

**A Study of**  
**CUSTOMER SATISFACTION AND FINANCIAL PERFORMANCE**  
**OF SELECTED NEPALESE COMMERCIAL BANK**  
**With Reference to Kathmandu Branches**

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## **Recommendation**

This is to certify that this thesis prepared by **Iswor Regmi** entitled “**A Study of Customer Satisfaction and Financial Performance of Selected Nepalese Commercial Banks With Reference to Kathmandu Branches**” has been prepared as part of the student’s original research. This report has been prepared on the prescribed format approved by Faculty of Management, Tribhuvan University. It is forwarded for examination by the concerned department of this institution.

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# VIVA - VOCE SHEET

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**“A STUDY OF CUSTOMER SATISFACTION AND FINANCIAL  
PERFORMANCE OF SELECTED NEPALESE COMMERCIAL BANK**

**With Reference to Kathmandu Branches”**

We have found the thesis as the student’s original research work and has been prepared on the prescribed format approved by Faculty of Management, Tribhuvan University.

We recommend the thesis to be accepted as partial fulfillment of the requirement for the Masters Degree in Business Studies (MBS).

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# DECLARATION

I hereby declare that the work reported in this thesis entitled “**A STUDY OF CUSTOMER SATISFACTION AND FINANCIAL PERFORMANCE OF SELECTED NEPALESE COMMERCIAL BANK**” With Reference to **Kathmandu Branches** Submitted to Central Department of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirements for the Masters Degree in Business Studies (MBS) under the supervision of **Dr. Dilli Raj Sharma**, Central Department of Management, Tribhuvan University.

Date:

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## **Acknowledgement**

It's my pleasure to present the study report entitled "**A Study of Customer Satisfaction and Financial Performance of Selected Nepalese Commercial Banks, with reference to Kathmandu Branches**" which was conducted as partial fulfillment of requirement for the award of the degree of Masters of Business Studies (MBS). The main theme of the study is to investigate customer satisfaction level, financial performance of commercial banks and understand the link between these two.

First and foremost, I am deeply indebted to my research supervisor, **Dr. Dilli Raj Sharma** for his invaluable guidance throughout the work. His constant inspiration and support has resulted in the completion of this work. I would also like to express my heartfelt gratitude to all the respondent of Kathmandu Metropolitan area for their valuable response.

I would take this opportunity to thank authors of books, journals and articles that were consulted in course of the study. The special thanks to co-operative staffs of Central Department of Management and library, for their support and help to make this report possible.

I am very much hopeful that this report would be helpful to the readers in having adequate information about performance of the Nepalese commercial banks in adjacent to financial and non-financial measures and be a reference for their future investigations.

I am responsible for errors in this report and would like to extend warm welcome to suggestions and comments if any.

Iswor Regmi

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## **Abbreviation**

ABC	Activity Based Costing
ALT	Alternative
ATM	Automated Teller Machine
AVG	Average
BOK	Bank of Kathmandu Limited
BSC	Balance Score Card
CAR	Capital Adequacy Ratio
CAGR	Cumulative Average Growth Rate
CSI	Customer Satisfaction Index
EBL	Everest Bank Limited
EVA	Economic Value Added
HBL	Himalyan Bank Limited
KBL	Kumari Bank Limited
LBL	Lumbini Bank Limited
LTD	Limited
LTDR	Loan to Deposit Ratio
MI(s)	Members Institutions
NBK	National Bank of Kuwait
NCC	Nepal Credit and Commercial
NIBL	Nepal Investment Bank Limited
NICL	Nepal Industrial and Commercial Bank Limited
NIM	Net Interest Margin
NLR	Net Liquidity Ratio
NPLR	Non-Performing Loan Ratio
NRB	Nepal Rastra Bank
NSBI	Nepal SBI Bank Limited
RBB	Rastriya Banijya Bank
ROA	Return on Assets
SBI	State Bank of India
SBL	Siddhartha Bank Limited
SCBL	Standard Chartered Bank Limited
SPSS	Statistical Science for Social Studies

TATR	Total Assets Turnover Ratio
TQM	Total Quality Management

## CHAPTER 1

### INTRODUCTION

#### 1.1. Background of the Study

The banking sector acts as the life blood of modern trade and commerce to provide them with a major source of finance, (Hussain, 2010). Commercial bank occupies quite an important place in the framework of every economy. It provides capital for the development of industry, trade and business by investing the saving collected as deposit. One of the significant factors that influence the economic activities of any country is the commercial banking business of that country. Commercial banks, by playing active roles, have changed the economic structure of the world. Integrated and speedy development of the country is possible only when competitive banking services reach nooks and corners of the country, (Sharma, 2011).

In the Nepalese financial system, the two banks: Nepal Bank Ltd. established on 1937 A.D. and Rastriya Banijya Bank Ltd. established on 1966 A.D. dominated the banking sector for more than 40 years before other commercial banks were established. It was only in 1984 A.D. Nepal adopted liberalization that encouraged establishment of other banks under collaboration with foreign banks as well as under private sector.

In recent years, the Nepalese banking sector is transformed from a sluggish and government-dominated sector to a much more competitive and profitable industry. Moreover, banks are focusing on providing better services and differentiated products to customers to acquire competitive edge and to attract more customers.

The transition in banking sector over the past decade is primarily due to government's deregulation policy, technological advancement and increasing competition. These factors have created new behaviors among customers and put forward new challenges before bank operators. At the same time, various banking and non-banking financial institutions have come into existence to make financial sector intensely competitive. Above all, financial sectors has gone through many struggling faces and developed as one of the profitable service sector in Nepal.

In addition to this, the competition among banking institutions is a major cause of customers' ever growing expectations. Customers are now more informed and they expect their banks to meet their needs when, how and where they want. Otherwise, there is the risk that a bank loses market share in favor of its competitors.

The increased number of banks has lead to stiff competition among banks to offer better service quality for the successful survival in the market. Service quality offered by service firms, especially banks, is important due to increasing competition. As such, service quality is considered the key to gain competitive advantage and important factor determining customer perception of bank's overall activities. And it is difficult to find a bank that has not initiated some kind of service quality improvement program in today's

competitive business environment either through superior customer service or by incorporating advanced technology.

Similarly, performance evaluation of service firms is also inevitable. Banking sector is no exception from the performance evaluation and they require a sound mechanism to assess their success or failure after specific duration. Apart from emphasis on financial perspective in evaluating performance, the non-financial measures such as customer perspective is widely used for performance evaluation. Thus, both the nature of doing banking business and the performance measures for banking sector have changed over a period of time.

There are a number of studies that investigated the different aspects of banks. These studies were related to measure quality service, customer satisfaction and to identify financial performance. In context of Nepal there is wide practice to measure financial performance through financial perspective but there is a shortage of such study that analyze the bank's performance through non financial measure i.e. customer satisfaction.

Hence, this study seeks to investigate and measure the relationship between customer satisfaction and financial performance of commercial banks. Similarly, this study aims to find the outcome of banker's efforts in terms of improving satisfaction level of its customers.

## **1.2. Statement of Problem**

In service sector like banking industry, the bank operators have little scope for differentiation either for the products or services they offer or for the cost they charge. Moreover, the customers are approached by the competitors; and the customers themselves are willing to use more than one financial institution to meet their needs and switch funds for short-term gains. In such a scenario, the ultimate challenge faced by banking organizations today is to produce satisfied customers. Apart from this purpose, the understanding and measuring the performance through customer perspective via customer level of satisfaction have turned out to be essential for banking industry.

Despite sustained satisfactory financial performance of the major Nepalese commercial banks, they have to understand and measure the non-financial aspects. Moreover, the traditional systems of performance evaluation, based on financial measures, have many drawbacks. One of the major concerns is the manipulative accounting methods especially in context of highly competitive environment. Hence, the essentiality of measuring the banks performance based on customer satisfaction has turned out to be relevant.

Further, various studies conducted in context of many developed countries have shown the strong link between non-financial measure, that is customer satisfaction, and financial measure. Hence, the focus of study will be towards the performance evaluation based on bank's customer perspective and financial perspective. In addition, it will also focus on understanding the link between these perspectives.

The major issues of the study are as under:

- a. What is the current level of customer's satisfaction with services provided by commercial bank?
- b. What factors need to be improved to ensure an improvement in the levels of customer satisfaction of bank?
- c. How are commercial banks financially performing?
- d. Does customer satisfaction have relationship with financial performance?

### **1.3. Objectives of the Study**

The study tries to evaluate the performance of selected Nepalese commercial banks, at Kathmandu Metropolitan area, in terms of financial and non-financial perspective.

*Moreover, the specific objectives of the study are:*

- a) To study the satisfaction level of the banks customers.
- b) To study whether customer satisfaction influence the customer's loyalty towards their banks.
- c) To measure the financial performance and link between various financial indicators
- d) To evaluate the performance of selected Nepalese commercial banks in terms of customer satisfaction and financial performance

### **1.4. Significance of the Study**

The Nepalese banking industry sector is intensely competitive. The inability to increase the customer base due to various reasons is not hidden to many. Hence, this research will help banking sector, by providing information about customers' satisfaction from different products and services offered, to increase customer satisfaction level through various parameters. Further, this study will focus on analyzing the various factors as follows:

- To understand the importance of customer satisfaction in measuring bank's performance.
- To understand the factors that drives higher level of customer satisfaction and loyalty.
- To understand the impact of customer satisfaction on financial performance.

Findings will be helpful to identify those areas which should be focused more to provide better services. This will help for banks for retaining their customers and attract new

customers. It is quite a bold step to enquire into the customer satisfaction in Nepalese commercial banking sector. The study also fulfills some requirements of social audit of commercial banks in terms of customer satisfaction. The management of the sampled banks may also benefit from this study as the outcome of this study, though not very complete, describes about their performance through financial and customer perspectives.

## **1.5. Operational Definitions and Assumptions**

### **1.5.1. Operational Definitions**

#### **a. Service Quality**

Service quality is defined as “customers’ overall impressions of an organization’s services in terms of relative superiority or inferiority.” It is a focused evaluation that reflects the customer's perception of specific dimensions of service: reliability, responsiveness, assurance, empathy, and tangibles. Satisfaction, on other hand, is more inclusive. It is influenced by perceptions of service quality, product quality, and price as well as situational factors and personal factors.

#### **b. Customer Satisfaction**

Customer satisfaction is a measure of how products and services supplied by an organization meets or exceeds customer expectation. In other words, customer satisfaction is a highly personal assessment that is greatly influenced by individual expectations. It can be experienced in a variety of situations and connected to both goods and services. As this definition makes clear, satisfaction is a function of perceived performance and expectations, there can be three specific reactions of the customer.

- If the performance falls short of expectations, the customer is dissatisfied.
- If the performance matches the expectations, the customer is satisfied.
- If the performance exceeds expectations, the customer is delighted.

#### **c. Customer Loyalty**

Customer loyalty is the practice of finding, attracting, and retaining the customers who regularly purchase from the organization. Customer loyalty can be defined as ‘the totality of feelings or attitudes that would incline a customer to consider the re-purchase of a particular product, service or brand or re-visit a particular company, shop or website.’ Customer loyalty has always been critical to business success and profitability.

#### **d. Financial Performance**

Financial performance is a measure indicating how well a firm can use its assets to generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

The ultimate objective of any organization is to earn profit; hence it is important to measure the financial performance. It refers to the financial perspective of an organization and determines whether or not organization is making profit. The various indicators are

computed to determine the financial soundness of an organization. The major financial indicator for determining financial performance includes financial ratios such as Net Liquidity Ratio (NLR), Net Interest Margin (NIM), Return on Assets (ROA), Total Assets Turnover Ratio (TATR), Non-Performing Loan Ratio (NPLR) etc.

#### **e. Commercial Bank**

A commercial bank is a type of [financial institution](#) that acts as an [intermediary](#) by providing financial services such as savings and loans. Commercial banks have a major role in the financial system. They work as the intermediary between depositors and lenders, and facilitate in overall development of the economy. To conclude banks are the gatherers of saving, allocators of resources, and providers of liquidity and payment services.

#### **f. SERVQUAL**

SERVQUAL is a multi-dimensional scale developed to assess customer perceptions of service quality in service and retail businesses. It provides the basis for the measurement of customer satisfaction for the service provided using the gap between the customer's expectation of performance and their perceived experience of performance. This widely known instrument for measuring service quality is referred to as SERVQUAL model. Initially, the model involved 10 dimensions of service quality that included: reliability, responsiveness, competence, access, courtesy, communication, credibility, security, understanding the [customer](#) and tangibles. In 1991, it was modified into the RATER model. After an extensive research, it was found that customers use five dimensions when evaluating service quality. The five SERVQUAL dimensions include:

- (1) *Tangibles*: Physical facilities, equipment and appearance of personnel;
- (2) *Reliability*: Ability to perform the promised service dependably and accurately;
- (3) *Responsiveness*: Willingness to help customers and provide prompt service;
- (4) *Assurance* (including competence, courtesy, credibility and security): Knowledge and courtesy of employees and their ability to inspire trust and confidence;
- (5) *Empathy* (including communication, and understanding the customer): Caring and individualized attention that the firm provides its customers.

#### **g. Balance Score Card (BSC)**

BSC specifies the organizational performance from the four important perspectives (customer, financial, internal business, innovation and learning) linking it to performance measures. It provides answers to four basic questions:

- How do customers see us? (customer perspective)
- How do we look to shareholders? (financial perspective)
- What must we excel at? (Internal business perspective)
- Can we continue to improve and create value? (Innovation and learning perspective)

The BSC includes financial measures that tell the results of actions already taken. And it complements the financial measures with operational measures on customer satisfaction, internal processes, and the organization's innovation and improvement activities- operational measures that are the drivers of future financial performance.

### **1.5.2. Assumptions**

The following are some of the assumptions made for this research purpose and they are:

- For the significance of the test, the significance level is assumed to be 5 percent for T-test and Chi-square test making the confidence level 95 percent.
- For performing correlation and regression analysis, the significance level is assumed to be 5 percent and 1 percent as per the relation formed.

### **1.6. Limitation of the Study**

- The overall study is conducted with reference to 12 selected Nepalese commercial banks; hence, it may not represent the entire banking sector.
- The study is limited to banks customers within Kathmandu Metropolitan area who have access to financial services. Their expectations may not represent the banks' overall customers' expectations to fulfill customer satisfaction.
- There are many factors affecting financial performance. In this study, the effect of customer satisfaction is explored on financial performance.
- The probability of error in responses may occur due to unavoidable factors such as ignorance of the respondents, hesitation of respondents, misinterpretations etc.

### **1.7. Organization of the study**

This study has been comprised into five chapters, each devoted to some aspects of customer satisfaction and financial performance of Nepalese commercial banks. The titles of each of these chapters are summarized and the contents of each of these chapters of this study are briefly mentioned here.

#### **Chapter I: Introduction**

This Chapter deals with the subject matter consisting introduction, statement of problem, objectives of the study, significance of the study, research questions, definitions, limitation of the study and chapter scheme of the study.

#### **Chapter II: Literature Survey and Theoretical Framework**

This chapter is divided into two parts: (i) Review of studies in related fields dealing with different article, journals, books and relevant thesis. (ii) Conceptual framework of the study.

#### **Chapter III: Research Methodology**

This chapter describes the research methodology adopted in carrying out this research. It deals with research design, population and sample, sources of data, data collection procedures, time frame of the study and analysis plan.

#### **Chapter IV: Data Presentation and Analysis**

This chapter concerned with data presentation, analysis and discussion. This chapter is divided into three parts. The first section deals with the presentation and analysis of the financial performance through different ratios. The second section deals with measurement of level of customer satisfaction through RATER scale. The third section

deals with understanding of link between financial performance and customer satisfaction through regression, correlation coefficient, t-test and chi-square test.

**Chapter V: Summary, Conclusions and Recommendations**

This chapter is the final chapter of the research study where findings from the analysis of data will be summarized, conclude and recommended to solve the previously mentioned problems.

## CHAPTER 2

### LITERATURE SURVEY AND THEORETICAL FRAMEWORK

#### 2.1. Literature Review

A performance measurement system enables an enterprise to plan, measure, and control its performance according to a pre-defined strategy. In short, it enables a business to achieve desired results and to create shareholder value. (Johnson)

Over the years banking and finance authors are using many methods to measure financial performance of the banks. Ratio analysis is one of the most commonly used tools to measure the financial performance of the banks. Different authors have used different versions of financial ratio analysis for the bank performance analysis using financial statement items as initial data sources. (Chowdhury and Chowdhury, 2010)

Organizations need to understand that to what extent their customers would be satisfied. In service based enterprises; service quality directly affects customer satisfaction. Ingrid FecĭikovaÂ, (2004) interpreted satisfaction as a feeling which results from a process of evaluating what was received against that expected, the purchase decision itself and/or the fulfillment of needs/want.

One of the main ingredients of success in the market place is customer satisfaction. Jochen Wirtz (2003) listed the results of customer satisfaction as follows: repeat purchase; loyalty; positive word-of-mouth and increased long term profitability. One of the tool to measure customer satisfaction is SERVQUAL. By the use of SERVQUAL scale it is possible to compare customers' expectations and their perceptions of actual performance (Parasuraman and Zeithaml, 1990).

Financial measures are only for historical values and only give short-term financial indications. While non-financial measures can give indications about an organization in the present and/or the development in the future. So, it is essential for an organization to use non-financial measures, such as performance for customers, internal processes, and innovation and improvement activities to analyze the firm's performance. (Kaplan and Norton, 1993)

##### 2.1.1. Evolution of Commercial Bank in Nepal

Banking service is the oldest service industry in Nepal. It has gone through the various stages of evolution and development since the Vedic times (200 to 1400 B.C.) Though the modern banking institution has a very recent origin in Nepal, some crude bank operations were in practice even in the ancient time. In the Nepalese history, it was recorded that the new era known as Nepal Sambat was introduced by Shankhadhar sakhwa, a sudra merchant of Kantipur in 879 or 880 A.D; after having paid all the outstanding debts in the country. This shows the basis of money lending practice in ancient Nepal. Towards the end of 8th century, Gunkam Dev had borrowed money to rebuild the Kathmandu Valley. In 11th century, during Malla regime there was an evidence of professional moneylenders and bankers. It is further believed that money-lending business, particularly for financing the foreign trade with Tibet, became quite popular during regime of Mallas. However, in

the absence of any regulatory measures, the unscrupulous moneylenders were known to have charged exorbitant rates of interest and other extra dues on loans advanced (Tiwari, 2009).

These inconveniences led the Prime Minister Ranoddeep Singh (1877-1885) to establish **Tejarath Addaha** in Kathmandu, which was a government financial institution supplying credit to the people at 5% rate of interest against security of gold, silver and ornaments. It did not collect deposits from the public. During the time of Chandra Shamsher (1901-1929), credit facilities of Tejarath were extended to some other parts of the country by opening its branches (NRB, 1996).

Later, with the growing necessity of the commercial banks in the world, the initiation of formal banking system in Nepal commenced with the establishment of Nepal Bank Limited (NBL), the first Nepalese commercial bank, in 1937 A.D. replacing the older system of banking. It was established under the Nepal Bank Act of 1936 A.D. Nepal Bank Limited had a responsibility of attracting people towards banking sector from predominant sahu-mahajan's transaction and introducing other banking services as well. Being a commercial bank, it was natural that Nepal Bank Limited paid more attention to profit generating business. But it is the duty of the government to look into the neglected sectors. Therefore Nepal Bank Limited was established with 51% ownership of His Majesty Government (HMG) (Now Nepal Government) and 49% of the equity participation from private sector.

With growing financial system and increased complexity, it was felt that monitoring and supervising authority was required. Thus, Nepal Rastra Bank, established in 1956 A.D. (14<sup>th</sup> Baisakh 2013 B.S), had manifold objectives to fulfill: (1) to supervise banking and financial system; (2) to maintain the stability of banking and financial system; and, (3) to further enhance public confidence in the Nepalese banking and financial system. After the establishment of NRB, Nepal witnessed a systematic development of the financial system.

It was realized that integrated and speedy development of the country is possible only when banking service reaches nooks and corner of the country. However, as the central bank, Nepal Rastra Bank had its own limitations and as a commercial bank it was not logical for Nepal Bank Limited to go to unprofitable sectors. So, to catch up with these problems, the government established Rastriya Banijaya Bank as the fully government owned commercial bank in 1966 A.D (2022 B.S.), under Banijya Bank Act 1965 A.D.

In early 1990s, when some of the government owned enterprises were privatized and deregulation was adopted, it changed the competitive environment of the Nepalese business environment. Large number of joint venture commercial banks and development banks were established and the process is being continued, (Rijal, 2006). As a part of liberalization process, which included privatization, tariff adjustments, liberalization of industrial licensing, easing of terms of foreign investment and more liberal trade, the financial and banking sector was opened. This encouraged the participation of foreign banks through joint –ventures. Nepal-Arab Bank Ltd. (Now called as NABIL Bank Ltd.) was the first joint-venture bank to be established in 1984 A.D (2041 B.S). The bank was the outcome of joint venture with Dubai Bank Limited of United Arab Emirates. Then Nepal indo-Suez Bank (now called as Nepal Investment Bank) a joint venture bank with a Bank of Paris in 1986 A.D (2042 B.S) and Nepal Grindlays Bank Ltd. (Now called as

Standard Chartered Bank Nepal Ltd.) in 1987 were established (NRB, 2006, P:5). Thereafter, banking sector saw rapid growth.

