a company that is legally organized as a corporation.

The common shareholders of a company are its residual owners; collectively, they own the company and assume the ultimate risk associated with ownership. Their liability, however, is restricted to the amount of their investment. In the event of liquidation, these shareholders have a residual claim on the assets of the company after the claims of all creditors and preferred shareholders have been settled in full. Common stock, like preferred stock, has no maturity date; and a shareholder can liquidate his investment by selling his shares in the secondary market” (*Van Horne, Depchand and Hanrahan; 2004: 551-553*).

The founders of a corporation obtain a corporate charter from the state, have shares of common stock printed, and sell the shares to as many different people as they wish in order to raise the capital to start the new business. Thus common stock is always the first security issued by every new corporation. Bonds and preferred stock may be sold later to raise additional capital.

Common stock holders have a residual claim on the earnings and assets of their corporation. This means that the law requires corporations first to pay employee's wages, suppliers' bills, and shareholders share in whatever earnings or losses are left.

Also, if the corporation comes to its demise in bankruptcy, the law says that all bills must be paid before common stockholders are free to divide up whatever assets remain, if any, from the bankrupt operation.

“Common stock owners enjoy certain advantages from their investment. First, they enjoy limited liability. That is, if the corporation goes bankrupt and does not have enough assets to pay all of its bills, the common stockowners cannot be forced to participate in the payment of unpaid bills. Second, stockholders enjoy unlimited participation in the firm's profits if earnings become highly lucrative.

Third, shares of common stock are marketable securities, which are designed to be bought and sold with ease. Finally, only common stock owners are entitled to vote at the shareholders' meeting of the corporation. Thus, shareholders have a voice in management" (*Francis; 1983:37-38*).

"A security market, or financial market, can be defined as a mechanism for bringing together buyers and sellers of financial assets in order to facilitate trading. One of its main functions is "price discovery" – that is, to ensure that security prices reflect currently available information. The faster and more accurately price discovery is achieved, the more efficiently financial markets will direct capital to its most productive opportunities, thereby leading to greater improvement in public welfare. Primary market is the market in which securities are sold at the time of their initial issuance. Secondary markets involve trading financial assets previously issued" (*Alexander, Sharpe and Bailey; 2005:47*).

Common stock represents equity, or an ownership position in a corporation. It is a residual claim, in the sense that creditors and preferred stockholders must be paid as scheduled before common shareholders can receive any payments. In bankruptcy, common shareholders are in principle entitled to any value remaining after all other claimants have been satisfied. However, in practice, courts sometimes violate this principle.

The great advantage of the corporate form of organization is the "Limited liability of its owners. Common stocks are generally "fully paid and no assessable," meaning that Common shareholders may lose their initial investment but not more. If the corporation fail to meet its obligations; the shareholders cannot be forced to give the corporation the funds that are needed to pay off the obligations. Apart from above stated laterally and principally following rights has been secured by the shareholder or investors at the bank.

2.1.2 Features of Common Stock

a) Claim on Income

Common shareholders are only entitled to share in the earnings of the company if cash dividends are paid. Shareholders prosper from the market value appreciation of their stock, but they are entirely dependent on the board of directors for the declaration of dividends that give them income from the company. Thus, the position of common shareholder differs markedly from that of a creditor. If the company fails to pay contractual interest and principal repayments, it is liquidated. Shareholders, on the other hand, have no legal recourse against a company for not distributing profits. Only if management, the board of directors or both are engaged in fraud may they take their case to court and possibly, force the company to pay dividends. With stock options, however, the goals of management are likely to approximate those of shareholders.

b) Share Certificate

The ownership of a firm's stock is usually represented by a single certificated, with the number of shares held by the particular investor noted on it. Such a stock certificate is registered, with the name, address, and holdings of the investor included on the corporation's books. Dividend payments, voting material, annual and quarterly reports and other mailings are sent directly to the registered owner, taking into account the size of his or her holdings.

c) Voting Rights

In as much as the common shareholders of a company are its owners, they are entitled to elect a board of directors. In a large company, shareholders usually exercise only indirect control through the board of directors they elect. The board, in turn, selects the management; and management controls the actual operations of the company. With a proprietorship, partnership, or small company, the owner usually controls the operations of the business directly. With a large company,

however, there may be times when the goals of management differ from those of the common shareholders. The only way a shareholder can reach management is through the board of directors. Because common shareholders are often widely dispersed geographically and, therefore, disorganized, management can often exercise effective control of a large company even if it controls only a small percentage of the shares outstanding. By proposing the slate of directors that is favorable to its own interests, management is able to maintain control. An outside shareholder, however, does have the right to expect the directors will administer the affairs of the company properly in his behalf. If the directors act in a manner that results in their personal gain, a shareholder can sue.

d) Proxies

Each common shareholder is entitled to one vote for each share of stock he owns. Because most shareholders do not attend the annual meeting, they may vote by proxy. A proxy is simply a form by which the shareholder assigns his right to vote to another person. Federal and provincial Securities Acts regulate the solicitation of proxies and also require companies to disseminate information to their shareholders. These acts require companies to disseminate information to their shareholders through proxy mailings. Prior to the annual meeting, management solicits proxies from shareholders to vote for the recommended slate of directors and for any other proposals requiring shareholder approval. If shareholders are satisfied with the company, they generally sign the proxy in favor of management, giving written authorization to management to vote their shares. If a shareholder does not vote his shares, the number of shares voted at the meeting and the number needed to constitute a majority are lower. Because of the proxy system and the fact that management is able to mail information to shareholders at the company's expense, management has a distinct advantage in the voting process. As a result, it usually is able to perpetuate existing practices if it so chooses.

d) Dividends

A dividend is a periodic payment made to stockholders to compensate them for those of and risk to their investment funds. Most commonly dividends are declared out of current earnings. The firm's board of directors determines the type, size, and the time of dividend payments. The firm may declare one dividend each year, or several interim (usually quarterly) and a final year (year-end) dividend instead. The two most common types of dividends are (1) those that are reduces the assets of a corporation, such as cash dividends, and (2) those that neither decrease assets nor increase liabilities, such as stock dividends. Of the two types those payable in cash are the most common and most important, when the term dividend is used without qualification, we are referring to the cash dividend. Dividend policy, which determines the amount of earnings to be retained or paid out by the firm, is one of the key decision areas of financial management. A Corporation's board of directors is under no contractual obligation to pay dividends on common stock. A firm's dividend policy determines how much of its earnings it retains. At the same time, dividends may affect stock prices.

Payments made in cash to shareholders are termed cash dividends. The Board Of Directors (BODs) typically declare them quarterly and are paid to current shareholders of record at a date specified by the board, known as the date of record.

Occasionally, the BODs forgo a cash dividend and "pays" a stock dividend instead. The accounting treatment of a stock dividend is to increase the "common stock" and "capital contributed in excess of par" accounts by an amount equal to the market value of the stock at the time of the dividend times the number of the new shares issued. The total book value of shareholders' equity remains the same by reducing the "retained earnings" account by an equivalent amount.

e) **Preemptive Rights**

“Preemptive right gives current stockholders the right of first refusal for the purchase of the new shares when new shares are to be sold. This number is proportionate to the number of existing shares currently owned by the stockholders. Usually, the new shares are priced below the current market price of the stock, making such rights valuable. The stockholder can exercise the rights by purchasing his/her allotted amount of new shares, thereby maintaining his or her proportionate ownership in the firm, but at the cost of providing additional capital. Alternatively, the rights can be sold to someone else” (*Alexander, Sharpe and Bailey; 2003: 241-252*).

"Although the stockholders own the corporation, they do not manage it. Instead, they vote to elect a board of directors. Some of these directors may be drawn from top management, but others are non-executive directors, who are not employed by the firm. The board of directors represents the shareholders. It appoints top management and is supposed to ensure that managers act in the shareholders' best interests.

Managers can best serve the interest of shareholders by investing in projects with a positive net present value. But this takes us back to the principal-agent problem. How can shareholders (the principals) insure that management (their agents) doesn't simply look after their own interests? Shareholders can't spend their lives-watching managers to check that they are not shirking or maximizing the value of their own wealth.

A company's board of directors is elected by the shareholders and is supposed to represent them. If shareholders believe that the corporation is under performing and that the board of directors is not sufficiently aggressive in holding the managers to task, they can try to replace the board in the next election. If they succeed, the new board will appoint a new management team. But these attempts

to vote in a new board are expensive and rarely successful. Thus dissidents do not usually stand and fight but sell their shares instead. Selling, however, can send powerful message. If enough shareholders bail out, the stock price tumbles. This damages top management's reputation and compensation. If managers and directors do not maximize value, there is always the threat of a hostile takeover" (*Brealey and Mayers; 2001: 25-26*).

2.1.3 Rights of Shareholders

Shareholders or stockholders are granted special privileges depending on the class of stock. These rights may include:

i) Right to Income

Shareholders or Stockholders are entitled to share in the earnings of the company if cash dividends are paid. Shareholders also prosper from the market value appreciation of their shares but they are entirely dependent on the board of directors for the declaration of dividends that give them income from the company.

ii) Voting Right

Because the stockholders of a company are its owners, they are entitled to elect a board of directors. In a large corporation, shareholders usually exercise only indirect control through the board of directors they elect. The board, in turn, selects the management and management actually controls the operations of the company. Voting can be done either in person at the shareholders annual meeting or by proxy.

iii) Right to Purchase New Share

A firm's corporate charter or state statute may require that new issue of common stock or an issue of securities convertible into common stock be offered first to existing common stockholders because of their pre-emptive right. If the pre-

emptive right applies to particular firm existing common shareholders would have the right to preserve their proportionate ownership in the corporation. Thus, if the corporation issues common stock, the shareholders must be given the right to subscribe to the new stock so that they can maintain their prorata interest in the company (*Van Horne and Wachonicz; 2000:561-564*).

2.1.4 Types of Shareholders

The different types of shareholders are dependent on the type of investor, type of stock and type of company.

Shareholders are generally classified as individual investors or institutional investors. Individual investors are individuals who invest their own money and institutional investors are organizations that invest the money of others. Institutional investors include insurance companies, banks, pension funds, and investment companies. The number of individual investors has risen over time, with slight decreases during periods of inflation or recession.

2.2 Review of Journals and Articles

Under this heading efforts have been made to examine and review some of the related article published in different economic journals, dissertation papers, magazines and newspapers.

Bhattarai (2005) published an article, "*Define your Objective Before Buying Stocks*" has given way to invest in securities according to investors' objective. "Stock market is perhaps poorly understood among Nepalese investors. Its development remains almost impossible unless the people accept it as a way of their life. For this, first of all they have to know what stock market is, and how it functions. If it is not understood, it cannot attract the interests of investors. Thus investors' awareness about stock market and their rights are also essential.

People invest in the share market for different purposes. If someone is not clear about his/her purpose, the strategy followed can be wrong and the benefits not satisfactory, or there she may even incur a loss. So, it is necessary to define our objectives first and then start playing with the market. Some possible objectives would be to maximize dividend income, to maximize capital gain in short run, to maximize total gain and to minimize risk. A proper setting of objectives helps in identify the category of shares that help to accomplish the set objectives. If we observe stocks market regularly, we find various patterns of movement in different stocks. Thus setting clearly defined objectives will help to gain from such movement.

Investors who want to maximize their dividend income would do better by investing in the shares in which more shares at a less amount of commission can be purchased. But those investors who want to maximize their return by capital gain in the short run, it is better to avoid investing in shares of finance and insurance companies because their share price is found to fluctuate less as compared to the banks. In case of stocks that do not fluctuate much, it will be difficult of cover the transaction costs.

Capturing a capital gain in a short run requires a selection of highly fluctuating companies or newly listed companies. These price changes can provide a handsome capital gain to the investors but it further requires a regular collection of information and regular contact with brokers. Similarly, the shares of newly listed banks are found to fluctuate more compared to old banks.

The next fundamental objective of buying securities is for the purpose of borrowing. Investors can borrow money by using the shares as collateral. Banks and finance companies provide loans up to 50% of the market price of the shares. To borrow in this way, one should have those securities that promise more certain

return as well as growth. Such stocks are those of Standard Chartered Bank Nepal Ltd., Nabil Bank Ltd., Bishal Bazaar Company Ltd., Unilever Nepal Ltd and Nepal Investment Bank Ltd. Therefore, it is better to buy these high priced stocks if investor intends to borrow by pledging them. Such borrowing can be used to buy more stocks and the selection of such stock will again depend on the purpose for which you want to buy them.

