

# **CHAPTER – I**

## **INTRODUCTION**

### **1.1 Background of the study**

Two long term securities available to a company for raising capital are: Shares and debentures. Shares include ordinary shares and preference shares. Ordinary shares provide ownership right to the investors. Debentures or bonds provide loan capital to the company and investors get the status of lenders. In order to cope with various financial situations, firm usually issue common stock to general investors or rights offering to existing shareholders and preference share and debentures as demanded by their target capital structure.

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 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 (Bhattarai, 2005).

The investors support investment sectors by investing their funds and saving. 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.

Now a day 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 creditors, equity holders, stock holders etc. (NEPSE Trading Report, 2002).

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 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 (Joshi, 1996).

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.

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 saving, 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 (Shrestha, 1996).

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).

Appearance of capital market in Nepal, has greatly contributed to development of primary as well as secondary market for corporate securities. Altogether smoothly but is 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 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 sample opportunities to the domestic as well as foreign investors to invest their saving 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, and 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 (Joshi, 1996).

## **1.2 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 of Nepal 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 Limited, Himalayan Bank Limited and Everest Bank Limited.

## **1.3 Statement of the Problem**

The open and liberal economic policy towards the banking sector of Nepal government initiated many joint venture banks and finance companies, rural banks and co-operative societies in Nepal. The rapid growth of financial institutions has led a sharp competition among each other. Although joint venture banks have been managed for better performance than other local commercial banks within short span of time, they have been facing cutthroat competition from other commercial banks. They have been facing neck-to-neck competition among each other's and are taking advantage of weakness and inefficient of domestic commercial banks. In fact efficient financial performance is a mirror of weakness and strength of the bank. A strong joint venture bank can contribute to national economy and also attract further foreign investors in this sector. Therefore, financial statement should be fully observed to find

out whether the bank can contribute to national economy and also attract further foreign investors in this sector. Therefore, financial statement should be fully observed to find out whether the banks are economically and financially strong or not. 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, and 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.

- i. Are shareholders conscious and have knowledge about the matters relating to protection of their rights?
- ii. Are the complete information are disclosed to shareholders and related parties?
- iii. Is bank able to hold annual general meeting in time?
- iv. Do other investors consider the firm profitable and safe for the purpose of investing their money in the bank?
- v. Are the financial ratios of NIBL, HBL and EBL in a good position?
- vi. Are the earnings of the bank adequate?
- vii. Are bank activities have gone according to prospectus?
- viii. What is the dividend policy of the bank?
- ix. Is the bank in a good position to meet its current obligation?

#### **1.4 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, EBL and HBL from the viewpoint of the shareholders. Thus, this study concentrates on how far the shareholders' rights are being protected. Thus, the basic objectives of this study are as follow:

- i. To examine whether the shareholders are rational enough to know about the protection of their rights and interests or not.
- ii. To analyze whether bank has been providing transparent information or not.
- iii. To analyze the performance of the NIBL, EBL and HBL in terms of profitability, activity and leverage ratios to evaluate shareholders' protection in banks.

#### **1.5 Significance of the Study**

Joint venture commercial bank can play an important role in the enlistment of developing countries like Nepal. It also helps to improve the economy position of the country. The main objective of this research is to analyze the financial performance through the use of appropriate financial tools. This study will be helpful to different parties, since the significance of banking business for a national development is obvious. This study helps to the person and parties such as shareholders, management, brokers, customers, owners, investors and government etc and other policy-making persons who are concerned with banking sectors. The present study will be more helpful to aware the shareholders regarding financial performance of this Bank. Besides that other beneficiaries of the study can be categorized as follows.

- i. Lenders and borrowers of this Bank.
- ii. Management of this Bank.
- iii. Policy maker of Bank.
- iv. Researchers
- v. General public
- vi. And also Nepal government who makes policies of country.

## **1.6 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, EBL and HBL 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 2008 – 2012 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 respondent.

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.

## **1.7 Organization of the Study**

This study is broadly divided into five chapters and they are as given below:

It begins with introductory chapter, which includes... The third chapter is research methodology, which explains the methods used in the study including presentation of the research design. Data presentation and Analysis has done in fourth chapter. The final chapter is summary, conclusion and recommendation of the whole study.

### **Chapter - I**

The first chapter comprises of background of the study, focus of the study, significance and limitation of the study.

### **Chapter – II**

The second chapter includes the review of previous researcher, reports and articles, books and journals on protections of shareholders' interest in the context of commercial banks.

### Chapter – III

The third chapter includes the research method, research design, nature and sources of data, population and sample, data collection procedure, tools for analysis (Statistical and financial tools), methods of analysis and presentation.

### Chapter – IV

The fourth chapter includes presentations and analysis of data to indicate the computed facts on financial position of Nepal Investment Bank Limited, Everest Bank Limited and Himalayan Bank Limited.

### Chapter – V

The fifth chapter summarized the whole thesis report, presenting findings of analysis along with concluding remarks with recommendations. Bibliography and appendices are also enclosed at the end of the thesis.

## CHAPTER – II

### LITERATURE REVIEW

The basic ideas about the research study on the "protection of shareholders' interest" has drawn from the past research study, books, articles, journals, policy documents.

The literature review chapter includes:

1. Conceptual review (Book Review)
2. Article and journals review
3. policy documents review
4. Thesis review

#### 2.1 Conceptual Review

In Nepal, the concept of shareholders rights is of recent origin and no effect 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.

There is only one book written about the shareholders right on title of "Shareholders Democracy and Annual General Meeting Feedback" by Shrestha (1996). He has focused various issues related to the protection of shareholders expectations. It is essential to run the public company should be protecting the rights of shareholders. Are these public limited companies capable of protecting the shareholders right? And how far the public directors can perform their responsibility? There are the basic questions for protecting the shareholders right.

Thus, it is necessary to develop a possible guideline for enhancing the efficiency for public limited companies to contribute directly in the growth of national economy on the one hand and insuring 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 of there is basically focused on the payment of satisfactory dividend and the maximization of shareholders wealth by appreciating the value of share they hold.

Annual General Meeting is an important institution for the protection of the shareholders of a company. Because, in AGM shareholders can raise the voice in self favor. And they can also elect the director as a representative who can speak in favor of their interest in the Board. The AGM of public limited companies are generally represented by their boards which consists of government representatives, representative from the government owned institutions and one or two elected public directors. Managing board is the policy maker of company. These policies directly affect shareholders rights. Principally, there is formed Board of Public Limited Company with representative one third of minor shareholders and two third of major shareholders. As a result the role of public directors will be less effective to protect the right of minority shareholders (Bhattarai, 2005).

The general Notion of shareholders is that the present arrangement of most of the public limited companies board proved less democratic because the chairman being a government nominee carries official bureaucracy instead of democracy in the management of public limited companies. Apart from this, other members of the boards come from government owned institution and they carry same bureaucratic behavior and the same time they show little interest in the management of public limited companies. As a result of this, the originators and promoters of the company have very little chance to use their freedom in the policy matters. In addition the public director elected from shareholders has minor voice against the government domination for making the things works according to their desire. This makes the public directors to face shareholders' criticism for not doing thing according to their desire. Therefore, the management board of the public limited companies must be left entirely to the public shareholders so as to accomplish the very core principle of shareholders democracy.

Common shareholders often have the right called the preemptive right to purchase any additional shares sold by the firm. If the carter of the company contains preemptive right, then the firm must offer any new common stock to existing shareholders. Otherwise there is a choice of public offering. If it sells to the existing shareholders, the stock flotation is called a right offering. Each shareholder is issued an option to buy a certain number of new shares, and the terms of the option are contained on a piece of the paper called a right. 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 development the capital. Thus when shareholders feels that their responsible 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.

As a risk taker shareholders have certain rights and specific rights. Some of the major rights are listed below (Joshi, 2007):

1. Collective Rights.
  - 1.1 Rights to approve/disapprove the books of Account.
  - 1.2 Right to give suggestion to the management.
  - 1.3 Right to appoint Auditors.
  - 1.4 Right to approve the change of Memorandum and Articles of Association.
  - 1.5 Right to approve or reject the proposal submitted.
  - 1.6 Right to gather shareholders to support and oppose the management.
  
2. Specific Rights.
  - 2.1 Right to see the books of Account.
  - 2.2 Right to see the shareholder's lists.
  - 2.3 Right to participate in Annual General Meeting.
  - 2.4 Right to put his/her comment regarding management activity.
  - 2.5 Right to vote for the election of representative/s.
  - 2.6 Right to be elected.
  - 2.7 Right to get major decision made by management.
  - 2.8 Right to get price sensitive information.
  - 2.9 Right to trade.
  - 2.10 Right to speculate.
  - 2.11 Right to get market benefits.
  - 2.12 Right to get clarification from management.
  - 2.13 Right to get dividend.
  - 2.14 Right to get the residual amount at the time of liquidation (NEPSE Trading Report, 2002)

Shrestha (1996), has focuses that to strengthen the power of public director, while HMG should appoint professional talents as chairman of the various public limited companies rather than distributing the chairman position on a political basis. He as concluded that the suitable legal arrangement must be made to encourage the public share ownership to work

hand in hand with promoters and originators of the public limited companies. Similarly, it need readiness and positive official to get to majority of the directors elected from the shareholders in which government should play supporting role in changing some of the provisions of the company act to make the board democratic and accountable.

Finally, after detail investigation of the fundamental strength and weakness a present practice of shareholders democracy, Shrestha concluded that a separate shareholders protection act must be proposed and plan a strategic policy on private sector to initiate the share holders organization to make aware of their rights and interest.

At Investment involves the sacrifice of current rupees for future rupees. The sacrifice takes place in the present and certain. The reward comes later and is uncertain. Investment generally involves real assets or financial assets. Real assets are tangible, material things such a building, automobiles, machinery, factories and textbooks. Financial assets are piece of paper representing the direct claim to real assets held by someone else. These pieces of paper represent debt or equity commitments in the form of IOUs (written document providing evidence of debt) or stock certification. Investment is a exchange of financial claim – stocks and bonds etc. Investment is the employment of funds with the aim achieving additional income or growth in value. It involves the commitment of resources that have been saved or put away from current consumption in the hope that some benefits will accrue in future. Investment involves long term commitment and waiting for reward.

According to F. Amling, "Investment may be defined as the purchase by an individual or institutional investor of a financial or real asset that produces a return proportional to the risk assumed over some future investment period."

