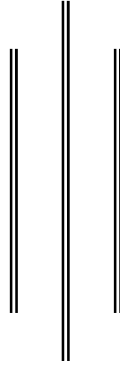


**A COMPARATIVE ANALYSIS OF FINANCIAL
PERFORMANCE OF COMMERCIAL BANKS OF NEPAL**

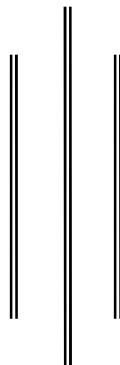


By:

SANJAN KUMAR SINGH
Post Graduate Campus, Biratnagar
T.U. Regd No: 7-1-12-708-98

A Thesis Submitted to:

**Office of the Dean
Faculty of Management
Tribhuvan University**



In partial fulfillment of the requirement for the degree of
Masters of Business Studies (M.B.S.)

**Biratnagar, Nepal
Falgun, 2065**



Tel . No – 021-526327
021-522204

TRIBHUVAN UNIVERSITY
Post Graduate Campus
Biratnagar, Nepal

Ref No.....

RECOMMENDATION

This is to certify that the thesis:

submitted by

SANJAN KUMAR SINGH

Entitled

**A Comparative Analysis of Financial Performance of
Commercial Banks Of Nepal**

*has been prepared as approved by this Department in the prescribed format of
Faculty of Management. This thesis is forwarded for examination.*

Supervisor

(Dr. Madhav Bahadur Shrestha)

Head of Department

(Dr. Madhav Bahadur Shrestha)

Campus Cheif

(Harihar Bhandari)

Date:-



Tel . No – 021-526327
021-522204

TRIBHUVAN UNIVERSITY
Post Graduate Campus
Biratnagar, Nepal

Ref No.....

VIVA – VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by

Sanjan Kumar Singh

entitled

**A Comparative Analysis of Financial Performance of
Commercial Banks Of Nepal**

*and found the thesis to be original work of the student and written according
to the prescribed format. We recommend the thesis to be accepted as partial
fulfillment of the requirement for
Master's Degree in Business Studies (M.B.S.)*

Viva-voce Committee

Chairperson, Research Committee

:-

Member (Thesis Supervisor)

(Dr. Madhav Bahadur Shrestha)

:-

Member (External Expert)

:-

Date:-

ACKNOWLEDGEMENT

This research “**A Comparative Analysis of Financial Performance of Commercial Banks Of Nepal**”, which is a partial fulfillment of requirement for the degree of Master of Business Studies, under the faculty of T.U., is based on research models involving the use of quantitative and qualitative models to find out the financial strength and weakness of Nabil Bank Ltd., Nepal Investment Bank Ltd. & Himalayan Bank Ltd.

Precisely from the beginning of the very idea to work on the subject to its completion stage, I have incurred both intellectual and moral debts to many. I would like to express my deep gratitude to all those being helpful to me in completing this research work.

First of all, my sincere gratitude goes to my respected teacher and thesis advisor **Dr. Madhav Bahadur Shrestha, Reader and chairperson of Research Department of Management (Post-Graduate Campus, Biratnagar)**, under whose guidance and suggestion I got the opportunity to complete this research. I am indeed indebted to him and shall remain thankful forever in my whole life.

I would like to express my gratefulness to **Mr. Harihar Bhandari, Campus Chief of Post-Graduate Campus, Biratnagar** and my respected teachers of this campus.

I am extremely thankful to all the staff and members of this campus, who directly or indirectly assisted me for the completion of this research work. Likewise, personnel of Nabil Bank Ltd., Nepal Investment Bank Ltd. & Himalayan Bank Ltd. deserve my special thanks for their co-operation in furnishing necessary data and information.

Last but not the least, I would like to express my paramount indebtedness to my parents for their continuous encouragement & moral support. I also can't remain without thanking my friend Sagar Mishra for her assistance and support in typing and designing the thesis.

I have tried my best for any errors not to occur in this research work. However, if any kind of errors exist I apologize for that. It is said that error is done by human and to forgive that is divine.