As of July 2012, there are thirty two commercial banks in the country. According to Banking and Financial Institution Act, the commercial banks are referred to as “A” Class financial institution. The list of “A” Class financial institution as of mid July 2012 is presented in Appendix section: A. Though there are many commercial banks, the Nepal Bank Limited (NBL), Rastriya Banijya Bank (RBB), Nepal Investment Bank (NIB), NABIL bank Ltd., Everest Bank, Standard Chartered Bank and the Himalayan Bank are considered as the major commercial banks in Nepal.

### **Major Milestones in Nepalese Banking Industry**

- Evolution of *joint venture bank* in Nepal (NABIL Bank) in 1984.
- Introduction of *credit cards* in 1990 by Nabil Bank.
- First *ATM* launched by Himalayan Bank Limited in 1995.
- *Tele-banking* facility was introduced in 1997 by Himalayan Bank Limited.
- Evolution of *private sector bank* (Kumari Bank) in Nepal in 2001.
- *Internet-Banking* was first introduced by Kumari Bank in 2002.
- *SMS-Banking* (Mobile Banking) was launched by Laxmi Bank in 2004.
- Electronic Transaction and Digital Signature Act (revised in 2005, yet to be brought in practice)

### **2.1.2. Customer Satisfaction Issues in Nepalese Banking Sector**

The number of commercial banks is increasing in Nepal due to the attractive market opportunity available in the country, especially after the advent of democracy. The increasing numbers of commercial bank creates a very high degree of competition in Nepalese commercial banking sector. The majority (76.9 percent) managers of the branches of the commercial banks of Nepal feel intense competition. The commercial banks of Nepal are competing mainly on service followed by the cost and other factors respectively, (Risal, 2006). To cope up with competition and gain competitive advantage the Nepalese commercial banks should focus on their performance. Nowadays, the performance of these commercial banks has come under question in terms of customer satisfaction and customer retention, (Gautam and Dhital, 2004).

One of the main causes of intense competition among the Nepalese commercial banks is that they seem to operate efficiently. In this connection, the service operation of commercial banks has become more important because of the following reasons:

- Competition in financial markets has intensified with the entry of new joint venture and private sector banks, and other financial intermediaries.
- The cost of operating the bank branches has been increased with the need to provide better quality service.

- Increasing concern about the quality of the assets and the extent of non performing assets and

The Nepalese banking sector is facing with difficulty to grow and to maintain their market share. The growth in the number of banks has, on the one hand, increased competition; and, on the other hand, heightened the standards that need to be met in order to gain a competitive advantage.

Thus, major question at present is related to performance in terms of customer satisfaction which can be clearly explained by finding answers to the questions: a) What is the state of “customer orientation” of the Nepalese commercial banks? b) What are the factors that can lead customers toward satisfaction?

As the Nepalese commercial banking sector has become competitive, the banks are competing mainly in services followed by the cost to acquire superior competitive position. Majority of commercial banks are offering more than 21 services to their customers through different branches established at different geographical location. Most of the commercial bank (76.9 percent) introduces 3 to 4 new services each year. When new services are offered, 53.8 percent of them promote aggressively. The priority of the majority of the Nepalese commercial banks is to retain the existing customers, whereas 28 percent of them are concentrating on customer acquisition. (Rijal, 2006)

Further, the advancement in information technology and telecommunications has introduced new delivery channels for the Nepalese commercial banks' products and services. These new delivery channels include automated teller machines (ATM), mobile banking, Internet banking. Among these, the ATM are the most widely accepted and highly utilized delivery channel in urban areas. At present, the strategies of the Nepalese banks tend to retain the existing customer through e-banking. E-banking adopters use the basic banking facilities such as cash receipt and withdrawal, balance enquiry, regular and schedule payment, (Banstola, 2007).

These changing scenarios in the Nepalese banking industry indicate that the banking sector have come to realize the importance of customer satisfaction; As a result, they have been promoting or offering number of services that emphasize quality services to retain their customers and generate higher revenues by increasing deposits, and market share in long-run.

### 2.1.3. Review of Related Studies

Heskett, Schlesinger, and Thomas O. Jones, (1994); in their study carefully defined the radical transformation that occurs when companies put employees and customers first. In an attempt to measure the impact of an organization’s service delivery on its customers and in return linking the chain and assessing the impact of customer perceptions of service value, satisfaction and loyalty upon an organization’s profitability. At the heart of this thinking is the concept of the *service-profit chain*, which is shown in Figure 2.1

**Figure: 2.1: Service-Profit Chain**

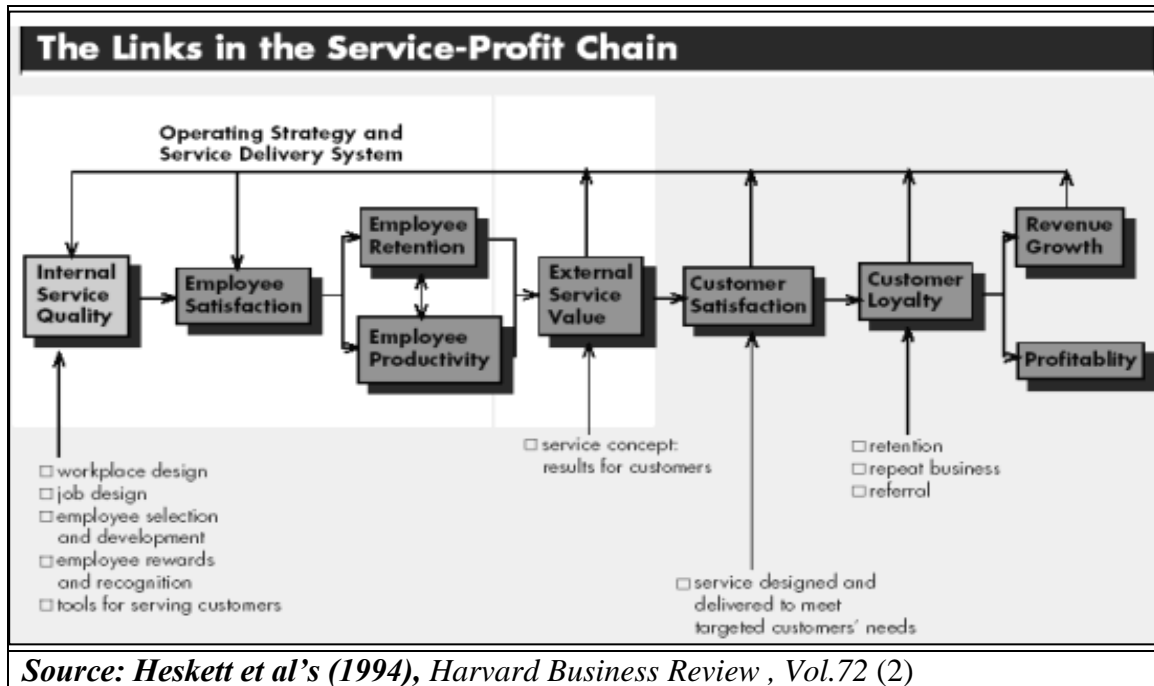


Figure 2.1 shows that the service-profit chain establishes relationships between profitability, customer loyalty, and employee satisfaction, and productivity. The links in the chain (regarded as propositions) are as follows: Profit and growth are stimulated primarily by customer loyalty. Loyalty is a direct result of customer satisfaction. Satisfaction is largely influenced by the value of services provided to customers. Value is created by satisfied, loyal, and productive employees. Employee satisfaction, in turn, results primarily from high-quality support services and policies that enable employees to deliver results to customers. It can be summarized as follows:

- Internal quality drives employee Satisfaction.
- Employee satisfaction drives employee loyalty.
- Employee loyalty drives employee productivity.
- Employee productivity drives value.
- Value drives customer satisfaction.
- Customer satisfaction drives customer loyalty.
- Customer loyalty drives growth and profitability.

Hallowell, (1996) in his study, illustrates the relationship of profitability to intermediate, customer-related outcomes. For the study purpose, customer satisfaction data were collected from 12,000 retail-banking customers at 59 divisions that represented 73 percent of all household served by the bank at Boston, MA, USA. The outcome of this research encourages the inference of relationships between customer satisfaction and customer retention, and between customer retention and profitability as there is the consistency in the findings among the multiple measures that reinforces the conclusion.

Al-Khulaifi, Al-Khatib, and Khalid Al-Sulaiti, (2000) conducted a study in Qatar with the objective to evaluate bank customer expectations of service quality and to assess whether

bank services provided by these institutions were satisfactory to Qatari customers. The finding revealed that politeness of staff and accuracy in performance were most important elements in customer satisfaction compared to other attributes. Listening to suggestions, availability of ATMs and speed of service were considered first while considering satisfaction. The availability of overdrafts and procedures for obtaining credit cards was least important to them.

Garland, (2001), a study based on New Zealand Retail banking, conducted to explore the extent to which customer's perceptions regarding service quality and customer loyalty affect profitability. This study concentrated upon the latter part of the service-profit chain where customers were the focus of attention. Hence, an abbreviated form of the service-profit chain was considered. Over 1100 person retail customers of a New Zealand bank were surveyed on such issues and these customers' contribution to the bank's profitability was calculated using activity-based accounting procedures.

The result supports the concept of a service-profit chain in personal retail banking. However, a chain implies linearity, whereas the findings suggest the links among service quality, customer satisfaction, customer loyalty and customer contribution may be more circular than strictly linear. The relationship between customer loyalty and customer profitability is supported by the research. Further, some support for association between customer satisfaction and profitability was seen. However, no hint of a relationship between service quality issues and profitability was seen. In general, the research depicts the strong associations between each successive link in the service-profit chain.

According to Brierley, Hill, and MacDougall, (2003), an accurate satisfaction score has to be more strongly influenced by the attributes with the highest important scores. It should be a weighted average satisfaction score, which requires a two-step process for its calculation. In the first step, the important scores are used to calculate the weighing factors. To calculate the weighing factors, total all the importance scores, then compute each one as a percentage of the total. The second step is to multiply each satisfaction score by its corresponding weighing factor. The overall weighted average is determined by adding up all the weighted scores. It is normal to convert that score into a percentage and say that the satisfaction index is a certain percent. Basically, the satisfaction index answers: How successful is the firm at satisfying its customers according to the twenty factors that are most important to them.

Gupta and Jain, (2004) made an attempt to fill the void in the service quality literature. Their paper assess the diagnostic usefulness, and the psychometric and methodological soundness of the two widely advocated service quality scales, viz., SERVQUAL and SERVPERF. Based on data collected through a survey of consumers of fast food restaurants in Delhi, the study revealed that the SERVPERF scale provides a more convergent and discriminant valid explanation of the service construct and possesses greater power to explain variations in the overall service quality scores. It is also a more economical data collection instrument if one simply intends to assess the overall service quality of a firm or making quality comparisons across service industries. However, when one is interested in identifying the areas of a firm's service quality shortfalls for managerial interventions, one should prefer the SERVQUAL scale because of its superior diagnostic power.

Gautam and Dhital, (2004) carried out a study in the Nepalese commercial bank with the main objective to assess the commercial banks' performance in terms of customer

satisfaction. A total of 331 customers' opinions were collected as sample from ten commercial banks, including the main branch and another city branch. The study revealed that customers were more satisfied with the second-generation joint-venture banks where they had to spend less time waiting and also where the employees' behavior was good. Among the sample banks, NSBI and EBL apparently showed better performance in both the categories. Further, customer were also found satisfied with HBL but the reason behind it was the facilities it offered like credit card, automatic teller machine etc. This study also fulfilled some requirements of social audit of the Nepalese commercial banks in terms of customer satisfaction as no such previous studies were conducted in context on Nepal, earlier.

According to Brigham and Houston, (2004), to estimate a bank's profitability, different methods have been applied. Among them, the most widely used approach is financial statement analysis.

Yadav, (2008), states that financial analysis is 'the process of determining financial strengths and weaknesses of the firm by establishing strategic relationship between the items of the balance sheet, profit and loss account and other operative data'. The purpose of financial analysis is to diagnose the information contained in financial statements so as to judge the profitability and financial soundness of the firm. A number of methods are used to study the relationship different statements. The following are the methods of analysis generally used:

1. Comparative Statements
2. Common-size Statements
3. Funds Flow Analysis
4. Ratio Analysis

Under comparative financial statements analysis, the elements of financial position are shown in comparative form so as to give an idea of financial position at two or more periods. Further, it enables the in-depth study of relationship between balance sheet and income statement.

In common size statements, balance sheet and income statement items are shown in analytical percentage. Under this method of analysis, the total assets are taken as 100 and different assets are expressed as percentage of total. Similarly, various liabilities are taken as part of total liabilities, these statements also known as component percentage because every individual item is stated as percentage of the total 100.

Likewise, funds flow statement shows the movement of funds and is a report of the financial operations of the business undertaking. Its analysis helps in indicating various means by which funds were obtained during a particular period and the ways in which these funds were employed.

The next is ratio analysis which is a powerful tool of financial analysis. It is used as benchmark for calculating the financial position and performance of a firm.

Brigham and Houston, (2004) believe that analysis of financial statement generally begins with a set of financial ratios analysis designed to reveal the strengths and weaknesses of a company as compared with other companies in the same industry, and to show whether

its financial position has been improving or deteriorating over time. Further, it is used for benchmarking its own performance over a period of time.

These financial ratios analyse include:

- a. **Liquidity Ratios:** They show the relationship of a firm's current assets to its current liabilities, and thus its ability to meet maturing debts. The most commonly used liquidity ratio is the current ratio.
- b. **Asset Management Ratios:** They measure how efficiently a firm is managing its assets. These ratios include inventory turnover, day sales outstanding, fixed assets turnover and total assets turnover.
- c. **Debt Management Ratios:** They reveal the extent to which the firm is financed with debt and its likelihood of defaulting on its debt obligations. They include the debt-ratio, time-interest-earned ratio, and Earning before interest, tax, depreciation and amortization (EBITDA) coverage ratio.
- d. **Profitability Ratios:** They show the combined effects of liquidity, assets management and debt management policies on operating results. They include profit margin on sales, the basic earning power ratio, the return on total assets and the return on common equity.
- e. **Market Value Ratios:** They relate the firm's stock price to its earnings, cash flow, and book value per share; thus, giving management an indication of what investors think of the company's past performance and future prospects. These include the price/earnings ratio, price/cash flow ratio and the market/book ratio.

Trend analysis is a tool that indicates whether a firm's financial condition is likely to improve or deteriorate. In this analysis, one plot a ratio over time is important to analyze trends in ratios as well as their absolute levels.

Similarly, another important tool is DuPont Analysis which relies on ratio analysis. DuPont Financial Analysis Model, started by DuPont Corporation in 1920s, is a method for assessing the factors that influence a firm's financial performance. It is a system of analysis which focuses management's attention on the three critical elements of good financial condition. DuPont analysis, based on three-dimensions shows graphically that ROE is affected by three factors:

- Operating efficiency that is measured by profit margin
- Asset use efficiency that is measured by total asset turnover
- Financial leverage that is measured by the equity multiplier

Pettersson and Henrysson, (2007) emphasize that the return on equity is one of the most important indicators of a company's profitability and potential growth. It measures a firm's efficiency at generating profits from every dollar of net assets, and shows how well

a company uses investment dollars to generate earning growth. If a company boasts high returns on equity with a low financial leverage, it means that the company can grow without larger capital expenditures thus allowing the owners of the company to withdraw cash and reinvest it elsewhere. However, the return on equity alone is sometimes not enough to determine whether an investment is good or bad. The DuPont system of financial analysis provides a better understanding of the return on equity by breaking down the return on equity into two underlying components: the return on assets, and the equity multiplier. The return on assets in turn can be broken down into two components; the net profit margin and the asset turnover. By doing this, it is easier to track down and spot the changes in return on equity over time.

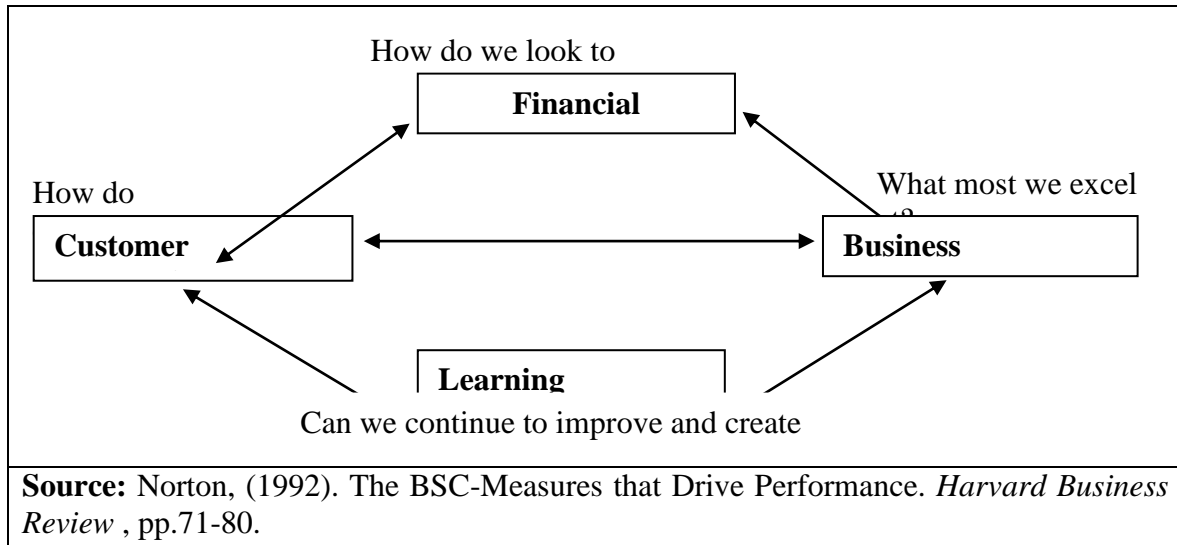
According to the critics, the DuPont model of financial analysis may not to be the best model to use in predicting the future, but it has the advantage of being easier to use and interpret than other models in wherein a considerable amount of time has to be spent to calculate the relevant variables.

Johnson, (2011) has listed the major performance measurement systems in use today in order of global adoption and include:

- The Balanced Scorecard
- Activity-based Costing and Management
- Economic Value Added
- Quality Management
- Customer Value Analysis/Customer Relationship Management
- Performance Prism

The balanced scorecard (BSC) is the most widely applied performance management system today. The BSC was originally developed as a performance measurement system in 1992 by Dr. Robert Kaplan and Dr. David Norton at the Harvard Business School. Unlike earlier performance measurement systems, the BSC measures performance across a number of different perspectives—a financial perspective, a customer perspective, an internal business process perspective, and an innovation and learning perspective. Through the use of the various perspectives, the BSC captures both leading and lagging performance measures, thereby providing a more “balanced” view of company performance. Leading indicators include measures, such as customer satisfaction, new product development, on-time delivery, employee competency development, etc. Traditional lagging indicators include financial measures, such as revenue growth and profitability. At present, most organizations accept BSC, the framework developed by Kaplan and Norton. It is known that the financial and nonfinancial scales should be integrated to specify the performance of both profit-making and not-profit making organizations, has gained wider acceptability. If the organizations are able to recognize the most appropriate scale as their need, they can save both time and money. The important principle of the BSC is achieving success via the key nonfinancial factors after succeeding in key financial factors. These standards enable companies to manage their performance effectively and forecast their profits.

**Figure 2.1 The Balance Scorecard Links Performance Measures**



Activity-based costing (ABC) was developed to provide better insight into how overhead costs should be allocated to individual products or customers. Businesses that do not use ABC typically only make simple adjustments to allocate overhead costs that do not accurately fit elsewhere. Businesses that use ABC link expenses incurred to the activities performed within the company. Through the use of ABC, expenses are allocated from resources to activities and then to products, services, and customers. Activity-Based Management (ABM) is a discipline that focuses on the management of activities to maximize the profit from each activity and to improve the value received by the customer. This discipline includes cost-driver analysis, activity analysis, and performance measurement. ABM draws on ABC as its major source of information.

In 1982, Stern Stewart Corporation developed the Economic Value Added (EVA) as an overall measure of organizational performance. EVA is both a specific performance measure and the basis for a larger performance measurement framework. According to Stern Stewart, EVA is a financial performance metric that is most directly linked to the creation of shareholder value over time. The definition of EVA is net operating profit less an appropriate charge for the opportunity cost of all capital invested in an enterprise.

*Mathematically it is,*

$$EVA = \text{Net Operating Profit after Taxes} - (\text{Capital} \times \text{cost of capital})$$

EVA is designed to give managers better information and motivation to make decisions that will create the greatest shareholder wealth. Since EVA is a single metric (although it can cascade down and across an enterprise to evaluate the performance of specific investments), it is complementary to the BSC and can be included in a BSC framework (for example, as a financial perspective measure). Using EVA alone has been found to cause managers to invest in less risky, cost-reducing activities rather than in growth activities. Since it is a pure financial model, EVA does not serve as a vehicle for articulating a strategy. When coupled with the BSC, the tradeoffs between short-term productivity improvements and long-term growth goals can be managed.