According to D.E. Fischer and R.J. Jordan (2001), "An investment is a commitment of funds made in the expectation of some positive rate of return. If the investment is properly undertaken, the return will be commensurate with the risk the investor assumes."

"Investment is concerned with purchasing something of value that will appreciate at a "fair" rate of return commensurate with the risk assumed over a long period of time. We propose that investors are interested primarily in eventually selling a security for more than they paid for it. Including the receipt of interest or dividends during the time the security is held, the investor hopes to achieve a higher reward than would have been possible by simply placing the same amount of money in a saving account. This reward, or return, must be measured

and estimated for each security being considered, with appropriate adjustments for decision-making costs.

As stated by Gitman (1999), in his book, "The goal of the firm, and of all managers and employees, is 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 to stakeholders as well as shareholders. Stakeholders are groups such as employees, customers, suppliers, creditors, owners, and others who have gave 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).

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 stock, bonds or some combination thereof" (Fisher and Jordan, 2000).

"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 Hone, 2001).

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 earning 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 stockholders 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 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 stockowners are entitled to vote at the shareholders' meeting of the corporation. Thus, shareholders have a voice in management" (Francis, 1983).

"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.

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 greater 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 no more. If the corporation fails to meet its obligations; the shareholders cannot be forced to give the corporation the funds that are needed to pay off the obligations.

### **Right to 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.

### **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 mailing are sent directly to the registered owner, taking into account the size of his or her holdings.

### **Voting and Proxy**

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 shareholder are often widely dispersed geographically and, therefore, disorganized, management can often exercise effective control of 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 affair of the company properly in his behalf.

If the directors act in a manner that result in their personal gain, a shareholder can sue to recover any amount he may be entitled to.

### **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 simple a form by which the shareholder assigns his right to vote to another person. Federal and provincial Securities Act regulate the solicitation of proxies and also requires companies to disseminate information to their shareholders 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 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.

### **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 reduced 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 "pay" 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 the equivalent amount.

### **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)

"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 principal) 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 expensive the 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 & Mayers, 2001).

## **2.2 Review of Articles and Journals**

Articles are not full research framework for giving complete direction to the concerned authorities. However, it gives co-operation to the researcher. So it is taken into the account for the Literature Review that how many persons have written article in favor of the protection of investors in capital market is reviewed here.

Many companies are involved in the floatation of shares in the present Nepalese capital market. All the companies are beneficial for themselves by achieving reliable goal. But they are avoiding the interest of investors, it is quite difficult to get ultimate goal of successiveness in the capital market. As capital market in Nepal is just emerging, is less concerned with the protection of investors.

"An article by Mr. Krishna Regmi, on the topic, "Companies at NEPSE not accountable to investors" has written about the poorly informed small investor, which denies investors their right to know how there investment is performing or where to make new investment. Moreover, in the absence of such information, poorly informed small investors are unknowingly exposing themselves to high risks while making investment in the shares. Even though correct and timely dissemination of information is crucial for making a prudent economic decision, a significant number of public limited companies largely deny their investors such information.

Both the potential and existing investors are supposed to be provided with all the necessary information about the companies where they have put in their money, so that they can take appropriate judgment on buying, selling or retention of shares.

Figure of NEPSE shows that 37% companies listed at the secondary market have not presented their financial statement for 2003/2004 at the stock exchange till date although the security Transactions Act binds them to do so within four months of fiscal year end. Of the total of 124 listed companies, only 78 have forwarded their financial reports to it till date.

Security Transactions Act asks all the NEPSE listed companies to hold annual general meeting (AGM) within the four months of completion of the fiscal year and submit the financial reports to the NEPSE within that timeframe. On the other hand, Company Act provides them with a timeframe of six months for undertaking such activities. Security Transactions Act also makes it mandatory for the companies to inform the NEPSE about the annual report within minutes from the time announced in the AGM in order to avoid manipulation of share price. But companies do not abide by the Act and if this trend goes on hardly any company adheres to law. "(The Kathmandu Post, April 13, 2005)

Another article by Ravindra Bhattarai, on the topic, "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 interest of investors. Thus investors' awareness about stock market and their rights are also essential (Bhattarai,2005)

People invest in the share market for different purpose. If someone is not clear about his/her purpose, the strategy followed can be wrong and the benefits not satisfactory, or there s/he 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 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 to cover the transaction costs.

Capturing a capital gain in a short requires a selection of highly fluctuating companies or newly listed companies such as Bank of Kathmandu (BOK), Lumbini Bank Ltd (LBL), Machhapuchhre Bank Ltd.(MBL), Nepal Bangladesh Bank Ltd.(NBBL), and Nepal Credit and Commerce Bank Limited(NCCBL). 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, for example, Nepal Credit and Commercial Bank (NCC).

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 Ltd. Nabil Bank Ltd., Bishal Bazaar Company Ltd., Uniliver 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 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, Himalyan Bank Ltd., Bottlers Nepal Ltd., Rastriya Beema Sansthan and Uniliver Nepal Ltd, are found to be such stocks"(New Business Age, May 2005)

"NEPSE is the only secondary market in the south Asian countries that does not have automation. Shares have been traded through tedious open and cry out system on the NEPSE floor. Ishowri Rimal, President of Association of Nepalese Securities Brokers, said that the secondary market would replace the current trading system that is done through "open and cry out method". This will attract new investors in the secondary market, thereby increasing volume of transaction by over four folds. "He also said that the automation would bring down the shares transaction cost by around 10 times. He also further said that the project would also adopt management information system (MIS) at the SEBO to disseminate

necessary information to investors and market practitioners in order to keep the secondary market abreast"(The Kathmandu Post, 21 Jan 2005).

As from above we know that trading system is not systematic in NEPSE. The trading technique/method in NEPSE is also not appropriate and it cheats investors.

An article in the "New Business Age", on the topic "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 naïve 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 is calls for a proper regularity framework so that the investors are not cheated while brokers allow get a fair commission for their service even by pursuing their profession honestly" (New Business Age, April 2005)

Though the market capitalization and the list of companies at the secondary market are on the continuous rise, NEPSE so far hasn't introduced a policy to recruit new brokers.

On the topic "NEPSE, Increasing capitalization, decreasing brokers", an article was published in the New Business Age. This reveals that there should also be some policy regarding brokers at NEPSE also necessary to update the investors with timely information. The NEPSE officials said that there should be the policy to let the brokers freely enter and exit the market to match the growing market capitalization. Shambhu Prasad Pant, assistant

manager at the Research, Library and Listing Division at the NEPSE, said that "It is natural and necessary to increase the number of brokers with the rising capitalization". He also said that recruitment of new brokers is also necessary to update the investors with timely information and provide them with necessary advices. Reacting to absence of share trading outside the capital, pant said that recruitment of new brokers is profoundly important to start the share transactions outside Kathmandu as all brokers are currently based in the capital"(The Kathmandu Post, 29 December 2004)

An article on "The Kathmandu Post", has given emphasis on improvement of NEPSE for its productive growth". Investors and market operators hold the first right to information about any changes taking place in the company. Many companies take various share prices influencing decisions, including changes in management and transactions of their assets now and again. However, they do not disclose such decisions to their investors; conceal this deliberately denying information to the investors and market operators.

Timely information is the most important factor in the share trading, as fluctuation in shares prices rely entirely on the performance of company. But, sadly enough, most of the companies enlisted with the NEPSE simply overlook this fact. As a result, investors are devoid of correct information and their ignorance has led them their investment in wrong companies.

After NEPSE came into operation as the sole security market of the country some 11 years back, companies are still not making their financial reporting at par with the international accounting standards. In addition, they do not feel obliged to submit their performance reports on time. As far as public companies are concerned, the first thing that they have to learn is how to keep their balance sheets properly.

In term of numbers, presence of the Nepali companies at the stock exchange is below the satisfactory level. Herein lies a sour truth that stock exchange regulator is not playing their roles quite effectively, when it comes to enforcing the listed companies adopt best practices.

This is why the government should privatize them so that investors' confidence on the secondary market does not erode further. Needless to say that privatization will also pave the way to improve its performance. In order to attract more companies at the NEPSE, the government has to introduce a system, where by it provides some incentives to the companies that are best in practices and always abide by the norms.

At a time when almost all of the international stock exchanges are already automated, the NEPSE is still functioning in a traditional way. So, it is high time to privatize the stock exchange to make it more professional."(The Kathmandu Post,7, February 2005)

### **2.3 Policy Documents Review**

Under this review the provisions made by government in Nepal Accumulated Act, Nepal Rastra Bank act, security exchange act, company act, considering the investors protection in regards with their rights are examined here.

#### **Provision made in Nepal Rastra Bank Act 2002**

"NRB has provided some guidelines to commercial banks and financial institutions in order to protect the shareholders' right and interest.

#### **Submission of report to Nepal Government**

- i. The bank shall have to submit the following reports to His Majesty's government within four months from the date of completion of each fiscal year.
  - a. Auditing report
  - b. Report of its activities
  - c. Report on economic and financial position
- ii. The bank shall publish its monthly balance sheet within fifteen days from date of completion of each month."(NRB Act 2022)

#### **Provision made by Nepal Accumulated Act:**

"Certain provision which is stated in the Nepal Accumulated Act 2053 about the protection of the investors is stated like below:

- ) "For the protection of the investors' interest and long term development of stock market it is essential to give training, instruction, seminar, gusty, necessary, study, research etc.
- ) If organized form had submitted the documents to register purpose, it should be provide to the investors attested photocopy for the information whenever they require.
- ) It is not permitted to any person, firm or companies to cheat the investors about the value of share like below:
  - o Wrong or confused information published.

