# FINANCIAL PERFORMANCE ANALYSIS OF NEPALESE COMMERCIAL BANKS

**(A COMPARATIVE STUDY ON PUBLIC AND PRIVATE COMMERCIAL BANKS)**

**A Thesis By**

**Mukunda Subedi**

Central Department of Management Exam Roll No: 240/14

Registration No: 7-2-732-48-2009

*Submitted in partial fulfillment of the requirements for the degree of*

## Masters of Business Studies (MBS Semester System)

in the

## Faculty of Management Tribhuvan University

**Kathmandu, Nepal May, 2017**

## RECOMMENDATION LETTER

It is certified that thesis entitled “Financial Performance Analysis of Nepalese Commercial Banks” submitted by Mukunda Subedi is an original piece of research work carried by the candidate under my supervision. Literary presentation is satisfactory and the thesis is in a form suitable for publication. Work evinces the capacity of the candidate for critical examination and independent judgment. Candidate has put in at least 60 days after registering the proposal. The thesis is forwarded for examination.

Dr. Manoj Kumar Chaudhary Supervisor

Central Department of Management Tribhuvan University, Kirtipur, Kathmandu

iii

## APPROVAL SHEET

We, the undersigned, have examined the thesis entitled **“Financial Performance Analysis of Nepalese Commercial Bank”** presented by Mukunda Subedi, a candidate for the degree of **Master of Business Studies** (MBS) and conducted the viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

Dr. Manoj Kumar Chaudhary Thesis Supervisor

Internal Examiner

External Examiner

Prof. Bhawani Shankar Acharya Chairperson, Research Committee

Prof. Dr. Bhoj Raj Aryal

Head, Central Department of Management May, 2017

iv

## CERTIFICATION OF AUTHORSHIP

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

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

Mukunda Subedi May, 2017

ACKNOWLEDGEMENT

This Thesis is entitled “Financial performance analysis of Nepalese Commercial Banks” has been prepared in partial fulfillment for the degree of Masters of Business Studies (MBS) under the supervision of Dr. Manoj Kumar Chaudhary who guided me in every step with constructive suggestions, techniques and mechanics of research and valuable suggestions that catered me the necessary energy and confidence to make this thesis possible.

Similarly, I would also like to express my sincere gratitude to Prof. Dr. Bhoj Raj Arial, Head of Department, Central Department of Management and Prof. Bhawani Shankar Acharya, Research Committee Head, for their valuable suggestions and motivation in writing this dissertation. It is my privilege of getting helps and cooperation from different persons. It is not possible to enumerate the names of all of them. However, I would like to offer special thanks to Dr. Ramji Gautam, Reader, for the proper support and suggestions.

I am indebted to my parents and all my family members who always supported and inspired me to go ahead. Likewise my special thanks to my all respected teachers and lecturers of Central Department of Management who all helped me during my study of MBS and preparation of this thesis report.

Lastly, I would like to remember my all friends and all my batch mates Central Department of Management who directly or indirectly supported in this study. Despite of sincere efforts made, the chance of human error cannot be neglected. Therefore, I would like to take full responsibility of any kind of deficiency presented in the study.