Similarly, over the past few decades, many firms have adopted various quality programs, such as Total Quality Management (TQM), Six Sigma, European Foundation Quality Management (EFQM), and The Baldrige National Quality Program. Such quality programs aim to assist organizations to improve the quality of the manufacturing and

service offerings. A central tenet for all of these programs is business performance measurement.

Customer Value Analysis (CVA) and Customer Relationship Management (CRM) techniques are enabling businesses to improve performance, to measure that improvement, and to encourage a firm to create value for its customers. Moreover, CVA and CRM technologies are providing firms with better data integration and, hence, better measurement regarding customers. Given the strategic importance of customers, it is natural for businesses to begin exploring more robust ways of measuring customer and business activities directly related to customers. Proponents of the BSC note that the BSC framework includes the customer as one of four perspectives, while CVA and CRM techniques fail to account for important non-customer aspects of a business. That being said, CVA and CRM are often used by BSC practitioners to drive improvements in the customer perspective of the BSC. In other words, the benefits of CVA and CRM technologies are increasingly used in a BSC framework evaluation.

Many alternative and “customized” frameworks continue to be developed based on the breakthrough BSC framework. The “Performance Prism” is an example of one such “customized” BSC framework. In the “Performance Prism,” companies view their organizations from five perspectives, instead of four traditional perspectives of the BSC.

These five perspectives are Stakeholder Satisfaction, Strategies, Processes, Capabilities and Stakeholder Contribution. The “Performance Prism” is relatively new, having been developed by a major consulting firm and the Cranfield School of Management in 2000. Its first significant implementation was in 2001, and it illustrates the flexibility of the BSC framework to be adapted and applied to the various needs of businesses.

Mazumder and Purohit, (2006) in their study highlighted a comprehensive measure of performance of banks of Bangladesh from both quantitative and qualitative point of view rather than the traditional measure of performance such as ROI, ROE, EPS etc. The study elaborated on the need for emphasizing on both qualitative and quantitative factors. Based on preceding analysis, it was seen that the performance measurement of a bank under traditional measures including CAMEL rating technique covered only the financial ratios (quantitative factors), whereas under BSC technique it covered both quantitative (financial ratios) and qualitative (customer, internal business and innovation and learning aspects) factors. Since customers’ satisfaction, implementation of credit policy, fund management, human resource development, technological involvement, product diversification etc. are equally important together with the financial activities to measure the performance of a bank. Hence, the concept of CAMEL rating for performance evaluation of a bank was widened by incorporating the long-term perspective of performance evaluation of Balanced Scorecard, as this provide a broader view of performance of a financial institution like bank.

A study was conducted at Omani commercial banks (Tarawneh, 2006) to analyze their financial data for the financial periods 1999-2003. The purpose of the study was to classify the commercial banks in Oman on the basis of their financial characteristics (which may also serve a guide line for future development) and to assess their financial performance. In addition, the relationships among measures such as bank’s size, operational efficiency, asset management, return on assets, interest income were examined to discuss their impact on the bank’s performance. For the study purpose, five

Omani commercial banks with more than 260 branches were analyzed, and simple regression was used to estimate the impact of asset management, operational efficiency, and bank size on the financial performance of these banks. The findings of the study revealed that the bank with higher total capital, deposits, credits, or total assets does not always mean better financial performance. The regression analysis results showed that financial performance of the banks was strongly and positively influenced by the operational efficiency and assets management, in addition to the bank size.

Gupta and Zeithaml, (2006) conducted a study with the objective to integrate existing knowledge and research about the impact of customer metrics on firms' financial performance. Both unobservable or perceptual customer metrics (e.g., customer satisfaction) and observable or behavioral metrics (for example, customer retention, lifetime value, customer behavior and action) were investigated for this research purpose. This research, was based on 200 of Fortune 500 firms across 40 industries were studied. As a result, nine empirical generalizations were developed that showed a link between unobservable metrics and financial performance. Following are the nine generalizations:

1. Improvement in customer satisfaction has a significant and positive impact on firm's financial performance.
2. The link between satisfaction and profitability is asymmetric and nonlinear.
3. The strength of the satisfaction-profitability link varies across industries as well as across firms within an industry.
4. There is a strong positive relationship between customer satisfaction and customer retention. However, the relationship between other unobservable and observable metrics is not well established.
5. While customer satisfaction and service quality are strongly correlated with behavioral intentions, behavioral intentions imperfectly predict actual behavior.
6. The relationship between unobservable and observable metrics is typically nonlinear.
7. Marketing decisions based on observed customer metrics, such as Customer Lifecycle Value, improve a firm's financial performance.
8. Customer retention is one of the key drivers of Customer Lifecycle Value and firm profitability.
9. Customer metrics, especially Customer Lifecycle Value and Customer Equity, provide a good basis to assess the market value of a firm.

Foss and Gritti, (2007) conducted a study on Italian banks to determine how customer satisfaction and loyalty in the banking industry may affect profitability. The outcome of the research revealed that customer loyalty was a mediator between financial and non-financial customer value. Further, the major two sources of customer satisfaction were identified; (a) the relationships with the front office and the branch; and, (b) the products offered. Moreover, the study clearly linked the impact of customer satisfaction on loyalty, which in turn had a direct effect on financial and non-financial customer value/total customer value/complex customer value.

Sureschandar, Rajandran and Anantharaman, (2003) focused on investigating the factors of customer perceived service quality of three banks in India. The banks were local, private and foreign bank. The study revealed that customers were most satisfied with the foreign bank as compared to other banks. A foreign bank provides the core services and other service in the standardized and simplified process.

Umari, (2008) described about the customer satisfaction on the bases of services provided by the new and old generation banks in India. The banks prior 1991 were old generation and after 1991 were new generation banks. The customers were more satisfied with the old generation banks as compared to new generation banks. The customers did not feel any complexity and problem with the old banks services. Although customer relationship management practices adopted by the new generation banks but their services is prior as compared to the old banks.

After completing a research on Retail banking in Nordic; Karin, Holstius and Kaynak (1995) cited that efficiency and courtesy of bank staffs were the most important attributes in determining overall customer satisfaction, while other important attributes were convenience of location, range of services, reputation and availability of innovations.

Meyers and Mullins (2001) conducted a comparative study of levels customer satisfaction in banks versus credit union in Perth, Australia. The analysis revealed that consumers have better impression of credit unions then they had for banks. Credit unions were competing more directly with commercials banks in products and services offered. The respondents was dissatisfied with the fees charged by banks, the respondent also felt that they are getting a higher return on their money from the credit unions.

A research held at Barcelona, Spain; Rialp and Angulo, (2007), aimed to empirically investigate the interplay between cumulative customer satisfaction and brand value, as well as their effect on the firms' performance. Findings, based on resource-view, showed a theoretical link between marketing paradigm approach, market-based assets perspective and operational management. The link is called marketing efficiency, that is the ability of firms to maximize both cumulative customer satisfaction and brand value better than competitors by incurring the same amount of marketing expenditures. The results demonstrate that marketing efficiency has a positive direct effect on Cash flow and ROI, and positive indirect effect, through Cash flow, on Tobin's Q.

Kamal, (2007) carried out a study to explore and analyze the financial performance of Citibank, Bangladesh to provide some suggestions to improve its banking business. This study was carried out by observing several ratios, and analyzing trends of various elements of Citibank's past four years' performance results. Further, a hypothesis was formulated to test a correlation among the financial performance measured by return on assets and interest income, and the independent variables (operating expense to net interest income, operating income to total assets and total assets). The study revealed that almost all the performance measures showed good performance on the part of Citibank, Bangladesh. The results of regression analysis showed a significant impact of total deposit and total advance on net profit independently. Trend analysis of total expenses showed a significant increase in total expenses after the year 2005. Test of hypothesis provided evidence that there is a positive correlation among the financial performance measured by return on assets and interest income, and the independent variable.

Srivastav and Chatterjee, (2008) conducted a study with the aim to analyze customer satisfaction of State Bank of India, a pioneer Indian commercial bank. With the help of five dimensions of SERVQUAL scale, the level of customer satisfaction was determined. The findings revealed that 'Responsiveness' was the main dimension governing customer satisfaction of SBI.

Similarly, another study conducted by Bahzadi and Al-Hashash, (2008) aimed to investigate customer satisfaction in the retail banking in state of Kuwait. The finding suggested that bank's customers considered following factors as a major source of their satisfaction and the reason for continuing their banking business. They were mostly satisfied with availability of ATM in several locations, phone account access, safety of funds, easy to use ATM, ease of opening a current account, bank image and reputation and the quality of services provided to them.

Hossain and Shirley, (2009) in their study evaluated the different levels of customers' perception regarding service quality in retail banking based on the study of Parasuraman et al., 1988. They also agreed that service quality has been widely used to evaluate the performance of banking services as Cowling and Newman has claimed in 1995. The research indicated that the service quality has been increasingly recognized as a critical factor in the success of any business and the banking sector is no exception. The finding of the study indicated that customers' perception is highest in the tangibles area and lowest in the competence area.

Kheng, Mahamad, Mosahab, and Ramayah, (2010) conducted the study to explore the importance of customer loyalty in banking sector with the focus on the changing role of banking system in Malaysia and its dynamic financial market. The underlying model of SERVQUAL with five dimensions was used for the research to evaluate the impact of service quality on customer loyalty among bank customers in Penang, Malaysia with customer satisfaction as a mediating variable. The findings showed that improvement in service quality can enhance customer loyalty. Further, it indicated the service quality dimensions that play a significant role were reliability, empathy, and assurance. The findings indicated that the overall respondents evaluated the selected banks positively, but still there are rooms for improvements.

Magutu, Nyaoga, Nyamwange, and Thomos Ogoro Ombati, (2010) conducted research with the purpose to establish the relationship between technology and service quality in the banking industry in Kenya. For the study, 120 users of the e-banking services were taken as sample. The findings revealed that secure services as the most important dimension, followed by convenient location of ATM, efficiency (not need to wait), facility set up accounts to perform transactions immediately, accuracy of records, user friendly, ease of use, complaint satisfaction, accurate transactions and 24 hour operations were the key factors considered by customers for service quality in e-banking.

Bhatta, (2010) conducted a survey of bank's customer on the selected branches inside Kathmandu Metropolitan area of 28 member of the Nepal Bankers' Association. The purpose of the research was to find out the behavior of the people regarding their financial/economic activities. The research work was conducted during April to June 2010 with a sample size of 30 respondents from each banks. Removing inconsistent data sets, however, ultimately a total of 834 data were used for the analysis. The results

showed that young, educated, salaried, man from the eastern region of Nepal with high monthly income were the major consumer of banking services provided by the financial institution(s). Likewise, findings also shows that customers held a large amount of cash at hand, had transactions with more than one bank, and preferred the use of ATM or Debit-Cards rather than traditional instruments like Cheques. Further, the findings reveals that customer rated service quality and staff behavior of their banks to be of utmost importance for choosing it, followed by technological innovations, number of branches/ATM and other characteristics. Moreover, the enhancement of service quality and pleasant behavior from staff were suggested for client retention as well as business increment in future.

Khazal, (2010) conducted a research to find out an effect at the financial level for the initiatives taken at the customer level. The concept of Balance Score Card is emphasized for measuring the performance of National Bank of Kuwait as they have been more concentrated towards financial perspective.

Al-mawali, Hussein, Ali, and Zainuddin, (2010) carried out the study with the purpose to contribute to the body of knowledge in the area of management accounting, particularly performance measurement systems within the BSC framework, by investigating empirically the extent of multiple performance measures usage and their effects on the financial performance of Jordanian banks at the branch level. The result showed that the non-financial measures usages, particularly, customer oriented indicators and product/service oriented indicators, appeared to be important as it enhanced firm performance. Remarkably, the findings revealed that there was a positive relationship between the usages of multiple performance measures through overall BSC measures and financial performance at the branches' level.

Ahmad, Ashfaq, Bashir, Muhammad, Nawaz, and Mussarat, (2010) investigated the relationship between service quality and performance of the Islamic banks of Pakistan and an effort was made to correlate service quality with performance of Islamic banks in Pakistan to record their progress. As the existence of conventional banks posed a number of challenges to the Islamic banks to penetrate in the Pakistani banking industry, these banks were unable to track the consequences of their service related efforts; therefore the study was conducted. Thus, for the study purpose the data was collected from 864 respondents of 72 branches of the selected Islamic banks. The data were collected by a structured questionnaire developed in the light of existing literature. The relationship between service quality and performance of the Islamic banks was assessed by Pearson's correlation and regression analysis. The result revealed that there was a weak positive relationship between service quality and performance of the Islamic Banks. Hence, it was recommended that bankers should improve their services by blending of traditional facilities and modern technology to meet customers' expectation for better performance in future. However, it found that performance of Pakistani banks had actually improved due to reforms in the banking sector. Similarly, it was reported that customer of Islamic banks had greater service quality scores as compared to conventional banks in Pakistan.

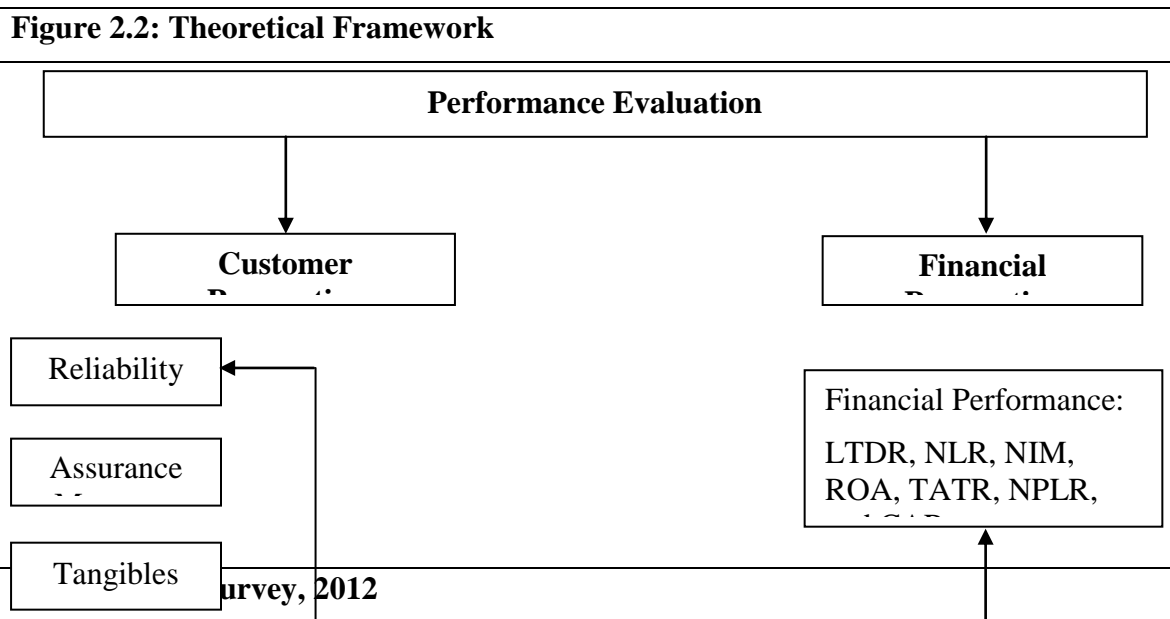
(Chowdhury and Chowdhury, 2010) made an attempt to perform DuPont analysis of the selected Indian commercial banks aimed at combining all the ratio set, and the systems to get the complete picture of bank performance so that informed decision can be taken. It is very difficult for ordinary people to rank banks on the financial performance parameters due to the lack of understanding of the ratios. Thus, the study presented the

comprehensive view of the financial performance by taking into consideration profitability, expenditure, debt and equity.

Gibson, (2011) states that the make-or-break of any business is undoubtedly determined by the quality of customer service delivered to every single client. Regardless of whether a firm sells a product or service, when it fails to demonstrate excellent customer service, its business will be quickly earn negative publicity, which will then promptly lead to its demise. In the long-term, the business will not succeed or grow. Hence, listening to the customer is the first step toward delivering the best experience. Listening demonstrates individual care and attention which is paramount to delighting the customer. Always treat the customer with the utmost respect and make them feel like they are number one.

## 2.2. Theoretical Framework

With reference to various models developed for measuring the customer satisfaction and financial performance as well as to understand the link between these two factors, the following model (presented in figure 2.3) is developed for this study. This model intends to measure the bank's performance on the basis of customer perspective and financial perspective as well as understand their linkage.



**Empathy** : It refers to the knowledge and courtesy of employees and their ability to convey trust and confidence to customers, make customer feel safe in their transactions by maintaining consistency in service, being consistently courteous, and having knowledge to answer the queries of the customer.

**a. Reliability:** Responsive issues: (a) handling of problems promptly/accurately; and (b) handling of problems accurately.

**c. Tangibles :**

It refers to the appearance of physical facilities, equipment, personnel, and communication materials available in an organization that can be touched and felt. It considers the parking facilities provided to customers, visually appealing materials associated with service such as signposts, readable bank statements, modern looking equipments, tidy counters, neatly dressed and professional appearance of employees.

**d. Empathy :**

It refers to caring and individualized attention that the organization provides to its customers. It includes having a concerned attitude towards customers and understanding the needs of their customers by providing them with convenient banking hours, branch location and minimum waiting time in queue for its customers.

**e. Responsiveness:**

It refers to willingness of employees to help customers and provide prompt service, readiness to respond to customers' request, and letting the customer know when things will get done.

**f. Price Factor:**

It refers to the interest provided by bank on deposits, interest charged by bank on loan, and the service and fees charged by bank for various service rendered by bank.

**g. General Banking Services:**

It refers to general kinds of services daily provided by the front desk office and other general platforms like ATM, Internet banking etc. that are not included in above mentioned dimensions.

**h. Customer Satisfaction:**

Customer satisfaction means positive reaction to a service experience. If the customer's perceived experience matches the expectations, the customer is assumed to be satisfied. If the expectations were higher than the service provided, the customer is considered to be disappointed and dissatisfied.

**i. Market Share on the basis of Deposits:**

It refers to the percentage of the total deposits that is attributable to a sample commercial bank. In other words, the market share of the commercial bank on the basis of average total deposits.

**j. Customer Satisfaction Index:**

A Customer Satisfaction Index is the best single measure of how satisfied your customers are overall, in relation to what matters most to them. To calculate a Satisfaction Index, first calculate a 'weighting factor' for each determined SERVQUAL dimension by dividing each dimension's mean score by the total of all the dimension's scores. This weighting factor is multiplied by the satisfaction score to produce a weighted score for each dimension. The CSI is the weighted sum of all dimension's satisfaction scores.

**k. Loan to Deposit Ratio (LTDR):**

The loan to deposit ratio is used to calculate a lending institution's ability to cover withdrawals made by its customers. The formula for the loan to deposit ratio is exactly as its name implies, loans divided by deposits.

**l. Net Liquidity Ratio (NLR):**

Net liquidity determines the liquidity position of the financial institutions. It predicts the capacity of financial institution to pay back deposits of the customers. It is calculated by dividing net liquid assets by total deposit.

**m. Net Interest Margin (NIM):**

Net interest margin is the ratio of net interest income to total assets. Net interest income is difference between interest income and interest expenses. Positive net interest margin shows the ability to pay the interest to the depositors and have some surplus to contribute to net profit.

**n. Return on Assets (ROA):**

It is an indicator of how profitable a company is relative to its total assets. ROA gives an idea as to whether the management is using its assets efficiently to generate earnings. It is calculated by dividing a company's annual earnings by its total assets, and expressed in a percentage. Sometimes, it is referred to as "return on investment".

**o. Total Assets Turnover Ratio (TATR):**

This is a [measure](#) of how efficiently [assets](#) are being use to [produce revenue](#). It also called [asset turnover](#).

**p. Non Performing Loans Ratio (NPLR):**

It is the ratio of non performing loans in relation to total gross loans. It indicates the organization's ability to recover the loan and also depicts the condition of secured loans.

**q. Capital Adequacy Ratio (CAR):**

Capital adequacy ratio is the ratio which determines the bank's capacity to meet the time liabilities and other risks such as credit risk, operational risk etc. It is calculated by dividing eligible regulatory capital by total risk weighted exposure. The total risk weighted exposure shall comprise of risk weights calculated in respect of bank's credit, operational and market risks.

## CHAPTER 3

### RESEARCH METHODOLOGY

#### 3.1. Research Plan and Design

Research design is a master plan specifying the methods and procedures for collecting and analyzing the needed information (Zikmund, 2007). It consists of the structure for the collection, measurement and analysis of the research data and aims at allocation of limited resources for the crucial choices in the methodology. Research design includes structure of the research problems and the plans of investigation in order to obtain empirical evidences to prove relationship between variables of research (Cooper, 2006).

This research aims at studying whether a bank with highly satisfied customer have better financial performance or not. Along with primary data, the secondary resources related to “Customer Satisfaction and Financial Performance” were reviewed in the form of published articles, literatures and electronic sources to determine the variables and lists the survey results. Specifically, a total of 96 respondents from 12 banks (8 customers from each bank) within Kathmandu Metropolitan area were randomly selected as the sample. Selected participants answered a survey questionnaire structure in 5 point Likert scale, multiple choices and ranking scale. Data gathered from this research instrument were then computed for interpretation. Both descriptive and inferential statistics were used to draw conclusions about populations from samples.