Falgun, 2065
P.G. Campus, Biratnagar

.....
Sanjan Kumar Singh
Researcher

Table of Contents

Recommendation
Viva-Vocesheet
Acknowledgement
List of Tables
List of Graphs
Abbreviations

	Page No.
Chapter – 1 : Introduction	1-8
A. General Background	1
B. Focus of the Study	3
C. Statement of the Problem	4
D. Objectives of the Study	6
E. Significance of the Study	7
F. Limitation of the Study	7
G. Organization of the Study	8
Chapter – 2 : Review of Literature	9-26
1. Concept of Banks	9
2. Meaning of Commercial Bank	10
3. History of Commercial Bank	11
4. Function of Commercial Bank	12
5. Problems of Banking in Nepal	14
6. Nepalese Legislation and Regulations Relating to Commercial	14
7. Conceptual Review	16
i. Financial Performance	16
8. Concept of Financial Statement	16
9. Financial Statement Analysis	18
10. Significance of Financial Statement Analysis	19
A. Review of Related Studies	19
1. Review of Related Publications and Studies	20
2. Review of Previous Related Research Studies	21
B. Review of Research Tools	22
1. Ratio & Percentage	23
2. Average	24
3. Standard Deviation	25
4. Coefficient of Variation	25
5. Correlation Analysis	25
6. Trend Analysis	26
Chapter – 3 : Research Methodology	28-29
A. Research Design	28
B. Population & Sample	28
C. Nature & Source of Data	29
D. Period Covered	29
E. Data Processing Procedure	29
F. Method of Analysis	29

Chapter – 4 : Presentation & Analysis of Data	33-79
A. Liquidity Analysis	33
B. Deposit Utilization	34
1. Cash & Bank Balance to Total Deposit	34
2. Cash & Bank Balance to Total Deposit (Excluding Fixed Deposit)	35
3. Cash & Bank Balance to Current Deposit	36
C. Activity Analysis	37
1. Fund Structure	38
2. Deposit Structure	39
3. Investment Structure	40
4. Total Investment to Total Deposit	42
5. Loan & Advances to Total Deposit	43
6. Loan & Advances to Total Deposit (Excluding Current Deposit)	44
D. Profitability Analysis	45
1. Return on Net worth	46
2. Return on Total Deposit	47
3. Return on Total Investment	47
4. Earning per Share (EPS)	48
E. Analysis of Other Financial Indicators	49
1. Operating Expenses to Net Interest	49
2. Interest Paid to Interest Earned	50
3. Total Interest Earned to Total Investment	51
4. Price Earning Ratio (P/E ratio)	51
5. Market Price to Book Value	52
F. Income & Expenditure Analysis	53
1. Income Analysis	53
2. Expenditure Analysis	55
G. Correlation Analysis	57
1. Correlation between Total Deposit & Total Investment	57
2. Correlation between Interest Earned & Interest Paid	61
3. Correlation between Interest Earned & Operating Profit	64
H. Trend Analysis	68
1. Trend of Deposit	68
i. Trend of Total Deposit	69
ii. Trend of Fixed Deposit	70
iii. Trend of Saving Deposit	71
2. Trend of Net worth	72
3. Trend of Investment	73
i. Trend of Total Investment	73
ii. Trend of Loan & Advances	74
iii. Trend of Bills Purchase & Discount	75
4. Trend of Operating Income	76
5. Trend of Total Expenses	77
6. Trend of Net Profit	78
7. Trend of Interest Earning	79
Chapter – 5 : Summary, Conclusion and Recommendation	81-91
A. Summary	81
B. Conclusion of the Study	86
C. Recommendations	91