If the objective is to minimize the risk, investors require selecting stocks that remain less fluctuating in the market. For example, Bishal Bazaar Company Ltd, Himalayan Bank Ltd., Bottlers Nepal Ltd., Rastriya Beema Sansthan and Unilever Nepal Ltd., are found to be such stocks."

Bhattarai (2005) has published an article on, "*Matching and Cheating*" technique of selling and buying of share in NEPSE is explained. "Many investors in the Nepali stock market don't know that brokers who use a relatively unknown technique called "Matching" are cheating them. The investors cheated by this method are normally those who occasionally buy or sell shares, not the regular ones who are active almost every day in the market.

Matching and splitting are the most prevalent mode of securities transaction in Nepal. According to the Securities Board Nepal (SEBO/N), the regulator of the Country's stock market, about 65% of the total transactions in the NEPSE is executed through matching.

Matching is helping market manipulators to increase the price of their selected stock by matching small quantities of shares at a higher price and thus misleading the naive investors who would be tempted to buy large quantity of shares at the artificially increased price from the same manipulators.

If matching is totally banned, the government may lose some revenue as the total transaction in stocks may be reduced and its impact will not only be on capital gain tax but also on the tax earning from the commission earned by the brokers. But the question is whether the cheating of the general investors should be allowed to continue. Thus it calls for a proper regulatory framework so that the investors are not cheated while the brokers also get a fair commission for their service even by pursuing their profession honestly.”

Nepal (2007) in his article, “*Naya Paisa, Naya Anuhar*” stated that in Nepal’s share market there is less trading of volume compare to its market price, which is against the general norms of stock market. He also claimed that there is large number of speculative investors who are manipulating the stock market. Most of the new faces are entering the market and he also predicted that whatever be the economic condition tomorrow, crash of market is most.

2.3 Review of Thesis

In this review, various Master's degree thesis prepared by various researcher are reviewed here for analysis of Literature among them researches, research which are concerned about the shareholders' protection, performance of Nabil Bank Ltd. regarding the welfare of the stockholders and other related studies which are related to secondary market in Nepal are reviewed for analysis of Literature.

Khatiwada (2002) in his study, “*Protection of Minority Shareholders' Rights And Role of Public Directors*” has analyzed the 8 randomly selected companied among 110 companies listed on NEPSE covering 4 fiscal year from 1997-2000. The population of this study constitutes all the listed companies on NEPSE.

The objectives of the study were:

-)] To provide conceptual thought on protection of minority shareholders' rights.
-)] To analyze the various variables that affects shareholders' right.

-) To study the real problem of minority shareholders' in Nepalese public Ltd. companies.
-) To survey the opinion of public shareholders relating to qualitative factors.

Main finding of the study were as follows:

-) Board composition is one of the important affecting factors for the protection of minority shareholders. Most of the public limited company board is composed from government representatives, representatives from government owned institution and only one or two public elected directors. As a result, the shareholders' rights have been underestimated on one hand, and on the other hand, the public elected directors do not have ability to raise voice in favor of minority shareholders against the government domination.
-) AGM is another important factor for the protection of minority shareholders rights. The majority of the respondents opined that the decisions are passed without taking the consent of all shareholders in AGM. They also stated that most of the public limited companies does not give notice at right time about the AGM and without fulfilling the required no. of shareholders, AGM have been arranged.
-) The managerial attitude seems to be less democratic and minority shareholders interests have not been seriously taken in managerial plans and policies.
-) There is an absence of clear provisions to protect the minority shareholders' interest.
-) The brokers did not play fair role for the protection of minority shareholders' rights.
-) Most of the minority shareholders were not familiar about their rights and were not capable of exercising their right.

- J Most of the shareholders do not have consciousness about their voting power and most of the shareholders preferred proxy instrument to elect directors and collecting proxies had found to be misused by the management.
- J No any arrangement has been made by the SEBON to check the use of proxy instrument.
- J Companies did not have disclosed true as well as detail information in prospectus.

Subedi (2003) conducted an “*Investor’s Awareness in Security Market*”, have aimed to find out whether the investors are aware or not in the stock market. Main objective of the study were to find out the major factors that affect the investors' decision. Questionnaire was used as primary data to analyze investors' awareness regarding stock market and stock price.

- J A significant portion of investors responded that there were better opportunities for investors in non- securities sectors, however, majority group believe that securities sectors provide better opportunities. Among those investors, who chose securities market as better sector for investment, responded the banking, finance and insurance are the best alternatives. Investors feel that investment in common stock is popular since it provides sufficient return in comparison to other field of investment. Investors who chose non- securities sector responded, the bank fixed deposit, fixed assets, business venture and other sectors are suitable alternatives.
- J He also found majority of investors dissatisfied with security market were dissatisfied with the availability of information, grievance handling, and found dissatisfied with the present level of return from stock investment. The study also found that majority of investors doesn’t think regulatory measures are adequate.

- J This study also stated that dividend and capital appreciation were the most inspiring factors to attract the investors. Investors are found very highly affected by whim and rumor related to share price. No one bothers to analyze before they invest in shares. They just follow the trend, and buy the shares of the company whose demand is high. This is because of lack of awareness and educational and technical qualifications. Programs to educate investors; to intensify public awareness; to train market professionals need to be increased.

Baral (2003) has conducted a research on, "*Stock Price Movement in Nepalese Securities Market*," has major objective of studying and analyzing the stock price movement in Nepalese securities market and other supporting objectives are as below:

Main objectives of the study are:

- J To study and analyze the stock price and volume.
- J To study and analyze the rate of newly listed companies and maintenance of already listed companies in NEPSE.
- J To study and analyze the investors views regarding the decision on stock investment.
- J To suggest the findings of the study to the interested parties related to stock investment.
- J To study & examine the signalling factors impact on stock price with the help of NEPSE index.

The major findings of Baral are as follows:

- J Studying the annual trend analysis of Nepalese stock price market, it was found that stock price trend is decreasing from many years as smoothly but from one year price of stock is decreasing as rapidly.

- J On analyzing the price trend of three years NEPSE index in different months (36 months) with the help of monthly trend showed that the price trend of different months of the year 2000 was in increasing trend 2001 in decreasing trend while that of 2002 was sometimes in increasing and sometimes in decreasing trend. So from this trend analysis we can say there is no relationship of price trend between three successive years.
- J Studying the sector wise monthly trend analysis for one year (Poush 2058 to Mangsir 2059), it was found that unsystematic activities of the Nepalese stock price market. No exports can certainly forecast about the stock price.
- J Volume of stock traded in stock exchange during the study period was found in increasing trend but in last year it was in decreasing trend.

Baral concluded that even though Nepalese stock market is in the growth stage; it has crossed the initial stage but not reached in the matured stage as defined stock price trend is running unsystematically. Majority of investors of Nepalese stock market price invests their money from the view point of income and investors process and its other factors like NEPSE index price trend and investments facilitators are not doing their work in systematic way.

Devkota (2008) made a study on, “*Stock Price Determinants in Nepal Stock Exchange*”, has a major objective of identifying the prime determining factor of share price fluctuation of Nepalese Commercial Banks.

Main objectives of his research are:

- J To examine and evaluate the relationship between MPS with the various financial indicators like EPS, BPS, DPS etc.
- J To analyze the market trends of MPS with financial indicators.
- J To conduct the opinion survey of potential investors regarding various aspects of share behaviours in Nepal.

The major findings of study are as follows:

-)] DPS of BOK is much volatile in comparison to MPS, BPS and EPS. Bank of Kathmandu has positive correlation with between their Market price per share and DPS, BPS and EPS. This indicates that they directly affect the Share Price of BOK.
-)] BPS and EPS are positively correlated in the case of Everest Bank Limited whereas DPS is negatively correlated. This indicates that increase in DPS of this Bank don't contribute on the increase of Share Price rather it decreases it. But increase in BPS and EPS increase the share price and vice versa. DPS is much volatile in comparison with MPS, BPS and EPS.
-)] The correlation between MPS and other indicators are found to be insignificant for most of Banks. It shows that they individually influence very less but jointly they influence a lot. There can be other factors which influence the share price of the organisation.
-)] Dividend pattern plays a great role on share price movement. Higher the DPS, more will be the Share Price. Most of the investors like to analyse the Dividend pattern of the company before they invest in their shares.

Devkota concluded that due to the inadequate knowledge regarding the share market among Nepalese investors, capital market of Nepal has not been well developed yet. The investors generally tend to earn profit from share and they think that EPS and DPS are prime factor to be analysed and to be considered on investing their savings on Share Price. Most investors are unknown to laws and policies regarding share market. Poor rules and regulations as well as ineffective regularity mechanism of market makers are the problems of Nepalese Capital Market. Finally, EPS and DPS are the major influencer of the Share Price. Besides this, political situation, annual general meeting, assets structure and capital structure of the organisation also influence the share price of the company.

CHAPTER - III

RESEARCH METHODOLOGY

Stated simply, research means to search again. We study the social problems again and again to find out something more about the phenomena. The first look may not always be adequate. It may be prone to error. Therefore, we look into the phenomenon again and again and study the problem differently and thoroughly each time. This process of searching again and again is known as research. Research is a knowledge building process. It generates new knowledge, which can be used for different purpose. Research is undertaken not only to solve a problem existing in the work setting, but also to add or contribute to the general body of knowledge in a particular area of interest to the researcher. Thus research is an organized, systematic, data based, critical, scientific inquiry or investigation into a specific problem, undertaken with the objective of finding answers or solutions to it (*Wolff and Pant; 2005:5*). Methodology is the research method used for investigation. Research Methodology is the way of doing and completing research work. It is the way to solve the research problem systematically. Thus sets of method used in this research are as follows.

3.1 Research Design

By research design we mean an overall framework or plan for the activities to be undertaken during the course of research study. The research design serves as a framework for the study, guiding the collection and analysis of the data, the research instruments to be utilized, and the sampling plan to be followed. It is a strategy for conducting research. It is the main part of any research work. The present study aim at portraying accurately the relation between the attitude of the stockholders and the performance of the bank to find that whether interest of shareholders' of NIBL are protected or not.

3.2 Nature and Source of Data

For any statistical investigation collection of data is most important, any study without data analysis is impossible. This study is based on secondary data as well as primary data. Basically, it is mainly based on secondary data. Secondary data are collected from "Annual report of The Nepal Investment Bank Ltd. and website of the bank." for the last five years.

3.3 Data Collection Procedure

For the purpose of the study, as secondary data, various related books, magazine, journals, newspapers, websites and the dissertation made in this field have been referred. As far as primary data is concerned, it is collected through questionnaires distributed to shareholders of different banks and financial institutions.

3.4 Method of Data Analysis

To analyze whether shareholders' interest are protected or not overall performance of bank have analyzed with two important tools. The first most important tool is the financial tool, which include ratio analysis and another is statistical tool, which includes Trend analysis.

3.5.1 Financial Tools

To examine the performance of NIBL, this study has applied various financial ratios like liquidity ratio, profitability ratio, leverage ratio, and activity ratios. Ratio analysis is a powerful tool to analyze financial analysis. A ratio is a relationship between two accounting figures expressed mathematically. It is used as a benchmark for evaluating the financial position and performance of a firm. The absolute accounting figures of the financial statement do not give any meaningful understanding about the performance of the firm. It should be compared with some standard. A single ratio in itself does not indicate favorable or unfavorable condition. The standards of comparisons may consist of past ratios

or projected ratios. So this study reflects whether the NIBL financial performance has improved, deteriorated or remained constant over time. Beside this, these ratios are also used to examine the attitude of shareholders toward the organization.

3.5.1.1 Liquidity Ratio

Liquidity ratio measures the firm's ability to meet current obligations by establishing a relationship between cash and other current assets. A firm should ensure that it does not suffer from lack of liquidity, and also that it does not have excess liquidity. As bank's current obligation is to hold cash to meet the demand of the customers (*Pandey; 1995:108*).

The success of a bank depends on the maintenance of adequate cash reserves required to honor the cheques presented by the customers. The failure of Bank to meet its obligations due to lack of sufficient liquidity, will result in a poor credit worthiness, loss of customer's confidence, even in legal tangles resulting in the closure of the company.