This research design and the questionnaire development are based on SERVQUAL scale to measure the perceived service quality of customer and their satisfaction level. Similarly, major financial ratios are used to measure the financial performance of commercial bank based on the financial statements for Fiscal Years 2006/07, 2007/08, 2008/09, 2009/10 and 2010/11.

#### 3.2. Description of the Sample

##### 3.2.1. Research Population

The total population for this research is the customers of commercial bank within Kathmandu Metropolitan area. As of mid July 2012, there are 32 commercial banks operating in Nepal, of which 3 commercial banks are operated under the ownership of the government, 8 are joint-venture banks with the foreign ownership and 21 are owned by private sector.

##### 1.2.2. Research Sample

The respondents have been categorized according to the consideration of their primary bank where they have been operating their banking transactions. Total of 96 respondents, where 8 respondents from 12 sample banks are considered for study purpose.

The respondents were also categorized on the basis of age group and also categorized on the basis of occupation such as business person, salaried person, housewife and student. This has been done to evaluate whether or not these demographic attributes affect the level of customer satisfaction over the defined dimensions to measure perceived service quality.

**Table: 3.1 Sample Description**

<b>Old Banks</b>	<b>No. of the respondents</b>	<b>Mid Banks</b>	<b>No. of the respondents</b>
<b>NABIL</b>	8	<b>BOK</b>	8
<b>NIBL</b>	8	<b>NIC</b>	8
<b>SCBL</b>	8	<b>KBL</b>	8
<b>HBL</b>	8	<b>Laxmi</b>	8
<b>NSBI</b>	8	<b>SBL</b>	8
<b>EBL</b>	8	<b>Global IME</b>	8

### **3.3. Sources of Data**

For this research purpose both the primary and secondary sources were used for data collection.

#### *(i) Primary Source:*

The self-administered survey questionnaire was used as the main data-gathering instrument to trace the satisfaction level of the bank's customer for the service quality rendered by his/her bank. The questionnaire was divided into two sections as: a customer profile and the research question. The customer profile contains socio-demographic characteristics of the respondents such as name, age, gender, occupation, income. The research question contains the questionnaire for measuring the customer satisfaction level as well as their loyalty towards a particular bank. The questionnaire prepared for this study is included in Appendix section F.

#### *(ii) Secondary sources*

For the secondary sources, the relevant data were gathered through websites of banks, books, journals, and articles. For tracking the financial performance of 12 commercial banks, financial data of five fiscal years were collected from annual reports of each bank from their websites.

### **3.4. Data Collection Procedure and Time Frame**

This section elaborates on how data were collected for the research and also the time frame for the same.

#### **3.4.1. Data Collection Procedure**

The first step towards data collection involved discussions with experts, collection of secondary data and relevant literature review. The purpose of the discussion and literature review was to prepare questionnaire for the study. Moreover, the questions were based on SERVQUAL model under 5 dimensions, known as RATER, to measure the perceived service quality offered by a commercial bank to its customers. However, some modifications were made to the dimensions to suit the study; hence, dimensions such as price factor and other general banking service were added to measure the level of customer satisfaction in addition to RATER dimensions. The questions were structured using the five point Likert scale format, single choice, multiple choice, ranking scale and open-ended questions to extract the view of the bank's customers.

Secondly, the questionnaires were distributed to collect the data from customers of commercial banks. Hence, these questionnaires were used as a primary source of data collection. In order to ensure accurate response from the respondents who could not understand, the questionnaire were dictated. This made them fully understand the content of the questionnaire and respond appropriately. Two days, especially Sunday and Friday, are peak-days in the commercial banking sector. Therefore, these two days were not used for data collection so as to prefer high reliability of responses from the respondent.

Thirdly, for the purpose of financial analysis, the audited financial statements of sample commercial bank, for Fiscal Years from 2006/07 to 2010/11, were collected. Data regarding financial ratios and measures were calculated. There is lack of identification of important financial ratios to depict financial performance of commercial banks in context of Nepal. So, to find the major financial ratios, a number of ratios mostly used in different related studies were listed and put for informal discussion with banking personnel. After discussion following major financial ratios, under four major category (Liquidity, Profitability, Efficiency and Solvency), were considered for the study purpose: Loans to Deposit Ratio (LTDR), Net Liquidity Ratio (NLR), Net Interest Margin (NIM), Return on Assets (ROA), Total Assets Turnover Ratio (TATR), Non-Performing Loan Ratio (NPLR) and Capital Adequacy Ratio (CAR).

Lastly, all the gathered information from secondary sources for financial analysis and primary sources for measuring satisfaction level of customer was analyzed to answer the research question defined for the study purpose.

### 3.4.2. Time Frame

The research was prepared within the time period of about two and half months. All together it took 4 weeks to visit various bank branches to fill-up the questionnaires and collect them from the respondents. While primary data were being collected, the secondary data related to financial performance were extracted from annual reports of various commercial banks websites.

**Table: 3.2 Time frame and allocation**

Activities Performed	Weeks									
	1	2	3	4	5	6	7	8	9	10
Topic Finalization	■									
Study on Research Methodology		■								
Data collection and Literature Review			■	■	■	■				
Data Entry and Analysis							■	■		
Preparation of Report									■	■

### 3.5. Validity and Reliability

Validity is the extent to which a test measures what the researcher actually wishes to measure. (Cooper, 2006) It refers to the accuracy of a measure and a measurement is valid when it measures what it is supposed to measure and perform the functions that it has to perform. Methods of establishing validity of the measurement technique fall into one of three categories: self-evident measures, pragmatic measures, and construct validity.

Reliability is to do with the accuracy and precision of a measurement procedure. It refers to the credibility of the test, and it mainly tests measurement results and measurement tools' stability and consistency. (Cooper, 2006)

Before questionnaires were prepared, the secondary data were reviewed and collected through various sources and pilot testing was done among 8 respondents. After the pilot test, the questionnaire was redesigned. However, the data received after the redesign of questionnaire had no changes in information received; hence, it was approved by the supervisor and was distributed among 96 respondents.

Similarly, reliability was tested by conducting self-administered questionnaire fill-up and monitoring the respondent. In order to ensure accurate response from the respondents who could not read, the questionnaire were dictated to them. Likewise, cross questions and open-ended questionnaire were also included to maintain the quality of data.

### 3.6. Analysis Plan

This section explains how the empirical data was analyzed for the research purpose. As the purpose of the study is to measure the financial performance and customer satisfaction and to understand the link between these two factors, the analysis part is divided into three sections as: financial measures, non-financial measures (that is customer satisfaction) and link between customer satisfaction and financial performance.

Under the first section, secondary data were collected to measure financial performance, of the selected Nepalese commercial banks, was fed into Excel Sheet and necessary tables and charts were drawn using Microsoft Excel to draw conclusion. The major financial measures such as LTDR, NLR, NIM, ROA, TATR, NPLR and CAR were calculated using formula to depict the overall financial performance of commercial bank based on data collected for five fiscal years. Further, SPSS 13.0 was used for the correlation and regression analysis to depict the relationship between dependent variables and independent variables. The dependent and independent variables for the study are listed below:

**Table: 3.3 Dependent and Independent Variables**

<b>Dependent Variable</b>	<b>Independent Variable</b>	<b>Remarks</b>
Return on Assets	Bank Size	Total Assets
Net Interest Income	Asset Utilization Efficiency	Total Assets Turnover Ratio
	Operating Efficiency	Non-Performing Loan Ratio

Under the second section, primary data were collected through questionnaire for measuring customer satisfaction. After gathering all the completed questionnaires from the respondents, SPSS and Excel were used for the analysis and interpretation of the data. Total responses collected from the respondent were coded and tabulated into SPSS worksheet. For analysis, Seven dimensions Reliability, Assurance, Tangibles, Empathy, Responsiveness, General Banking Environment and Price Factors (five RATER dimensions with addition two) were studied to evaluate the perceived level of customer satisfaction for the service quality offered by the primary bank.

The various tools such as frequencies, descriptive statistics for mean values and ranking were used to derive the results. Further, one sample T-test and chi-square test was used to measure the level of significance to determine customer level of satisfaction for various factors of service quality used for study purpose.

The Customer Satisfaction Index was calculated to determine the customer satisfaction for the sample banks. In order to determine the market share based on average deposits, the simple average mean was used.

Lastly, the third section deals with understanding a link between customer satisfaction and financial performance. The Correlation and Simple Regression analysis were used to determine the relationship between CSI and ROA, and NIM and NPLR. Apart from this analysis, expert interview was conducted to get better understanding of how commercial banks in Nepal measure the level of their customer satisfaction.

All the tables and charts drawn using SPSS worksheet and Excel worksheet are presented in Chapter 4 along with its interpretation so that conclusion can be drawn for the research.

## CHAPTER 4

### DATA PRESENTATION AND ANALYSIS

This section is divided into three parts. The first section deals with the presentation and analysis of the financial performance based on secondary data extracted from annual reports of the sample. The second section deals with measurement of level of customer satisfaction based on primary data collected from 96 respondents. Further, to measure the level of satisfaction, information related to demography such as age, occupation etc as well as various dimension of service quality are considered. The third section of this chapter shows the linkage between financial performance and customer satisfaction.

#### 4.1. Financial Analysis and its Interpretation

In this section, financial analyses of the selected commercial banks are conducted on the basis of secondary data. A bank's balance sheet and income statement are valuable sources of information for identifying risk-taking and assessing the effectiveness of risk management. Although the amounts presented in financial statements provide valuable insights into performance and condition of a bank, financial analysts use these data to compute financial ratios to evaluate bank performance. This is done to facilitate comparisons among performances of selected banks. There are literally hundreds of useful financial ratios that can be used to evaluate bank's performance. However, in most instances, a few basic ratios can help to identify fundamental performance issues. Hence, this section will discuss some selected ratios from four perspectives (liquidity, profitability, efficiency and solvency).

##### 4.1.1. Financial Highlights

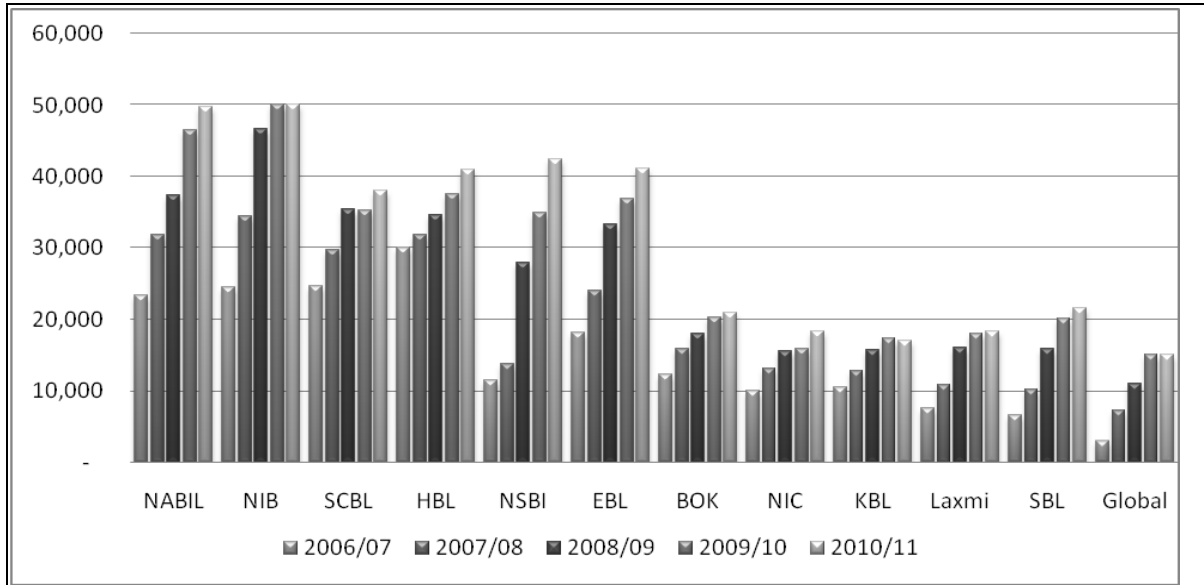
Financial highlights section presents the summary of total amount (in millions) graphically on basis of four perspectives: deposits, assets, net interest income and net profit. Some banks are older and some are newer in the banking industry; hence, analyzing on basis of total amount would not be justified. Therefore, to indicate the performance, cumulative average growth rate (CAGR) is also calculated taking FY 2006/07 as base year and FY 2010/11 as current year. The summary of financial highlight is discussed below:

##### (i) Total Deposits

A bank's major source of funds is deposit. Deposits can be classified by ownership (private, public or inter-bank), and form of withdrawal (savings, time or demand deposits). Since deposits are so important to the profitable operation of a bank, banks compete aggressively for them.

The amount of total deposits (in millions) for sample banks from FY 2006/07 to FY 2010/11 are derived from the sample banks' annual reports and presented below represented by Figure 4.1.

**Figure 4.1 Total Deposits (in millions) from FY 2006/07 to FY 2010/11**



**Source:** Annual reports of sample banks

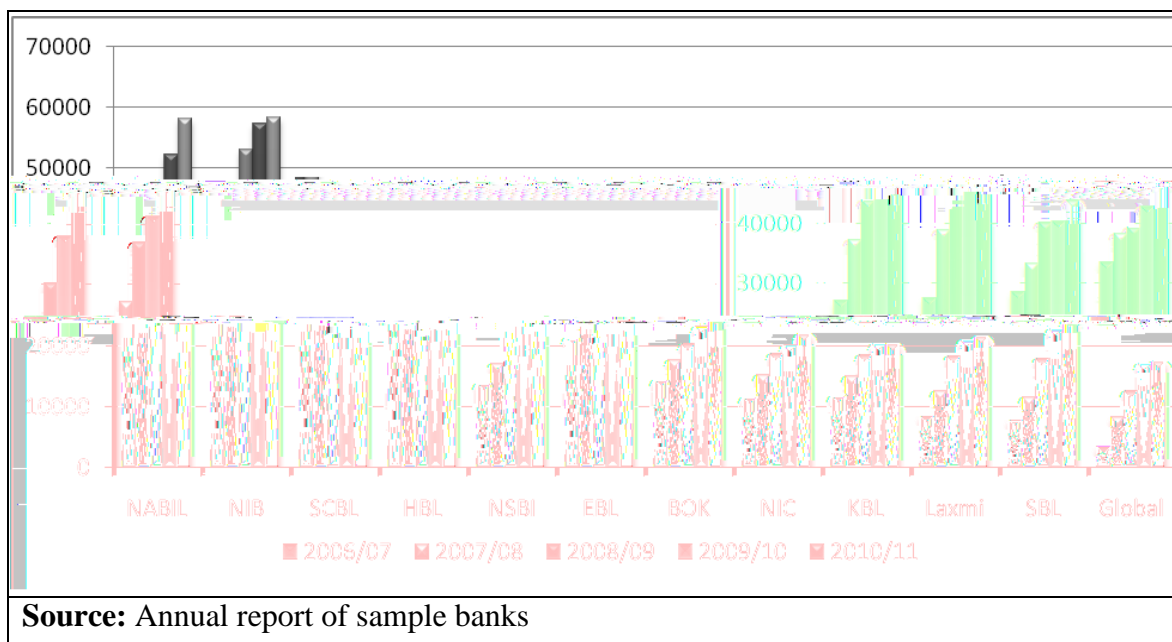
The figure 4.1 shows that, among the sample banks NIB has the highest total deposit of Rs.50,138 million and Global IME has the lowest deposit of Rs. 15,066 million for the FY 2010/11. If yearly growth rate of deposits of sample banks are observed, most of the banks have positive growth rate except SCBL on FY 2009/10 with negative growth of 0.48% and KBL on FY 2010/11 with negative growth of 2.56% in relation to the previous fiscal year.

Observing the CAGR, Global IME Bank has the highest growth rate with CAGR of 49.41% and HBL stands on lowest growth rank with the CAGR of 8.03%. And other banks, NABIL, NIB, SCBL, NSBI, EBL, BOK, NIC, KBL, Laxmi and SBL have CAGR of 20.79%, 19.62%, 11.43%, 22.63%, 14.13%, 16.26%, 12.63%, 24.52% and 34.34% respectively, (see Appendix Section C: Table 1 for yearly deposit amount with y-o-y growth rate and CAGR).

**(ii) Total Assets**

A bank must possess sufficient asset to protect depositors and other creditors; thus, as a financial performance, some glance on total asset of sample banks are also provided. The amount of total assets (in millions) for sample banks from FY 2006/07 to FY 2010/11 are extracted from the respective banks’ annual reports and presented below in Figure 4.2.

**Figure 4.2 Total Assets (in millions) from FY 2006/07 to FY 2010/11**



The figure 4.2 shows that NIB has the highest total assets of Rs. 58,357 million and Global IME Bank has the lowest total assets of Rs. 17,522 million for the FY 2010/11. If yearly growth rate is observed, the total assets of every bank show increasing trend.

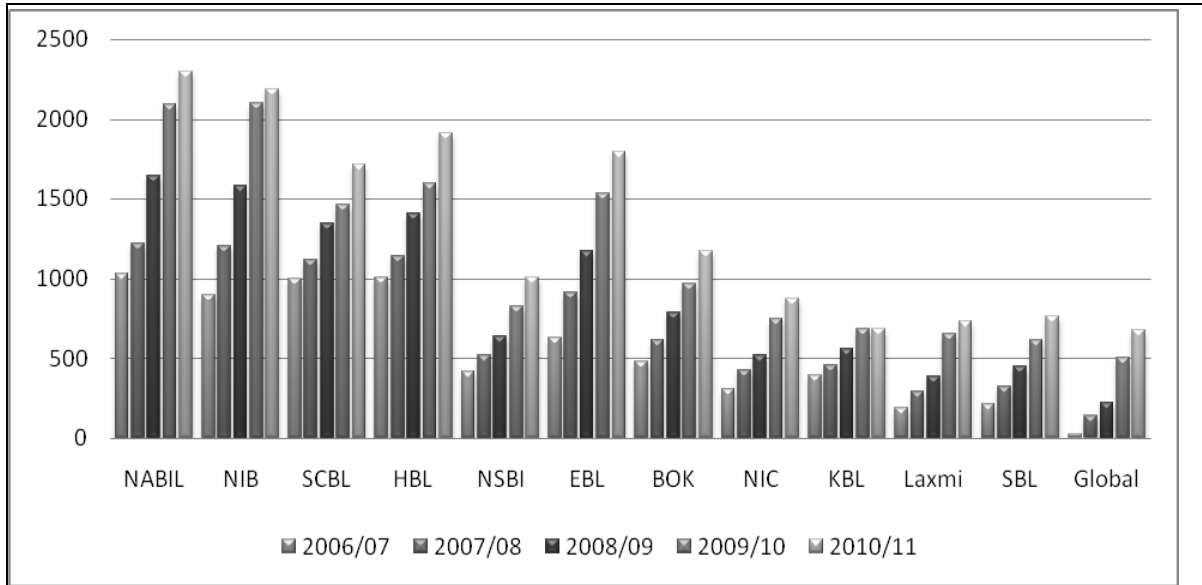
Analyzing the CAGR of total assets for the period of five years (FY 2006/07 to FY 2010/11), for sample banks, Global IME has the highest CAGR of 49.22% and HBL has lowest CAGR of 8.67%. Remaining banks NABIL, NIB, SCBL, NSBI, EBL, BOK, NIC, KBL, Laxmi, and SBL have CAGR of 20.86%, 20.60%, 11.25%, 34.94%, 21.19%, 14.17%, 17.27%, 14.51%, 25.89%, and 32.35% respectively, (see Appendix Section C: Table 2 for details).

### (iii) Net Interest Income

For banks, net interest income is the difference between interest payments the bank receives on loans outstanding and interest payments the bank makes to customers on their deposits. Depending on a bank's specific assets and liabilities (fixed or floating rate), NII may be more or less sensitive to changes in interest rates.

During the five years from FY 2006/07 to FY 2010/11 of the study, the net interest income ranged from Rs. 24 million of Global IME on FY 2006/07 to Rs. 2,298 million of NABIL on FY 2010/11. The amount of NII extracted from income statement of respective banks is graphically represented in Figure 4.3.