Bibliography

Appendix

List of Tables

Table No.		Page No.
4.1	Liquidity Position of NABIL, NIBL & HBL	34
4.2	Cash & Bank Balance to Total Deposit	35
4.3	Cash & Bank Balance to Total Deposit (Excluding Fixed Deposit)	36
4.4	Cash & Bank Balance to Current Deposit	37
4.5	Fund Structure of NABIL, NIBL & HBL	38
4.6	Deposit Structure of NABIL	39
4.7	Deposit Structure of NIBL	39
4.8	Deposit Structure of HBL	40
4.9	Investment Structure of NABIL	41
4.10	Investment Structure of NIBL	41
4.11	Investment Structure of HBL	41
4.12	Total Investment to Total Deposit	43
4.13	Loan & Advances to Total Deposit	44
4.14	Loan & Advances to Total Deposit (Excluding Current Deposit)	45
4.15	Return on Net worth	46
4.16	Return on Total Deposit	47
4.17	Return on Total Investment	48
4.18	Earning Per Share (EPS)	48
4.19	Operating Expenses to Net Interest	49
4.20	Interest Paid to Interest Earned	50
4.21	Total Interest Earned to Total Investment	51
4.22	Price Earning Ratio (P/E Ratio)	52
4.23	Market Price to Book Value	53
4.24	Income Analysis of NABIL	53
4.25	Income Analysis of NIBL	54
4.26	Income Analysis of HBL	54
4.27	Expenditure Analysis of NABIL	55
4.28	Expenditure Analysis of NIBL	55
4.29	Expenditure Analysis of HBL	56
4.30	Calculation of Correlation between Total Deposit & Total Investment in Case of NABIL	58
4.31	Calculation of Correlation between Total Deposit & Total Investment in Case of NIBL	59
4.32	Calculation of Correlation between Total Deposit & Total Investment in Case of HBL	60
4.33	Calculation of Correlation between Interest Earned & Interest Paid in Case of NABIL	61
4.34	Calculation of Correlation between Interest Earned & Interest Paid in Case of NIBL	62
4.35	Calculation of Correlation between Interest Earned & Interest Paid in Case of HBL	63
4.36	Calculation of Correlation between Interest Earned & Operating Profit in Case of NABIL	65
4.37	Calculation of Correlation between Interest Earned & Operating Profit in Case of NIBL	66

4.38	Calculation of Correlation between Interest Earned & Operating Profit in Case of HBL	67
4.39	Trend of Total Deposit	69
4.40	Trend of Fixed Deposit	70
4.41	Trend of Saving Deposit	71
4.42	Trend of Net worth	72
4.43	Trend of Total Investment	73
4.44	Trend of Loan & Advances	74
4.45	Trend of Bills Purchase & Discount	75
4.46	Trend of Operating Income	76
4.47	Trend of Total Expenses	77
4.48	Trend of Net Profit	78
4.49	Trend of Interest Earning	79

List of Graphs

Graph No.		Page No.
1	Trend of Total Deposit of NABIL, NIBL & HBL	69
2	Trend of Fixed Deposit of NABIL, NIBL & HBL	70
3	Trend of Saving Deposit of NABIL, NIBL & HBL	71
4	Trend of Net worth of NABIL, NIBL & HBL	72
5	Trend of Total Investment of NABIL, NIBL & HBL	73
6	Trend of Loan & Advances of NABIL, NIBL & HBL	74
7	Trend of Bills Purchase & Discount of NABIL, NIBL & HBL	75
8	Trend of Operating Income of NABIL, NIBL & HBL	76
9	Trend of Total Expenses of NABIL, NIBL & HBL	77
10	Trend of Net Profit of NABIL, NIBL & HBL	78
11	Trend of Interest Earning of NABIL, NIBL & HBL	80

DECLARATION

I hereby declare this thesis entitled "**A Comparative Analysis Of Financial Performance Of Commercial Banks Of Nepal**" submitted to Post Graduate Campus, Biratnagar Nepal, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the Masters Degree in Business Studies (M.B.S.) under the supervision of **Dr. Madhav Bahadur Shrestha**.

Date:.....

.....

Sanjan Kumar Singh
Researcher

ABBREVIATIONS

AD	=	Anno Domini
ADB	=	Agricultural Development Bank
B.S.	=	Bikram Sambat
BVPS	=	Book Value Per Share
CV	=	Coefficient of Variance
ed.	=	Edition
EPS	=	Earning Per Share
Etc	=	et cetra
F/Y	=	Fiscal Year
HBL	=	Himalayan Bank Limited
i.e.	=	That is
JVB	=	Joint Venture Bank
Ltd.	=	Limited
MBS	=	Master of Business Studies
Mill.	=	Million
MVPS	=	Market Value Per Share
NABIL	=	Nabil Bank Limited
NBBL	=	Nepal Bangladesh Bank Limited
NBL	=	Nepal Bank Limited
NEPSE	=	Nepal Stock Exchange
NGBL	=	Nepal Grindlays Bank Limited
NIBL	=	Nepal Investment Bank Limited
NPAT	=	Net Profit After Tax
NRB	=	Nepal Rastra Bank
NSBL	=	Nepal SBI Bank Limited
P.	=	Page
P/E Ratio	=	Price Earning Ratio
RBB	=	Rastriya Banijya Bank
Rs.	=	Rupees
S.No.	=	Serial Number
SD,	=	Standard Deviation
TU	=	Tribhuvan University
Viz.	=	Namely
WWW	=	World Wide Web
	=	Summation
%	=	Percentage
<	=	Less than
>	=	Greater than