- Without conducting transaction of stock it is said that the transaction is conducted.
- Although value of share is not changed, it is published in the market either value of share is increased or decreased.
- To make influence, it is said that share price will be increased or decreased.
- To show wrong data interrelated with share transaction.
- To make influence interrelated with share transaction and its value and other functions.
- It can be cancelled the certificate of the stock professional if they are unable to bear the responsibilities of contract at the purchasing or buying period or promise in front of the investors or their liabilities in the stock trading period.
- Board can punish to him/her by charging penalty Rs.30,000/- if any person conducted his activities against the law or under its order or direction to hamper the organized corporation, stock market, stock professional or investors.
- Directory can be made and applied by the board under the law and its rule and regulation for the protection of the investors' and to manage stock transaction systematically." (Nepal Accumulated Act 2053)

**Provision made by stock exchange:**

"It is stated in the law and rules of stock exchange how the investors should be protected and what is their importance in the capital market of Nepal as like below:

- ) Stock Exchange Board is established to manage and regulate stock exchange we for the development of stock market and for the protection of investor and their prosperity.
- ) Stock Exchange Board is established to develop stock market by giving suggestion to the government about the policy formulation under considering the protection of investors' interest.
- ) It will not be permitted if stock market's operation will not be conducted in favor of investors' facilities and welfare.
- ) It will be cancelled permission letter if the direction of the board is not followed by the concerned sectors without considering protection of investors or development of industry and commerce.
- ) It should be disclosed information through letter and newspaper for the information to the investors.
- ) Information sheet can be cancelled if it does not provide facilities and welfare to the investors.

- ) If information is cancelled, it should be informed to the investors.
- ) In any type of irresponsible activities, which hamper to the investors is conducted by anyone of the stock market by knowing rules and law of the stock exchange, should be punished by concerned authorities.
- ) Stock exchange transaction can be stopped by the stock market under considering the welfare and facilities of the investors.
- ) It can be ordered or directed to the member of the stock market like person, firm or companies to safeguard the investors' interest in regard with their welfare and facilities.
- ) It should be published the name of the members of the stock market in the main newspaper of the Nepal to inform the investors of the capital market.
- ) Those members, who are continuous for the coming year, should publish their name in the main newspaper of the Nepal for the information to the investors."

The entire development of capital market is totally depends upon whether the investors are legally protected or not. Protection of investors requires because they are of divergent nature and dispersed in different localities. They should be properly informed and should participate in different localities. They should be properly informed and should participate in making major decisions of the company" (Security Exchange Act, 2040).

Let's look on the provisions made in the protection of investors' interest in company act.

#### **Provision made by Company Act 2058**

Different provisions made in company act regarding shareholders' right has protected as below.

#### **Voting right**

Company Act, 2058, Article 58, section (1) provisions regarding "right to vote in the General Meeting." Only the person who has retained his name in the Registration Book of the shareholder shall, subject to clause (57) vote in the general meeting on the basis of one share one vote. Provided that if the shareholder who has the right to vote could be presented in the meeting by himself, then he may nominate another shareholder of the same company as his representative by writing an application with bearing a signature in the model as prescribed.

Article 58, section (2), In the condition that the share is bough in partnership in the name of more than one person, one partner nominated from among the partners or a representative nominated by him pursuant to section (1) shall vote and if any shareholder pursuant to the same could not be nominated, only the vote or the representative letter given by the shareholder whose name is written first in the Registration Book pursuant to clause (35) shall be valid.

### **Annual General Meeting**

Article 63, section (1&2) provisions, Public company shall hold the first general meeting within one year from the date that it commences transaction and thereafter the general meeting shall be held annually within six months form the date of the completion of the fiscal year of the company.

If any shareholder submits an application mentioning the particulars that the general meeting is not summoned within the time pursuant to sub-clause (2), the office may make general meeting be held and even if the application pursuant to the same thereon is not submitted, the office shall make the general meeting be held within two months from the date pursuant to sub-clause (2) is expired.

### **Subjects to be presented and deliberated in the Annual General Meeting:**

Article 64, section (1&2) provisions in each annual general meeting of public company the operators shall present the annual account of last year, which is already audited.

If the shareholders who represent at least five percent votes out of the total vote want, any subject to be deliberated and decided in the annual general meeting by submitting an application to the operators prior to the dissemination of the notice pursuant to sub- clause (2) of clause 54, the subject may be laid in the meeting.

### **Power of the shareholders to inspect the reckoning:- Article 124**

Article 124, provisions a shareholder of private company or his representative may inspect the following documents or records pertaining to the transaction of the company within office time.

- a. Decision file (minute) of the shareholders or promoters.
- b. Annual detail of the transaction.

- c. Share register
- d. Reckoning

**Details of the Transaction:**

Article 125, (1&2) provisions a shareholder of a private company may demand the details of the transaction of company of any year. The details included the profit and loss account and balance sheet certified by the promoter who undertakes the transaction of the company, managing director or chief officer shall be provided within fifteen days of the demand of the details pursuant to sub-clause (1).

**No Partiality to be done to the Shareholders**

Article 131, sub clause (1, 2, 3) provisions, if a shareholder of a company finds that transactions are being done against his well being or are to be done or the works, which are to be done, are not done or the works, which are not be done, are done, he may submit an application to the district court for remedy.

The shareholder, who applies pursuant to sub-clause (1), shall have to prove that the promoter who controls the company or Managing Director, Manager or Employee of any person is to do or has done improper partiality with bad-faith against the memorandum articles or consensus agreement of the company.

If the particulars of the application pursuant to sub-clause (1), are deemed by the district court as reasonable with ground, the court may issue necessary orders in the name of the company to provide remedy as the court deems proper to all shareholders as the shareholder has stated in his application.

Notwithstanding anything contained in sub-clause (1) and (2). The remedy of the person who is subjected to loss due to the reason that the company or promoter or the person who is to control the company or its employee do not do the work which is to be done or do the work that is not to be done or by their partial behavior, shall not restrict only to this clause and the proceeding may be proceeded to get the privileges of one or other shareholders provided by the remedies of this or other existing laws.

**2.4 Review of Thesis**

The several researchers have found various studies regarding shareholders' protection and financial performance of commercial banks. In this review, research which are concerned about the shareholders' protection, performance of Nepalese commercial bank regarding the welfare of the stockholders and other related studies which are related to secondary market in Nepal are reviewed for analysis.

Upreti (2007), in his thesis entitled "A Comparative Study of Financial Program of NIBL, HBL, SCBNL and EBL" has pointed out following objectives:

- To study the present of four joint venture banks.
- To do the comparative study about the financial performance of three banks with regard to their profitable liquidity, efficiency and capital structure.
- To provide recommendation and suggestion in the finding to improve financial performance of these banks.

Major Findings of the study are as follows:

- Current ratio of both the banks are below the standard, this might effect the liquidity position of these banks.
- SCBNL's Loan and Advances to total deposit ratio are significantly lower than that of HBL.
- SCBNL is strongly recommended to follow liberal lending policy and invest more and more percentage amount of total deposits in loan and advances.
- HBL is strongly recommended to increase it's earning per share and dividend per share to keep investors within the bank.

Pandey (2010), in his thesis entitled "A comparative Financial Performance Analysis of NABIL, NIBL and SCBNL", has pointed out the following objectives:

- To evaluate the liquidity position to measure the strength of financial performance of selected banks.
- To evaluate the profitability of selected Banks.
- To evaluate the activity and operation with reference to mobilization of the collected funds.
- To evaluate the financial position of selected banks.
- To analyze earning per share, dividend payout and price earning.
- To evaluate the income and expenditure of selected banks.
- To identify the relationship between net profit and total deposit.

Major Findings of the study are as follows:

- Commercial banks except SCBNL and NABIL are not maintaining constant DP Ratio. It is recommended to maintain a constant DP Ratio so as to have the confidence of general shareholders.
- Net income of SCBNL is the highest and that of NIBL is lowest during the study period. SCBNL has highest EPS and that of NIBL is the lowest. SCBNL and NABIL are continuously paying the dividend maintaining higher DP Ratio. SCBNL provides the highest return on equity as compared to other commercial banks under study.

Khatriwada (2000), in his study, "Protection of minority shareholders' rights and role of public directors" has analyzed the 8 randomly selected companies among 110 companies on NEPSE covering 4 fiscal years 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 affect shareholders' rights.
- To study the real problem of minority shareholders' in Nepalese public Ltd. companies.
- To survey the opinion of public shareholders relating to qualitative factors.

Major Findings 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 of government representatives, representatives from government-owned institutions 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 the ability to raise their voice in favor of minority shareholders against 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 do not give notice at the right time about the AGM and without fulfilling the required number of shareholders, AGM has 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.
- 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.
- No any arrangement has been made by SEBO to check the use of proxy instrument.
- Companies did not have disclosed true as well as detail information in prospectus (Khatiwada, 2002)

Pandit (2004), in his study, "Investors' preference and financial instrument in Nepal" analyzed the financial instruments used in Nepal and find out Preference of Nepalese investors in selecting securities. The overriding of this study was as follow:

- To explore widely used financial instrument of Nepal.
- To study the primary issue in Nepalese financial market.
- To analyze the preferences to the different investors of Nepal and to know what type of instruments the investor prefer the most.
- Finally, the study also aims to suggest and recommend to the concerned authorities and investors.

The entire number of investors of financial instruments is the population of this study. 122 investors were randomly taken as samples for this study as primary data and as secondary data, different publications, reports, journal, bulletins of Nepal Rastra Bank (NRB), NEPSE, and SEBON are used. Main finding of the study were as below:

- History shows that in Nepal only four types (common stock, Preference shares, debentures, and mutual funds) of securities were issued at varying time. Nepali security market is completely dominated by the equity shares. Investors have not more choice so they are pouring their saving on those equity instruments.
- Many of them, who have just invested due to the influence of friends and relatives, even don't know how the transfer of share ownership takes place and what its process is.

- Instructional investors are also very passive in Nepal, Commercial banks, finance companies, insurance, pension funds, investment trusts etc are the major institutional investors of any economy. In our country all of these are not actively taking part in the capital market, especially in secondary market, it seems stock market liquidity needs to be improved seriously, the efficient services of market intermediaries, conducive and realistic policies of regulating authorities, awareness campaigns for investors, better concern toward the investors' psychology and preferences and so on are the major felt need, in this regard (Pandit, 2004).

Subedi (2003), in his study, "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.

- A significant portion of investors respondent that there were better opportunities for investors in non-securities sectors, however, majority group believe that securities market as better opportunities. Among those investors, who chose securities market as better sector for investment, respondent 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.
- He also found majority of investors dissatisfied with security market were dissatisfied with the availability of information, grievance handling, and found 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.
- 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.

A study entitled, "Investment policy of commercial Banks in Nepal" by Joshi (2005) was focused to highlight the investment policies of joint venture banks expecting that the study can be bridge the gap between deposits and investment policies. From the study, the shareholders would get information to make decision while making investment on shares of various banks.