**Figure 4.3 Net Interest Income (in millions) from FY 2006/07 to FY 2010/11**



**Source:** Annual report of sample banks

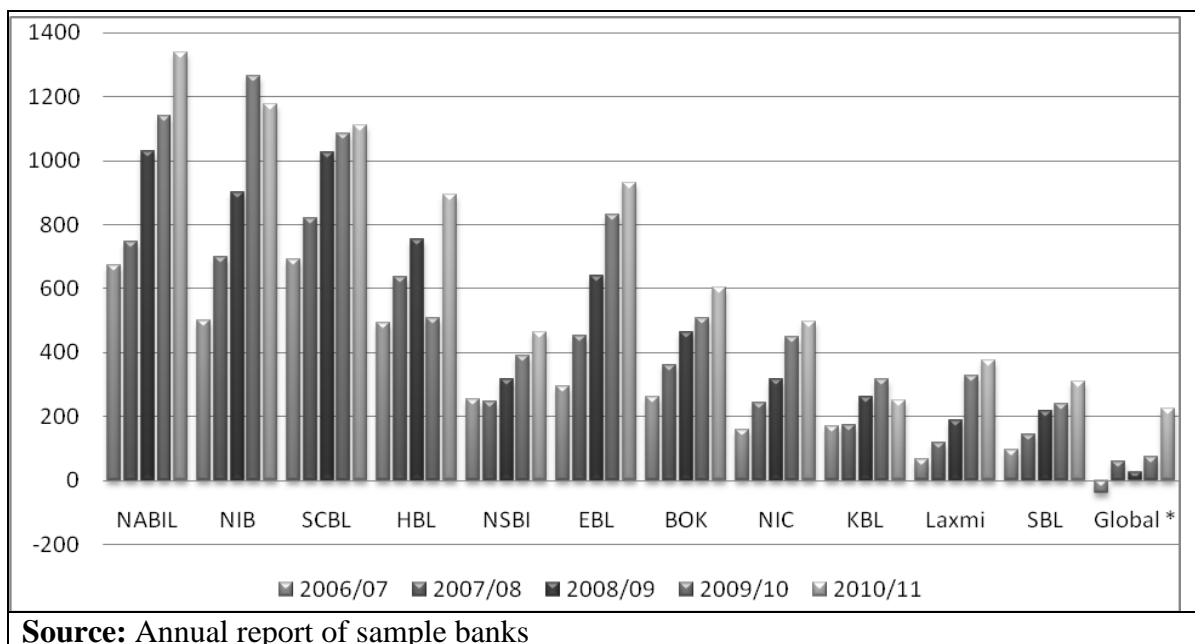
According to Figure 4.3, NABIL has highest net interest income of Rs. 2,298 million and Global IME Bank has lowest net interest income of Rs. 675 million on FY 2010/11. There is increasing trend in NII from FY 2006/07 to FY2010/11.

On the part of CAGR, Global IME has the highest CAGR of 130.29% and SCBL has lowest CAGR of 14.47%. Beside these two banks, NABIL, NIB, HBL, NSBI, EBL, BOK, NIC, KBL, Laxmi, and SBL have CAGR of 22.16%, 24.83%, 17.34%, 24.54%, 30.08%, 24.90%, 30.25%, 14.83%, 39.96% and 38.15% respectively, (*see Appendix Section C: Table 3 for details*).

#### (iv) Net Profit

Net profit shows the strength of the organization to sustain in the competitive environment. According to the income statement for five years from FY 2006/07 to FY 2010/11 of the sample banks, total amount of net profit (in millions) is presented in Figure 4.4.

**Figure 4.4 Net Profit (in millions) from FY 2006/07 to FY 2010/11**



From Figure 4.3, it can be concluded that NABIL Bank has highest amount of Rs. 1,338 million and Global IME has lowest of Rs. 225 million amount as their net profits in comparison to other banks as of FY 2010/11.

Observing the CAGR of sample banks, it appears that Global IME has the highest average growth rate with CAGR of 54.51% and KBL stands as the bank with lowest average growth rate of 10.23%. If the trend for five fiscal years is observed, it has fluctuating trend in which most of the banks have increasing annual growth rate in net profit. Despite positive growth, some bank such as NIB, HBL, NSBI, KBL, and Global IME have negative growth in some fiscal years in relation to the previous fiscal year, (*see Appendix Section C: Table 4 for details*).

#### 4.1.2. Ratio Analysis

Financial ratios can be used to identify a bank's specific strengths and weaknesses as well as providing detailed information about bank profitability, liquidity and credit quality policies (Hempel et al, 1994; Dietrich, 1996). There are a number of financial ratios to analyze the financial performance of commercial banks. Analyzing all the ratios is not feasible; therefore, major seven ratios listed below in four perspectives are analyzed.

##### A. Liquidity Ratios

1. Loan to Deposit Ratio (LTDR)
2. Net Liquidity Ratio (NLR)

##### B. Profitability ratio

3. Net Interest Margin (NIM)
4. Return on Assets (ROA)

##### C. Efficiency Ratio

5. Total Assets Turnover Ratio (TATR)

6. Non-Performing Loan Ratio (NPLR)

D. Solvency Ratio

7. Capital Adequacy Ratio (CAR)

**(i) Loans to Deposit (LTDR):**

The Loan to Deposit Ratio is used to calculate a lending institution's ability to cover withdrawals made by its customers. A lending institution that accepts deposits must have a certain measure of liquidity to maintain its normal daily operations. If the ratio is too high, it means that banks might not have enough liquidity to cover any unforeseen fund requirements; if the ratio is too low, banks may not be earning as much as they could be. Table 4.1 shows Loans to Deposit Ratio of selected commercial banks for five fiscal years, from FY 2006/07 to FY 2010/11.

**Table 4.1 Loan to Deposit Ratio**

Loan to deposit	Fiscal Years					Avg. Ratio
	2006/07	2007/08	2008/09	2009/10	2010/11	
NABIL	68.13%	68.21%	73.87%	71.17%	78.32%	<b>71.39%</b>
NIB	72.56%	79.91%	78.86%	81.74%	83.54%	<b>77.70%</b>
SCBL	43.78%	46.95%	38.70%	45.98%	49.11%	<b>44.07%</b>
HBL	59.22%	63.54%	73.58%	77.43%	80.57%	<b>68.97%</b>
NSBI	87.94%	92.91%	54.13%	51.65%	51.21%	<b>68.79%</b>
EBL	77.43%	78.56%	73.43%	76.24%	76.98%	<b>76.01%</b>
BOK	78.25%	80.51%	82.64%	84.23%	85.44%	<b>80.41%</b>
NIC	90.66%	87.62%	87.80%	80.96%	82.45%	<b>84.70%</b>
KBL	85.84%	90.22%	92.88%	85.69%	87.87%	<b>88.79%</b>
Laxmi	85.77%	89.71%	83.88%	81.49%	84.10%	<b>86.88%</b>
SBL	95.40%	93.03%	84.08%	83.65%	86.43%	<b>90.22%</b>
Global IME	86.07%	70.15%	82.90%	80.92%	84.82%	<b>80.97%</b>

Table 4.1 is the time series plot of net loan to deposit ratio for all sample banks of the study. Table shows that, banks such as BOK, NIC, KBL, Laxmi, SBL and Global IME had average LTDR above 80% which exceed the benchmark determined by Nepal Rastra Bank (Central Bank of Nepal). Banks having higher LTDR can face liquidity crisis (problem of inadequate liquidity). Thus, these banks should focus on keeping acceptable liquidity position and search for other investing avenues rather than loans to adjust collected deposits.

**(ii) Net Liquidity Ratio (NLR):**

Net liquidity determines the liquidity position of the financial institutions. Every depository institution should have optimum level of liquid assets to secure the withdrawal of the depositors. It is calculated by dividing Net Liquid Assets by Total Deposits. The following table shows NLR of commercial banks for five years from FY 2006/07 to FY 2010/11.

**Table 4.2 Net Liquidity Ratio**

NLR	Fiscal Years					Avg. Ratio
	2006/07	2007/08	2008/09	2009/10	2010/11	
NABIL	8.41%	14.49%	10.51%	9.73%	9.83%	<b>10.86%</b>
NIB	11.40%	10.90%	16.96%	15.09%	16.53%	<b>13.89%</b>
SCBL	16.21%	14.28%	19.20%	10.23%	19.10%	<b>15.52%</b>
HBL	10.85%	7.86%	12.68%	11.50%	9.30%	<b>10.38%</b>
NSBI	15.33%	12.05%	6.84%	10.17%	11.50%	<b>10.67%</b>
EBL	18.31%	13.34%	18.50%	21.17%	14.89%	<b>16.32%</b>
BOK	12.60%	9.56%	13.39%	13.41%	10.27%	<b>12.96%</b>
NIC	8.53%	10.33%	9.38%	13.69%	9.12%	<b>10.60%</b>
KBL	13.50%	11.67%	13.23%	19.44%	9.54%	<b>12.98%</b>
Laxmi	6.35%	13.65%	12.98%	15.17%	15.43%	<b>11.44%</b>
SBL	11.06%	10.03%	12.79%	15.13%	12.93%	<b>11.86%</b>
Global IME	16.04%	23.56%	12.98%	17.64%	11.64%	<b>16.37%</b>

Table 4.2 is related to NLR and it depicts the liquidity position of the sample banks. According to the rule of NRB, NLR should be minimum 20% but all the sample banks have failed to uphold the rule and have average NLR of less than 20%. As the table indicates, all the banks should focus on increasing liquid funds. Some bank like HBL, NIC, NSBI, NABIL, Laxmi and SBL should seriously focus on this non-compliance of the central bank's rule.

**(iii) Net Interest Margin (NIM):**

Net Interest Margin (NIM) is the ratio of Net Interest Income (NII) by Total Assets. NII is the difference between interest income and interest expense. It is the gross margin on a bank's lending and investment activities. The higher the ratio the cheaper the funding. It indicates that bank is getting higher margin when this rate is high. The following table shows NIM of selected commercial banks for past five fiscal years.

**Table 4.3 Net Interest Margin**

NIM	Fiscal Years					Avg. Ratio
	2006/07	2007/08	2008/09	2009/10	2010/11	
NABIL	3.79%	3.29%	3.75%	4.01%	3.95%	<b>3.84%</b>
NIB	3.26%	3.09%	2.98%	3.66%	3.74%	<b>3.32%</b>
SCBL	3.49%	3.36%	3.35%	3.65%	3.91%	<b>3.53%</b>
HBL	3.01%	2.99%	3.58%	3.73%	4.09%	<b>3.45%</b>
NSBI	3.01%	3.00%	2.11%	2.17%	2.19%	<b>2.56%</b>
EBL	2.93%	3.37%	3.18%	3.70%	3.88%	<b>3.37%</b>
BOK	3.29%	3.48%	3.83%	4.14%	4.72%	<b>3.80%</b>
NIC	2.60%	2.79%	2.75%	3.67%	3.96%	<b>3.01%</b>
KBL	3.31%	3.05%	3.02%	3.33%	3.34%	<b>3.17%</b>
Laxmi	2.21%	2.28%	2.10%	3.11%	3.38%	<b>2.59%</b>
SBL	2.64%	2.76%	2.53%	2.68%	3.13%	<b>2.82%</b>
Global IME	0.68%	1.67%	1.77%	2.92%	3.85%	<b>2.18%</b>

Table 4.3 is the time series plot of net interest margin for all commercial banks under study. It is observed that NABIL, BOK, SCBL ranks at 1<sup>st</sup>, 2<sup>nd</sup>, and 3<sup>rd</sup> with average NIM of 3.84%, 3.80%, and 3.53% respectively. Laxmi, NSBI, and Global IME have lowest average NIM of 2.59%, 2.56%, and 2.18% respectively.

According to CAMELS rating by Chowdhury (2007), for Net Interest Margin:

Criteria	Indicator
5% or more	Strong
4.5% to less than 5 %	Satisfactory
4% to less than 4.5%	Fair
3% to less than 4%	Marginal
Below 3%	Unsatisfactory

On the basis of CAMELS rating by Chowdhury (2007) banks such as NABIL, NIB, SCBL, HBL, EBL, BOK, NIC, and KBL has average NIM between 3% and 4%, which is deemed as being marginal. Banks such as NSBI, Laxmi, SBL, and Global IME have average NIM below 3%, and it is indicated as being unsatisfactory.

**(iv) Return on Assets (ROA):**

Return on Assets is an indicator of how profitable a firm is before leverage, and is compared with companies in the same industry. Since ROA measures the profitability of

assets used by the firm, this ratio should be positive and it should grow over time. The following table shows ROA of selected commercial banks for past five years.

**Table 4.4 Return on Assets**

ROA	Fiscal Years					Avg. Ratio
	2006/07	2007/08	2008/09	2009/10	2010/11	
NABIL	2.47%	2.01%	2.35%	2.19%	2.30%	<b>2.36%</b>
NIB	1.82%	1.79%	1.70%	2.21%	2.02%	<b>1.86%</b>
SCBL	2.42%	2.46%	2.56%	2.70%	2.53%	<b>2.54%</b>
HBL	1.47%	1.67%	1.91%	1.19%	1.91%	<b>1.62%</b>
NSBI	1.83%	1.44%	1.05%	1.03%	1.01%	<b>1.21%</b>
EBL	1.38%	1.66%	1.73%	2.01%	2.01%	<b>1.71%</b>
BOK	1.80%	2.04%	2.25%	2.18%	2.44%	<b>2.06%</b>
NIC	1.35%	1.59%	1.69%	2.22%	2.25%	<b>1.67%</b>
KBL	1.43%	1.16%	1.41%	1.54%	1.22%	<b>1.32%</b>
Laxmi	0.77%	0.95%	1.03%	1.56%	1.74%	<b>1.12%</b>
SBL	1.19%	1.23%	1.22%	1.06%	1.27%	<b>1.22%</b>
Global IME	-1.13%	0.74%	0.21%	0.42%	1.28%	<b>0.30%</b>

Table 4.4 is the time series plot of return on assets for all commercial banks under study. Table 4.4 shows that banks like SCBL, NABIL, and BOK has an average ROA of 2.54%, 2.36%, and 2.06% making these banks stand on 1<sup>st</sup>, 2<sup>nd</sup>, and 3<sup>rd</sup> rank respectively. Other than these, most of the banks fall in the range of 1% to 1.86%. Global IME has an average ROA less than 1 percent.

According to CAMELS rating by Chowdhury (2007), Return on Assets:

Criteria	Indicator
1.3% or more	Strong
0.8% to less than 1.3%	Satisfactory
0.4% to less than 0.8%	Fair
0.16% to less than 0.4%	Marginal
Below 0.16%	Unsatisfactory

On the basis CAMELS rating by Chowdhury (2007), banks such as NABIL, NIB, SCBL, HBL, EBL, BOK, NIC and KBL are strong banks in terms of average ROA, which falls under criteria of 1.3 percent or more. ROA indicator for banks such as NSBI, Laxmi and SBL is satisfactory since it falls under criteria of 0.8% to less than 1.3%. Global IME Bank's performance on basis of ROA is marginal having average ROA of 0.3%.

**(v) Total Asset Turnover Ratio (TATR):**

Total Asset Turnover Ratio measures the efficiency of a firm's use of its assets in generating revenue or income. Firms with low profit margins tend to have high asset

turnover, while those with high profit margins have low asset turnover. The higher the ratio, the more revenue a firm produces based on its assets. The following table shows TATR of selected commercial banks for past five fiscal years.

**Table 4.5 Total Asset Turnover Ratio**

TATR	Fiscal Years					Avg. Ratio
	2006/07	2007/08	2008/09	2009/10	2010/11	
NABIL	5.43%	4.50%	5.06%	5.30%	5.24%	<b>5.27%</b>
NIB	4.52%	4.24%	3.89%	4.77%	4.85%	<b>4.46%</b>
SCBL	5.45%	5.32%	5.22%	5.71%	5.62%	<b>5.47%</b>
HBL	4.16%	4.18%	5.05%	5.05%	5.53%	<b>4.79%</b>
NSBI	3.84%	3.71%	2.75%	2.91%	3.08%	<b>3.31%</b>
EBL	3.92%	4.46%	4.19%	4.66%	4.74%	<b>4.35%</b>
BOK	4.65%	4.87%	5.44%	5.72%	6.21%	<b>5.26%</b>
NIC	3.52%	3.58%	3.84%	4.74%	5.08%	<b>3.97%</b>
KBL	3.95%	3.77%	3.86%	4.13%	4.27%	<b>3.94%</b>
Laxmi	2.82%	3.01%	2.93%	3.85%	4.31%	<b>3.34%</b>
SBL	3.31%	3.45%	3.19%	3.14%	3.83%	<b>3.47%</b>
Global IME	1.05%	2.35%	2.65%	3.88%	4.90%	<b>2.97%</b>

Table 4.5 shows Total Asset Turnover Ratio of sample banks from FY 2006/07 to FY 2010/11. As observed in Table 4.5, banks such as NABIL, SCBL and BOK had an average TATR of 5.27%, 5.47% and 5.26% respectively. Other than these, most of them fall in the range of 3.31% to 4.79%. Comparatively, SCBL, NABIL and BOK ranks at 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> on the basis of average NPM and Global IME stands at last position with average TATR of 2.97%.

According to CAMELS rating by Chowdhury (2007), Total Assets Turnover Ratio:

Criteria	Indicator
13% or more	Strong
11% to less than 13 %	Satisfactory
8% to less than 11%	Fair
6% to less than 8%	Marginal
Below 6%	Unsatisfactory

On the basis of average TATR, the TATR indicator of all the banks NABIL, NIB, SCBL, HBL, NSBI, EBI, BOK, NIC, KBL, Laxmi, SBL, and Global IME is unsatisfactory as it falls under category below 6 percent.

**(vi) Non-Performing Loan Ratio (NPLR):**

Non-Performing Loan Ratio is the value of Non-Performing Loans divided by the total value of the loan portfolio (including non-performing loans before the deduction of specific loan-loss provisions). The loan amount recorded as non-performing should be the gross value of the loan as recorded on the balance sheet, not just the amount that is overdue. Institutions holding non-performing loans in their portfolios may choose to sell them to other investors in order to get rid of risky assets and clean up their balance sheets.

Sales of non-performing loans must be carefully considered since they can have numerous financial implications, including affecting the bank's profitability, and tax situations. The following table shows the NPLR of sample banks for past five years.

**Table 4.6 Non Performing Loan Ratio**

NPLR	Fiscal Years					Avg. Ratio
	2006/07	2007/08	2008/09	2009/10	2010/11	
NABIL	1.12%	0.79%	0.80%	0.14%	1.77%	<b>0.92%</b>
NIB	2.37%	1.12%	0.82%	0.46%	0.59%	<b>1.07%</b>
SCBL	1.83%	0.92%	0.66%	0.54%	0.62%	<b>0.91%</b>
HBL	3.61%	2.35%	2.16%	3.16%	3.92%	<b>3.04%</b>
NSBI	4.56%	3.65%	2.02%	1.47%	1.13%	<b>2.57%</b>
EBL	0.80%	0.64%	0.48%	0.16%	0.34%	<b>0.48%</b>
BOK	2.51%	1.76%	1.27%	1.18%	1.82%	<b>1.71%</b>
NIC	1.11%	0.86%	0.90%	0.56%	0.60%	<b>0.81%</b>
KBL	0.73%	1.35%	0.43%	0.40%	1.12%	<b>0.81%</b>
Laxmi	0.35%	0.13%	0.05%	0.12%	0.90%	<b>0.31%</b>
SBL	0.34%	0.60%	0.45%	0.42%	0.59%	<b>0.48%</b>
Global IME	0.00%	0.00%	0.09%	0.61%	2.52%	<b>0.64%</b>

Table 4.6 shows the summary of NPLR with average calculation for five FYs. Table 4.6 shows that banks like HBL, NSBI, and BOK had an average NPLR of 3.04%, 2.57%, and 1.71% respectively. A higher ratio indicates low efficiency; hence, it should be minimized to optimum level. These banks should focus on minimizing the amount of non-performing loans or sell those loans and clear balance sheet. Laxmi, SBL, and EBL, has average NPLR of 0.31%, 0.48%, and 0.48% respectively and categorized as efficient banks on managing non-performing loans. Other than these banks, NABIL, NIB, SCBL, NIC, KBL, and Global IME have average NPLR in the range of 0.64% to 1.07%.

**(vii) Capital Adequacy Ratio (CAR):**

Capital adequacy ratio is the ratio which determines the bank's capacity to meet the time liabilities and other risks such as credit risk, operational risk etc. In the most simple formulation, a bank's capital is the "cushion" for potential losses, and protects the bank's depositors and other lenders. The following table shows CAR of selected commercial banks for past five fiscal years.

**Table 4.7 Capital Adequacy Ratio**

CAR	Fiscal Years					Avg. Ratio
	2006/07	2007/08	2008/09	2009/10	2010/11	
NABIL	12.04%	11.91%	11.71%	11.61%	11.75%	<b>11.80%</b>
NIB	12.17%	11.31%	12.10%	11.69%	12.09%	<b>11.87%</b>
SCBL	15.71%	16.80%	14.70%	17.78%	17.38%	<b>16.47%</b>
HBL	12.11%	12.50%	11.31%	11.02%	11.45%	<b>11.68%</b>

NSBI	13.29%	12.54%	12.18%	14.14%	11.84%	<b>12.80%</b>
EBL	11.19%	11.34%	11.04%	10.56%	10.43%	<b>10.91%</b>
BOK	12.38%	11.47%	11.91%	11.45%	11.63%	<b>11.77%</b>
NIC	12.20%	12.96%	14.60%	15.30%	24.49%	<b>15.91%</b>
KBL	11.20%	14.96%	11.57%	13.80%	14.45%	<b>13.20%</b>
Laxmi	12.43%	11.16%	11.49%	14.99%	13.21%	<b>12.66%</b>
SBL	11.84%	11.20%	10.45%	10.73%	11.75%	<b>11.19%</b>
Global IME	14.69%	11.66%	9.53%	11.36%	11.20%	<b>11.69%</b>

Table 4.7 shows the CAR of sample banks from FY 2006/07 to FY 2010/11. It indicates that all the sample banks had average CAR above 10%<sup>1</sup> which is a minimum requirement of the central bank (NRB) regulation. Banks like, SCBL, NSBI, NIC, and Laxmi has greater average CAR than the requirement. Table 4.7 also shows that EBL has adequate CAR as requirement. If yearly CAR is observed, all banks are defined as solvent banks meeting the minimum requirement of CAR as prescribed by NRB.