However, the bank must avoid excessive holding of cash since it is an idle asset and do not generate any income from this. Therefore, holding of huge amount of cash influences the profits of the bank. Therefore, it is necessary to strike a proper balance between high liquidity and lack of liquidity.

The most common ratio, which indicates the extent of liquidity or lack of liquidity, is current ratio and quick ratio. For this study, following ratios have taken into consideration.

3.5.1.1.1 Current Ratio

Firm's short-term creditors' main interest is in the liquidity position or the short-term solvency of the firm. Current ratio measures the firm's short-term solvency. It indicates the availability of current assets against the claims of current liabilities.

Current assets include those assets, which can be converted into cash within a year, and the current liabilities are the liabilities maturing in the current year. A current ratio of minimum two times is considered better for the company. Current ratio is calculated by dividing current assets by current liabilities:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

3.5.1.1.2 Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance are the most liquid assets. This ratio is calculated to find out the percentage of most liquid fund with the fund back to make immediate payment. Total deposit includes current, saving, fixed and other kinds of deposit. The bank keeps certain amount of cash and bank balance in order to meet its cash requirements of its depositors. This ratio measures the bank's ability to pay its immediate and other obligations. This ratio is calculated by using this formula,

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

3.5.1.2 Profitability Ratio

A company should earn profits to survive and grow over a long period of time. Creditors are more interested in the company's profitability because a profitable company is more likely to make principal and interest payments. Of course, stockholders care about a company's profitability because it affects the market price of the stock and the ability of the company to pay dividends. Some of the important profitability ratio have been calculated and interpreted in these studies which are presented below:

3.5.1.2.1 Return on Shareholder's Equity (Fund)

Return on shareholders equity (ROSE) is calculated to see the profitability of owner's investment. ROSE indicates how well the firm had used the resources of owners. The earning of a satisfactory return is the most desirable objective of a business. This ratio is, thus, of great interest to the present as well as the prospective shareholders and also of great concern to management that has the responsibility of maximizing the owner's welfare. The basic purpose of this ratio is to measure the productivity of shareholder's fund. Since the shareholders are interested in maximizing their wealth, which can be done by earning adequate returns on shareholder's fund. This ratio seeks to explore the capacity of management to make use of its shareholders fund in income generating purpose. Higher ratio leads the shareholders to realize that their funds are being efficiently utilized in profit making purposes. The ratio can be obtained as follows.

$$\text{ROSE} = \frac{\text{Net Profit After Tax}}{\text{Shareholder's Equity (Net Worth)}}$$

3.5.1.2.2 Return on Assets

Return on assets (ROA) ratio also known as the 'primary ratio', attempts to measure the overall return the firm is generating on the amount of money invested in its assets. This ratio is computed as:

$$\text{ROA} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}}$$

3.5.1.2.3 Dividend Per Share

The net profit after taxes belongs to shareholders. But the income that they really receive is the amount of earnings distributed as cash dividends. Therefore, a large number of present and potential investors may be interested in DPS, rather than

EPS (*Pandey; 1995:131*). With DPS shareholders can take decision to stay or invest in the company. So, it should be calculated in the company for disclosing information to the investors about dividend policy through the help of DPS.

$$\text{DPS} = \frac{\text{Earning Paid to Shareholders}}{\text{No of Ordinary Shares Outstanding}}$$

3.5.1.2.4 Earning Per Share

The profitability of the common shareholders' investment can also be measured by calculating EPS. EPS is a matter of concern to the investors. Specially, it gives direction to the small investors as their numbers of shares are in nominal position. So, it is necessary to calculate EPS for the small investors and big investors too.

EPS simply shows the profitability of the firm on a per share basis, it does not reflect how much is paid as dividend and how much is retained in the business. But as a profitability index, it is a valuable and widely used ratio. It is calculated by dividing the profit after tax by the total no. of common share outstanding.

$$\text{EPS} = \frac{\text{Profit After Tax}}{\text{No of Common Share Outstanding}}$$

3.5.1.2.5 Dividend Payout Ratio

This ratio indicates the percentage amount of dividend paid to shareholders out of earning per share. This ratio determines how much dividend per share has been paid out of earning per share. The higher ratio indicates less retention of earning in the bank. Banks do not distribute 100% of their earnings; they tend to retain some portion in order to expand their business. This ratio indicates as to what proportion of EPS has been used for paying dividend and what has been retained for plugging back.

From the shareholders point of view, the dividends are more desirable to increase their current wealth and retained earnings are the most significant internal sources of financing for the growth of the firm. This ratio is calculated as follows:

$$\text{DPR} = \frac{\text{DPS}}{\text{EPS}}$$

3.5.1.2.6 Price Earning Ratio

Price earning ratio is widely used by the security analyst to evaluate the earnings growth potential of the company and is closely related to EPS. It indicates investor's judgment or expectations about the firm's performance. It reflects investor's expectations about the growth in the firm's earnings. Management is also interested in this market appraisal of the firm's performance and will like to find the causes if the P/E ratio declines. This ratio is useful in financial forecasting and it measures the times earnings per share are covered by its market price.

$$\text{P/E Ratio} = \frac{\text{Market Price of Share (MPS)}}{\text{Earning Per Share (EPS)}}$$

3.5.1.3 Leverage Ratio

Leverage ratio is also known as capital structure ratio or solvency ratio. Solvency concerns the ability of the firm to stay financially healthy over the period of time. It is calculated to measure the long-term financial position of a firm. Leverage ratio measure the overall financial risk as well as the ability of the bank in using debt for the benefit of shareholders.

These ratios indicate the funds provided by owners and creditors. As a general rule, there should be an appropriate mix of debt and owner's equity in financing

the firm's assets. Debt is more risky from the firm's point of view. The firm has a legal obligation to pay interest to debt holders, irrespective of the profits made or losses incurred by the firm. If the cost of debt is higher than the firm's overall rate of return, the earning of shareholders will be reduced. In addition, there is threat of insolvency. Use of debt magnifies the shareholders' earnings as well as increases their risk. Thus, there should be an appropriate mix of debt and owners equity in financing the firm's assets. Thus, leverage ratios are calculated to measure the firm's ability of using debt to shareholders' advantage and financial risk.

3.5.1.3.1 Debt Equity Ratio

The relationship between borrowed fund and owner's equity is known as debt equity ratio. This ratio measures the proportion of debt in relation to equity finance in a firm's capital structure. The lower the ratio, the higher the level of the firm's financing that is being provided by shareholders and the larger the shareholders' protection. The ratio is calculated as:

$$\text{Debt Equity Ratio} = \frac{\text{Total Debt}}{\text{Shareholders' Equity}}$$

3.5.1.3.2 Debt to Total Capital Ratio

It is a relationship between total debt and total capital. Total capital includes owner's equity as well as borrowed capital. It is calculated as following:

$$\text{Debt to Total Capital Ratio} = \frac{\text{Total Debt}}{\text{Total Capital}}$$

3.5.1.3.3 Interest Coverage Ratio

It measures the debt servicing capacity of the firm. This ratio indicates a firm's ability to cover interest charges. This ratio serves as one measure of the firm's

ability to meet its interest payments and thus avoid bankruptcy. Higher the ratio, the greater the likelihood that the company could cover its interest payments without difficulty.

This ratio is calculated as:

$$\text{Interest Coverage Ratio} = \frac{\text{Net Profit Before Interest and Tax}}{\text{Interest Paid}}$$

3.5.1.4 Activity Ratio

Activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its funds. These ratios are used to determine the efficiency, quality and the contribution of loans and advances in the total profitability.

3.5.1.4.1 Total Investment to Total Deposit Ratio

This ratio reveals how efficiently the resources of the banks have been mobilized. High ratio shows the managerial efficiency regarding the utilization of the deposits and vice-versa. This can be calculated as below.

$$\text{Total Investment to Total Deposit Ratio} = \frac{\text{Total Investment}}{\text{Total Deposit}}$$

3.5.1.4.2 Loans and Advances to Total Deposit Ratio

This ratio indicates the proportion of total deposit invested in loans and advances. Higher ratio indicates the proper use of total deposit where as lower ratio indicates less use of deposit or idle cash.

$$\text{Loans and Advances to Total Deposit Ratio} = \frac{\text{Loans and Advances}}{\text{Total Deposit}}$$

3.5.1.4.3 Loan and Advances to Fixed Deposit Ratio

This ratio indicates to what extent of fixed deposit has been turned over to loans and advances. High ratio shows greater utilization of fixed deposit in loans and advances. The ratio is calculated as:

$$\text{Loan and Advances to Fixed Deposit Ratio} = \frac{\text{Loans and Advances}}{\text{Fixed Deposit}}$$

3.5.2 Statistical Tools

Statistical tools are applied to analyze the data systematically and draw appropriate conclusion there from. This study has interpreted under the different statistical tools, which are described as below:

3.5.2.1 Least Square Linear Trend Analysis

Trend analysis is a mathematical method, widely used in practice. It is used to find out future tendencies bases on past assumptions. Trend study is designed to establish patterns of change in the past in order to predict future patterns or condition. The formula for computing trend analysis is as follows:

$$Y = a + bx$$

Where,

Y = the value of dependent variable

a = intercept of trend line

b = slope of trend line

x = value of the independent variable, i.e. time

Putting the above in normal equation, following two equations can be developed putting the above values in normal equation.

The constant 'a' is simply equal to the mean y value and constant 'b' gives the rate of change.

$$Y = na - b X$$

$$XY = a X - b X^2$$

Since $X = 0$

$$a = \frac{\sum Y}{n} \quad \text{and} \quad b = \frac{\sum XY}{\sum X^2}$$

The constant 'a' is simply equal to the mean y value and constant 'b' gives the rate of change.

3.5.2.2 Mean Return

Mean return is the most familiar statistical measure to any investor or individual. This mean is calculated by dividing the total number of observations or returns. The mean return is appropriate as measure of the central tendency of a distribution consisting of returns calculated for a particular time such as a year. The mean return in equation is as follows.

$$R = \frac{\sum_{T=1}^N R}{N}$$

Where,

R = Mean return

R_t = Single period returns at time t .

N = number of observations or returns

T = Different

3.5.2.3 Standard Deviation

Standard deviation, usually denoted by the letter σ (small sigma) of the Greek alphabet, which was first suggested by Karl Pearson as a member of dispersion in 1893. It is quantitative measure of total risk of assets. It provides more information about the risk of the asset. The standard deviation of a distribution is the square

root of the variance of returns around the mean. The following formula is applied to calculate the standard deviation, using historical returns:

$$\text{Standard Deviation } (\Xi) = \sqrt{\frac{\sum (R - \bar{R})^2}{N}}$$

Where,

Ξ = standard deviation of stock

R = realized rate of return at a time

\bar{R} = Mean return

N = number of observations in sample

3.5.2.4 Coefficient of Variation

The relative measure of dispersion based on the standard deviation is known as the coefficient of standard deviation. The coefficient of dispersion based on standard deviation multiplies by 100 is known as the coefficient of variation (CV). It is suitable for comparing the variability, homogeneity or uniformity of two or more distributions. A distribution having less CV is said to be less variability or more uniformity homogeneity, consistency etc. and vice versa.

The risk per unit of expected return can be measured by coefficient of variation, which is computed as follows:

$$\text{Coefficient of Variation (C.V)} = \frac{\Xi}{\bar{R}}$$

Where,

C.V = coefficient of variation

\bar{R} = mean return

Ξ = standard deviation

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

Success of NIBL is a milestone in the banking history of Nepal as it paved the way for the establishment of many commercial banks and financial institutions. NIBL provides a full range of commercial banking services through its outlets spread across the nation and reputed correspondent banks across the globe. NIBL has a good name in the market for its highly personalized services to the customers.

Any shareholders or potential investors measure the quality and viability of a bank in terms of returns provided by the bank. In this regard 2 types of analysis are done here.

- a. Secondary Data Analysis
- b. Primary Data Analysis

4.1 Secondary Data Analysis

Secondary data sources refer to those for already gathered by others. These data should only to be presented and analyzed. Annual reports of Bank have analyzed in this section to analyze financial performance of bank to ensure that investors are in a safe position or not. For these financial ratios are calculated with the help of annual report of NIBL Bank and NEPSE website's record.