Major Findings of the study are as follows:

- To discuss fund mobilization and investment policy of Everest Bank Limited (EBL), Nabil Bank Limited and Bank of Kathmandu Ltd (BOK).
- To evaluate the Liquidity, efficiency and profitability and risk position.
- To evaluate the growth ratios of loan and advances, total investment with other financial variable.
- To analyze the trends of deposits utilization towards total investment and loans and advances.
- To conduct hypothetical test to find whether there is significant difference between the various important ratios of EBL & NABIL and BOK.

The study used the data taken from concerned banks, annual reports and analyzing these data using financial and statistical tools. EBL's investment policies have been compared with 5 years data from 1999 to 2003.

Major Findings of the study are as follows:

Objective of commercial bank is always to earn profit by investing or gaining loan and advances to people associated with trade, business and industry. This means they are required to mobilize their sources properly to acquire profit. So investment has a great deal to do with economic health since bank loans support the growth of new business and trade empowering the economic activities of the country. The income and profit of the bank depends upon its lending procedure and policy in different sectors. In the comparison of three banks NABIL Bank's financial performances were as follows.

- Its total investment to total deposit is higher than other 2 banks.
- NABIL has lowest liquidity but adequate liquidity position is maintained. It reflects that it has no idle assets.
- NABIL has average capital risk and total interest earned to total outside assets, compared to other two banks (Joshi, 2005).

Thapa (2007), studied on "Dividend and Stock Price" which was carried out by the data for 16 enterprises from 2002 to 2006. This study used simultaneous equation model as developed by Friend and Puckett.

The main objectives of that study were as follows:

- To test the difference between dividend per share and shares prices.
- To determine the impact of dividend policy on share prices.
- To identify whether it is possible to increase the market value of the stock changing dividend policy or payout ratio.

Major Findings of the study are as follows:

- The differences between dividend per share and stock price is positive in the sample companies.
- Dividend per share affects the share prices variedly in different sectors.
- Changing the dividend policy or dividend per share might help to increase the market price of share.
- The difference between stock price and lagged earning ratio is negative.

## **2.5 Research Gap**

Very few specific researches have been undertaken on the subject related to the shareholders' protection and financial performances of Nepalese commercial banks. The researcher felt research gap and has conducted research on this topic since very few other research has been undertaken to assess the shareholders' protection and financial performance. It is necessary to research about the shareholders' protection and financial performance of Nepal Investment Bank Limited, Himalayan Bank Limited and Everest Bank Limited. The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make study meaningful and purposive. There has been lots of article published related to shareholders' protection and financial performance of commercial banks. There are various researches conducted on financial performance and policy of commercial banks, impact and implementation of NRB guideline in commercial banks. Most of the thesis studies are of comparative type. Comparing of firms from same industry can make the sense. But at the same time, the individual firm may have its own strategy for business. In such a case, comparative study may mislead the researcher. So, this is the exclusive study of NIBL, HBL and EBL. However

the NRB directives are also taken into consideration, while analyzing the data. While reviewing other studies on financial performance analysis related to single bank, the researcher found that the ratios are not properly analyzed. What actually the ratio indicates is not clear. So, this study has tried to analyze the different ratios in order to make fruitful analysis on the shareholders' protection and financial performance of the NIBL, HBL and EBL. The researcher has tried to linkage the protection shareholders' interest with financial performance of banks.

So, this study will be fruitful to those interested person, parties, scholars, professor, students, businessman and government for academically as well as policy perspective. Hope this study will help to others in future in the related field.

## **CHAPTER – III**

### **RESEARCH METHODOLOGY**

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. (Wolf and Pant, 2005). 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.

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

"Research is the process of systematic and in-depth study or search for any particular topic, subject or area of investigations backed by collection, presentation and interpretation or relevant details or data" (Michael 1985).

#### **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. The study follows descriptive and co-relational research design. 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 Nepal investment bank limited(NIBL), Himalayan bank limited(HBL) and Everest bank limited(EBL) 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 primary data as well as secondary data. Primary data are collected from direct questionnaire (see appendix 1) to the shareholders of the bank and secondary data are collected from "Annual report of the NIBL, HBL and EBL and website of the bank" for the last five years.

### **3.3 Population and Sample**

At the present context, there are 32 commercial banks being operated in Nepal under the guidance of Nepal Rastra Bank. This study has been chosen 3(9.375%) banks i.e. NIBL, HBL and EBL for research from total population because these organization look to provide more information and data conveniently. Beside this it is one of those few commercial banks in Nepal, which are highly recognized in the form of income statement, balance sheet, financial ratios etc.

### **3.4 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.

### **3.5 Method of Data Analysis**

To analyze whether shareholders' interest are protected or not overall performance of bank have analyzed with an important tools. The most important tool is the financial tool, which include ratio analysis.

#### **3.5.1 Financial Tools**

To examine the performance of NIBL, HBL and EBL, this study has applied various financial ratios like 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 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 ration in itself does not indicate favorable or unfavorable condition. The standards of comparisons by consist of past ratios or projected ratios. So this study reflects whether the NIBL, HBL and EBL financial performance has improved, deteriorated or remained constant over time. Besides this, ratios are also used to examine the attitude of shareholders toward the organization.

### **3.5.1. 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.

$$\text{ROSE X} \frac{\text{Net Profit after tax}}{\text{Shareholders equity (Net Worth)}}$$

### **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:

$$\text{ROA} \times \frac{\text{Net Profit after tax}}{\text{Total Assets}}$$

### **3.5.1.2.3 Earning per share**

The profitability of the common shareholder 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.

$$\text{EPS} \times \frac{\text{Profit after tax}}{\text{No. of common share outstanding}}$$

### **3.5.1.2.4 Dividend per share**

The net profit after taxes belongs to shareholders. But the income that they really receive is the amount of earning 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.

$$\text{DPS} \times \frac{\text{Earning paid to shareholders}}{\text{No of ordinary shares outstanding}}$$

#### **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 portion 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 earning are the most significant internal sources of financing for the growth of the firm. This ratio is calculated as follows.

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

#### **3.5.1.2.6 Price earning ratio**

Price earning ratio is widely used by the security analyst to evaluate the earning 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.

$$\text{P/E Ratio} \times \frac{\text{Market price of share (MPS)}}{\text{Earning Per Share (EPS)}}$$

#### **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 financial 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 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:

$$\text{Debt equity ratio} \times \frac{\text{Total Debt}}{\text{Shareholders' equity}}$$

### **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:

$$\text{Debt to total capital ratio} \times \frac{\text{Total Debt}}{\text{Total Capital}}$$

### **3.5.1.3.3 Earning power ratio:**

This ratio is used to measure the return on relation to the investment made on total assets. The ratio can be calculated as,

$$\text{Earning power ratio} \times \frac{\text{Earning before interest and taxes}}{\text{Total assets}}$$

#### **3.5.1.3.4 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:

$$\text{Interest coverage ratio} \times \frac{\text{Net profit before interest and tax}}{\text{Interest paid}}$$

#### **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.

$$\times \frac{\text{Total Investment}}{\text{Total deposit}}$$

##### **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 the ratio indicates the proper use of total deposit whereas lower the ratio indicates less use of deposit or idle cash.

$$\times \frac{\text{Loans and advances}}{\text{Total deposit}}$$

## **CHAPTER – IV**

### **DATA PRESENTATION AND ANALYSIS**

Introduction, review of literature of research methodology are presented in the previous chapters provides the basic inputs to analyze & interpret the data presentation & analysis of data which is the main core of this study. In this chapter, collected data are analyzed & interpreted as the stated methodology in the previous chapter. This chapter of study presents the data & facts, which is related to different aspects of Nepal Investment Bank Limited. The included data is collected from various sources. These available data are tabulated, analyzed and interpreted so that financial forecast of banks can be done easily. The main objective of analyzing the financial performance and interpretation is to highlight the strength and weakness of business. The collected data are analyzed & interpreted by using the financial & statistical tools. Success of NIBL, HBL and EBL are milestone in the banking history of Nepal as it paved the way for the establishment of many commercial banks and financial institutions. BIBL, HBL and EBL provide full range of commercial banking services through its outlets spread across the nation and reputed correspondent banks across the globe. NIBL, HBL and EBL have 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 two types of analysis are done.

#### **A. Primary data analysis**

#### **B. Secondary data analysis**

##### **4.1 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. Population of this research is shareholders only 12 questionnaires were distributed to the shareholders who are currently shareholders of different banks and financial institutions.

##### **4.1.1 Sector wise preference for investment**

Regarding the sector of investment, the investors are asked whether the investors are interested in which sector to invest.

**Table 4.1**

**Sector wise preference for investment**

S.N.	Preference sector	No of investors	% of investors
1	Hotel	3	10%
2	Banking & Insurance	27	90%
	<b>Total</b>	<b>30</b>	<b>100%</b>

*Source: Field survey, 2013*

Table 4.1 shows the result sector wise investment. It is clear from the above table that 90% investors are attracting by banking and insurance sectors.

**4.1.2 Getting information from the Bank**

**Table 4.2**

**Getting information from the Bank.**

S.N.	Way of getting information	No of investors	% of investors
1.	Compulsory	20	66.66
2.	Partially	8	26.67
3.	Never	2	6.67
	Total	30	100%

*Source: Field survey, 2013*

Table 4.2 shows 66.66% investors get the information from the bank compulsory. 26.67% are getting partially and few of share holders only 6.67 are not getting any information. The most of the shareholders get are getting information from the bank regularly which shows motivate the investors for investing in securities.

#### 4.1.3 Attending the Annual general meeting (AMG)

Table 4.3

##### Attending the Annual general meeting

S.N.	Attendance	No of investors	% of investors
1.	Yes	18	60
2.	No	12	40
	Total	30	100%

*Source: Field survey, 2013*

When respondent were asked that "Did you attend any AGM of the Bank and discussed about your bank's performance whose shares you owned, for this 60% said yes and 40% said no. This reveals that investors are rational towards their right to attend AGM and discussed on the topic they want.

#### 4.1.4 Involving of share holders in strategic plan

Table No. 4.4

##### Involving of share holders in Strategic Plan

S.N.	Involvement	No of investors	% of investors
1	Yes	21	70%
2	No	9	30%
	Total	30	100%

*Source: Field survey, 2013*

To examine whether the investors are involving in strategic planning of Banks there is very good result shows. According to table 70% of the investors said yes, which shows that in the time of strategic planning the company also listening the opinion of the investors.