BIBLIOGRAPHY

Books

- Agrawal, N.P. (1981). *Analysis of Financial Statements*. New Delhi: National Publishing House.
- Bhandari, Dilli Raj (2003). *Banking & Insurance*. Kathmandu: Aayush Publications.
- Bhattacharya, S.K., & Derdon, Johan (1980). *Accounting for Management-Text and Cases*. New Delhi: Vikash Publishing House Pvt. Ltd.
- Dahal, Bhuwan, & Sarita (2002). *A Hand Book of Banking*. Kathmandu: Asmita Books and Stationers.
- Eugene, Stabley (1954). *The Future of Under Developed Countries*. New York: Harper & Brothers.
- Helfert, E.A. (1992). *Techniques of Financial Analysis*. Bombay: Jaico Publishing House.
- J.A., Mackinnon, & L.J.E., Trope (1948). *Accounts Analysis*. Gee and Company Ltd.
- John, N. Myer (1974). *Financial Statement Analysis* (4th ed.). New Delhi: Prentice Hall of India Pvt. Ltd.
- Joshi, P.R. (2001). *Research Methodology*. Kathmandu: Buddha Academic Enterprises Pvt. Ltd.
- Juneja, Mohan C., Chawla R.C., & Saxena, K.K. (1994). *Double Entry Book Keeping*. New Delhi: Kalyani Publishers.
- Kerlinger, F.N. (1983). *Foundation of Behavioral Research*. New Delhi: Surjeet Publications.
- Khan, M.Y., & Jain, P.K. (1990). *Financial Management*. New Delhi: Tata McGraw-Hill Publishing Co. Ltd.
- Kharel, Shree Krishna, & Sharma, Neelam Kumar (2003). *Banking, Bitta, Aarthik Niti Byawasthapan, Aain Tatha Niyam*. Kathmandu: Pairabi Prakashan.
- Kothari, C.R. (1989). *Research Methodology Method and Techniques*. New Delhi: Wiley Eastern Pvt. Ltd.
- Lawrence, J. Gitman (1988). *Principle of Managerial Finance* (5th ed.). New York: Harper Collins Publishers.
- Madlin, C., & Snock (1998). *Evaluation of Banking Supervision in Nepal Rastra Bank*. IMF.
- Man, Mohan, & S.N., Goyal (1977). *Principle of Management Accounting*. Agra: Sahitya Bhawan.
- Munakarmi, Shiva Prasad (2002). *Management Accounting*. Kathmandu: Buddha Academic Enterprises Pvt. Ltd.
- Pandey, I.M. (1993). *Financial Management* (6th revised ed.). New Delhi: Vikash Publishing House Pvt. Ltd.
- Paul, R.R. (1996). *Money Banking & International Trade*. New Delhi: Kalyani Publishers.
- Rana, Surya (2000). *Financial Management*. Kathmandu: Ratna Pustak Bhandar.
- Scall, L.D., & C.W., Hally. *Introduction to Financial Management* (6th ed.). New York: McGraw-Hill, International Education.