4.1.1 Financial Tools

To examine the performance of Nepal Investment Bank limited, this study has applied various financial ratios like liquidity ratio, profitability ratio, leverage ratio, and activity ratios.

4.1.1.1 Liquidity Ratio

Liquidity ratio is a relative measure of the nearness to cash of the assets and liabilities of a company. A firm should ensure that it does not suffer from lack of liquidity, and also that it does not have excess liquidity. In this aspect, current ratio, cash and bank balance to total deposit ratio are analyzed.

4.1.1.1.1 Current Ratio

Current ratio measures the firm's short-term solvency. It is the relationship of current assets and current liabilities. The calculation is made by dividing the total of current assets by total of current liabilities. The calculated result has presented in the table as shown below. A Current ratio of minimum 2:1 is considered better for the company.

Table 4.1
Current Ratio

Year	Current Asset (C.A)	Current Liabilities (C.L)	Current Ratio (C.R)
2005	21187.54	19477.31	1.08
2006	27079.26	25288.86	1.07
2007	38158.27	35501.73	1.07
2008	52144.97	47786.90	1.09
2009	56399.86	51182.04	1.10
Mean			1.082
S.D			0.01166
C.V			0.010

Source: Annual Report of NIBL and Annex 1

Above table shows that, the current ratios of NIBL is not in a favorable condition. Since Current ratio of minimum two times is considered as better one for the company, bank has to maintain its ratio up to 2 times. It is least in 2006 and 2007. It shows that NIBL has low current ratio but this shows that bank has used lots of

its fund in different investment, which can also be considered as significant. No idle asset in the form of current assets.

4.1.1.1.2 Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance are the most liquid assets. This ratio is calculated to find out the percentage of most liquid fund with the fund back to make immediate payment. The calculated result has presented in the table as shown below.

Table 4.2
Cash and Bank Balance to Total Deposit Ratio

Year	Cash and Bank Balance	Total Deposit	Ratio
2005	2336.52	18927.31	12.34
2006	2441.51	24488.86	9.97
2007	3754.94	34451.73	10.90
2008	7918	46698.10	16.95
2009	6815.89	50094.73	13.60
Mean			12.75
S.D			2.43
C.V			0.19

Source: Annual Report of NIBL and Annex 1

From the above table, it is seen that the ratios are increasing trend. NIBL has lower ratios which is very low than average ratios except in 2008. Here this ratio is up to maximum of 16.95% of total deposit is in liquid form, which mean bank in a good position to make immediate payment of the bank and it has not excess balance in the form of idle assets. High ratio is not favorable for the bank, it doesn't produce appropriate profit to bear the high interest.

4.1.1.2 Profitability Ratios

All the business organization including bank should earn profit to survive and grow over a long period of time. Profitability ratios are calculated to evaluate the efficiency of the company in terms of its profit. It is an indicator of the degree of

managerial success in terms of achieving profit. In this aspect, some of the important profitability ratio such as, Return on shareholder's equity, Return on assets, Dividend per share, Earning per share, Dividend Payout Ratio, Price earning ratio, have been calculated and interpreted in this study which are presented below.

4.1.1.2.1 Return on Shareholder's Fund

The basic purpose of this ratio is to measure the productivity of shareholder's fund. Since the shareholders are interested in maximizing their wealth, this ratio seeks to explore the capacity of management to make use of its shareholders fund in income generating purpose. Higher ratio leads the shareholders to realize that their funds are being efficiently utilized in profit making purposes. This ratio can be calculated by dividing net profit after tax by shareholders' equity (Net worth). The higher ratio indicates the better utilization of the shareholder's fund.

Table 4.3

Return on Shareholder's Fund

Year	NPAT	Shareholders Equity (Net Worth)	Ratio
2005	350.53	1415.440	24.77
2006	501.39	1878.124	26.68
2007	696.73	2686.786	25.93
2008	900.62	3907.840	23.05
2009	1265.95	4585.393	27.60
Mean			25.61
S.D			1.58
C.V			0.062

Source: Annual Report of NIBL and Annex 1

On the basis of above table we can see that ROSE is in decreasing trend from 2006, then increasing after 2008. It shows that the bank must utilized the shareholders equity efficiently.

4.1.1.2.2 Return on Assets

This ratio is calculated to know what the assets of the company producing. It is determined by dividing Net profit after tax by Total Assets. Hence, the higher the ratio implies that the available source and tools are employed efficiently.

Table 4.4
Return on Assets

Year	NPAT	Total Assets	Ratio
2005	350.53	21732.08	1.61
2006	501.39	28073.52	1.79
2007	696.73	39405.96	1.77
2008	900.62	53596.38	1.68
2009	1265.95	57935.55	2.19
Mean			1.81
S.D			0.202
C.V			0.112

Source: Annual Report of NIBL and Annex 1

On above table we can find that the entire ratios are more than one times. Returns on assets are increased in 2006. A higher ratio indicates the efficiency of banks in developing their entire resources. Higher ratio implies the banks have lower proportion of non- performing assets. But in 2007 & 2008 ratios are slightly decrease which implies that available sources and tools are employed less efficiently than previous years. So, NIBL need to become more and more efficient in utilizing its assets to earn profit but ratio is increased in 2009 which good for bank.

4.1.1.2.3 Dividend Payout Ratio

With DPS shareholders can take decision to stay or invest in the company. The DPS is considered excellent when it is higher. DPS of NIBL seems to be inconsistent but the ratio is in itself better for the investor whereas EPS simply shows the profitability of the firm on a per share basis. Performance of NIBL

regarding EPS look quite satisfying. Dividend payout ratio determines how much dividend per share has been paid out of earning per share. The higher ratio indicates less retention of earning in the bank. Banks do not distribute 100% of their earnings; they tend to retain some portion in order to expand their business. This ratio can be calculated by dividing dividend per share divided by earning per share.

Table 4.5
Dividend Payout Ratio

Year	DPS	EPS	DPR
2005	55.46	59.35	93.44
2006	30	62.57	47.95
2007	40.83	57.87	70.92
2008	20	37.42	53.44
2009	25	52.55	47.57
Mean			62.66
S.D			15.77
C.V			0.25

Source: Annual Report of NIBL and Annex 1

The above table shows NIBL has distributing fluctuate dividend. Higher DPR mean lower retention ratio. It has distributed 25% cash dividend in 2009.

4.1.1.2.4 Price Earning Ratio

Price earning ratio is evaluate on the basis of MPS and EPS. It helps the security analysts to evaluate a company's performance and to decide whether share should be purchased or not in the company. Management is also interested in this market appraisal of the firm's performance and will like to find the causes if the P/E ratio declines.

Table 4.6
Price Earning Ratio

Year	MPS(Rs.)	EPS(Rs.)	P/E Ratio
2005	1260	59.35	21.23
2006	1729	62.57	27.63
2007	2450	57.87	42.33
2008	1388	37.42	37.10
2009	705	52.55	13.42
Mean			28.34
S.D			10.45
C.V			0.368

Source: Annual Report of NIBL and Annex 1

The table shows the P/E ratio of NIBL is in increasing trend till 2007 then after it was decreasing trend. As this ratio is widely used by the investors to assess the firms expected performance, higher ratio is the indicative of better performance. So, it should be considered by management.

4.1.1.3 Leverage Ratio

Leverage ratio is also known as capital structure ratio or solvency ratio. Leverage ratio measures the overall financial risk as well as the ability of the bank in using debt for the benefit of shareholders. This ratios are calculated to judge the long term financial position of a bank. In this aspect, Debt equity ratio, Debt to total capital ratio, Earning power ratio, Interest coverage ratios have analyzed.

4.1.1.3.1 Debt Equity Ratio

This ratio measures the proportion of debt in relation to equity finance in a firm's capital structure. The lower the ratio, the higher the level of the firm's financing that is being provided by shareholders and the larger the creditor's protection. This ratio can be calculated by dividing total debt by shareholders' equity.

Table 4.7**Debt Equity Ratio**

Year	Total Debt	Shareholders Equity	Ratio
2005	550.00	1415.440	38.86
2006	800.00	1878.124	42.59
2007	1050.00	2686.786	39.08
2008	1088.80	3907.840	27.86
2009	1087.32	4585.393	23.71
Mean			34.42
S.D			7.29
C.V			0.211

Source: Annual Report of NIBL and Annex 1

From the shareholders' point of view, less ratio is good because lower the ratio, higher the level of the firm's financing that is being provided by shareholders and the larger the shareholders' protection so, as ratio is decreasing it seems favorable for shareholders and less debt portion is good for management too.

4.1.1.3.2 Debt to Total Capital Ratio

It is a relationship between total debt and total capital. Total capital includes owner's equity as well as borrowed capital. It is calculated as total debt divided by total capital.

Table 4.8**Debt to Total Capital Ratio**

Year	Total Debt	Total Capital	Ratio
2005	550.00	1988.23	27.66
2006	800.00	2715.27	29.46
2007	1050.00	3732.18	28.13
2008	1088.80	4987.35	21.81
2009	1087.32	4585.39	23.71
Mean			26.154
S.D			2.89

C.V	0.11
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Source: Annual Report of NIBL

Portion of debt on total capital is in decreasing trend. The ratio of NIBL seems in sound condition because bank will not have to pay more on interest and shareholders can get good return.

4.1.1.3.3 Interest Coverage Ratio

This ratio is calculated to test the firm's servicing capacity. This ratio indicates a firm's ability to cover interest charges on its borrowed capital. Higher the ratio, the greater the likelihood that the company could cover its interest payments without difficulty. This ratio is calculated as net profit before interest and tax by interest paid.

Table 4.9
Interest Coverage Ratio

Year	Profit Before Interest and Tax	Interest Paid	Ratio
2005	1099.67	490.95	2.24
2006	1538.62	685.53	2.24
2007	2148.11	992.16	2.16
2008	3151.78	1686.97	1.87
2009	4455.10	2553.84	1.74
Mean			2.05
S.D			0.21
C.V			0.102

Source: Annual Report of NIBL and Annex 1

From above table we can say that interest coverage ratio of the bank is in good. It is more than two times in every year except in 2008 and 2009. This shows company could cover its interest payments without difficulty.

4.1.1.4 Activity Ratio

Activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its funds. These ratios are used to determine the efficiency, quality and the contribution of loans and advances in the total profitability. In this aspect, Total investment to total deposit ratio, Loans and advances to total deposit ratio, Loan and advances to fixed deposit Ratio have been analyzed.

4.1.1.4.1 Total Investment to Total Deposit Ratio

This ratio reveals how efficiently the resources of the banks have been mobilized. High ratio shows the managerial efficiency regarding the utilization of the deposits and vice-versa. This ratio can be calculated by dividing total investment by total deposit.

Table 4.10
Total Investment to Total Deposit Ratio

Year	Total Investment	Total Deposit	Ratio
2005	5672.87	18927.31	29.97
2006	6868.65	24488.86	28.04
2007	6874.02	34451.73	19.95
2008	7399.81	46698.10	15.85
2009	8635.53	50094.73	17.23
Mean			22.21
S.D			5.74
C.V			0.26

Source: Annual Report of NIBL and Annex 1

From above ratios, we can see that total investment out of total deposit of bank is in decreasing trend. It has decreased due to unfavorable investment environment of country. So NIBL managerial efficiency is not in good position.

4.1.1.4.2 Loans and Advances to Total Deposit Ratio

Loan and advances are the most profitable and least liquid assets of the bank and this also account for the largest part of the revenue of the bank. This ratio indicates

the proportion of total deposit invested in loans and advances. Higher ratio indicates the proper use of total deposit where as lower ratio indicates less use of deposit or idle cash. This ratio is calculated as Loans and advances divided by total deposit.

Table 4.11
Loans and Advances to Total Deposit Ratio

Year	Loans and Advances	Total Deposit	Ratio
2005	13178.15	18927.31	0.69
2006	17769.10	24488.86	0.72
2007	27529.31	34451.73	0.79
2008	36827.16	46698.10	0.78
2009	40948.44	50094.73	0.81
Mean			0.76
S.D			0.045
C.V			0.06

Source: Annual Report of NIBL and Annex 1

From the above table, we find that loan and advance, account for the largest part of the revenue of the bank. Loan and advance in relation to total deposit is fluctuating but in 2009 it is generating 81 % from total deposit, which shows proper use of total deposit. Therefore NIBL has less idle cash and has used large amount of deposit in revenue generating activities like loans and advances.