#### 4.1.5 Sending of Annual report

**Table No. 4.5**

**Sending of annual report**

S.N.	Response	No of investors	% of investors
1	Regularly	21	70%
2	Sometime	9	30%
3	Never	0	0%
	Total	30	100%

*Source: Field survey, 2013*

When the question asks about sending of Annual report, no one investors said never. 70% of the investors said regularly and 30% said sometime. This shows the interesting the Banks towards their investors.

**4.1.6 Investors' Awareness toward voting right**

To examine that are shareholders are rational about their voting right and use their right. Respondents were asked that did they vote ever.

**Table No. 4.6**

**Investors' awareness toward voting right**

S.N.	Participate	No of investors	% of investors
1	Yes	17	57
2	No	13	43
	<b>Total</b>	<b>30</b>	<b>100%</b>

*Source: Field survey, 2013*

This analysis reveals, only 57% respondents are using their voting right. Thus investors' right to vote for management is there. So concerned authorities like Security Board (SEBO) should be

active to let the shareholders know on their voting rights and other rights and interests. The above table shows the fact explained above.

#### 4.1.7 Investors towards Management of Organization

To examine that are shareholders are rational about their voting right and use their right. Respondents were asked that did they vote ever.

**Table No. 4.7**

#### **Investors towards management of organization**

S.N.	Result	No of investors	% of investors
1	Yes	11	37
2	No	19	63
	Total	30	100%

**Source: Field survey, 2013**

Regarding participation in Bank's management investors were asked, "Do you want to be elected to the company's management? Above table reveals that 63% respondent said no. The reason is that 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.

#### 4.1.8 Discussing for Issuing New share

**Table No. 4.8**

#### **Discussing for Issuing New share**

S.N.	Discussion	No of investors	% of investors
1	Yes	15	50
2	No	15	50
	Total	30	100%

**Source: Field survey, 2013**

Table 4.8 shows the information available to share holders about insuing new share in primary market. 50% of investors said they have the information about issuing of new share which shows the bank also discussed with them about that.

#### 4.1.9 Offering new share as priority

For an every public organization, it is the right for existing investors to purchase the new issuing share.

**Table No. 4.9**

#### Offering new share as priority

S.N.	Priority	No of investors	% of investors
1	Yes	27	90
2	No	3	10
	Total	30	100%

**Source: Field survey, 2013**

For the questionnaire of offering of new issue of share as priority 90% of respondent said yes. Banks have offered them first for investing in new issuing of share.

#### 4.1.10 Holding period of securities

**Table No. 4.10**

#### Holding period of securities

S.N.	Holding period	No of investors	% of investors
------	----------------	-----------------	----------------

1	Less than 3 years	3	10
2	3 to 5 years	12	40
3	More than 5 years	15	50%
	Total	30	100%

**Source: Field survey, 2013**

Table 4.10 shows 50% of the investors are holding the share from very long period that shows the interest of share holders in investing Bank's stock.

#### **4.1.11 Distributing of Dividend at least 5 years**

**Table No. 4.11**

##### **Distributing of Dividend at least 5 years**

S.N.	Distributing	No of investors	% of investors
1	1 to 2 times	12	40
2	3 to 4 times	9	30
3	5 times	9	30
	Total	30	100%

**Source: Field survey, 2013**

Dividend is one of the most important factors for analysis that the banks are interested about the wealth maximization of the investors or not. Table 4.11 shows every bank distributed dividend to their investors to motivate them to invest in share market.

#### 4.1.12 Investors view regarding shareholders interest in Banks.

Table No. 4.12

##### Investors view regarding shareholders interest in Banks

S.N.	interest	No of investors	% of investors
1	Yes	15	50
2	No	3	10
3	Don't know	12	40
	Total	30	100%

**Source: Field survey, 2013**

Respondent were asked that in your view “Is the interest of share holders protected in banks”. For this 50% said yes and the shareholder who don't have share in banks also feels that banks have protected the interest of their share holders. This mean bank has good reputation in market toward shareholders satisfaction and maintaining their rights. Some investors said they don't have idea about it and some said no.

#### 4.2 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 banks have analyzed in this section to analyzed 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 sample banks and NEPSE website's record.

##### 4.2.1 Financial Tools

Financial analysis is the process of evaluating relationship between components of financial statement, i.e. balance sheet and profit and loss account to obtain a better understanding of bank's position and performance. Financial analysis finds out the financial position of the bank under this section ratio analysis analyses. In this study, different ratio analyses have been used to measure the strength and weakness of the NIBL, HBL and EBL. To examine the

performance of NIBL, HBL and EBL, this study has applied various financial ratios like profitability ratio, leverage ratio, and activity ratios.

#### **4.2.1.1 Profitability Ratios**

All the business organization including bank should earn profit to survive and grow over a long period of time. Success of the bank will be endangered if it cannot satisfy either of these parties. Therefore, 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.

##### **4.2.1.1.1 Return on Shareholder's Fund**

Common or ordinary shareholders are entitled to the residual profit. The rate of dividend is not fixed. The earning may be distributed to shareholder or retained in the business. This ratio indicates the capacity of the banks to utilize its owner's fund. It is one of the important ratios to judge whether the firm has earned a satisfactory returns from its shareholders or not. Higher ratio indicates the sound management and efficient mobilization of the owner's fund. Net profit denotes net profit after tax and net worth includes paid up capital, reserve and surplus, other free reserve exchange fluctuation reserves and undistributed profit. 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 No. 4.13**

#### **Return on shareholder's equity**

<b>Year</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>

<b>NIBL</b>	24.77	26.68	25.93	22.80	17.18
<b>HBL</b>	46.91	48.95	23.68	22.35	21.00
<b>EBL</b>	31.19	45.13	16.25	29.91	26.11

**Source: Annual report of Bank**

The above table 4.13 shows that the return on share holder's equity ratio for NIBL is in decreasing trend it shows that it has not utilized the shareholders equity efficiently. For the HBL it has also not a good result because the ratio of HBL also in decreasing trend. For EBL the ROSE is in increasing trend from the year 2009/10 to 2011/12 which shows the Everest Bank utilized efficiently of share holder's equity.

#### **4.2.1.1.2 Return on Assets**

This ratio measures the profitability with respect to the total assets. It indicates the efficient of the banks in utilizing its overall resources. This ratio measures how far the management has utilized all the assets of a firm in profit generating activities. Higher ratio indicates higher efficiency in the utilization of total assets and vice-versa. 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.

**Table No. 4.14**

#### **Return on Assets**

<b>Year</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
<b>NIBL</b>	1.64	1.82	1.79	2.01	1.58
<b>HBL</b>	2.39	2.80	1.55	1.91	1.76
<b>EBL</b>	1.28	2.53	0.93	2.01	1.95

**Source: Annual Report of Bank**

The above table 4.14 shows that the net profit of total assets ratio has ranged between 1.58 in the year 2011/12 and 2.01 in 2010/11 in case of NIBL, where as HBL has ranged between 1.55 in 2009/10 and 2.80 in 2008/09 and in case of EBL 0.93 in 2009/10 and 2.53 in 2008/09.

On above table 4.14 it can find that the entire ratios are more than one times expect 0.93 in 2009/10 for EBL. 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. According to table HBL and EBL are becoming more and more efficient in utilizing its assets to earn profit than NIBL.

#### 4.2.1.1.3 Earning Per Share

Earning per share measures the efficiency of a firm in relative terms. It is a widely used ratio. It measures the profit available to the ordinary shareholders on per share basis. The earning per share calculation made over years indicates whether the bank's earning power on per share basis has changed over that period or not but it does not reflect how much is paid as dividend and how much is retained in the business. EPS is a matter of concern to the investors. EPS simply shows the profitability of the firm on a per share basis. It is calculated by dividing the profit after tax by the total no. of common share outstanding.

**Table No. 4.15**

#### Earning per share

Year	2007/08	2008/09	2009/10	2010/11	2011/12
<b>NIBL</b>	59.35	62.57	57.87	39.07	27.60
<b>HBL</b>	60.66	62.74	61.90	44.66	39.94
<b>EBL</b>	78.42	91.82	99.99	83.18	88.55

**Source: Annual Report of Bank**

From Table 4.15 it was found that EPS of HBL and EBL are increasing trend from 2007/08 to 2009/10. But for the NIBL the EPS are in continuously decreasing from 62.57 in 2008/09 to 27.60 in 2011/12. The performance of HBL and EBL regarding good for the investors than NIBL. According to table investor of EBL are looking satisfy than other two banks.

#### 4.2.1.1.4 Dividend per Share

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.

**Table No. 4.16**

**Dividend Per Share**

Year	2007/08	2008/09	2009/10	2010/11	2011/12
<b>NIBL</b>	20	5	7.5	5	16
<b>HBL</b>	15	25	12	16.84	13.42
<b>EBL</b>	10	20	30	51.74	2.49

**Source: Annual report of Bank**

The above table shows the dividend paid to share holders by Bank. According to table dividend per share provided by NIBL seems to be inconsistent than HBL and EBL but the ratio is in itself better for the investors. In 2007/08 the DPS of NIBL is 20 which look highest DPS for NIBL. In case of HBL in 2008/09 DPS is highest i.e. 25. The EBL provided better dividend to their investor than NIBL and HBL. It provided 51.74 DPS in 2010/11 when NIBL provided only 5 and HBL provide only 16.84 DPS. But in 2011/12 DPS of EBL is too declining i.e. only 2.49. In average all the investors of these Banks are looking satisfied by the distribution of dividend from Banks.

**4.2.1.1.5 Dividend Payout Ratio**

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 can be calculated by dividing dividend per share divided by earning per share.

**Table No. 4.17**

**Dividend Payout Ratio**

Year	2007/08	2008/09	2009/10	2010/11	2011/12
------	---------	---------	---------	---------	---------

<b>NIBL</b>	33.69	7.99	12.96	12.80	57.97
<b>HBL</b>	24	39	33	30	42.16
<b>EBL</b>	12	21	60	62.20	2.81

**Source: Annual Report of Bank**

The above table 4.17 shows the percentage of earning distributed to investors. According to it NIBL distributed highest dividend i.e. 57.97 in 2011/12 and HBL distributed 42.16% in 2011/12 where EBL distributed 62.20% in 2010/11. In 2011/12 EBL has retain all earnings and only 2.81% of earning were distributed. Looking of this table we may be said that the all Banks have tried to give more dividends to motivate the investors. Higher DPR mean the lower retention ratio. All three Banks have retained more earning some times and some time paid.