In overall, on the basis of financial ratio analysis, it can be concluded that banks such as NABIL, NIB, SCBL, HBL, EBL and BOK are good performers whereas the banks such as NSBI, NIC, KBL, Laxmi, SBL and Global IME are average performers.

### 4.1.3. Inferential Analysis and Discussion

#### Simple Regression:

Simple linear regression analysis analyzes the linear relationship that exists between a dependent variable and a single independent variable. Simple regression model is described as:

$$Y = a + b.X + \varepsilon$$

Where:

Y = Value of the dependent variable

X = Value of the independent variable

a = Population's y –intercept

b = Slope of the population regression line

$\varepsilon$  = Error term or residual value

#### 1. Regression of Net Profit on Total Deposits

**Table 4.8 Regression Results of Net Profit on Total Deposits**

##### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.863a	0.745	0.719	206.883

a. Predictors: (Constant), Total Deposits

##### Coefficients(a)

<sup>1</sup> Capital Adequacy Framework (Updated on July 2008) by Accord Implementation Group, NRB, pg 8, Section 2.6

Model		Unstandardized Coefficients		Standardized Coefficients	t-value	p-value
		B	Std. Error	Beta		
1	(Constant)	-86.670	154.142		-0.562	0.586
	Deposits	0.02467	0.005	0.863	5.405	0.000

a. Dependent Variable: Net Profit

The model summary Table 4.8 reports the strength of the relationship between Total Deposits and Net Profit. R, the multiple correlation coefficient, is the linear correlation between the observed values of Net Profit. Here it indicates a high positive correlation (.863) between Total Deposits and Net Profit. R Square, the coefficient of determination shows that about 74.5 percent of Net Profit can be explained by Total Deposits. The B of 0.02467 explains that a rupee increase in total deposits contribute to increase in net profit by 0.02467. Further, the p-value of 0.000 indicates that total deposits have higher contribution in net profit.

As a further measure of the strength of the model fit, the standard error of the estimate in the model summary table can be compared to the standard deviation of Net Profit reported in the descriptive statistics table (see Appendix Section E). With the linear regression model, the error of estimate is considerably lower, about 206.883.

## 2. Regression of Net Profit on Total Assets

**Table 4.9 Regression Result of Net Profit on Total Assets**

### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.888a	0.789	0.767	188.393

a. Predictors: (Constant), Total Assets

### Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t-value	p-value
		B	Std. Error	Beta		
1	(Constant)	-124.744	142.777		-0.874	0.403
	Total Assets	0.02248	0.004	0.888	6.106	0.000

a. Dependent Variable: Net Profit

The model summary Table 4.9 reports the strength of the relationship between Total Assets and Net Profit. R, the multiple correlation coefficient, is the linear correlation between the observed values of Net Profit. Here it indicates a high positive correlation (0.888) between Total Assets and Net Profit. R Square, the coefficient of determination, is the squared value of the multiple correlation coefficient. It shows that about 78.90 percent of Net Profit can be explained by Total Assets.

The B of 0.02248 explains that a rupee increase in total assets contribute to increase in net profit by 0.02248. Further, the p-value of 0.000 indicates that total deposits have higher contribution in net profit.

As a further measure of the strength of the model fit, the standard error of the estimate in the model summary table can be compared to the standard deviation of Net Profit reported in the descriptive statistics table (see Appendix Section E). With the linear regression model, the error of the estimate is considerably lower, about 188.393.

### **Correlation Analysis:**

Correlation analysis is used to describe the degree to which one variable is linearly related to other variables. The coefficient of correlation measures the degree of relationship between two sets of figures. When the increase in one variable leads to increase in other variable or both the variables change in the same direction, then correlation is said to be positive; however, when increase in one variable causes decrease in other variables or two variables move in opposite direction, the correlation is termed as negative. Correlation coefficient helps to identify and predict the relationship between two variables at a time.

Here, the financial performance is the dependent variable and it is measured by ROA and Net interest income. The independent variables of this study are the following:

- The bank size measured by the *Total Assets* of the bank
- Asset Utilization Efficiency measured by *Total Assets Turnover Ratio*.
- Operating Efficiency measured by *Non Performing Loan Ratio*.

---

Based on the data for all variables of the study, during the period FY 2006/07 to FY 2010/11, a correlation was calculated to examine the impact of independent variables on the dependent variable. Table 4.10 Correlation Matrix of Financial

Performance **Indicators**

**ROA**

**Interest Income**

**Total Assets**

**TATR**

**NPLR**

ROA

1

Interest Income

0.412\*\*

1

(0.001)

---

---

Total Assets

0.515\*\*

0.822\*\*

1

(0.000)

(0.000)

TATR

0.866\*\*

0.434\*\*

0.469\*\*

1

(0.000)

(0.001)

(0.000)

NPLR

0.864\*\*

0.300\*

0.440\*\*

0.512\*\*

1

(0.000)

(0.020)

(0.000)

(0.000)

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

---



to 5 for the most important factor. On the basis of means taken from the rank values, top five factors are listed in following Table 4.11. Table 4.11 Factors to Choose and Stay with a Bank

Rank	Factors	Mean Value
1	Bank Location	13.40
2	Interest Rate	9.82
3	Branch Network	8.68
4	ATM Network	7.67
5	Staff Behavior	6.33

1  
Bank Location  
13.40

2  
Interest Rate  
9.82

3  
Branch Network  
8.68

4  
ATM Network  
7.67

5  
Staff Behavior  
6.33

Table 4.11 shows top 5 factors preferred before choosing a bank and a reason to stay with the bank. Among the 12 major factors defined to determine the top 5 factors a customer preferred before choosing a bank and a reason to stay with their primary bank, the respondents ranked bank location as the most preferred factor with highest

mean of 13.40, interest rate as the second most preferred factor with mean of 9.82, and branch network as the third most preferred factor with mean of 8.68. Likewise, the factors such as ATM network and staff behavior were also taken into consideration and ranked 4<sup>th</sup> and 5<sup>th</sup> with mean of 7.67 and 6.33 respectively. 4.2.3.

**Descriptive Analysis** In order to measure the satisfaction level of the bank's customer, descriptive analysis was designed on basis of above mentioned seven dimensions (Five of RATER and other two dealing with price factor and general banking services) of customer satisfaction. The descriptive analysis provides the results of mean, standard deviation, t-value and p-value of overall sample. As explained earlier, five point Likert type scale anchored by 1="Highly Dissatisfied" to 5="Highly Satisfied"<sup>2</sup> was used for all sub dimensions. Table 4.12

**Reliability Reliability**

---

<sup>2</sup> As indicated in the report by Gautam and Dhital (2004)

**Mean  
Std.  
Deviation  
t-value  
p-value  
Rank**

Accuracy  
in  
transacti  
ons  
3.78  
0.71  
10.724  
0.000  
1

Properly  
handling  
any  
problems  
that arise  
3.49  
0.63  
7.586  
0.000  
2

*(Test  
Value=3)*  
Table

4.12  
represent  
s the  
factors  
for  
reliabilit  
y  
dimensio  
n.  
Among  
the 2  
factors  
defined  
for  
reliabilit  
y, the  
responde  
nts have

responded higher level of satisfaction for the factor “Accuracy in transactions” with the mean value of 3.78 and standard deviation of 0.71. The test value of 3 is used to signify the relationship between customer satisfaction and reliability. Hence, the significance relationship i.e. p value  $<0.05$  can be seen on both the factors which means banks are doing adequate to provide higher level of customer

---

satisfaction based on these two factors. Table 4.13 Assurance **Assurance**

**Mean**  
**Std. Deviation**  
**t-value**  
**p-value**  
**Rank**

Keeping your transactions confidential

4.30  
0.73  
17.543  
0.000  
1

Staffs are Capable and Competent

3.80  
0.71  
11.145  
0.000  
2

Staffs are able to answer your questions

3.74  
0.68  
10.589  
0.000  
3

Staffs are Constantly Courteous

3.70  
0.73  
9.403  
0.000  
4

(*Test Value=3*) Table 4.13 represents the factors defined for Assurance. The respondents have responded higher level of satisfaction for the factor “Keeping the transactions confidential” with the mean value of 4.30 and standard deviation of 0.73. The test value of 3 is used to signify the relationship between customer satisfaction and assurance. Hence, the significance relationship, i.e. p value <0.05, can be seen for all the above factors which means banks are doing adequate to provide higher level of customer satisfaction based on these five factors. Table 4.14 Tangibles **Tangibles**

**Mean**  
**Std. Deviation**  
**t-value**  
**p-value**  
**Rank**

Tidy writing counters, stocked with forms, vouchers and pens

4.11

---

---

0.88  
12.395  
0.000  
1

Neatly Dressed  
4.06  
0.99  
10.486  
0.000  
2

Provide easy to read and understandable bank statements  
3.95  
0.67  
13.847  
0.000  
3

Parking Facilities  
3.70  
1.00  
6.866  
0.000  
4

Clear signposts for the different areas inside the branch  
3.66  
1.06  
6.04  
0.000  
5

(*Test Value=3*) Table 4.14 represents factors defined for Tangibles. The respondents have responded higher level of satisfaction for the factor “Neatly Dressed” with the mean value of 4.11 and standard deviation of 0.99. The test value of 3 is used to signify the relationship between customer satisfaction and tangibles. Hence, the significance relationship, i.e. p value <0.05, can be seen for all the above factors which means banks are doing adequate to provide higher level of customer satisfaction based on these four factors. Table 4.15

Empathy **Empathy**

**Mean**

**Std. Deviation**

**t-value**

**p-value**

**Rank**

Having concerned and caring attitude  
3.77

---

0.66
11.502
0.000
1

Offer convenient banking hours
3.75
0.86
8.561
0.000
2

Provide convenient branch locations
3.63
1.12
5.483
0.000
3

Little or no waiting time in queues
3.50
0.89
5.477
0.000
4

(Test Value=3) Table 4.15 represents factors defined for Empathy. The respondents have responded higher level of satisfaction for the factor “Offer convenient banking hours” with the mean value of 3.77 and standard deviation of 0.66. The test value of 3 is used to signify the relationship between customer satisfaction and empathy. Hence, the significance relationship, i.e. p value <0.05, can be seen for all the above factors which means banks are doing adequate to provide higher level of customer satisfaction based on these four factors. Table 4.16 Responsiveness **Responsiveness**

**Mean**  
**Std. Deviation**  
**t-value**  
**p-value**  
**Rank**

Always willing to help you
4.18
0.74
15.59
0.000
1

Letting you know when things will get done
3.82
0.65
12.427

0.000

2

Providing prompt  
customer service

3.80

0.78

10.124

0.000

3

Never being too busy  
to respond to your  
requests

3.50

0.66

7.368

0.000

4

*(Test*

*Value=3)* Table

4.16 represents factors  
defined for

Responsiveness. The  
respondents have  
responded higher level  
of satisfaction for the  
factor “Always  
willing to help you”  
with the mean value  
of 4.18 and standard  
deviation of 0.74. The  
test value of 3 is used  
to signify the  
relationship between  
customer satisfaction  
and responsiveness.

Hence, the  
significance  
relationship, i.e. p  
value  $< 0.05$ , can be  
seen for all the above  
factors which means  
banks are doing  
adequate to provide  
higher level of  
customer satisfaction  
based on these four  
factors. Table 4.17

Price Factors **Price  
Factors  
Mean  
Std. Deviation  
t-value  
p-value  
Rank**

Interest rates on  
deposits

3.15  
0.86  
1.665  
0.099  
1

Interest rate on loan

3.14  
0.67  
1.967  
0.052  
2

Bank Charges/  
Service Fees

3.00  
0.89  
0.000  
1.000  
3

(*Test  
Value=3*) Table  
4.17 represents factors  
defined for price  
factor. The  
respondents have  
responded higher level  
of satisfaction for the  
factor “Interest Rate  
on Deposits” with the  
mean value of 3.15  
and standard deviation  
of 0.86. The test value  
of 3 is used to signify  
the relationship  
between customer  
satisfaction and price  
factor. Hence, there is  
no significance

relations  
 hip, i.e. p  
 value  
 >0.05,  
 can be  
 seen for  
 all the  
 above  
 factors  
 which  
 means  
 banks are  
 not doing  
 adequate  
 for  
 customer  
 satisfacti  
 on based  
 on these  
 factors  
 related to  
 price.

Table  
 4.18  
 General  
 Banking  
 Service  
**General  
 Banking  
 Service  
 Mean  
 Std.  
 Deviatio  
 n  
 t-value  
 p-value  
 Rank**

Form and  
 slips are  
 easy to  
 fill  
 4.26  
 0.67  
 18.466  
 0.000  
 1

Provide  
 easy

access to informati on	4.03	0.55	18.317	0.000	2
Ease to open account	3.99	0.92	10.501	0.000	3
Timely Bank Statemen ts	3.91	0.90	9.917	0.000	4
ATM Service	3.84	0.69	12.058	0.000	5
Charges are clearly explaine d	3.55	0.90	5.980	0.000	6
Internet Banking	3.07	0.39	1.829	0.070	7
					(Test Value=3)

Table 4.18 represents factors defined for General Banking Service. The respondents have responded higher level of satisfaction for the factor “Form and slips are easy to fill” with

the mean value of 4.26 and standard deviation of 0.67. The test value of 3 is used to signify the relationship between customer satisfaction and general banking service. Hence, the significance relationship, i.e. p value <0.05, can be seen for all the above factors except internet banking which means banks are doing adequate to provide higher level of customer satisfaction based on all other factors except internet banking. This indicates that bank's should consider improvement in their internet banking service.

Table 4.19 Important Dimension

**Dimensions Mean**

Weight	Rank	Assurance	Tangibles	Empathy	General Banking Service	Responsiveness	Reliability	Price Factor	Total
3.89	0.15	1	3.89	0.15	1	3.83	0.15	2	3.74
0.15	0.15	3	3.66	0.14	4	3.64	0.14	5	3.09
0.12	0.12	6	<b>25.74</b>	<b>1.00</b>					

Table 4.19 represents the average mean values for defined seven dimensions used for measuring customer satisfaction. Hence, the respondents are highly satisfied for assurance and tangibles maintained by the selected commercial banks with the average mean score of 3.89 on both dimensions. The respondents are least satisfied with price factor dimension related to the sample commercial banks with the average mean score of 3.09. The weight is calculated by dividing each mean value by its total mean value.

4.2.3. Computation of Customer Satisfaction Index

In the book, "How to Measure Customer Satisfaction" by Brierley, Hill, and MacDougall, (2003) defines the way to measure customer satisfaction index as follow:

$$CSI = \sum_{n=1}^7 w_i s_i$$

Table 4.20 Customer Satisfaction Score: SCBL

Dimension	Mean	Value	Weight	Weighted					
Reliability	3.56	0.14	0.49	Assurance	3.94	0.15	0.59	Tangible	4.04
Empathy	3.75	0.14	0.54	Responsive	3.97	0.15	0.60	Price Factor	3.08
General Banking	3.78	0.15	0.55	Total	<b>26.12</b>				
	<b>3.76</b>								

Table 4.20 shows the computation of Customer Satisfaction Score of SCBL. Similarly, the CSI for all other commercial bank is calculated, (see Appendix Section B).

Table 4.21 Customer Satisfaction Index

Name of the Bank	Customer Satisfaction Index	Customer Satisfaction Score	Customer Satisfaction Index	Customer Satisfaction Score	Customer Satisfaction Index	Customer Satisfaction Score					
NABIL	3.75	75.00%	NIB	3.83	76.60%	SCBL	3.76	75.20%	HBL	3.72	74.40%
NSBI	3.65	73.00%	EBL	3.69	73.80%	BOK	3.75	75.00%	NIC	3.72	74.40%
KBL	3.71	74.20%	Laxmi	3.69	73.80%	SBL	3.55	71.00%	Global	3.50	70.00%
IME	3.50	70.00%									

Table 4.21 shows Customer Satisfaction Index for the all the study banks. On measuring the CSI for banks, NIB shows the highest level of satisfaction with weighted mean of 3.83 and CSI of 76.6% indicating higher level of customer satisfaction of customers with their primary bank as compared to others. Likewise Global IME shows the lowest level of satisfaction with weighted mean of 3.50 and CSI of 70.00% indicating lower level of customer satisfaction of customers with their primary bank as compared to others.

It can be concluded that the customers of commercial bank are satisfied with banking services offered by their primary bank as the overall score is above weighted mean of 3 indicating above-average level of satisfaction.

#### 4.2.4. Market Share on the basis of Average Deposits

The market share of commercial bank on the basis of average deposits is shown in the following Table 4.22. The average deposits for last five fiscal years are calculated under each pre-defined category.

Table 4.22 Market Share on the basis of Average Deposits

Name of the Bank	Average Deposits (in millions)	Market Share	NABIL	37,742				
13.04%	NIB	41,174	14.22%	SCBL	32,585	11.26%	HBL	35,021
12.10%	NSBI	26,086	9.01%	EBL	30,709	10.61%	BOK	17,528
6.05%	NIC	14,619	5.05%	KBL	14,693	5.08%	Laxmi	14,192
4.90%	SBL	14,889	5.14%	Global	10,274	3.55%	IME	

Table 4.22 shows the market share of banks on the basis of average deposits for five years. On measuring the market share, NIB has larger market share of 14.22 percent compared to other banks. NABIL, HBL, SCBL, EBL, NSBI, BOK, SBL, KBL, NIC, Laxmi, and Global IME have market share of 13.04 percent, 12.10 percent, 11.26 percent, 10.61 percent, 9.01 percent, 6.05 percent, 5.14 percent, 5.08 percent, 5.05 percent and 3.55 percent respectively.

Table 4.23 Correlation Matrix of CSI and Market Share

Variables	CSI	Market Share
CSI	1	0.632*
Market Share	0.632*	1

\*. Correlation is significant at the 0.05 level (2-tailed).

Table 4.23 shows the correlation between the CSI and Market Share. The results of correlation analysis between CSI and Market Share shows that there exists a positive relationship between CSI and Market Share (+0.632). Likewise, there is significant relationship between CSI and Market Share at significance level of 0.05 where p value equals 0.028 which is less than 0.05.

### Inferential Analysis and Discussion

#### 4.2.5.1 Descriptive Statistics for Perception and Satisfaction

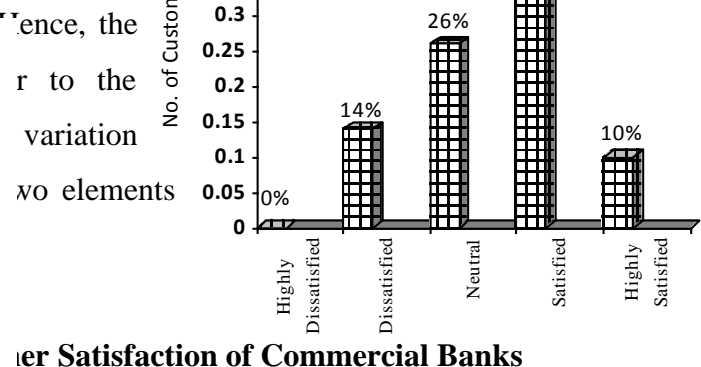
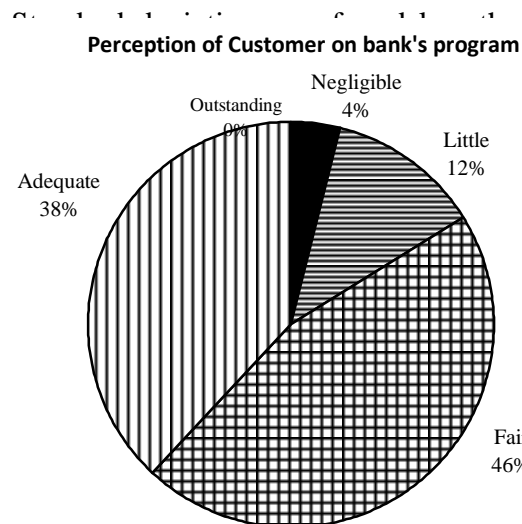
Questionnaire was designed such that the researchers could collect two kinds of basic information on customer satisfaction. First, to what extent the respective commercial banks are conducting some program to satisfy their customers. And, second about actual level of customer satisfaction provided by these banks to their customers. These two elements were found highly correlated. The Person's Correlation Coefficient of these two responses ( $r=0.5666$ ) was found to be positive related, which means if the program for satisfaction level is increased than level of satisfaction also increases.

From the observation of general descriptive of mean and standard deviation of aforementioned two scales, customer perception on banks' satisfaction program and the perceptual customer satisfaction is average in commercial banks of Kathmandu. Both scales were provided five-point Likert scale anchored by Negligible=1 to outstanding=5. The status of mean and standard deviation is presented in the following Table 4.24.

**Table 4.24 Mean and standard deviation of customer satisfaction**

S.N	Variables	Mean	Std Deviation
1	Program Perception	3.18	0.40
2	Satisfaction	3.56	0.46

Table 4.24 shows the overall mean and standard deviation of two responses – banks' program for customer satisfaction and the actual level of satisfaction received by customers. The mean satisfaction is slightly higher than the mean program perception. Customers of commercial banks in Kathmandu have higher satisfaction level in respect to the programs offered by banks to satisfy their customers. In general, customers were found "undecided" or "slightly-satisfied" with the present services of commercial banks in Kathmandu.