4.1.1.4.3 Loan and Advances to Fixed Deposit Ratio

This ratio indicates to what extent of fixed deposit has been turned over to loans and advances. High ratio shows greater utilization of fixed deposit in loans and advances. The ratio is calculated as Loans and Advances divided by fixed deposit.

Table 4.12
Loan and Advances to Fixed Deposit Ratio

Year	Loan and Advances	Fixed Deposit	Ratio
2005	13178.15	5412.97	2.43
2006	17769.10	7516.69	2.36
2007	27529.31	7944.23	3.46
2008	36827.16	1163.34	3.16
2009	40948.44	1682.51	2.43
Mean			2.77
S.D			0.45
C.V			0.16

Source: Annual Report of NIBL and Annex 1

Loans and advances are the most profitable among all the assets of the bank because they earn the major portion of income for the bank. At the same time, loans and advances are the assets, which have highest risk attached to them. Fixed deposit is the major source of fund, which a bank can utilize to finance long term loans. Since duration of fixed deposit is longer and its maturity date is also known, bank can employ such fixed deposit to invest in long-term investment that yields high returns.

From above table we can see that loan and advances to fixed deposit is in increasing trend. That means NIBL has invested more funds on loans and advances in relation to its fixed deposits. NIBL is also using its fixed deposit into more profitable investments.

4.1.2 Statistical Tools

Statistical tools are applied to analyze the data systematically and draw appropriate conclusion there from. This study has interpreted under the different statistical tools, which are described as below.

4.1.2.1 Trend Analysis

The future value of the following items for coming 5 years (up to 2014) have been analyzed and forecasted with the help of trend analysis. The forecasting for the next five year from the previous five year study has also been performed. This is mathematical method, which is widely used in practice. It is applied for finding out a trend line for those series, which changes periodically in absolute amount. The future values of the following items for coming for years, up to 2014 have been analyzed and forecasted with the help of trend analysis.

-) Net Worth
-) Deposits
-) Loans and advances
-) Net Profit

4.1.2.1.1 Least Square Linear Trend of Net Worth of NIBL

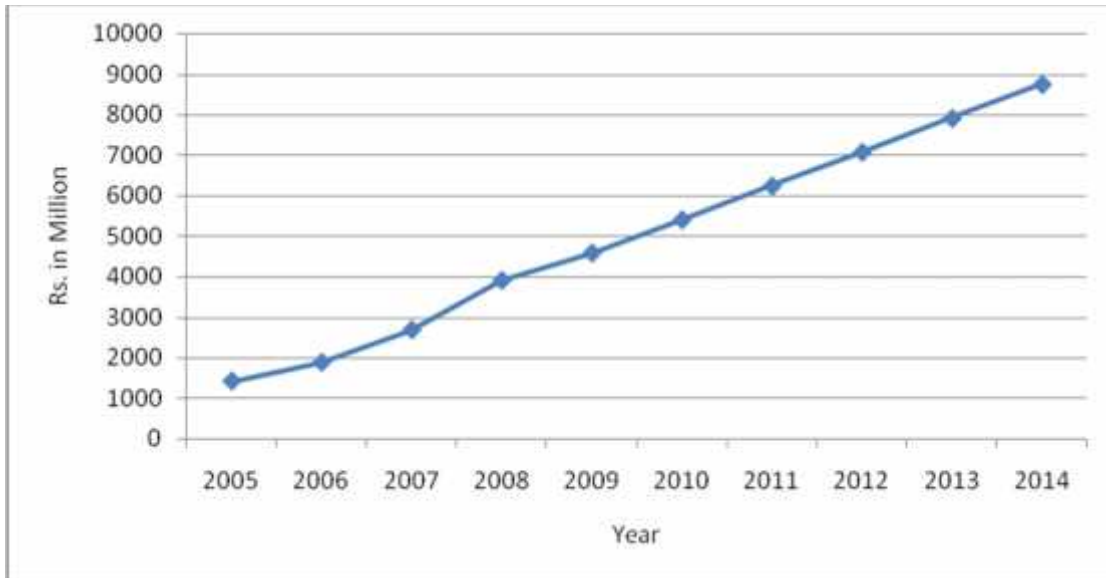
Table 4.13
Trend Value of Net Worth

Year	Net Worth
2005	1415.44
2006	1878.124
2007	2686.786
2008	3907.84
2009	4585.393
2010	5405.71
2011	6242.71
2012	7079.71
2013	7916.71
2014	8753.71

Source: Annex 2

From the above table it is clear that the forecasted net worth for coming five years would be 5405.72, 6242.72, 7079.72, 7916.72 and 8753.72 million respectively. During the study period, net worth was in increasing trend. This is shown by the diagram below. Please refer annex 2 for calculations and details.

Figure 4.1
Least Square Linear Trend of Net Worth



(See Annex 2 for Calculations)

4.1.2.1.2 Least Square Linear Trend of Total Deposit of NIBL

Table 4.14

Trend Value of Total Deposit

Year	Total Deposit
2005	18927.306
2006	24488.856
2007	34451.726
2008	46698.1
2009	50094.725
2010	60295.36
2011	68749.77
2012	77204.18

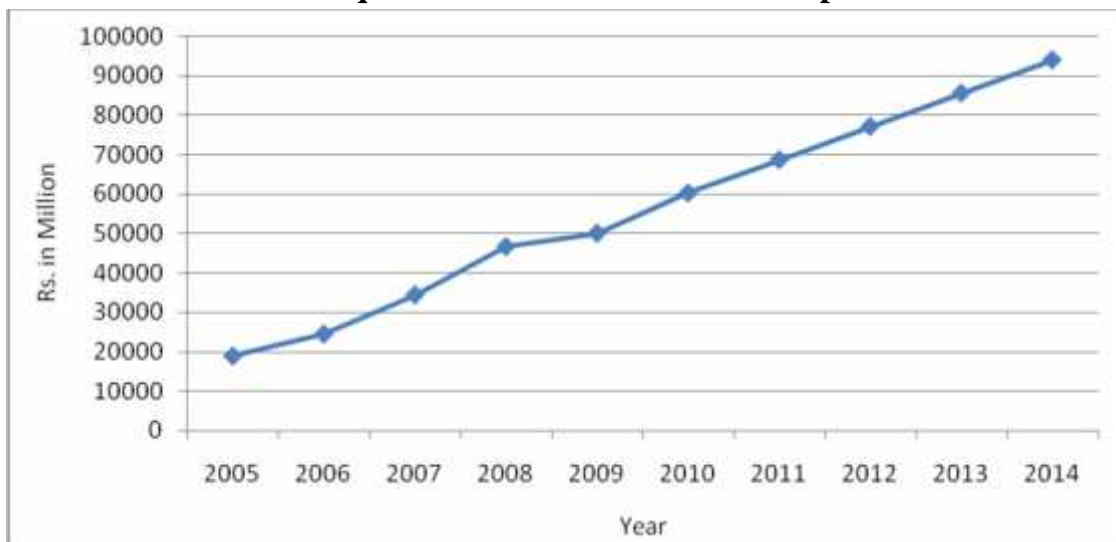
2013	85658.59
2014	94113

Source: Annex 3

In the above table shows that the forecasted total deposit for coming five years would be 60295.36, 68749.77, 77204.18, 85658.59 and 94113 million respectively. During the study period, total deposit was in increasing trend. This is shown by the diagram below. Please refer annex 3 for calculations and details.

Figure 4.2

Least Square Linear Trend of Total Deposit



(See Annex 3 for Calculations)

4.1.2.1.3 Least Square Linear Trend of Loans and Advances of NIBL

Table 4.15

Trend Value of Loans and Advances

Year	Loans and Advances
2005	13178.15
2006	17769.10
2007	27529.31
2008	36827.16
2009	40948.44
2010	49630
2011	57089.88

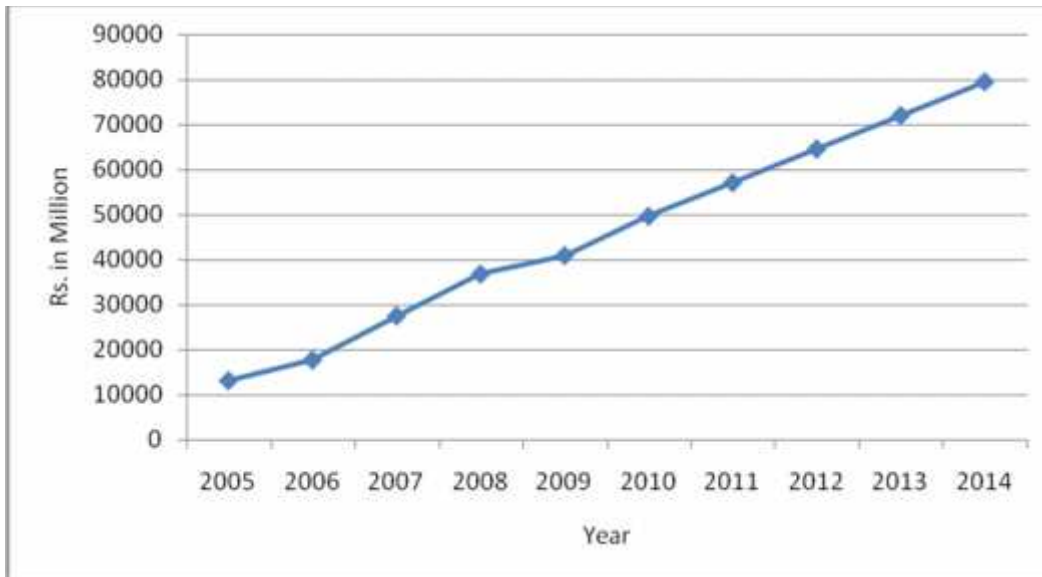
2012	64550.04
2013	72009.61
2014	79469.47

Source: Annex 4

The above table shows that the forecasted Loans and Advances for coming five years would be 49630, 57089.88, 64550.05, 72009.61, and 79469.47 million respectively. During the study period, loans and advances was in increasing trend. This is shown by the diagram below. Please refer annex 4 for calculations and details.

Figure 4.3

Least Square Linear Trend of Loans and Advances



(See Annex 4 for Calculations)

4.1.2.1.4 Least Square Linear Trend of Net Profit of NIBL

Table 4.16

Trend Value of Net Profit

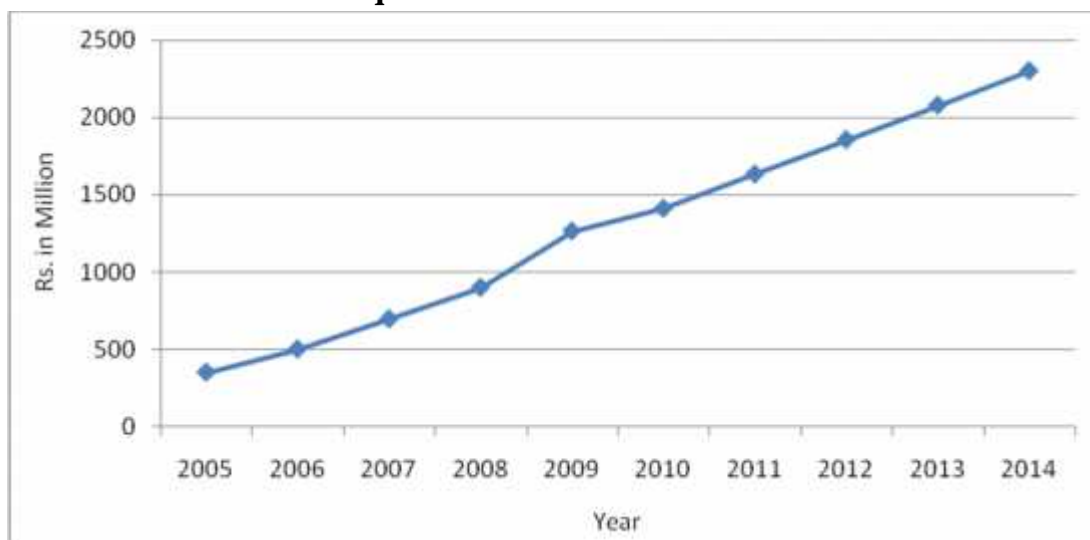
Year	Net Profit
2005	350.53
2006	501.4
2007	696.73
2008	900.62
2009	1265.95
2010	1412.08
2011	1635.10
2012	1858.12
2013	2081.13
2014	2304.14

Source: Annex 5

The above table shows that the forecasted for coming five years would be 1412.09, 1635.11, 1858.12, 2081.13 and 2304.15 million respectively. During the study period, net profit was in increasing trend. This is shown by the diagram below. Please refer annex 5 for calculations and details.