Mukunda Subedi

Central Department of Management May, 2017

ABSTRACT

This study analyses the financial performance of commercial banks of Nepal for the period of eight fiscal years from 2008/09 to 2015/16 A.D. Financial ratios are employed to measure the profitability, liquidity and assets management of sample banks. Among twenty eight commercial banks, six Banks are taken as sample banks. Three banks are government owner bank and other three banks are Private sector bank. Private bank selection on the basis of their highest paid up capital. There are various researches were done in financial performance of commercial banks but they only focused on one public sector and one private sector. So, this research has done by covering all Government owned bank and three private sector banks. The liquidity position of the banks in terms of current ratio shows that the average ratio of private banks is lower than public sector commercial banks. It shows that the liquidity position of public sector commercial banks in terms of current ratio is better than PSBs. But both banks are increasing their profit than past years. The activity ratio is used to examine the efficiency with which firm manages and utilizes its assets. The activity ratio of public sector commercial banks in terms of loan and advance to total deposit ratio is higher than that of private banks. From the analysis, it is concluded that public sector commercial banks has been successfully utilized its deposit in term of loan and advances for profit generating purpose in compared to private banks. The leverage or capital structure position in terms of total debt to shareholders equity ratio of private banks is higher than public sector commercial banks. The average of this ratio implies that the proportion of outsiders claim, in the total capitalization, is higher in private banks. It seems relatively more leverage. Thus, private bank has more risky and aggressive capital structure than public sector commercial banks. The banks have to consider the issue of liquidity vs. profitability due to high or low liquidity. They have to manage both liquidity and profitability. To maintain profit banks should utilize their resources more efficiently in profitable sector. They can increase their area of investment. If assets remain idle, banks should bear high cost and cause of low profit margin. The banks should provide some more responsibilities for the society by expanding their operation in rural areas. They can provide branchless banking in village. These things are helpful to maximize the banks profit.

TABLE OF CONTENT

[CHAPTER I: INTRODUCTION 1-8](file:///D:\thesis\14711\Mukunda%20Subedi.docx#_TOC_250025)

* 1. [Background of the Study 1](file:///D:\thesis\14711\Mukunda%20Subedi.docx#_TOC_250024)
  2. [Problem Statement and Research Questions 4](file:///D:\thesis\14711\Mukunda%20Subedi.docx#_TOC_250023)
  3. [Objective of the Study 5](file:///D:\thesis\14711\Mukunda%20Subedi.docx#_TOC_250022)
  4. [Significance of the Study 6](file:///D:\thesis\14711\Mukunda%20Subedi.docx#_TOC_250021)
  5. [Limitation of the Study 7](file:///D:\thesis\14711\Mukunda%20Subedi.docx#_TOC_250020)
  6. [Chapter Plan](file:///D:\thesis\14711\Mukunda%20Subedi.docx#_TOC_250019)

CHAPTER II: LITERATURE REVIEW 9-27

* 1. [Background 9](file:///D:\thesis\14711\Mukunda%20Subedi.docx#_TOC_250018)
  2. [Theoretical Review 10](file:///D:\thesis\14711\Mukunda%20Subedi.docx#_TOC_250017)
     1. [Meaning of financial analysis 10](file:///D:\thesis\14711\Mukunda%20Subedi.docx#_TOC_250016)
     2. [Significance of financial analysis 12](file:///D:\thesis\14711\Mukunda%20Subedi.docx#_TOC_250015)
     3. [Financial performance analysis of bank 15](file:///D:\thesis\14711\Mukunda%20Subedi.docx#_TOC_250014)
     4. [Technique of financial analysis 16](file:///D:\thesis\14711\Mukunda%20Subedi.docx#_TOC_250013)
  3. [Review of previous study 21](file:///D:\thesis\14711\Mukunda%20Subedi.docx#_TOC_250012)
  4. [Research gap 27](file:///D:\thesis\14711\Mukunda%20Subedi.docx#_TOC_250011)

vi

[CHAPTER-III: RESEARCH METHODOLOGY 28-35](file:///D:\thesis\14711\Mukunda%20Subedi.docx#_TOC_250010)

* 1. [Research Design 28](file:///D:\thesis\14711\Mukunda%20Subedi.docx#_TOC_250009)
  2. [Sources of data 29](file:///D:\thesis\14711\Mukunda%20Subedi.docx#_TOC_250008)
  3. [Population and sample 29](file:///D:\thesis\14711\Mukunda%20Subedi.docx#_TOC_250007)
  4. Method of analysis 29
     1. Financial tools 30
     2. Statistical tools 33

CHAPTER-IV: RESULTS 36-65

* 1. [Financial tools 36](file:///D:\thesis\14711\Mukunda%20Subedi.docx#_TOC_250006)
     1. [Liquidity ratio 36](file:///D:\thesis\14711\Mukunda%20Subedi.docx#_TOC_250005)
     2. [Activity ratio 42](file:///D:\thesis\14711\Mukunda%20Subedi.docx#_TOC_250004)
     3. [Leverage ratio 48](file:///D:\thesis\14711\Mukunda%20Subedi.docx#_TOC_250003)
     4. [Profitability ratio 54](file:///D:\thesis\14711\Mukunda%20Subedi.docx#_TOC_250002)
  2. Major findings 64