#### **4.2.1.1.6 Price Earning Ratio**

The price earning ratio 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 in this market appraisal of the firm's performance and will like to find the causes if the P/E ratio declines.

**Table No. 4.18**

#### **Price Earning Ratio**

<b>Year</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
<b>NIBL</b>	21.23	27.63	42.33	13.18	18.51
<b>HBL</b>	28.68	31.55	28.43	12.88	16.35
<b>EBL</b>	30.98	34.11	24.55	13.15	11.67

**Source : Annual Report of Bank**

The table 4.18 shows the PIE ratio of NIBL and HBL are low in 2010/11 and PIE ratio of EBL is low in 2011/12. The entire banks share's market value is more than 12 times than its EPS in every year. So it shows the market value of share is in good position therefore investors of all Banks looking satisfied with banks.

#### 4.2.1.2 Leverage Ratios

Leverage ratio is also known as capital structure ratio is 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. In this aspect, debt equity ratio, debt to total capital ratio, earning power ratio, interest coverage ratios have analyzed.

##### 4.2.1.2.1 Debt Equity Ratio

This ratio measures the proportion of debt in relation to equity finance in a firms 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 by shareholders' equity.

**Table No. 4.19**

#### Debt equity ratio

Year	2007/08	2008/09	2009/10	2010/11	2011/12
<b>NIBL</b>	14.35	13.95	13.67	59.28	44.56
<b>HBL</b>	20.38	40.53	39.18	46	43
<b>EBL</b>	31.13	18.73	34.44	64.07	39.01

**Source: Annual Report of Bank**

The above table 4.19 shows the Debt equity ratio of NIBL is low in 2009/10 and high in 2010/11. In 2010/11 NIBL used most debt than other years. When we see the data of HBL, it has low debt equity ratio in 2007/08 and high in 1010/11. When the EBL high ratio is in 2010/11 and low in 2008/09. From the shareholders' point of view use of less debt equity is good because lower the ratio higher the level of the Bank's financing that is being provided

by shareholders and the larger the share holders protection. So, as ratio is decreasing it seems favorable for shareholders and less debt portion is good for management also.

#### 4.2.1.2.2 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 No. 4.20**

#### Debt to Total capital ratio

Year ⇓	⇨ 2007/08	2008/09	2009/10	2010/11	2011/12
<b>NIBL</b>	34.44	32.69	30.50	37.22	30.82
<b>HBL</b>	1.03	2.31	2.56	3.89	3.68
<b>EBL</b>	1.28	1.05	1.93	4.31	2.92

**Source : Annual Report of Bank**

The above table 4.20 shows debt to total capital ratio of NIBL is similarly in 5 years. i.e. between 30 to 37. The HBL has in increasing trend continuously and for EBL it is less than 2 in 2007/08 to 2009/10 and it is highest in 2010/11 that is 4.31. The lower ratio shows the less use of debt capital which is good for shareholders. According to table it is clear that HBL and EBL have used less debt capital so it shows they favor the share capital to motivate the shareholders. But the NIBL uses large amount of debt capital for its capital structure which is not good for shareholders.

#### 4.2.1.2.3 Earning Power Ratio

This ratio is used to measure the return on relation to the investment made on total assets. The ratio can be calculated as, Earning before interest and taxes divided by total assets.

**Table No. 4.21**

#### Earning power ratio

Year ⇓	⇨ 2007/08	2008/09	2009/10	2010/11	2011/12
-----------	-----------	---------	---------	---------	---------

<b>NIBL</b>	5.06	5.48	5.45	9.08	8.06
<b>HBL</b>	3.08	3.59	1.94	7.82	7.74
<b>EBL</b>	1.67	3.27	1.18	8.4	8.00

**Source: Annual Report of Bank**

From above table 4.21 it is found that earning power ratio is in increasing trend in case of NIBL and fluctuating in case of HBL and EBL. In the year of 2010/11 and 2011/12 all banks earning power ratio is highest which shows the earning made on investment of total assets is in good position, therefore the investors are looking encourage to invest in banks.

#### **4.2.1.2.4 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. 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 No. 4.22**

#### **Interest Coverage Ration**

<b>Year</b> ⇨ ⇩	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
<b>NIBL</b>	1.99	2.33	2.24	1.46	1.39
<b>HBL</b>	2.75	3.33	1.68	1.51	1.49
<b>EBL</b>	1.11	2.17	1.06	1.52	1.55

**Source: Annual Report of Bank**

From above table 4.22, it can be said that interest coverage ratio of the banks are in good position. It is more than 1.5 times in every year for all Banks except in the year 2010/11 and 2011/12 for NIBL and 2007/08 and 2009/10 for EBL. The interest coverage ratio more than 1 times shows the banks could cover it interest payments without difficulty.

#### **4.2.1.3 Activity Ratio**

Activity ratio is also called the turnover ratio and a performance ratio. Activity ratio concerned with measuring the efficiency in assets management. The activity ratios are used to measure the efficiency speed and rapidity with assets and are converted into cash. It reflects the firm's efficiency in utilizing its assets. If the bank does not utilize its assets properly to profit generating sector it will cause less profit etc. 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.

#### 4.2.1.3.1 Total Investment to Total Deposit Ratio

This ratio reveals how efficiency 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 No. 4.23**

#### **Total Investment to Total Deposit Ratio**

Year ⇨ ⇩	2007/08	2008/09	2009/10	2010/11	2011/12
<b>NIBL</b>	29.97	28.05	19.95	14.81	18.31
<b>HBL</b>	21.58	23.49	26.14	18.82	15.73
<b>EBL</b>	24.63	20.46	23.37	21.00	21.00

**Source: Annual Report of Bank**

From, table 4.23; it is found that total investment out of total deposit of banks is in inconsistency. It is higher ratio in 2007/08, for NIBL and EBL and for HBL it is higher in 2009/10. It is lower in 2010/11, 2011/12 and 2008/09 for NIBL, HBL and EBL respectively. The total investment out of total deposit is 18.31, 15.73 and 21% in 2011/12 for NIBL, HBL and EBL respectively which is not good for the investors. According to industrial average of total investment to total deposit ratios among 32 commercial banks the ratios are 34.38%, 30.89%,27.51%,31.91%,29.13% in the year 2008,2009,2010,2011 and 2012 respectively.

Therefore sample banks managerial efficiency is not in very good position because the ratios are slightly below than industrial average.

#### 4.2.1.3.2 Loans and Advances to Total Deposit Ratio

This ratio measures how much extent the bank is successful in utilizing the outsider's funds in the profit generating purpose. 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 No. 4.24**

#### **Loans and advances to Total Deposit Ratio**

Year ⇩	⇨ 2007/08	2008/09	2009/10	2010/11	2011/12
<b>NIBL</b>	69.63	72.56	79.91	81.96	73.03
<b>HBL</b>	59.09	62.83	64.13	77.14	73.26
<b>EBL</b>	73.61	78.47	75.48	75.51	71.81

**Source: Annual Report of Bank**

The above table 4.24 shows that ratio has ranged between 69.63 in the year 2007/08 and 81.96 in the year 2010/11 for NIBL. It has ranged between 59.09 in the year 2007/08 and 77.14 in the year 2010/11 for HBL and it is ranged between 71.81 in 2011/12 and 78.47 in 2008/09 for EBL. The ratio is in increasing trend through out the study period, except 2012 for NIBL and HBL. It is fluctuating trend in case of EBL. From the above table 4.14 it was found that loan and advances, account for the largest part of the revenue of the Bank. Loan and advance in relation to total deposit in 2011/12 is generating 73.03, 73.26, and 71.81 for NIBL, HBL and EBL respectively which shows proper use of total deposit for all three banks. According to industrial average the loans and advances to total deposit ratio in 2008, 2009, 2010, 2011, 2012 are 53.38%, 60.50%, 65.01%, 67.40%, 68.35% respectively, which

shows that sample banks have less idle cash and have large amount of deposit in revenue generating activities like loans and advances.

#### **4.3 Major Findings of the study**

Shareholders' awareness about stock market and their rights are 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.

When the questionnaire was asked about getting information they gave positive result. They said they have got information timely. They know where the Banks have invest their money. According to table the 66.66% of shareholders getting information timely shows the positive think of Banks on their investors.

Investors are rational toward their right to attend AGM and discuss on the topic they want. The table 4.3 shows 60% of investors attend AGM which shows the Banks have participate their investors for the decision making process of management and also involve them for important strategic plan. It shows in Banks the rights of investors are caring. The table 4.5 shows many of the investors get Annual report. This shows the banks have through it is their responsibility to send annual report to their investors. Most of the shareholders are not interested to elect for the management of their Banks. But most of them used their vote for the election. The banks encourage them for using their vote. Above all the shareholders are enjoying dividend other benefits and their interest so they are satisfied to a large extent. When the respondents were asked about holding of securities many of them reply that they hold it for the long period because its market price, earning and dividend are reasonable for them.

The main objective of this study is to concentrate on how far the shareholders right is being protected in the Banks. The major findings of this study are summarized below.

The study showed that the return on shareholders equity ratio has fluctuated for the three Banks. On the basis of study it was found that Rose is in decreasing trend. It shows that the

Banks have not utilized the shareholders equity efficiently. Among the three Banks EBLs utilization is quite satisfying but not so good.

The study showed that the net profit to total assets ratio has in increasing trend for 2008 to 2011 i.e. 1.64% to 2.01% for the NIBL and it has fluctuate for the HBL and EBL. For the study it can be found that the entire ratios are more than one times. 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. NIBL, HBL and EBL are becoming more and more efficient in utilizing their assets to earn profit.

From the study, it was found that EPS of EBL is increasing from 2011 i.e. 83.18 to 2012 i.e.88.55 and EPS of NIBL and HBL are decreasing i.e.39.07 and 44.66 to 27.60 and 39.94 respectively. In five years period all Banks EPS showed in fluctuating trend. Performance of NIBL, HBL and EBL regarding EPS looks quite satisfying. In 2009 NIBL regarding EPS looks quite satisfying. In 2009 NIBL and HBL have highest EPS i.e.57.87 and 61.90 respectively and in 2010 EBL has highest EPS i.e.99.99. The EPS of NIBL and HBL are looking in decreasing trend which is not very good news for the investors.