- Seth, M.L. (1992). *Refresher Course in Economics*. Agra: Educational Publishers.
- Shrestha, K.N. (1991). *Mathematics and Statistics for Management*. Kathmandu: Valley Publishers.
- Shrestha, Sunity (1995). *Portfolio Behaviour of Commercial Banks in Nepal*. Kathmandu.
- Vanhorne, James C. (1999). *Financial Management & Policy*. New Delhi: Prentice Hall of India Pvt. Ltd.
- Vanhorne, James C., & Washowicz, J.M. (2000). *Fundamentals of Financial Management* (10th ed.). New Delhi: Prentice Hall of India Pvt. Ltd.
- Weston, J.F., & Eugene, B.F. (1981). *Managerial Finance* (7th ed.). The Dryden Press, Hinsdale Illinois.
- Weston, J.F., Besley, S., & Eugene, B.F. (1996). *Essential of Managerial Finance*. The Dryden Press, Harcourt Brace College Publisher.
- Wolff, Howard K., & Pant, P.R. (1999). *A Hand Book for Social Science Research and Thesis Writing*. Kathmandu: Buddha Academic Enterprises Pvt. Ltd.

Journals and Articles

- How much bankable is your bank (2000, November). *BM Magazine*.
- Kheshtry, Deependra B. (2057, Baisakh). Nepalese Banking Industry Status & Prospectus *Free Market*.
- Nepal Bank : Not as bad as KMPG projected (2000, July). *BM Magazine*.
- Shrestha, Dr. Sunity (2056, Baisakh). Demand & Supply of Credit in Nepalese Commercial Banks. *Nepal Bank Patrika*.
- Thapa, Govinda Bahadur (2000, September 15). Nepal Banking System: Can the mess be managed ? *The Kathmandu Post*.

Published Documents

- American Institute of Banking (1972). *Principle of Banking Operations*. USA.
- Annual reports to the shareholders of Himalayan Bank Limited (2000/01 to 2004/05).
- Annual reports to the shareholders of Nabil Bank Limited. (2000/01 to 2004/05).
- Annual reports to the shareholders of Nepal Investment Bank Limited (2000/01 to 2004/05).
- Ministry of Law, Government of Nepal. *Commercial Bank Act 2031 B.S.* Nepal.
- Nepal Rastra Bank (2005). *Macro Economic Indicator of Nepal*. Kathmandu.
- Nepal Rastra Bank (2006). *Legal, Regulatory and Supervisory Provisions for Foreign Bank Branches in Nepal*. Kathmandu.
- Pant, Y.P. (1971). *Banking and Economic Development*. Kathmandu: Nepal Rastra Bank.
- Shrestha, Prof. Dr. M.K. (1990). *Commercial Bank Comparative Performance Evaluation*. Karmacharai Sanchya Kosh Publication Year 16.

Dissertations

- Acharya, Ganendra (1997). *A Comparative Study of Financial Performance of Joint Venture Banks in Nepal, Especially on Nepal Arab Bank Limited and Nepal Indosuez Bank Limited*. Unpublished Master's Thesis, Central Department of Management, TU.

- Dahal, Mohan Kumar (2002). *A Comparative Study of Financial Performance of Himalayan Bank Limited and Nepal Bangladesh Bank Limited*. Unpublished Master's Thesis, Central Department of Management, TU.
- Gurung, Vikram Chandra (1995). *A Financial Study of Joint Venture Banks in Nepal: A Comparative Study of Nepal Grindlays Bank Limited and Nepal Indosuez Bank Limited*. Unpublished Master's Thesis, Central Department of Management, TU.
- Joshi, Rajiv Raj (2001). *A Comparative Study of Financial Performance of Nepal Arab Bank Limited and Nepal Grindlays Bank Limited*. Unpublished Master's Thesis, Central Department of Management, TU.
- Mahato, Bindeshwor (1997). *A Comparative Study of Financial Performance of Nepal Arab Bank Limited and Nepal Indosuez Bank Limited*. Unpublished Master's Thesis, Central Department of Management, TU.
- Shrestha, Sanjeev (2000). *Profitability of Joint Venture Banks with Reference to Nabil Bank Limited, Himalayan Bank Limited & Nepal Bangladesh Bank Limited*. Unpublished Master's Thesis, Central Department of Management, TU.

Websites

- www.himalayanbank.com (website of Himalayan Bank Ltd.)
- www.nabilbank.com (website of Nabil Bank Ltd.)
- www.nepalstock.com (website of Nepal Stock Exchange Ltd.)
- www.nibl.com.np (website of Nepal Investment Bank Ltd.)
- www.nrb.org.np (website of Nepal Rastra Bank)