Customer Satisfaction level in Banks

**Source:** Study survey, 2012

From the Figure 4.6, it appears that the customers do not perceive that their banks provide services at an outstanding level. Most of customers are in dilemma whether the banks are doing adequate to provide them with satisfaction and retain them as customers of the banks. Some of the customers perceive that a bank does not perform any such services further to make them satisfied. According to them, they are with bank because of their deposits multiply with interest provided.

Hence, it is better to compare positive responses with the negative ones. The above pie chart shows that 38% of the respondents responded positively while only 16% gave negative answer. It appears that customers perceive the current banking activities are adequate to satisfy them. Similarly, customer satisfaction level with regards to overall commercial banking was also found quite satisfactory. Out of the total, 60% of respondents showed satisfaction, while 14% were dissatisfied. It is, therefore, clear that customer of commercial banks in Kathmandu are satisfied.

#### 4.2.5.2 Test of significance between satisfaction and program perception

It is essential to analyze the comparative satisfaction and program perception of customers of commercial banks in Kathmandu. Therefore, descriptive analysis was

designed that provides the results of mean and standard deviation collected from the selected samples. As explained earlier, five point Likert type scale anchored by 1="Highly Dissatisfied" to 5="Highly Satisfied" was used for both items. Chi-square (goodness of fit) test was conducted to find if there exists any difference among the commercial banks' status on the basis of satisfaction received by customers on their particular banks.

Table 4.25 Summaries of Mean and Standard deviations

Name	of	the	Bank	Mean	Standard
Deviation	Cases	8			
NABIL	3.75	0.63	8	NIB	3.83 0.70 8
SCBL	3.76	0.84	8	HBL	3.72 0.97 8
NSBI	3.65	0.67	8	EBL	3.69 0.53 8
BOK	3.75	0.60	8	NIC	3.72 0.54 8
KBL	3.71	0.87	8	Laxmi	3.69 0.87 8
SBL	3.55	0.68	8	Global	IME 3.50 0.75 8
<b>Total</b>	<b>3.69</b>	<b>0.72</b>	<b>96</b>		

Table 4.25 shows the calculated means of different commercial banks. The means are differentiated by negligible points. This type of differentiation may occur because the respondent did not accurately provide their information or they could not evaluate the services they received from each bank. In addition the Chi-square (goodness of fit) test results at 5% level-of-significance (*appendix section D*) could not show any differences among commercial banks in Kathmandu on the basis of level of customer satisfaction. It can be, therefore concluded that level of customer satisfaction among commercial banks is similar among sample commercial banks.

#### 4.2.6. Narrative Analysis for Open End Questions

The Narrative Analysis deals with the open ended questionnaire answered by 96 respondents. The respondents mentioned the area in which they would like to see the improvement in their primary bank and what are factors that are most likely to stop banking with their primary bank. The customer responses were evaluated on the following parameters.

#### **Identify 2 things that are most likely to make you stop banking with this bank?**

The following are the responses received from banks customer that would most likely discourage them to bank with their primary bank:

Frequent problem in ATM Service and Internet Banking

Employee Behavior and Attitude of Employees who are at customer service

Low interest rate on deposits and high service charges charged by banks  
Deduction of Service Charges without pre-information  
Unavailability of Wide Branch Network and ATM Network  
Infrastructure of bank, especially the branch offices  
Lack of transparency in information regarding the service charges and unnecessary charges  
Waiting time in queues  
Parking facilities  
Reputation of the Bank  
Lack of Customized and innovative products  
Lack of convenient banking hours  
Delay in providing services  
Inaccuracy in transactions and mismatch of fund in account  
Lack of Corporate Governance

**In which area, you would like to see the improvement in this bank?**

The key areas where bank's customer would like to see improvement in their primary bank are as follows:

Employee Behavior where focused need to be placed on Customer Relationship Management

ATM Service

Queue Management

Focus should be placed on effective and impressive infrastructure and not only expanding bank branches

Wide range of services need to be offered by branch offices i.e. service proliferation at branch offices

Wide ATM Network

Transparency in transactions

Need of innovation and use of new technology to provide good service to the customer

Transaction Speed and preciseness

Service charges that needs to be transparent and lower

4.3. Linkage between Customer Satisfaction and Financial Performance

#### 4.3.1. Presentation of Results

The table below represents the comparative study of overall performance based on customer perspective and financial perspective under the predefined categorization of bank.

Table 4.26 Cross tabulation of Performance Evaluation

Name of the Bank	Customer Perspective	Financial Perspective	CSI	Market Share
<b>NIB</b>	75.00%	13.04%	71.39%	10.86%
<b>NIB</b>	3.84%	2.36%	5.27%	0.92%
<b>NIB</b>	11.80%	11.26%	44.07%	15.52%
<b>NIB</b>	76.60%	14.22%	77.70%	13.89%
<b>SCBL</b>	4.46%	1.07%	11.87%	75.20%
<b>SCBL</b>	16.47%	74.40%	12.10%	68.97%
<b>SCBL</b>	10.38%	3.45%	1.62%	4.79%
<b>SCBL</b>	3.04%	11.68%	73.80%	1.06%
<b>HBL</b>	9.01%	68.79%	10.67%	2.56%
<b>HBL</b>	1.21%	3.31%	2.57%	12.80%
<b>HBL</b>	73.80%	9.01%	68.79%	10.67%
<b>HBL</b>	2.56%	1.21%	3.31%	2.57%
<b>EBL</b>	73.80%	9.01%	68.79%	10.67%
<b>EBL</b>	2.56%	1.21%	3.31%	2.57%
<b>EBL</b>	12.80%	73.80%	9.01%	68.79%
<b>EBL</b>	10.67%	2.56%	1.21%	3.31%
<b>EBL</b>	2.57%	12.80%	73.80%	1.06%
<b>BOK</b>	75.00%	6.05%	80.41%	12.96%
<b>BOK</b>	3.80%	2.06%	5.26%	1.71%
<b>BOK</b>	11.77%	74.40%	5.05%	84.70%
<b>BOK</b>	10.60%	3.01%	1.67%	3.97%
<b>BOK</b>	0.81%	15.91%	74.20%	5.08%
<b>BOK</b>	88.79%	12.98%	3.17%	1.32%
<b>BOK</b>	3.94%	0.81%	15.91%	74.20%
<b>BOK</b>	5.08%	88.79%	12.98%	3.17%
<b>BOK</b>	1.32%	3.94%	0.81%	15.91%
<b>BOK</b>	74.20%	5.08%	88.79%	12.98%
<b>BOK</b>	3.17%	1.32%	3.94%	0.81%
<b>Laxmi</b>	73.80%	4.90%	86.88%	11.44%
<b>Laxmi</b>	2.59%	1.12%	3.34%	0.31%
<b>Laxmi</b>	12.66%	71.00%	5.14%	90.22%
<b>Laxmi</b>	11.86%	2.82%	1.22%	3.47%
<b>Laxmi</b>	0.48%	11.19%	71.00%	5.14%
<b>Laxmi</b>	90.22%	11.86%	2.82%	1.22%
<b>Laxmi</b>	3.47%	0.48%	11.19%	71.00%
<b>Laxmi</b>	5.14%	90.22%	11.86%	2.82%
<b>Laxmi</b>	1.22%	3.47%	0.48%	11.19%
<b>Global</b>	70.00%	3.55%	80.97%	16.37%
<b>Global</b>	2.18%	0.30%	2.97%	0.64%
<b>Global</b>	11.69%	70.00%	3.55%	80.97%
<b>Global</b>	16.37%	2.18%	0.30%	2.97%
<b>Global</b>	0.64%	11.69%	70.00%	3.55%
<b>Global</b>	80.97%	16.37%	2.18%	0.30%
<b>Global</b>	2.97%	0.64%	11.69%	70.00%
<b>Global</b>	3.55%	80.97%	16.37%	2.18%
<b>Global</b>	0.30%	2.97%	0.64%	11.69%

4.26 represents the performance evaluation based on customer perspective and financial perspective. NIB, with highest CSI, has the highest market share on the basis of deposits. Similarly, Global IME with lowest CSI has the lower market share on the basis of average deposits. It is not necessary that the banks with higher CSI have higher market share. However the probability of higher market-share on the basis of deposits is possible with higher CSI as satisfied customers are likely to bring in huge deposits, recommend their bank to others to do their banking business.

In overall, the banks are being able to meet their customer expectations as CSI indicates the customers of these banks are satisfied with the services rendered by their primary bank. Further, the banks with higher CSI are able to achieve larger market share on the basis of deposits. Based on observation, the banks scoring higher on CSI have better financial performance in terms of LTDR, NLR, NIM, ROA, TATR, NPLR and CAR hence, reveals financial soundness.

#### 4.3.2. Expert's View from Interview

With reference to interview with the experts: The growing number of banks is creating a

competitive environment in the banking sector wherein banks are doing their best to promote their banking business by increasing their customer base. The major reasons for increasing customer base are (1) the source of deposit; and, (2) fees and service charges which are the major sources of revenue for the bank.

First query was related to how the banks differentiate their profitable and non-profitable customers. According to them, there is no technical mechanism to differentiate their customers. However, a minimum effort a bank is doing to segment their customer is on the basis of huge deposits bringing customer who are given more privilege compared to less deposit bringing customers.

Likewise, the second query was associated with what attracts customers to open a relationship with a particular bank. The perception of customers varies and so do the way they value the things. For some, it is interest rate whereas for others it is the credibility of bank. Further, the expert elaborates on the fact that in the context of Nepal there are very few customers who actually consider credibility of bank as a major reason to open the account with particular bank through enquiry on who the promoters are, who are in BOD, etc. Further, in expert opinion customer can be categorized into three categories. First type of customer are those who ***“Don’t understand anything”*** rather go after what they hear from others. Under the second category, customers who ***“Have little understanding and have knowledge about things”*** are categorized. These type of customers usually bargain on the basis of facilities offered by other bank, interest offered by other banks with the knowledge s/he have. Last, but not the least, under the third category are customers ***“Who know well”*** and for them reputation and credibility of bank counts a lot before establishing a relationship with a particular bank.

On the query associated with how banks measure satisfaction level of their customer, the major factors pointed are:

Deposit Growth; the amount of deposit a customer brings to the bank

A/C Closure Ratio

Inflow and outflow of Queue

Behaviour of their customers

For the query associated with what are impacts or positive outcomes of satisfied

customer, It is believed that the satisfied customer are likely to spread a positive word of mouth, recommend their bank to others as well as bring new customers. They are also likely to bring huge deposits to their bank. Further, the expert clarified that higher level of customer satisfaction is to do with higher deposits and higher profits in long-run.

#### 4.3.3. Inferential Analysis and Discussion

The below correlation and regression analysis shows that there exists the relationship between customer satisfaction and financial ratios such as ROA, NIM and NPLR.

Table 4.27 Correlation Analysis of CSI and Financial Performance

Variables	CSI	ROA	NIM	NPLR	CSI	ROA	NIM	NPLR
CSI	1	0.707*	0.910**	0.751**	1			
ROA		1	0.631*	0.593*	0.666*	1		
NIM			1	0.631*	0.593*	0.666*	1	
NPLR				1	0.631*	0.593*	0.666*	1

\*\* Correlation is significant at the 0.05 level (2-tailed). \* Correlation is significant at the 0.01 level (2-tailed). The value of the correlation coefficient ranges from -1 to 1, which indicates the direction of the relationship (positive or negative). The value closer to the 1 indicates stronger positive relationships. The correlation coefficients on the main diagonal are always 1, because each variable has a perfect positive linear relationship with itself.

Table 4.27 shows correlation analysis of CSI and Financial Performance. From the table, it can be predicted that NIM has the stronger positive relationship with CSI with correlation coefficient of 0.910 (close to 1). NPLR has positive correlation with CSI but is less stronger compared to NIM with correlation coefficient of 0.631. Likewise, ROA also has the positive relationship with CSI with correlation coefficient of 0.707.

#### Simple Regression:

Simple linear regression analysis analyzes the linear relationship that exists between a dependent variable and a single independent variable. Simple regression model is described as:

$$Y = a + bX + \varepsilon$$

Where:

Y = Value of the dependent variable

X = Value of the independent variable

a = Population's y –intercept

b = Slope of the population regression line

$\varepsilon$  = Error term or residual

Table 4.28 Regression Analysis of CSI and Financial Performance

Independent	Dependent	ROA	NPLR	NIM	B	t-value	p-value	B	t-value	p-value
Intercept		-0.269	-2.960	0.014	-12.585	-2.476	0.033	-	-	-
CSI		0.077	3.163	0.010	3.520	2.571	0.028	1.291	6.931	0.000
	R Square	0.500	0.398	0.828						
	Adjusted R Square	0.450	0.338	0.810						

On examining the effect of CSI on ROA, it is found statistically significant with F-value= 10.002, p-value= 0.010 which is less than 0.05. The B coefficient of 0.077 shows a positive relationship between CSI and ROA. This confirms that the higher the level of customer satisfaction, the higher its significance on ROA. R Square, the coefficient of determination shows that about 50.00 percent of ROA can be explained by CSI.

Likewise, the effect of CSI on NPLR is also found significant with F-value= 6.608, p-value=0.028 which is also than 0.05. The B coefficient of 3.520 shows a positive relationship between CSI and NPLR. This confirms that the higher the level of customer satisfaction, the higher its significance on NPLR. R Square, the coefficient of determination shows that about 39.80 percent of NPLR can be explained by CSI.

Similarly, the impact of CSI on NIM is also found significant with F-value=48.036, p-value= 0.000 which is less than 0.01. The B coefficient of 1.291 shows a positive relationship between CSI and NIM. This confirms that the higher the level of customer satisfaction, the higher its significance on NIM. R Square, the coefficient of determination shows that about 82.8 percent of NIM can be explained by CSI.

### Findings

The following are the major findings based on the study:

The increasing trend is observed on the financial elements taken for study purpose, namely Total Deposits, Total Assets, Net Interest Income and Net Profit.

The analysis of major financial ratios, LTDR, NLR, NIM, ROA, TATR, NPLR and CAR, indicate that the financial performance of the sample banks are satisfactory. The banks such as Global IME, KBL, Laxmi and SBL are performing well in ratios under the

liquidity and efficiency ratios. Likewise NABIL, SCBL, HBL and BOK are performing better in profitability ratios in comparison to other banks. SCBL, NIC and KBL have greater CAR and exceeds the minimum requirement of the central bank.

In overall financial performance, NABIL, SCBL, and BOK can be ranked as 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup>. The banks whose financial performance seems comparatively weak are Global IME and Laxmi.

Based on CAMEL rating by Chowdhury (2007), the NIM ratio is of marginal indicator for NABIL, NIB, SCBL, HBL, EBL, BOK, NIC, and KBL. NIM indicator appears to be unsatisfactory NSBI, Laxmi, SBL, and Global IME. Likewise, the ROA ratio is strong indicator for NABIL, NIB, SCBL, HBL, EBL, BOK, NIC and KBL. ROA is a satisfactory indicator for NSBI, Laxmi and SBL, and marginal indicator for Global IME. Moreover, TATR indicator of all the sample banks is unsatisfactory.

The regression analysis indicates a strong positive relationship between Total Deposits and Net profit and also a strong positive relationship between Total Assets and Net Profit. On the basis of correlation analysis, there exists a strong positive relationship between ROA and assets utilization efficiency (TATR) and operational efficiency (NPLR). A moderate positive relationship exists between ROA and Total Assets. Likewise, there is a significant positive relationship between Interest Income and Total Assets whereas there exists a moderate positive relationship between Interest Income and TATR and NPLR.

Among 96 respondents with regards to age of the respondent, maximum number of the respondents were from age 16 to 30 years (54%). In relation to occupation, maximum number of the respondents were salaried person (42%).

The major five reasons to choose a particular bank and to stay with their primary bank were access and wide network of bank and ATM, courteous employees behavior, and financial benefit offered by bank i.e. interest on deposits.

Under the Reliability dimension, customers seem highly satisfied with “Accuracy in transaction” with highest mean value of 3.78. However, both the factors studied under this dimension shows the significant relationship which means banks are doing adequate to provide higher level of customer satisfaction based on these factors.

Under the Assurance dimension, customers seem highly satisfied with “Keeping your transaction confidential” with highest mean value of 4.30. However, all the four factors studied under this dimension shows the significant relationship which means banks are doing adequate to provide higher level of customer satisfaction based on these factors.

Under the Tangibles dimension, customers seem highly satisfied with “Tidy writing

counters, stocked with forms, vouchers and pens” has highest mean value of 4.11. However, all the six factors studied under this dimension shows the significant relationship which means banks are doing adequate to provide higher level of customer satisfaction based on these factors.

Under the Empathy dimension, customers seem highly satisfied with “Offer Convenient Banking Hours” with highest mean value of 3.77. However, all the four factors studied under this dimension shows the significant relationship which means banks are doing adequate to provide higher level of customer satisfaction based on these factors.

Under the Responsiveness dimension, customers seem highly satisfied with “Always willing to help” with highest mean value of 4.18. However, all the four factors studied under this dimension shows the significant relationship which means banks are doing adequate to provide higher level of customer satisfaction based on these factors.

Under the Price Factor, customers seem highly satisfied with “Interest on Deposit” with highest mean value of 3.15. However, all the three factors studied under this dimension shows no significant relationship which means banks are not doing adequate to provide higher level of customer satisfaction based on these factors.

Under the General Banking Service, among the eight factors customers seem highly satisfied with “Forms and Slips are easy to fill” with highest mean value of 4.26. However, the six factors studied under this dimension shows the significant relationship which means banks are doing adequate to provide higher level of customer satisfaction based on these factors. For the factors such as internet banking, it seems banks are not doing adequate. Hence, banks should consider improvement in their internet banking service. Likewise, another critical area for them to consider is their Tele-banking service. Among the defined dimension, customer seems highly satisfied for “Assurance” and “Tangibles” and least satisfied for “Price Factor”.

On the basis of CSI, NIB has the highest CSI of 76.60 percent followed by SCBL with CSI of 75.20 percent. SBL and Global IME are ranked lowest two banks with the CSI of 71.00 percent and 70.00 percent respectively.

In consideration with market-share based on average deposits, the bank with highest CSI ranks highest in terms of market share. Further, there exists a positive correlation relationship between CSI and market share.

The banks with higher CSI and greater market share also seem to have better outcome in terms of financial performance. However, few banks, despite of their better score in terms of financial indicator, failed to rank better in term of CSI and market share. Hence, the

reason might be due to the unrepresented sample size taken for the study purpose.

Chi-square test shows that there is a positive relation between the program done by bank to satisfy their customer and actual satisfaction gained by customer. Likewise, the test also shows that there is no significant difference in the satisfaction level provided by different Nepalese commercial banks.

The major area of dissatisfaction can be seen on employee's behavior, ATM Service and service charges charged by bank. Further, these are the areas where banks' customer would like to see the improvement.

So far, there is no technical mechanism to differentiate between profitable and non-profitable customers. The major factors banks use to measure customer satisfaction of their customers are deposit growth, account closure ratio, inflow and outflow of queue, and behavior of customer.

The outcome of satisfied customer is the spreading of positive word of mouth, likeliness to recommend their bank to others and bringing in huge deposits. Hence, higher the level of customer satisfaction higher the deposits and higher the profits in the long-run.

There is a positive and significant relationship between CSI and financial ratios such as ROA, NIM and NPLR. Hence, it indicates that the higher level of customer satisfaction leads to better financial performance.

## CHAPTER 5

### SUMMARY, CONCLUSION AND RECOMMENDATION

#### 5.1. Summary

The banking sector acts as the life blood of modern trade and commerce by providing them with requisite finance. All the economic activities of every country are greatly influenced by the commercial banking business of that country. In recent years, the banking sector of Nepal has been transformed from a sluggish and government-dominated sector to a much more agile, competitive and profitable industry. Different foreign banks have emerged recently which have increased the competition. In order to get competitive edge and to attract more customers, banks are focusing on providing better services to the customers.

Nowadays the performance evaluation of banking sector has sifted from financial measure to evaluation based on both financial and non financial measures. Hence, the objective of the study is to assess the bank's performance using both financial measure such as LTDR, NLR, NIM, ROA, TATR, NPLR and CAR and non-financial measure i.e. Customer Satisfaction on the basis of pre-defined dimensions and market share on the basis of deposits.

The research involves a questionnaire given to 96 respondents from the total population and 12 sample banks. In order to assess the financial performance of commercial bank, the average ratios based on financial statement for fiscal year 2006/07, 2007/08, 2008/09, 2009/10 and 2010/11 were computed. Further, regression analysis was computed to signify the relationship among dependent and independent variables defined for the study purpose.

The study reveals customers are satisfied with the services of commercial banks offered by their primary bank under various dimensions pre-defined for the study purpose. The highest level of customer satisfaction was seen for the dimension such as "Assurance" and "Tangible" and least satisfaction for dimension "Price Factor". NIB ranked highest on Customer Satisfaction Index indicating higher level of customer satisfaction for the services offered by this bank. However, the study revealed that CSI of all other commercial bank is satisfactory.

To be more specific, customers preferred to stay with bank which had easy access to location with wide network, courteous employee's behavior and better financial benefit to offer. Apart from these factors such as wide and instant ATM service, transparency in information and unnecessary and higher service charges were the prime concern of bank's customer.