From this study it showed that NIBL, HBL and EBL have distributed cash dividend to their shareholders for every year. In the year 2011 EBL distributed highest cash dividend among five years period but lowest in the year 2012 and other two banks distribution are also good for the shareholders. Higher DPR mean lower retention ratio. In the year 2012 the retention ratio of NIBL is less. It has distributed 57.60% of cash dividend. For the EBL in the year 2011 it has highest DPR of 62.20% and it has highest retention ratio in 2012. for the HBL DPR is ranged between 24 in 2008 and 39 in 2009 which shows its retention ratio is not so fluctuating.

It was found that debt equity ratio of NIBL, HBL and EBL are less than 50% for every years of study period. Only in 2011 NIBL and HBL used more then 50% debt. Less use of debt is good for the shareholders.

It was found that the earning power ratio of banks is in increasing trends. The table shows in the year 2011 and 2012 it was in highest position it shows the total assets are utilizing more efficiently to earn profit year by year.

It was found that total investment out of total deposit of banks is in inconsistency. It has higher ratio in 2008 year and the lower in 2011 for NIBL. It is higher in 2010 and 2008 for HBL and EBL respectively and it is lower in 2012 and in 2009. The less investment of deposit is not good for the investors. According to the industrial average of total investment to total deposit ratios among 27 commercial banks the ratio are 34.38%, 30.89%, 27.51%, 31.91%, 29.13% is the year 2008, 2009, 2010, 2011, 2012 respectively. Therefore NIBL, HBL and EBL managerial efficiency is not very good position because ratios are lower than the industrial average.

Loans and advances are the most profitable among all the assets of the banks because they earn the major portion of income for the banks. All 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 know banks can employ such fixed deposit to invest in long term investment the yields high returns.

## CHAPTER – V

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 2.1 Summary

Shareholders' protection means safeguarding shareholders' right 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. 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.

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. NIBL, HBL and EBL are the Nepal's private sector commercial banks. NIBL, HBL and EBL are the pioneer in introducing many innovative products and marketing concept in banking sector of Nepal. This study mainly focuses on the performance of NIBL, HBL and EBL regarding shareholders' interest protection.

Investors being backbone of the capital market, their protection is the major factor for increasing the investment opportunities. Investors' 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 get timely information from banks. Besides this, investors are not curious enough to learn about their organizations. 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.

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. The study shows that the investors have got timely information from their banks. They attend banks AGM. The bank does not take any decision without shareholders' suggestions. The shareholders have interested in involving in AGM. They are curious about the banks activities.

Most of the shareholders mostly care about their bank's activity. They always involved in election of banks. They use their votes compulsory. They tried to build a good management for their organization. The bank also fully supports them in every way.

The study showed that the net profit to total assets ratio has ranged between 1.58 in the year 2012 and 2.01 in the year 2011 for NIBL and it has ranged between 1.55 in the year 2010 and 2.80 in the year 2009 for HBL and for the EBL it has ranged between 0.93 in the year 2010 to 2.53 in the year 2009. From the study it can be found that the entire ratios are more than one times. Returns on assets are looking in good position. 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. All three banks are becoming more and more efficient in utilizing their assets to earn profit.

From the study, it was found that EPS of all selected Banks are in good position. Generally all three banks earn more than fifty rupees per share every year in the study period. So performance of the NIBL, HBL and EBL regarding EPS looks quite satisfying. Among the three banks EPS of EBL looking highest but other two banks EPS is also looking good. Thus performance of all three banks regarding EPS looks to be fruitful to the investors.

From the study it showed that NIBL, HBL and EBL distributed cash dividend regularly to motivate and encourage the investors. Higher DPR mean lower retention ratio. NIBL distributed highest DPR in the year 2012 is 57.60%, where HBL distributed highest DPR in the year 2009 is 39% and EBL distributed highest DPR in the year 2011 is 62.20%. In the year 2012 EBL retain 97.19% earning to invest more profitable sector to earn more and more return for the investors and NIBL retain highest 92.01% of earnings in 2009 to invest in profitable sector.

From the study it was found that the market price per share of all three banks are more than 10 times of their earning per share. The market price of share is also a most important subject attracting investors.

It was found that total investment out of total deposit of banks is in inconsistency. For NIBL it has higher ratio in 2008, i.e.29.97%. For NIBL it has higher ratio in 2010 i.e.26.14% and for EBL it has higher ratio in 2008 i.e.24.63%. The investment of deposits are lower for all three sample banks due to unfavorable environment of country.

Loans and advances are the most profitable among all the assets of the banks because they earn the major portion of income for the banks. 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. All the banks utilize more than 60% of deposit in loans and advances which indicates the banks have tried to invest more and more deposit in income sector which is looking good for the investors.

## **2.2 Conclusion**

Finally some conclusion can be forwarded on the basis of whole study. Protection of investors in NIBL, HBL and EBL have 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 investors, investors are poorly informed and are not able to know how their investment is performing, where they have put in their money.
- ) The trading technique/method in NEPSE is also not appropriate and it cheats investors. At a time when almost all of the international stock exchanges are already automated,

the NEPSE is still functions in a traditional way. So, it is high time to privatize the stock exchange to make it more professional.

- ) From NIBL, HBL and EBL banks' 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.
- ) 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 analysis market price before investing their assets in securities, they do their own analysis for decision making about investment.
- ) Investors are rational toward their right to attend AGM and discuss on the topic they want. But most of shareholders are not interested to effect for the management of their banks.
- ) The investors get annual report of their banks regularly. They discuss about strategic plan, about issuing new share and they have an opportunity to new offering shares.
- ) Shareholders are getting dividend many times. They are enjoying dividend and other benefits and their interest so they are satisfied from the banking sector.
- ) ROSE of the Banks are in good position. It shows that it has utilized the shareholders equity efficiently.
- ) Returns on assets are also good. 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. NIBL, HBL and EBL are becoming more and more efficient in utilizing its assets to earn profit.
- ) Dividend per share provided by NIBL, HBL and EBL seem to be inconsistent but satisfactory for investor. The banks have distributed earning as cash dividend.
- ) Debt equity ratio are increasing, but it is favorable for shareholders if it decreases and ten debt portion is also good for management.

- ) Debt to total capital ratio is better when it is decreasing so that shareholders can get good return. All three banks have used lower percentage of debt in their total deposit.
- ) Earning power ratio is in increasing trend it is very good in the year 2011 for the here banks.
- ) Interest coverage ratio of the banks is in good position. It is more than 1.5 times in every years except 2008 and 2010 for EBL. All the banks could cover their interest payments without difficulty.
- ) Total investment to total deposit ratio has slightly decreased in current year due to unfavorable investment environment of country. But its ratio is higher than industrial average of commercial banks which is very good for the banks which means banks are making good investments which will earn revenues.
- ) Loan and advances in relation to deposit are fluctuating but in current year they are generating more than 70% form total deposit, which shows proper utilize of total deposit. Loan and advance account for the largest part of the revenue of the banks.
- ) NIBL, HBL and EBL's share price are good in market and which can make an investor satisfied with their investment. NIBL, HBL and EBL are occupying good position in the market and is in a position to maximize shareholder's wealth. Shareholders who were provided questionnaires also consider NIBL, HBL and EBL are profitable and safe for investing money.

### **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.

- ) NIBL, HBL and EBL have conducted their AGM in time and also 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.

- ) NIBL, HBL and EBL have 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.
- ) Concerned authorities like Nepal government and SEBO 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, which will be helpful to produce democratic pattern in the capital market.
- ) 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 regarding shareholders should be contained in the website or prospectus or report of every shareholder's organization.
- ) Since retained earning is the source of internal financing, which is used to fulfill the capital requirement of the firm, it should reduce DPR so that it does not have to spend on external fund. If retention policy is applied honestly it can also be beneficial to the investors.
- ) Earning power ratios are slightly decreased in the year 2010. So banks should concentrate on investing their total assets to increase their earning before interest and tax.
- ) Total investment to total deposit ratio have slightly decreased in current year so banks should pay attention toward investment of the banks because it is main function of banks which generate profit.
- ) Investors should be self conscious to protect their rights by demanding timely information from Banks. Shareholders can form their committee to work together with management to serve their purpose.

## BIBLIOGRAPHY

- Alexander, G.J., Sharpe W.F. & Baily, J.V. (2003). *Fundamentals of Investments*, (3<sup>rd</sup> edition). New Delhi: F.I.E. Patparganj.
- Bhalla, V.K. (1983). *Investment management, Security Analysis and Portfolio Management*, Bombay: S. Chanda Publishing Company.
- Brealey, R.A., & Myers, S.C. (2001). *Principles of Corporate Finance*, New Delhi: Tata McGraw-Hill Publishing Company Limited.
- Fema, E. (1977). *Foundation of Finance*, London: Basic Balck Well, Oxford.
- Fischer, E.D. & Jordan J.R. (1995). *Security Analysis and Portfolio Management*, New Delhi: Prectice Hall of India Pvt. Ltd.
- Fisher, D.E., & Jordan, R.J. (2000). *Security Analysis and Portfolio Management*, New Delhi: Prentice Hall of India Pvt. Ltd.
- Francis, J.C. (1979). *Investments: Analysis and Management*, New York: Mc Graw-Hill Book Company.
- Francis, J.C. (1980). *Investment, Analysis and Management*, New York: Mc Graw Hill Company.
- Francis, J.C. (1983). *Management Of Investment*, Japan: International Student.
- Francis, J.C. (1986). *Investment, Analysis and Management*, New York: Mc Graw-Hill Book Company, New York.
- Gitman L.J. (2001). *Principle of Managerial Finance*, London: Person Education.
- Glenn V., Henderson, J.R., Gary, L.T., & James E.W. (2004). *An Introduction to Financial Management*, California: Addison-Wesley Publishing.
- Howard, K. Wolff and Pant, P. (2005). *A Handbook for social science research and thesis writing*, Kathamndu: Buddha Academic Enterprises Pvt. Ltd.
- John, C.P., Tuttle, D.L. & Heaton, C.P. (2000). *Essential of Modern Investment*, New York: Ronald Press.
- Kerlinger, F.N. (1986). *Foundations of Behavioral Research*, New York: Holt, Rimerhard and Winston.