Figure 4.4

Least Square Linear Trend of Net Profit



(See Annex 5 for Calculations)

4.2 Primary Data Analysis

A questionnaire was distributed to the shareholders as primary data analysis for completion of this research. Details of questionnaire are in annex 6. Population of this research is shareholders. Only 30 questionnaires were distributed to the shareholders who are currently shareholders of different banks and financial institutions.

4.2.1 Sector wise preference for Investment

Table 4.17

Sector wise preference for Investment

S.N.	Research Variable	No. of Investors	% of Investors
1	Hotel	3	10%
2	Banking and insurance	27	90%
3	Manufacturing	0	0%
4	Trading	0	0%
Total		30	100%

Source: Field Survey, 2010

Regarding the sector of investment, the investors are asked whether the investors are interested in which sector to invest, following result was found. It is clear from the above table that 90% investors are attracting by banking and insurance sectors.

4.2.2 Decision Making Analysis

Table 4.18

Decision Making Analysis

S.N.	Research Variable	No. of Investors	% of Investors
1	Market price	12	40%
2	Own analysis	16	53%
3	Family advice and rumors	0	0%
4	Only on new established company	2	7%

Total	30	100%
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Source: Field Survey, 2010

In the context of investors' decision-making regarding base for investment in shares, 53% respondents said that they invest on share form their own analysis. Some 40% invest on share on the basis of market price. This shows how investors are getting more potential regarding investing their assets into secondary market. That's why they analyses market price or other technical or own analysis. But they don't invest according rumor or anything else. The statement has been cleared from the above table.

4.2.3 Motive for Holding Share

Table 4.19

Motive for Holding Share

S.N.	Research Variable	No. of Investors	% of investors
1	Price appreciation	12	40%
2	Dividend	12	40%
3	Liquidity	4	13%
4	Social status	2	7%
Total		30	100%

Source: Field Survey, 2010

Correspondents were asked for their motive on investment. 40% of the respondents were interested in dividend then 40% were interested in price appreciation of share. Shareholders who were interested on liquidity and social status were 13% and 7% respectively. Above table shows the clear vision about this.

4.2.4. Analyzing NIBL's Market

Table 4.20
Analyzing NIBL Market

S.N.	Research Variable	No. of Investors	% of Investors
1	NIBL only	3	10%
2	NIBL and others	12	40%
3	Other than NIBL	15	50%
4	Non listed banks	0	0%
Total		30	100%

Source: Field Survey, 2010

With regard to market analysis of NIBL, 10% has invested only on NIBL and 40% has invested on NIBL and other. That mean 50 % investors has invested on NIBL Bank's share. This mean NIBL Bank's share has good position in market and investors consider it profitable and safe for investing their money.

4.2.5 Investment Satisfaction

Table 4.21
Investment Satisfaction

S.N.	Research variable	No. of investors	% of investors
1	Yes	25	82%
2	No	5	18%
Total		30	100%

Source: Field Survey, 2010

Regarding satisfaction on the investment made by investor, correspondent of 82% said that they are satisfied with the decision and investment they made. Because a shareholder who has analyzed market and done market analysis has get satisfactory return from their investment. But 18% of them are unsatisfied because company didn't performed well due to unfavorable situation of country.

4.2.6. Analysis of Right Issue

Table 4.22
Analysis of Right Issue

S.N.	Research Variable	No. of Investors	% of Investors
1	Yes	27	90%
2	No	3	10%
Total		30	100%

Source: Field Survey, 2010

This analysis has done to identify that will the satisfied shareholders purchase the further share issued by the company. This analysis showed that 90% of the people would buy the right issue. This analysis also analyses the market position and investors confidence toward organization.

4.2.7. Investors' Analysis Regarding Performance of Organization

Table 4.23
Investors' Analysis Regarding Performance of Organization

S.N.	Research Variable	No. of Investors	% of Investors
1	Dividend and bonus	17	57%
2	Market price	6	19%
3	Financial status	7	24%
4	Technical analysis	0	0%
Total		30	100%

Source: Field Survey, 2010

On the basis of performance of organization, 57% of the investors said that they analyze the performance of their organization on the basis of dividend and bonus paid by them. 24% and 19% on market price of share and financial status respectively. This shows investors are aware enough that they analyses

performance of their organizations' performance on the basis of dividend, bonus, market price etc.

4.2.8 Investors' Rationality toward AGM

Table 4.24

Investors' Rationality toward AGM

S.N.	Research Variable	No. of Investors	% of Investors
1	Yes	17	55%
2	No	13	45%
Total		30	100%

Source: Field Survey, 2010

When respondent were asked that "Did you attend any AGM of the company and discussed about your organization's performance whose shares you owned, for this 55% said yes and 45% said no. This reveals that investors are rational toward their right to attend AGM and discuss on the topic they want.

4.2.9 Investors' Awareness toward Voting Right

Table 4.25

Investors' Awareness toward Voting Right

S.N.	Research Variable	No. of Investors	% of Investors
1	Yes	17	57%
2	No	13	43%
Total		30	100%

Source: Field Survey, 2010

To examine that are shareholders are rational about their voting right and use their right. Respondents were asked that did they vote ever. This analysis reveals, only 57% respondent are using their voting right. Thus investors' right to vote for management is there. So, concerned authorities like SEBO should be active to let

the shareholders know on their voting rights and others rights and interests. The following table shows the fact explained above.

4.2.10. Investors' Interest toward Management of Organization

Table 4.26

Investor's Interest toward Management of Organization

S.N.	Research variable	No. of investors	% of investors
1	Yes	11	35%
2	No	19	65%
Total		30	100%

Source: Field Survey, 2010

Regarding participation in company's management, investors were asked, "Do you want to be elected to the company's management? Following table reveals that 65% respondent said no. It can be because they were also involved in other job so they are not interested or may be they are lacking qualitative number of share to participate in management.

4.2.11 Investors' View Regarding Shareholders Interest in NIBL

Table 4.27

Investors' View Regarding Shareholders Interest in NIBL

S.N.	Research variable	No. of investors	% of investors
1	Yes	15	50%
2	No	3	15%
3	I don't know	7	35%
Total		30	100%

Source: Field Survey, 2010

Responded were asked that, in your view interest of shareholders protected in NIBL?

For this 50 % said yes and the shareholder who don't have share in NIBL also feels that NIBL has protected the interest of their shareholders. This mean NIBL has good reputation in market toward shareholders' satisfaction and maintaining their rights. Some said they don't have idea about it and some said no.

4.2.12 Investors' Perception toward Nepalese Political Environment

Table 4.28

Investors' Perception toward Nepalese Political Environment

S.N.	Research Variable	No. of Investors	% of Investors
1	Yes	26	85%
2	No	1	5%
3	I don't know	3	10%
Total		30	100%

Source: Field Survey, 2010

Regarding political environment effect on Nepalese stock market respondent were asked, "Does the political environment affect the Nepalese stock market? For this 85 % said yes because of the fluctuating share price occurring these days due to political instability.

4.2.13 Investors' Rational toward Analyzing Factor Influencing Stock Price

Table 4.29

Investors' Rational toward Analyzing Factor Influencing Stock Price

S.N.	Research Variable	No. of Investors	% of Investors
1	Signaling factor	17	55%
2	Company's management	3	10%
3	Company's performance	3	10%
4	Above all	7	25%
Total		30	100%

Source: Field Survey, 2010

Respondent were asked, which factor is responsible to influence stock price? Following analysis of table shows 55 % investor said signaling factor and 10 % said company's performance. This reveals that investors are aware of signaling factor, which includes several things that are responsible for the fluctuation of stock price.

4.3 Major Findings of the Study

From the analysis of data, the following major findings have been drawn out.

- J Current ratio of NIBL is not in the favorable condition, it has very low C.R. which shows that bank can used its fund in different investment, which can also be considered as significant.
- J DPS of NIBL seems to be inconsistent. DPS is increase in only two years but decrease thereafter. But EPS is quite satisfying. Increment of EPS represent the increment in profit from owner's point of view.
- J P/E ratio is increased in certain time but decrease thereafter. Higher ratio indicate the better performance of the bank.
- J The primary data analysis shows that almost 90% respondent gave preference to banking sector for investment. Similarly, 40% respondents invest on share on the basis of market price.
- J 40% of the respondents were interested in dividend then 40% were interested in price appreciation of share where as 13% & 7% were interested on liquidity and social status.
- J About 50% of respondents feels that NIBL has protected the interest of their shareholders. This means NIBL has good reputation in market toward shareholder's.
- J The majority of the respondent (85%) feels that Nepalese stock market is affected by political environment. The fluctuating of share price occurring these days due to the political instability.

-) The investors perceive the increase in EPS as better performance of the organization and hence they increase the demand of share which causes the increase in share price. Majority of the investors are convinced that higher EPS cause higher share price.
-) Dividend pattern plays a great role on share price movement. Higher the DPS, more will be the Share Price. Most of the investors like to analyze the dividend pattern of the company before they invest in their shares.
-) Company assets structure and capital structure of the company plays a moderate role on share price movement. The potential investors tend to consider the assets and capital structure of the organization second to EPS and DPS analysis.
-) AGM and Election of BOD also plays moderate role on share price movement. Good signaling after General Meeting could influence the market price of share.
-) The risk of organization does not significantly influence the share price. Most of the Nepalese investors are risk avoider, who never wants to see the risky organization for their investment.

CHAPTER - V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

After completing the basic analysis required for the study the final and the most important tasks of the researcher is to give meaningful findings to the concerned parties to initiate the action and achieve the desired results. The last chapter of this study is Summary, conclusion and recommendation developed from the whole study.

5.1 Summary

Nepal Investment Bank Limited is one of the Nepal's private sector commercial bank established on 28 February 1986. NIBL is the pioneer in introducing many innovative products and marketing concept in banking sector of Nepal. This study mainly focuses on the performance of NIBL regarding shareholders' interest protection.

Nepal's security market is completely dominated by the equity share. Investors have no more choice so they are pouring their savings on those equity instruments. There are very less number of professional giant individual investors, we can almost count them easily. However, there are large numbers of tiny investors, who just hold 10 to 50 shares of 2-3 companies. The awareness level of those large professional investors is really good, but small investors seldom know about the market mechanism. They even don't know they pose certain rights over the company after purchasing those shares. Many of them, who have just invested due to the family advice or influence of friends, even don't know how the transfer of share ownership takes place and what its process is. Such investment will not help in the capital mobilization for the economy.

Shareholders or investors are backbone of the capital market, their protection is the major factor for increasing the investment opportunities. Shareholders' protection means safeguarding shareholders' rights and interests to encourage the shareholders to invest in productive sector. So, when they feel that they are fully protected and supported by the concerned regulating authorities, they support investment sector.

Investors don't get timely information from companies due to delay in audit report for not conducting AGM timely. Beside this, investors are not curious enough to learn about companies. So we are in conclusion that the economic strength of a nation is measured in many ways. One of the major ways is to protect the investors but not neglecting them for increment of their interest into the investment sectors especially in the capital market.

This study was conducted to find out the shareholders' interest protection in the NIBL bank. At the same time the study also tried to reflect investor's right and examine investors' awareness level about their right and capital market.

5.2 Conclusions

Finally some conclusion can be forwarded on the basis of whole study. Protection of investors in NIBL has been analyzed through different ways like; financial ratios, trend analysis and questionnaire analysis and the literature review, are briefly concluded as shown below.

-) Correct and timely dissemination of information is crucial for making a prudent economic decision. Since NEPSE is not accountable to shareholders, shareholders are poorly informed and are not able to know how their investment is performing, where they have put in their money.
-) The CDS (Central Depository System) is required. The CDS will be a centralized database and it will accelerate growth of scripless trading with

increased investor participation, liquidity enhancement, and remove the inefficiencies such as delays in the settlement and clearing of transactions due to the large volume of paperwork required.