After the detailed discussion on the major financial ratios, and considering the overall analysis, NABIL, SCBL, NIB, EBL, BOK and HBL are performing better compared to other banks which have average performance, namely NIC, NSBI, KBL, Laxmi, SBL and Global IME.

It can be concluded that, the commercial banks are able to meet their customers' expectation. Moreover, in every category defined for study purpose, banks with higher CSI score and larger market share on the basis of average deposits have also performed better in terms of financial indicators. Further, findings of correlation analysis reveals that there is positive relationship between independent variable CSI and dependent variables ROA, NIM, and NPLR.

## 5.2. Conclusions and Recommendation

### 5.2.1. Conclusion

The overall banking scenario in the context of the world has gone through a dramatic change for the services it has been offering to its customers. The major reasons are advancement in technology, competitive banking environment and the emerging concept of quality customer service that leads to customer satisfaction. Similarly, the performance evaluation has shifted from financial measure to evaluation based on both financial measure and non-financial measure to determine the performance of the bank. As a result, the concept of BSC have been widely practiced in banking sector as well as in other services sectors.

The growth in number of financial institutions in the Nepalese banking industry has brought about tough competition. The financial measures are given importance in evaluating banking performance in the Nepalese banking industry. However, for the past few years, due to the changes in banking policies, technological improvements and rise in

competitive environment have led to adoption of the concept of customer service and customer satisfaction in the banking industry to achieve long-term business relationship with the customer and generate revenues.

As per the survey conducted to measure the customer satisfaction, the study shows that in overall customers are satisfied with the services of commercial banks under various dimensions pre defined for the study purpose. The highest level of customer satisfaction was seen for the dimension such as “Assurance” and “Tangible” and least satisfaction for dimension “Price Factor”. To be more specific, customers preferred to stay with bank which had easy access to location with wide network, courteous employee’s behavior and better financial benefit to offer. Apart from these, factors such as wide and instant ATM service were also a prime concern for major customer satisfaction.

Among 12 sample commercial banks, NIB scored the highest in CSI and Global IME scored the least. However, the score derived are comparative and they fall under the range of above average satisfaction indicating that the customers are satisfied with the banking services offered by the commercial bank. Further, the major respondents view the efforts made by their primary as positive and their perception towards the services offered by their primary bank is also improving. Therefore, CSI score is above average indicating overall satisfied customer of bank.

On the other hand, financial indicators computed on the basis of major financial ratios indicate the financial performance of the commercial banks. Despite having huge gap between profit margin of few commercial bank under different category, the overall financial performance of bank is satisfactory as banking sector are operating in profit, are efficient, and are being able to meet shareholders’ motive.

It can be concluded that, the banks are able to meet their customer expectation towards service of their primary bank. Moreover, the banks with both higher CSI score and larger market share on the basis of average deposits have done better in terms of financial indicators. It means the satisfied customer leads to increase in market share leading to better financial performance.

### 5.2.2. Recommendation

The contribution of this study is to provide insight on performance of commercial banks based on financial and non-financial aspects and understand the linkage and hence to enhance potential source of improved financial performance. To make more customer attracted to the services offered by the bank, there needs to be improvement in many areas. The following are some of the suggestions:

The timely evaluation of satisfaction level of their customers has to be studied by the commercial banks. On the basis of the analysis, the bank can implement the feedback received for improving the customer service and approach for customized banking products to increase market share in future.

To retain the existing customer and attract new one, banks should be more focused on price factor like increasing interest on deposits and reducing service charges.

The transparency in information regarding service charges or at least a pre-information before deducting charges is suggested.

The unnecessary lengthening of transaction process and delay in service are also the other key factors that needs to be taken into consideration by the commercial banks.

The commercial banks should employ the professionals and at the same time train their employees to maintain the courtesy and politeness in dealing with customer as this is considered as one of the major factors for a customer to continue banking with their primary bank.

Despite adopting various advance technology for performing banking transactions such as ATM, internet banking, SMS banking, etc. the complaints regarding out of service for these facilities have created a negative image about these banking services. Hence, emphasis should be placed on improving these services and monitoring the overall system for smooth operation of these services.

Despite of banks' concentration on expanding their bank branches, the failure to maintain the infrastructure of their branch offices along with limited services offered by branch offices is also the reason for customer dissatisfaction. Hence, proliferation of services and maintenance of infrastructure at branch office are to be considered.

Since the study shows linkage between customer satisfaction and financial performance, the time has come for commercial bank to improve service quality that leads to customer satisfaction which increases customer loyalty and better financial performance. Hence, it is recommended that the commercial banks should implement customer oriented

strategies to achieve better financial outcomes.

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## APPENDIX

### Section A: List of “A” Class Nepalese commercial bank

S.N.	Commercial Banks	Operation Date (A.D.)	Head Office	Paid up Capital (Rs. In Millions)
1.	Nepal Bank Limited	1937	Kathmandu	3804
2.	Rastriya Banijya Bank	1966	Kathmandu	3853
3.	Agriculture Development Bank Ltd.	1968	Kathmandu	94375
4.	Nabil Bank Ltd.	1984	Kathmandu	20298
5.	Nepal Investment Bank Ltd.	1986	Kathmandu	24091
6.	Standard Chartered Bank	1987	Kathmandu	16102
7.	Himalayan Bank Ltd.	1993	Kathmandu	20000
8.	Nepal SBI Bank Ltd.	1993	Kathmandu	18693
9.	Nepal Bangladesh Bank Ltd.	1994	Kathmandu	20103
10.	Everest Bank Ltd.	1994	Kathmandu	11196
11.	Bank of Kathmandu Ltd.	1995	Kathmandu	13595
12.	Nepal Credit and Commerce Bank Ltd.	1996	Rupandehi	13997
13.	Lumbini Bank Ltd.	1998	Chitwan	13000
14.	Nepal Industrial and Commercial Bank Ltd.	1998	Biratnagar	13116
15.	Machhapuchhre Bank Ltd.	2000	Pokhara	16272
16.	Kumari Bank Ltd.	2001	Kathmandu	14850
17.	Laxmi Bank Ltd.	2002	Birgunj	16140
18.	Siddhartha Bank Ltd.	2002	Kathmandu	15610
19.	Global IME Bank Ltd.	2007	Birgunj	15000
20.	Citizens Bank International Ltd.	2007	Kathmandu	19223
21.	Prime Commercial Bank Ltd.	2007	Kathmandu	22457
22.	Sunrise Bank Ltd.	2007	Kathmandu	18554
23.	Bank of Asia Nepal Ltd.	2007	Kathmandu	15175
24.	DCBL Bank Ltd.	2008	Kathmandu	19209
25.	NMB Bank Ltd.	2008	Kathmandu	16517
26.	KIST Bank Ltd.	2009	Kathmandu	20000
27.	Janata Bank Nepal Ltd.	2010	Kathmandu	14000
28.	Mega Bank Nepal Ltd.	2010	Kathmandu	16310
29.	Commerz and Trust Bank Nepal Ltd.	2010	Kathmandu	14000
30.	Civil Bank Ltd.	2010	Kathmandu	12000
31.	Century Commercial Bank Ltd.	2011	Kathmandu	10800
32.	Sanima Bank	2004	Kathmandu	20160

### Section B: Calculation of Customer Satisfaction Score for Commercial Bank

Bank	Reliability	Assurance	Tangibles	Empathy	Responsive	General Banking	Price Factor	Total
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						<b>Services</b>		
<b>EBL</b>	3.56	3.78	3.65	3.75	3.97	3.83	3.17	25.70
<b>Weight</b>	0.14	0.15	0.14	0.15	0.15	0.15	0.12	<b>1.00</b>
<b>Score</b>	0.49	0.56	0.52	0.55	0.61	0.57	0.39	<b>3.69</b>

<b>Bank</b>	<b>Reliability</b>	<b>Assurance</b>	<b>Tangibles</b>	<b>Empathy</b>	<b>Responsive</b>	<b>General Banking Services</b>	<b>Price Factor</b>	<b>Total</b>
<b>NSBI</b>	3.63	3.78	3.75	3.84	3.69	3.73	2.96	25.38
<b>Weight</b>	0.14	0.15	0.15	0.15	0.15	0.15	0.12	1.00
<b>Score</b>	<b>0.52</b>	<b>0.56</b>	<b>0.55</b>	<b>0.58</b>	<b>0.54</b>	<b>0.55</b>	<b>0.34</b>	<b>3.65</b>

<b>Bank</b>	<b>Reliability</b>	<b>Assurance</b>	<b>Tangibles</b>	<b>Empathy</b>	<b>Responsive</b>	<b>General Banking Services</b>	<b>Price Factor</b>	<b>Total</b>
<b>SCBL</b>	3.56	3.94	4.04	3.75	3.97	3.78	3.08	26.13
<b>Weight</b>	0.14	0.15	0.15	0.14	0.15	0.14	0.12	1.00
<b>Score</b>	0.49	0.59	0.63	0.54	0.60	0.55	0.36	<b>3.76</b>

<b>Bank</b>	<b>Reliability</b>	<b>Assurance</b>	<b>Tangibles</b>	<b>Empathy</b>	<b>Responsive</b>	<b>General Banking Services</b>	<b>Price Factor</b>	<b>Total</b>
<b>NIB</b>	3.75	4.09	4.04	3.78	4.00	3.78	3.25	26.70
<b>Weight</b>	0.14	0.15	0.15	0.14	0.15	0.14	0.12	1.00
<b>Score</b>	0.53	0.63	0.61	0.54	0.60	0.54	0.40	<b>3.83</b>

<b>Bank</b>	<b>Reliability</b>	<b>Assurance</b>	<b>Tangibles</b>	<b>Empathy</b>	<b>Responsive</b>	<b>General Banking Services</b>	<b>Price Factor</b>	<b>Total</b>
<b>HBL</b>	3.81	3.84	3.98	3.72	3.84	3.75	2.83	25.78
<b>Weight</b>	0.15	0.15	0.15	0.14	0.15	0.15	0.11	1.00
<b>Score</b>	0.56	0.57	0.61	0.54	0.57	0.55	0.31	<b>3.72</b>

<b>Bank</b>	<b>Reliability</b>	<b>Assurance</b>	<b>Tangibles</b>	<b>Empathy</b>	<b>Responsive</b>	<b>General Banking Services</b>	<b>Price Factor</b>	<b>Total</b>
<b>Nabil</b>	3.56	3.88	4.00	3.78	3.88	3.78	3.29	26.17
<b>Weight</b>	0.14	0.15	0.15	0.14	0.15	0.14	0.13	1.00
<b>Score</b>	0.48	0.57	0.61	0.55	0.57	0.55	0.41	<b>3.75</b>

<b>Bank</b>	<b>Reliability</b>	<b>Assurance</b>	<b>Tangibles</b>	<b>Empathy</b>	<b>Responsive</b>	<b>General Banking Services</b>	<b>Price Factor</b>	<b>Total</b>
<b>BOK</b>	3.63	4.06	3.94	3.75	3.88	3.83	2.92	25.99

<b>Weight</b>	0.14	0.16	0.15	0.14	0.15	0.15	0.11	1.00
<b>Score</b>	0.51	0.64	0.60	0.54	0.58	0.56	0.33	<b>3.75</b>

<b>Bank</b>	<b>Reliability</b>	<b>Assurance</b>	<b>Tangibles</b>	<b>Empathy</b>	<b>Responsive</b>	<b>General Banking Services</b>	<b>Price Factor</b>	<b>Total</b>
<b>Kumari</b>	3.63	4.09	3.96	3.47	3.88	3.73	3.04	25.80
<b>Weight</b>	0.14	0.16	0.15	0.13	0.15	0.14	0.12	1.00
<b>Score</b>	0.51	0.65	0.61	0.47	0.58	0.54	0.36	<b>3.71</b>

<b>Bank</b>	<b>Reliability</b>	<b>Assurance</b>	<b>Tangibles</b>	<b>Empathy</b>	<b>Responsive</b>	<b>General Banking Services</b>	<b>Price Factor</b>	<b>Total</b>
<b>NIC</b>	3.75	3.66	3.96	3.75	3.81	3.81	3.21	25.95
<b>Weight</b>	0.14	0.14	0.15	0.14	0.15	0.15	0.12	1.00
<b>Score</b>	0.54	0.52	0.60	0.54	0.56	0.56	0.40	<b>3.72</b>

<b>Bank</b>	<b>Reliability</b>	<b>Assurance</b>	<b>Tangibles</b>	<b>Empathy</b>	<b>Responsive</b>	<b>General Banking Services</b>	<b>Price Factor</b>	<b>Total</b>
<b>Laxmi</b>	3.50	4.03	3.73	3.53	3.69	3.78	3.50	25.76
<b>Weight</b>	0.14	0.16	0.14	0.14	0.14	0.15	0.14	1.00
<b>Score</b>	0.48	0.63	0.54	0.48	0.53	0.56	0.48	<b>3.69</b>

<b>Bank</b>	<b>Reliability</b>	<b>Assurance</b>	<b>Tangibles</b>	<b>Empathy</b>	<b>Responsive</b>	<b>General Banking Services</b>	<b>Price Factor</b>	<b>Total</b>
<b>MBL</b>	3.44	3.69	3.69	3.66	3.75	3.67	2.79	24.68
<b>Weight</b>	0.14	0.15	0.15	0.15	0.15	0.15	0.11	1.00
<b>Score</b>	0.48	0.55	0.55	0.54	0.57	0.55	0.32	3.55

<b>Bank</b>	<b>Reliability</b>	<b>Assurance</b>	<b>Tangible</b>	<b>Empathy</b>	<b>Responsive</b>	<b>General Banking Services</b>	<b>Price Factor</b>	<b>Total</b>
<b>Global</b>	3.31	3.81	3.63	3.53	3.53	3.56	3.04	24.42
<b>Weight</b>	0.14	0.16	0.15	0.14	0.14	0.15	0.12	1.00
<b>Score</b>	0.45	0.60	0.54	0.51	0.51	0.52	0.38	<b>3.50</b>

#### Section D: Calculation of Chi-square Test

Banks	O	E	O-E	e=(O-E) <sup>2</sup>	e/E
NABIL	3.75	3.69	0.05667	0.00321	0.00087
NIB	3.83	3.69	0.13667	0.01868	0.00506
SCBL	3.76	3.69	0.06667	0.00444	0.00120
HBL	3.72	3.69	0.02667	0.00071	0.00019
NSBI	3.65	3.69	-0.04333	0.00188	0.00051
EBL	3.69	3.69	-0.00333	0.00001	0.00000
BOK	3.75	3.69	0.05667	0.00321	0.00087
NIC	3.72	3.69	0.02667	0.00071	0.00019
KBL	3.71	3.69	0.01667	0.00028	0.00008
Laxmi	3.69	3.69	-0.00333	0.00001	0.00000
SBL	3.55	3.69	-0.14333	0.02054	0.00556
Global IME	3.50	3.69	-0.19333	0.03738	0.01012
<b>Total</b>	<b>44.32</b>	<b>44.32</b>			<b>0.024657</b>

*Chi-square is significant at the 0.05 level.*

#### Section E: Descriptive Statistics of Selected Financial Elements

*(in millions)*

Elements	No of observation	Minimum	Maximum	Mean	Std. Deviation
Total Deposits	60	3,023.00	50,138.00	12,587.63	15,097.66
Total Assets	60	3,534.00	58,357.00	14,436.71	17,211.51
Net Interest Income	60	24.00	2,298.00	480.42	613.89
Net Profit	60	-40.00	1,338.00	259.08	353.86



a. Yes

No

*(If YES, comparatively what do you think is the best that is being offered at that bank?)*

*Tick as many as you prefer)*

- a. Service
- b. Personnel of the Bank
- c. Interest Rate
- d. Brand Image/Credibility of Bank
- e. Innovative and Attractive Products
- f. Access/ Location
- g. Additional Services (please specify)

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**4. Tick to indicate level of satisfaction associated with Reliability at this Bank.**

S N	Particulars	Highly Satisfie d	Satisfie d	Neutra l	Dissatisfie d	Highly Dissatisfie d
a	Properly handling any problems that arise					
b	Accuracy in transactions					

**5. Tick to indicate level of satisfaction associated with Assurance at this Bank.**

S. N.	Particulars	Highly Satisfied	Satisfie d	Neutra l	Dissatisfie d	Highly Dissatisfie d
a.	Are constantly courteous					
b.	Are capable and competent					
c.	Ability to answer your questions					
d.	Keeping your transactions confidential					

**6. Tick to indicate level of satisfaction associated with Infrastructure/Tangibles at this Bank.**

S. N .	Particulars	Highly Satisfied	Satisfie d	Neutra l	Dissatisfie d	Highly Dissatisfie d
a.	Parking facilities					
b.	Clear signposts for the different areas inside the branch					
c.	Neatly dressed					
d.	Tidy writing counters, stocked with forms and vouchers					
e.	Provide easy-to-read and understandable bank statements					

**7. Tick to indicate level of satisfaction associated with Empathy at this Bank.**

S. N.	Particulars	Highly Satisfied	Satisfie d	Neutra l	Dissatisfie d	Highly Dissatisfie d
a.	Having a concerned and caring attitude					
b.	Offer convenient banking hours					
c.	Provide convenient branch locations					
d.	Little/no waiting time in queues					

**8. Tick to indicate level of satisfaction associated with Responsiveness at this Bank.**

S. N.	Particulars	Highly Satisfied	Satisfie d	Neutra l	Dissatisfie d	Highly Dissatisfie d
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a.	Always willing to help you					
b.	Letting you know when things will get done					
c.	Never being too busy to respond to your requests					
d.	Providing prompt customer service					

**9. Tick to indicate level of satisfaction with Charges charged at this Bank.**

S. N.	Particulars	Highly Satisfied	Satisfied	Neutral	Dissatisfied	Highly Dissatisfied
a.	Interest rates on deposit					
b.	Interest rates on loan					
c.	Bank Charges/Service Fees					

**10. Tick to indicate level of satisfaction in areas mentioned below at this Bank.**

S. N.	Particulars	Highly Satisfied	Satisfied	Neutral	Dissatisfied	Highly Dissatisfied
a.	Provide easy access to information					
b.	Form and slips are easy to fill					
c.	Ease to open account					
d.	Timely Bank Statements					
e.	Charges are clearly explained					
f.	ATM Service					
g.	Internet Banking					

**11. Overall how satisfied are you with the service you receive from this bank?**

Highly Satisfied	Satisfied	Neutral	Dissatisfied	Highly Dissatisfied

**12. In your experience, how much effort is this bank doing to make you satisfied?**

Outstanding	Adequate	Fair	Little	Negligible

**13. How likely are you to?**

S. N.	Particulars	Very Likely	Likely	Neutral	Unlikely	Very Unlikely
A	Recommend this bank to others					
B	Remain a customer of this bank					
C	Chances that you will terminate business with this bank in the next 12 months					

**14. Have you contacted this bank during the past 12 months with a problem or question?**

**a. Yes**

**b. No**

*(If YES, what has always been an issue or a problem. Tick as many as necessary)*

- Transaction Issues**
- ATM Problem**
- Service Charges charged without information**
- Limited Distribution of Cheque Slips**
- Signature Verification**
- Other (Please Specify) .....**

**15. In which area, you would like to see the improvement in this Bank.**

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**Thank You!!**

**Table 4: Net Interest Income (in millions) from FY 2006/07 to FY 2010/11**

Net Interest Inc	Fiscal Years					CAGR
	2006/07	2007/08	2008/09	2009/10	2010/11	
NABIL	1032	1220	1645	2089	2298	<b>22.16%</b>
<i>Growth</i>		18.22%	34.84%	26.99%	10.00%	
NIB	899	1202	1581	2100	2183	<b>24.83%</b>
<i>Growth</i>		33.70%	31.53%	32.83%	3.95%	
SCBL	999	1119	1343	1466	1715	<b>14.47%</b>
<i>Growth</i>		12.01%	20.02%	9.16%	16.98%	
HBL	1008	1140	1407	1595	1911	<b>17.34%</b>
<i>Growth</i>		13.10%	23.42%	13.36%	19.81%	
NSBI	419	516	636	826	1008	<b>24.54%</b>
<i>Growth</i>		23.15%	23.26%	29.87%	22.03%	
EBL	627	916	1174	1530	1795	<b>30.08%</b>
<i>Growth</i>		46.09%	28.17%	30.32%	17.32%	
BOK	480	617	785	968	1168	<b>24.90%</b>
<i>Growth</i>		28.54%	27.23%	23.31%	20.66%	
NIC	304	425	516	746	875	<b>30.25%</b>
<i>Growth</i>		39.80%	21.41%	44.57%	17.29%	
KBL	394	459	559	682	685	<b>14.83%</b>
<i>Growth</i>		16.50%	21.79%	22.00%	0.44%	
Laxmi	190	289	387	652	729	<b>39.96%</b>
<i>Growth</i>		52.11%	33.91%	68.48%	11.81%	
SBL	210	322	452	612	765	<b>38.15%</b>
<i>Growth</i>		53.33%	40.37%	35.40%	25.00%	
Global IME	24	138	224	503	675	<b>130.29%</b>
<i>Growth</i>		475.00%	62.32%	124.55%	34.19%	