CHAPTER-V: DISCUSSION, CONCLUSIONS AND IMPLICATIONS 66-71

* 1. [Summary 66](file:///D:\thesis\14711\Mukunda%20Subedi.docx#_TOC_250001)
  2. [Conclusions 67](file:///D:\thesis\14711\Mukunda%20Subedi.docx#_TOC_250000)
  3. Recommendation 69

**REFERENCES APPENDIX**

vii

LIST OF TABLE

### Page No.

|  |  |  |
| --- | --- | --- |
| Table 4.1 | Current ratio | 37 |
| Table 4.2 | Cash and bank balance to total deposit ratio | 39 |
| Table 4.3 | Balance with NRB to total deposit ratio | 41 |
| Table 4.4 | Loan and advance to total deposit ratio | 43 |
| Table 4.5 | Investment to total deposit ratio | 45 |
| Table 4.6 | Loan and advance to total assets ratio | 47 |
| Table 4.7 | Debt to equity ratio | 49 |
| Table 4.8 | Total debt to total assets ratio | 51 |
| Table 4.9 | Interest coverage ratio | 53 |
| Table 4.10 | Return on total assets ratio | 55 |
| Table 4.11 | Return on shareholder equity | 57 |
| Table 4.12 | Return on total deposit ratio | 59 |
| Table 4.13 | Total interest expenses to total interest income ratio | 61 |
| Table 4.14 | Earnings per share | 63 |

viii

LIST OF FIGURE

|  |  |  |
| --- | --- | --- |
|  |  | **Page No.** |
| Figure 4.1 | Current ratio | 38 |
| Figure 4.2 | Cash and bank balance to total deposit ratio | 40 |
| Figure 4.3 | Balance with NRB to total deposit ratio | 42 |
| Figure 4.4 | Loan and advance to total deposit ratio | 44 |
| Figure 4.5 | Investment to total deposit ratio | 46 |
| Figure 4.6 | Loan and advance to total assets ratio | 48 |
| Figure 4.7 | Debt to equity ratio | 50 |
| Figure 4.8 | Total debt to total assets ratio | 52 |
| Figure 4.9 | Interest coverage ratio | 54 |
| Figure 4.10 | Return on total assets ratio | 56 |
| Figure 4.11 | Return on shareholder equity | 58 |
| Figure 4.12 | Return on total deposit ratio | 60 |
| Figure 4.13 | Total interest expenses to total interest income ratio | 62 |
| Figure 4.14 | Earnings per share | 64 |

ix

|  |  |  |
| --- | --- | --- |
| A.D. | = | Anno Domino |
| ADBL | = | Agriculture Development Bank Limited |
| ANNOVA | = | Analysis of Variance |
| BS | = | Bikram Sambat |
| CAMEL | = | Capital, Assets, Management, Earnings and Liquidity |
| CR | = | Current Ratio |
| CRR | = | Cash Reserve Ratio |
| CV | = | Co-efficient of Variation |
| EPS | = | Earning Per Share |
| F/Y | = | Fiscal year |
| GOBs | = | Government owner banks |
| JVBs | = | Joint Venture Banks |
| LTD | = | Limited |
| MPS | = | Market Price of Share |
| NABIL | = | Nepal Arab Bank Limited |
| NBL | = | Nepal Bank Limited |
| NIBL | = | Nepal Investment Bank Limited |
| NIM | = | Net Profit Margin |
| No. | = | Number |
| NPAT | = | Net Profit after Tax |
| NRB | = | Nepal Rastra Bank |
| NSBIBL | = | Nepal SBI Bank Limited |
| P/E | = | Profit Earning |
| PSBs | = | Private Sector Banks |
| Pvt. | = | Private |
| RBB | = | Rastriya Banijya Bank |
| ROA | = | Return on Assets |
| ROE | = | Return on Equity |
| SD | = | Standard Deviation |
| UAE | = | United Arab Emirates |

x