- J From NIBL bank's minute book review, we can get that shareholders are given necessary information according to company act. Qualitative no of shareholders and dividends are also declared in the reviewed minute book. AGMs are also conducted in time.
- J NIBL has low current ratio but this shows that bank has used its fund in different investment, which can also be considered as significant. Bank's cash and bank balance to total deposit ratio is also in the position to make immediate payment of the bank and has not excess balance in the form of idle assets. High ratio is not favorable for the bank; it doesn't produce appropriate profit to bear the high interest. Thus it has no idle asset in the form of current assets. NIBL has also maintained its cash and bank balance ratio.
- J ROSE is in decreasing trend from last two years. So, it shows that it has to utilize the shareholders equity efficiently. Returns on assets are in slightly decreasing trend. A higher ratio indicates the efficiency of banks in developing their entire resources and also implies that bank have lower proportion of non- performing assets. So, NIBL need to become more and more efficient in utilizing its assets to earn profit.
- J NIBL is success to distribute regular dividend and it conclude that they had not emphasis for regular trend. It shows on consistency in dividend policy and its distribution. From shareholders' point of view, the dividend is more desirable to increase their current wealth and retained earning are the most significant internal sources of financing for the growth of the firm. As NIBL has kept least amount of retained earning in 2005 & 2007 and it has provided 25% of cash dividend in 2009.

- J EPS of NIBL is in decreasing trend. EPS also related to the goodwill of the bank. So, higher volume of profit is required to have higher level of EPS. It should be considered by management.
- J P/E ratio of NIBL is in increasing trend. P/E ratio indicates investor's judgment and expectation about the firm's performance. High P/E ratio reflects investors' confidence in the stability and growth of bank.
- J Debt equity and debt to total capital ratio is decreasing, which is favorable for shareholders and for management too.
- J Interest coverage ratio of the bank is in good position so company could cover its interest payments without any difficulty.
- J Total investment to total deposit ratio has slightly decreased in current year due to unfavorable investment environment of country.
- J Loan and advance in relation to total deposit is fluctuating but in current year it is generating more than 81 % from total deposit, which shows proper use of total deposit. Loan and advance account for the largest part of the revenue of the bank.
- J Loan and advances to fixed deposit is in increasing trend that means NIBL has invested more funds on loans and advances in relation to its fixed deposits. Fixed deposit is the major source of fund, which a bank can utilize to finance long term loans.
- J From the trend analysis, trend of net worth, total deposit, loans and advance and net profit are in increasing trend in future, which is positive sign for the company as well as shareholders. From the statistical analysis, the risk and return of the NIBL is less risky as compare to the other banks.
- J NIBL's share price is increasing slightly in the market and which helps investor to satisfy with their investment. NIBL needs to occupy a good position in the market and needs to maximize shareholder's wealth.

Shareholders who were provided questionnaires also consider NIBL is profitable and safe for investing their money.

-) Shareholders' awareness about stock market and their rights are also essential for their protection. To get shareholders awareness, questionnaire were distributed which showed that shareholders in our country are also aware of security market and are mostly attracting by banking and insurance sectors. They also analyses market price or before investing their assets in securities, they do their own analysis or other technical analysis.
-) Shareholders are getting more potential, they analyses performance of their organization on the basis of dividend, bonus, market price etc. But very few people are investing in share for liquidity this mean shareholders motive is to buy and hold the share. This seems that most of the shareholders are passive.
-) Investors are rational toward their right to attend AGM and discuss on the topic they want. But most of shareholders are not interested to elect for the management of their organization.

Above all, the shareholders are enjoying dividend, other benefits and their interest so they are satisfied to a large extent.

5.3 Recommendations

Following recommendation have been presented to the concern parties for whom this research can be useful to overcome inefficiency and to improve its efficiency.

-) Concerned authorities like government and SEBON should take a series of initiatives and encourage the protection of shareholders' rights by enforcing legal provision and clear-cut policies. Concerned authorities should be responsible toward investors who are unaware about Nepalese capital market. They should make investor aware of their rights and responsibilities.

- J NEPSE also plays a crucial role in the development of stock market in Nepal. NEPSE has to update and develop its website on time made user friendly and informative for the investors. The information provided by NEPSE and SEBON are not quite enough. So, investors should be provided with investment guidelines from news, media and internet. Free information about stock market must be available so that people or investors would have willingness and curiosity to learn and understand about stock market in Nepal.
- J NRB must give instruction to banks and financial institution to protect the shareholders' right and interest. The bank must submit their report, financial position and monthly balance sheet within time.
- J Being a company run by shareholders, the management should never mind to provide transparent information to everyone whether it is a shareholders or any other individual. So, more transparent information should be provide to the shareholders through website or prospectus or different reports such as auditing report, economic and financial position reports. .
- J Since general publics are unaware about the share and share market, an organized effort is necessary to aware the publics about it. A separate department in NEPSE or an independent organization is recommended which analyze, inform and create the awareness within the emerging potential investors about share and share market through different approaches like seminar, conference or print, air media.
- J NIBL has conducted its 24th AGM in time and also the previous years AGMs, which is healthier situation from the point view of shareholders. So different regulating authorities should charge strong penalty to those companies who doesn't held AGM in time.
- J NIBL has provided timely information regarding AGM and necessary information regarding AGM to the personal address of shareholders in time.

So, transparent and easy availability of information should be distributed to shareholders.

-) The shareholders' are recommended to receive a clear picture of their financial track before investing in the company. They should be alert and aware about the misconduct of relative company, brokers, NEPSE or government. They are require to boost their knowledge up regarding share and share market to get the expected returns from their investment.
-) Investors should be self conscious to protect their rights by demanding timely information from companies. Shareholders can form their committee to work together with management to serve their purpose.

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ANNEXURE

Five Year Financial Summary
Nepal Investment Bank Limited
Durbar Marg. Kathmandu
Comparative Balance Sheet

ASSETS	2062/63	2063/64	2064/65	2065/66	2066/67
	2005/06	2006/07	2007/08	2008/09	2009/10
Cash & Bank Balance	2336.52	2441.51	3754.94	7918.00	6815.89
Money at Call & Investment	5672.87	6868.65	6874.02	7399.81	8635.53
Loans & Advances	13178.15	17769.10	27529.31	36827.16	40948.44
Net Fixed Assets	343450.00	7593.46	970.09	1060.75	1136.25
Other Assets	201.09	23473.80	277.60	391.03	399.44
Total Assets	21732.08	28073.52	39405.96	53596.38	57935.55
Liabilities					
Borrowing From Banks	550.00	800.00	1050.00	1088.80	1087.32
Customers Deposit	18927.31	24488.86	34451.73	46698.10	50094.73
Other Liabilities	437.39	423.87	684.79	1316.06	1537.98
Provision For Loan Loss	401.94	482.67	532.65	585.95	630.13
Total Liabilities	20316.64	26195.39	36719.17	49688.91	53350.16
Net Assets	1415.44	1878.13	2686.78	3907.84	4585.39
Shareholders' Fund					
Paid-Up Capital	590.59	801.35	1203.92	2407.07	2409.09
Profit Capitalization	-	-	-	-	-
Reserve Fund	778.90	955.42	1415.39	1344.21	1762.69
Profit & Loss Account	45.95	121.35	67.48	156.56	413.61
Total Shareholders' Fund	1415.44	1878.12	2686.79	3907.84	4585.39

Nepal Investment Bank Limited
Durbar Marg. Kathmandu
Comparative Profit & Loss Statement

Interest Income	2062/63	2063/64	2064/65	2065/66	2066/67
	2005/06	2006/07	2007/08	2008/09	2009/10
Income on Loans					
Advances & Overdrafts	964.69	1302.12	1907.26	2906.06	4303.31
Others	208.05	282.87	287.01	361.89	350.21
Interest Expenses	490.95)	685.53)	(992.16)	(1,686.97)	(2,553.84)
Net Interest Income	681.80	899.46	1202.12	1580.97	2099.68
Exchange Gain	125.75	135.36	165.84	185.33	224.06
Commission Income	115.94	163.90	215.29	183.04	242.87
Other Operating Income	46.61	114.09	167.95	228.63	218.31
Other Non-Operating Income	0.39	1.43	7.05	2.95	10.61
Total Income	970.48	1314.23	1758.25	2180.92	2795.53
Staff Expenses	120.66	145.37	187.15	225.72	279.85
Operating Expenses	190.61	243.43	313.15	360.53	433.59
Non-Operating Income	-	-	-	-	-
Staff Bonus	50.49	72.34	102	129.86	180.82
Total Expenses	361.76	461.14	602.30	716.11	894.26
Profit Before Tax	608.72	853.09	1155.95	1464.81	1901.26
Loan Loss Provision	103.81	129.72	135.99	166.2	93.05
Income Tax	154.38	221.98	323.23	397.98	542.26
Net Profit/(Loss) After Tax	350.53	501.39	696.73	900.62	1265.95

Annex - 1

Current Ratio

Calculation of Mean, Standard Deviation and Coefficient of Variation

Year	Ratio (R)	(R-R) ²
2005	1.08	0.000004
2006	1.07	0.000144
2007	1.07	0.000144
2008	1.09	0.000064
2009	1.10	0.000324
	R = 5.41	(R-R) ² =0.000136

$$\text{Mean (R)} = \frac{\text{R}}{\text{N}} = \frac{5.41}{5} = 1.082$$

$$\text{Variance (} ^2 \text{)} = \frac{(\text{R}-\text{R})^2}{\text{N}} = \frac{0.00068}{5} = 0.000136$$

$$\text{Standard Deviation ()} = \sqrt{\text{ } ^2} = \sqrt{0.000136} = 0.01166$$

$$\text{Coefficient of variation (C.V)} = \frac{0.01166}{\text{R}} = \frac{0.01166}{1.082} = 0.0107$$

Cash and Bank Balance to Total Deposit ratio

Calculation of Mean, Standard Deviation and Coefficient of Variation.

Year	Ratio (R)	(R-R) ²
2005	12.34	0.168
2006	9.97	7.728
2007	10.90	3.422
2008	16.95	17.64
2009	13.60	0.723
	R = 63.76	(R-R) ² = 29.68

$$\text{Mean (R)} = \frac{R}{N} = \frac{63.76}{5} = 12.75$$

$$\text{Variance (} ^2) = \frac{(R-R)^2}{N} = \frac{29.68}{5} = 5.93$$

$$\text{Standard Deviation ()} = \sqrt{^2} = \sqrt{5.93} = 2.43$$

$$\text{Coefficient of variation (C.V)} = \frac{2.43}{12.75} = 0.19$$

Return on Shareholder's Fund

Calculation of Mean, Standard Deviation and Coefficient of Variation.

Year	Ratio (R)	(R-R) ²
2005	24.77	0.71
2006	26.68	1.144
2007	25.93	0.102
2008	23.05	6.55
2009	27.60	3.96
	R = 128.03	(R-R) ² = 12.47

$$\text{Mean (R)} = \frac{R}{N} = \frac{128.03}{5} = 25.61$$

$$\text{Variance (} ^2 \text{)} = \frac{(R-R)^2}{N} = \frac{12.47}{5} = 2.49$$

$$\text{Standard Deviation ()} = \sqrt{^2} = \sqrt{2.49} = 1.58$$

$$\text{Coefficient of variation (C.V)} = \frac{1.58}{25.61} = 0.062$$

Return on Assets

Calculation of Mean, Standard Deviation and Coefficient of Variation.

Year	Ratio (R)	(R-R) ²
2005	1.61	0.04
2006	1.79	0.0004
2007	1.77	0.0016
2008	1.68	0.0169
2009	2.19	0.1444
	R = 9.04	(R-R) ² = 0.2033

$$\text{Mean (R)} = \frac{R}{N} = \frac{9.04}{5} = 1.81$$

$$\text{Variance (} ^2) = \frac{(R-R)^2}{N} = \frac{0.2033}{5} = 0.04066$$

$$\text{Standard Deviation ()} = \sqrt{^2} = \sqrt{0.04066} = 0.202$$

$$\text{Coefficient of variation (C.V)} = \frac{0.202}{R} = \frac{0.202}{1.81} = 0.112$$

Dividend Payout Ratio

Calculation of Mean, Standard Deviation and Coefficient of Variation.