- Mahat, R.S. (1999). *Capital Market, Financial flows and Industrial Finance in Nepal*, Lalitpur: Sajha Prakasan.
- Pandey, I.M. (1995). *Financial Management*, New Delhi: Vikas Publication House Pvt. Ltd.
- Pradhan, R.S. (1994). *Financial Management Practices in Nepal*, New Delhi: Vikas Publishing House Pvt. Ltd.
- Reily, F.K. (1986). *Investment*, New York: The Dryden Press/CBS Publishing
- Sharpe, W.F., Alexander & Baily, (2001). *Investment*, New Delhi: Prentice Hall of India.
- Bhattarai, R. (2005). *"Matching and cheating"*, Kathmandu: New Business Age.
- Bhattarai, R. (2005). *"Define your objective before buying stocks"*, Kathmandu: New Business Age.
- Fama, E. (1970). *"Efficient Capital Market: A Review of Theory and Empirical Work,"* Journal of Finance, Vol, XXV, No.2, New York: American Finance Association.
- Harry, V.R. (1959). *"Stock-Market Patterns and Financial Analysis: Methodological Suggestions."* Journal of Finance, Vol. XIV, No.1, New York: American Finance Association.
- Joshi, M.R. (1996). *"Securities Market in Nepal with Special Reference to Nepal Stock Exchange."* Banijya Sansar, Vol.16, Issue 9, Central Department of Management, T.U., Kathmandu.
- Pradhan R.S. (1993). *"Stock Market Behavior in Small Capital Market: A Case of Nepal."* The Nepalese Management Review, Vol. IX, New Delhi: National Book Organization.
- Regmi, K. (2005). *"Companies at NEPSE not accountable to investors"*, The Kathmandu Post.
- Securities Board Nepal (2008). Annual Report 2007/08, Thapathali: Kathmandu Nepal.

- Shrestha, M.K. (1996). *"Why is Share Market Inactive? Problem and Measures?"*, Management Day Souvenir, Nepal University Teachers' Association (NUTA). Kathmandu: Public Youth Campus, Dhobichour, T.U.
- Shrestha M.K. (2000). *"VIP Share Holders: Emerging Concept and Implications."*, Issue 10, Baniya Sansar, Association of Business students, Central Department of Management, T.U., Kirtipur.
- Shrestha, M.K. (1992). *"Capital Market in Nepal: Changing Dimensions and Strategies"*, The Nepalese Management Review, Vol. VIII, No.1.
- Shrestha, M.K. (1992). *"Capital Market in Nepal: Changing Dimensions and Strategies"*, Kathmandu: The Nepalese Management Review, Vol. VIII, No.1.
- Upreti, P. (2007). *"A Comparative Study of Financial Program of NIBL, HBL, SCBNL and EBL"* An unpublished Master's Degree Thesis, Shankar Dev Campus,
- Pandey, D. (2010). *"A comparative Financial Performance Analysis of NABIL, NIBL and SCBNL"*, An unpublished Master's Degree Thesis, Lumbini Banijya Campus.
- Joshi, J. (2005). *"Investment Policy of Commercial Banks in Nepal,"* (A comparative Study of Everest Bank Limited with NIBAL Bank Limited and Bank of Kathmandu Limited) An unpublished Master's Degree Thesis submitted to Shankar Dev Campus, T.U.
- Khatriwada, T.P. (2002). *"Protection of minority shareholders' rights and role of public directors"* An unpublished Master's Degree Thesis submitted to Shankar Dev Campus, T.U.
- Pandit, K. (2004). *"Investors' preference and financial instrument in Nepal"* An unpublished Master's Degree Thesis submitted to People's Campus, T.U.
- Subedi, B. (2003). *"Investor's awareness in Security Market"*, An unpublished Master's Degree Thesis submitted to Shankar Dev Campus, T.U.
- Thapa, P. (2007). *"Dividend and Stock Price"* An unpublished Master's Degree Thesis submitted to Shankar Dev Campus, T.U.

## Annex - 1

Dear Sir/Madam,

I hereby request you to fill up the attached questionnaire provided to you. I am going to study entitled, "Protection of shareholders' Interest in context of commercial banks (With special reference to Investment Bank Ltd., Everest Bank Ltd. and Himalayan Bank Limited.)". The views expressed in this questionnaire by you will only be used for the research purpose and kept confidential. Your kind cooperation will be helpful to complete this research successfully.

Thank You!

### Research Questionnaire

Please place (✓) mark on the correct box and express your ideas and views where necessary.

- 1) In which sector do you want to invest?
  - a. Banking and insurance
  - b. Government bond
  - c. Hotel
- 2) Are you getting sufficient and timely information from the bank?
  - a. Compulsory
  - b. Partially
  - c. Never
- 3) Did you attend any annual general meeting of the bank and discussed about your bank?
  - a. Yes
  - b. No
- 4) Did the bank involve you in the strategic decision making?
  - a. Yes
  - b. No
- 5) Did the bank send you the annual report yearly?
  - a. Regularly
  - b. Sometime
  - c. Never
- 6) Did you vote ever in order to elect the bank's management?

- a. Yes
  - b. No
- 7) Do you want to be elected to the company's management?
- a. Yes
  - b. No
  - c. Don't know
- 8) Do the bank discuss with you about issuing new share in the market?
- a. Yes
  - b. No
- 9) Does the bank offer you at first while issuing new share?
- a. Yes
  - b. No
  - c. Don't know
- 10) Do you have regular information about market price of your share?
- a. Yes
  - b. No
- 11) From how long period are you holding the share?
- a. Less than two years
  - b. Two to five years
  - c. More than five years
- 12) According to your view is the interest of share holders protected in banks?
- a. Yes
  - b. No
  - c. Don't know

**ANNEX - 2****Return on Share holder's equity (ROSE)**

Variable	NIBL		EBL		HBL	
	2011	2012	2011	2012	2011	2012
Net Profit After tax	1176641031	1039275613	931303628	1090564222	893115143	958638260
Share holders equity	5159759697	6049941175	3113546056	4177302887	3995478273	4632010133
ROSE (%)	22.80	17.18	29.91	26.11	22.35	20.69

**ANNEX - 3****Return on Assets (ROA)**

Variable	NIBL		EBL		HBL	
	2011	2012	2011	2012	2011	2012
Net Profit After tax	1176641031	1039275613	931303628	1090564222	893115143	958638260
Total Assets	58356827501	65756231954	46236212262	55813129057	46736203884	54364427882
ROA (%)	2.01	1.58	2.01	1.95	1.91	1.76

**ANNEX - 4****Earning Per Share (EPS)**

Variable	NIBL		EBL		HBL	
	2011	2012	2011	2012	2011	2012
Net Profit After tax	1176641031	1039275613	931303628	1090564222	893115143	958638260
No. of Common Shares	30113721	37661553	11195000	12315000	20000000	24000000
EPS (Rs)	39.07	27.60	83.18	88.55	44.66	39.94

**ANNEX - 5****Dividend Per Share (DPS)**

Variable	NIBL		EBL		HBL	
	2011	2012	2011	2012	2011	2012
Total Dividend	150646210	602274425	576897427	30646879	336842000	322106400
No. of Common Share	30113321	37661553	11195000	12315000	20000000	24000000
DPS (Rs.)	5	16	51.74	2.49	16.84	13.42

**ANNEX - 6****Dividend Payout Ratio (D/P Ratio)**

Variable	NIBL		EBL		HBL	
	2011	2012	2011	2012	2011	2012
DPS	5	16	51.74	2.49	13.42	16.84
No. of Common Share	39.07	27.60	83.18	88.55	44.66	39.94
D/P Ratio (%)	12.80	57.97	62.20	2.81	30	42.16

**ANNEX - 7****Price Earning Ratio (P/E Ratio)**

Banks	NIBL		EBL		HBL	
Variable	2011	2012	2011	2012	2011	2012
MPS	515	511	1094	1033	575	653
No. of Common Share	39.07	27.60	83.18	88.55	44.66	39.94
P/E Ratio (%)	13.18	18.51	13.15	11.67	12.88	16.35

**ANNEX - 8****Debt Equity Ratio (D/E Ratio)**

Banks	NIBL		EBL		HBL	
	2011	2012	2011	2012	2011	2012
Variable						
Total Debt	3058945563	2695686995	1994751874	1629725893	1820098577	2001423847
Share holders equity	5159759697	6049941175	3113546056	4177302887	3995478273	4632010133
D/E Ratio (%)	59.28	44.56	64.07	39.01	46	43

**ANNEX - 9****Debt to Total Capital Ratio**

Banks	NIBL		EBL		HBL	
	2011	2012	2011	2012	2011	2012
Variable						
Total Debt	3058945563	2695686995	1994751874	1629725893	1820098577	2001423847
Total Capital	8218705260	8745628170	46236212262	55813129057	46736203884	54364427882
Debt to total capital ratio (%)	37.22	30.82	4.31	2.92	3.89	3.68

**ANNEX - 10****Earning Power Ratio**

Banks	NIBL		EBL		HBL	
	2011	2012	2011	2012	2011	2012
Variable						
EBIT	5296309453	5302789313	3866891226	4441166689	3652540898	4205532959
Total Capital	58356827501	65756231954	46236212262	55813129057	46736203884	54364427882
Earning Power Ratio (Times)	9.08	8.06	8.4	8.00	7.82	7.74

**ANNEX - 11**  
**Interest Coverage ratio**

Banks	NIBL		EBL		HBL	
	2011	2012	2011	2012	2011	2012
EBIT	5296309453	5302789313	3866891226	4441166689	3652540898	4205532959
Interest Paid	3620336697	3814411187	2535875552	2873334682	2414807243	2816441404
Interest Coverage Ratio (Times)	1.46	1.39	1.52	1.55	1.51	1.49

**ANNEX - 12**  
**Total Investment to total Deposit Ratio**

Banks	NIBL		EBL		HBL	
	2011	2012	2011	2012	2011	2012
Total Investment	7423106525	10438487115	7743928327	7863627165	8769938671	10031580497
Total Capital	50138122242	57010603789	41127914339	50006100272	40920627030	47730993909
Ratio	14.81	18.31	18.82	15.73	21	21

**ANNEX - 13**  
**Loan and advances to total deposit ratio**

Banks	NIBL		EBL		HBL	
	2011	2012	2011	2012	2011	2012
Loan and advances	31566976155	34965433862	31057691462	35910974673	41095514519	41636998817
Total Capital	40920627030	47730993909	41127914339	50006100272	50138122242	57010603789
Ratio	77.14	73.26	75.51	71.81	81.96	73.03