Year	Ratio (R)	(R-R) ²
2005	93.44	947.40
2006	47.95	216.38
2007	70.92	68.22
2008	53.44	85
2009	47.57	227.71
	R = 313.32	(R-R) ² = 1244.71

$$\text{Mean(R)} = \frac{R}{N} = \frac{313.32}{5} = 62.66$$

$$\text{Variance (} ^2 \text{)} = \frac{(R-R)^2}{N} = \frac{1244.71}{5} = 248.94$$

$$\text{Standard Deviation ()} = \sqrt{^2} = \sqrt{248.94} = 15.77$$

$$\text{Coefficient of variation (C.V)} = \frac{15.77}{R} = \frac{15.77}{62.66} = 0.25$$

Price Earning Ratio

Calculation of Mean, Standard Deviation and Coefficient of Variation

Year	Ratio (R)	(R-R) ²
2005	21.23	50.55
2006	27.63	0.5
2007	42.33	195.72
2008	37.10	76.74
2009	13.42	222.61
	R = 141.71	(R-R) ² = 546.12

$$\text{Mean (R)} = \frac{R}{N} = \frac{141.71}{5} = 28.34$$

$$\text{Variance (} ^2 \text{)} = \frac{(R-R)^2}{N} = \frac{546.12}{5} = 109.224$$

$$\text{Standard Deviation ()} = \sqrt{^2} = \sqrt{109.224} = 10.45$$

$$\text{Coefficient of variation (C.V)} = \frac{10.45}{R} = \frac{10.45}{28.34} = 0.368$$

Debt Equity Ratio

Calculation of Mean, Standard Deviation and Coefficient of Variation

Year	Ratio (R)	(R-R) ²
2005	38.86	19.71
2006	42.59	66.75
2007	39.08	21.72
2008	27.86	43.033
2009	23.71	114.7
	R = 172.10	(R-R) ² = 265.91

$$\text{Mean (R)} = \frac{R}{N} = \frac{172.1}{5} = 34.42$$

$$\text{Variance (} ^2 \text{)} = \frac{(R-R)^2}{N} = \frac{265.91}{5} = 53.182$$

$$\text{Standard Deviation ()} = \sqrt{^2} = \sqrt{53.182} = 7.29$$

$$\text{Coefficient of variation (C.V)} = \frac{7.29}{R} = \frac{7.29}{34.42} = 0.211$$

Debt to Total Capital Ratio

Calculation of Mean, Standard Deviation and Coefficient of Variation

Year	Ratio (R)	(R-R) ²
2005	27.66	2.26
2006	29.46	10.92
2007	28.13	3.904
2008	21.81	18.87
2009	23.71	5.973
	R = 130.77	(R-R) ² = 41.927

$$\text{Mean (R)} = \frac{R}{N} = \frac{130.77}{5} = 26.154$$

$$\text{Variance (} ^2 \text{)} = \frac{(R-R)^2}{N} = \frac{41.927}{5} = 8.38$$

$$\text{Standard Deviation ()} = \sqrt{^2} = \sqrt{8.38} = 2.89$$

$$\text{Coefficient of variation (C.V)} = \frac{2.89}{R} = \frac{2.89}{26.154} = 0.11$$

Interest Coverage Ratio

Calculation of Mean, Standard Deviation and Coefficient of Variation

Year	Ratio (R)	(R-R) ²
2005	2.24	0.0361
2006	2.24	0.0361
2007	2.16	0.0121
2008	1.87	0.0324
2009	1.74	0.0961
	R = 10.25	(R-R) ² = 0.213

$$\text{Mean (R)} = \frac{R}{N} = \frac{10.25}{5} = 2.05$$

$$\text{Variance (} ^2 \text{)} = \frac{(R-R)^2}{N} = \frac{0.213}{5} = 0.0426$$

$$\text{Standard Deviation ()} = \sqrt{^2} = \sqrt{0.0426} = 0.21$$

$$\text{Coefficient of variation (C.V)} = \frac{0.21}{R} = \frac{0.21}{2.05} = 0.102$$

Total Investment to Total Deposit Ratio

Calculation of Mean, Standard Deviation and Coefficient of Variation

Year	Ratio (R)	(R-R) ²
2005	29.97	60.22
2006	28.04	33.99
2007	19.95	5.11
2008	15.85	40.45
2009	17.23	24.80
	R = 111.04	(R-R) ² = 164.57

$$\text{Mean (R)} = \frac{R}{N} = \frac{111.04}{5} = 22.21$$

$$\text{Variance (} ^2 \text{)} = \frac{(R-R)^2}{N} = \frac{164.57}{5} = 32.92$$

$$\text{Standard Deviation ()} = \sqrt{^2} = \sqrt{32.92} = 5.74$$

$$\text{Coefficient of variation (C.V)} = \frac{5.74}{R} = \frac{5.74}{22.21} = 0.26$$

Loan and Advances to Total Deposit Ratio

Calculation of Mean, Standard Deviation and Coefficient of Variation

Year	Ratio (R)	(R-R) ²
2005	0.69	0.0049
2006	0.72	0.0016
2007	0.79	0.0009
2008	0.78	0.0004
2009	0.81	0.0025
	R = 3.79	(R-R) ² =0.0103

$$\text{Mean (} \bar{R} \text{)} = \frac{R}{N} = \frac{3.79}{5} = 0.76$$

$$\text{Variance (} s^2 \text{)} = \frac{(R-\bar{R})^2}{N} = \frac{0.0103}{5} = 0.00206$$

$$\text{Standard Deviation (} s \text{)} = \sqrt{s^2} = \sqrt{0.00206} = 0.045$$

$$\text{Coefficient of variation (C.V)} = \frac{s}{\bar{R}} = \frac{0.045}{0.76} = 0.06$$

Loans and Advances to Fixed Deposit Ratio

Calculation of Mean, Standard Deviation and Coefficient of Variation

Year	Ratio (R)	(R-R) ²
2005	2.43	0.116
2006	2.36	0.168
2007	3.46	0.48
2008	3.16	0.152
2009	2.43	0.116
	R = 13.84	(R-R) ² = 1.032

$$\text{Mean (R)} = \frac{R}{N} = \frac{13.84}{5} = 2.77$$

$$\text{Variance (} ^2 \text{)} = \frac{(R-R)^2}{N} = \frac{1.032}{5} = 0.21$$

$$\text{Standard Deviation ()} = \sqrt{^2} = \sqrt{0.21} = 0.45$$

$$\text{Coefficient of variation (C.V)} = \frac{0.45}{R} = \frac{0.45}{2.77} = 0.16$$

Annex - 2

(a) Calculation of Net Worth

Year	Net Worth (Y) (Rs. In Million)	X=Year- 2007	Yc=a+bx (Rs. In Million)	Year	Yc=a+bx (Rs. In Million)
2005	1415.44	-2	1220.71	2010	5405.71
2006	1878.124	-1	2057.71	2011	6242.71
2007	2686.786	0	2894.71	2012	7079.71
2008	3907.84	1	3731.71	2013	7916.71
2009	4585.393	2	4568.71	2014	8753.71

$$Y = 14473.583 \quad X^2 = 10$$

$$X = \quad n = 5$$

0

$$XY = 8369.622 \quad a = 2894.7166$$

$$b = 837$$

$$\bar{X} = \frac{\sum x}{n} = \frac{100035}{5}$$

$$\bar{X} = 2007$$

i) $Y = na + b X^2$

$$144473.583 = 5a + 0 \times 10$$

$$a = 2894.7166$$

ii) $XY = a X$

$$8369.622 = a \times 0 + b \times 10$$

$$b = 837$$

iii) $Y = a + bx$

$$Y = 2894.7166 + 837 \times -2$$

$$Y = 1220.71$$

Annex - 3

(b) Calculation of Total Deposit

Year	Total Deposit(Y) (Rs in Million)	X=Year-2007	Yc=a+bx (Rs. In Million)	Year	Yc=a+bx (Rs. In Million)
2005	18927.306	-2	18023.32	2010	60295.36
2006	24488.856	-1	26477.73	2011	68749.77
2007	34451.726	0	34932.143	2012	77204.18
2008	46698.1	1	43386.55	2013	85658.59
2009	50094.725	2	51840.96	2014	94113

$$Y = 174660.713$$

$$X^2 = 10$$

$$X = 0$$

$$n = 5$$

$$XY = 84544.082$$

$$a = 34932.143$$

$$b = 8454.4082$$

$$\bar{X} = \frac{\sum x}{n} = \frac{100035}{5}$$

$$\bar{X} = 2007$$

i) $Y = na + b X^2$

$$74660.713 = 5a + 0 \times 10$$

$$a = 34932.1426$$

ii) $XY = a X$

$$84544.082 = a \times 0 + b \times 10$$

$$b = 8454.4082$$

iii) $Y = a + bx$

$$Y = 34932.1426 + 8454.4082 \times -2$$

$$Y = 18023.32$$

Annex - 4

c) Calculation of Loan and Advances

Year	Loans and Advances (Y) (Rs. In Million)	X=Year-2007	Yc=a+bx (Rs. In Million)	Year	Yc=a+bx (Rs. In Million)
2005	13178.15	-2	12330.7	2010	49630
2006	17769.1	-1	19790.57	2011	57089.88
2007	27529.31	0	27250.43	2012	64550.04
2008	36827.16	1	34710.29	2013	72009.61
2009	40948.44	2	42170.15	2014	79469.47

$$Y = 136252.154$$

$$X^2 = 10$$

$$X = 0$$

$$n = 5$$

$$XY = 74598.633$$

$$a = 27250.4308$$

$$b = 7459.863$$

$$\bar{X} = \frac{\sum x}{n} = \frac{100035}{5}$$

$$\bar{X} = 2007$$

i) $Y = na + b X^2$

$$136252.154 = 5a + 0 \times 10$$

$$a = 27250.4308$$

ii) $XY = a X$

$$74598.633 = a \times 0 + b \times 10$$

$$b = 7459.863$$

iii) $Y = a + bx$

$$Y = 27250.4308 + 7459.863 \times -2$$

$$Y = 12330.704$$

Annex - 5

d) Calculation of Net Profit

Year	Net Profit (Y) (Rs. In Million)	X=Year- 2007	Yc=a+bx (Rs. In Million)	Year	Yc=a+bx (Rs. In Million)
2005	350.53	-2	297.02	2010	1412.08
2006	501.4	-1	520.03	2011	1635.1
2007	696.73	0	743.05	2012	1858.12
2008	900.62	1	966.06	2013	2081.13
2009	1265.95	2	1189.07	2014	2304.14

$$Y = 3715.236$$

$$X^2 = 10$$

$$X = 0$$

$$n = 5$$

$$XY = 2230.14$$

$$a = 743.047$$

$$b = 223.014$$

$$\bar{X} = \frac{\sum x}{n} = \frac{100035}{5}$$

$$\bar{X} = 2007$$

i) $Y = na + b X^2$

$$3715.236 = 5a + 0 \times 10$$

$$a = 743.047$$

ii) $XY = a X$

$$2230.14 = a \times 0 + b \times 10$$

$$b = 223.014$$

iii) $Y = a + bx$

$$Y = 743.047 + 223.014 \times -2$$

$$Y = 297.02$$

QUESTIONNAIRE

1. In which sector or sectors would you like to invest your saving?
 - a. Banking and insurance
 - b. Hotel
 - c. Manufacturing
 - d. Trading

2. On which basis do you take the decision to invest in shares?
 - a. Market price
 - b. Own analysis
 - c. Family advice and rumors
 - d. Only on new established company

3. For what main propose do you want to invest in shares of a company?
 - a. Price appreciation
 - b. Dividend
 - c. Liquidity
 - d. Social status

4. Which bank and insurance company's share you have invested?
 - a. NIBL only
 - b. NIBL and others
 - c. Other than NIBL
 - d. Non listed banks

5. Are you satisfied with the profit earned from your previous investments in shares?
 - a. Yes
 - b. No

6. As a shareholder would you be willing to purchase right shares?
 - a. Yes
 - b. No

7. On what basis would you analyze the performance of your organization?
 - a. Dividend & Bonus
 - b. Market price
 - c. Financial status
 - d. Technical Analysis

