CHAPTER-1

INTRODUCTION

1.1 Introduction

Bank means an institution that deals with money. A bank performs several financial, monetary and economic activities, which are initials for the economic development of a country. It is a monetary institutional vehicle for domestic resources mobilization of the country, which accepts deposits from various sources and invests such accumulated resources in the fields of agriculture, trade, commerce etc.

According to Crowther, The bank collects money from those who have it to spare or who are saving it out of their incomes, and it lends this money to those who require it."

According to Kent "A bank is an organization whose principle operations are concerned with the accumulation of temporarily idle money of the general public for the purpose of advancing to the other for expenditure."

Generally, the term “bank” refers commercial banks. Commercials banks are the foundation of the national economy. It is the transformation of monetary sources from savers to users. They involve in various functions like creation of money, facilitating credit, and facilitating foreign trade, safe keeping of the values etc. Commercial bank has its own role and contribution in the economic development. It is a source for economic development and it maintains economic confidence of various segments and extends credit to people. Thus, the activities of commercial banking sector have contributed to eliminate poverty, reduce unemployment and economic growth.

Modern commercials banks can be identified by different names such as business banks, retail banks, clearing banks, Joint venture banks, Merchant banks etc. No matter what name we give to bank, they all perform the same basic function. They provide a link between lenders, those who have surplus money and do not wish to spend immediately with borrowers, they who do not have surplus money but wish to borrow for investment in productive purpose. By charging a rate of interest to borrowers slightly higher than they pay to lenders, the banks make their profit. This is known as financial intermediation. Commercial banks provide the following major products and services:

- Acceptance of deposits
- Granting of Advances
- Remittance collection and distribution
- Cash management
- Insurance of letters of credit and Guarantee
- Merchant banking business
- Credit cards
- Technology based services-Internet Banking services
- Loan distribution
- Safe keeping services /Lockers
- Handling government Business.
- Automated Teller Machines (ATMs)

1.2 Background of the study

Nepalese economy is distinctly different in its character from the regional economies, poverty, less developed geographical situation, technological backwardness, land locked and dominated by large economies, etc. are the main features of Nepalese economy. Most of the population of the country is in the rural areas, where there is no access of banking facilities. Due to lack of awareness and guidance to the poor, the poor are still in severe condition at many places. From the beginning of the 1970s same programs were introduced focused to rural and the poverty – stricken areas people. But these programs did not achieve significant result in the area of the poverty reduction. The population below the poverty line is still 38 percent by the end of the Tenth – Five-year Plan.

Nepalese Economy experienced the internal and external shocks. Budget and current account deficits, BOP crisis were the examples. Budget deficit created the requirement of the internal and external loan. Heavy currency devaluation due to fixed exchange rate system for a long period, the objective of devaluation was to increase export. Import was controlled and the domestic industrial sector was protected through high custom duties. Regulation in import of capital goods too, limited the industrialization in the country. Generally low growth rate, high inflation, and deficits in BOP; budget and current account etc became the general phenomenon.

To overcome the critical situation, the program of Economic Stabilization, in initiation of IMF, was introduced in 1985 A.D. The program included: reduction of unproductive expenditure, self sustaining the public enterprises, prioritization of the development projects, cancellation of the low priority projects, limiting the budget deficit within the certain percentage of the GDP, limiting the public loan from the banking sector, interest rate deregulation, decreasing import barriers through the reduction in custom duties and auctioning import licensing etc. The outcome of the program was less satisfactory. Open general licensing increased revenue and import capital goods. At the same time, the government introduced a new Economic Policy to stimulate private sector in the agriculture, education, health and financial sector, through the overall impact of economic stabilization was not satisfactory.

Table 1.1

Process of Liberalization

S.N.	Reform Programs	Year
1.	First Joint –venture Bank Nepal (Nepal Arab Bank Ltd.), Removal of Entry/ exit barriers of Com. Banks	1984
2.	Economic Stabilization Program, Membership of SAARC	1985
3.	Finance Company Act, Joint-Venture Banks (Indosuez & Grindlays)	1985
4.	Commercial Banks allowed to accept Current and Fixed account in $ and pound sterling	1985
5.	Introduction of SAP, Removal of SLR, (NRB debenture, 1987)	1986
6.	Auctioning T-bills, Establishment of CIB	1988
7.	Deregulation of interest rate	1989
8.	The Govt. acceptance of economic liberalization policy thereafter, ending of SAP	1990
9.	Privatization Act, Market determination of the foreign exchange rate	1991
10.	New Industrial Policy, Foreign Investment and Technology Transfer Act	1992
11.	Amendment of Finance Company Act-1985 and Establishment of Finance Company	1992
12.	Licensing the Financial Cooperatives, Current account Convertibility	1993
13.	Establishment of NEPSE, and SEBON (1992), Licensing the NGOs	1994
14.	Introduction of Value added tax	1997
15.	Adoption of the financial sector strategy by the government	2000
16.	Declaration of phasing out of the priority sector lending	2002
17.	Management contract of NBL, Enactment of NRB Act-2058, Debt Recovery Act	2002
18.	Management contract of RBB, Revision of foreign equity participation in banks	2003
19.	Commencement of Re-engineering of NRB, Introduction of PRGF	2003
20.	Sale of Government bond in Secondary Market by NRB, Membership of WTO	2003
21.	Membership of BIMSTEC, Involvement of PRGF	2003
22.	Enactment of Banking and Financial Institution Ordinance	2004

(Source: - Mirmire-2011, NRB)

Nepalese economy, a satellite of Indian economy for more than for decades of planned development, is yet isolated from global economic revolutions that created many bubble economics in the SAARC and the ASEAN. However, Nepal's effort towards economic development in recent years has been subdued by increasingly acute and rampant corruption that has marginalized the prospectus for good governance. Although good governance requires accountable, legitimate and transparent government, corruption has been the biggest vice that has widened the gap between government and the citizens in absence of active civil society. Nepal, as a sub-system of international system, is directly affected by the global waves of democratization.

The numbers of financial institutions such as commercial banks, development banks, finance companies, licensed co-operatives, insurance companies, licensed non-government organizations, postal saving centers, have increased resulting in creating healthy competition and better services.

This target may be impossible without making linkages between overall development strategy and resources availability in various sectors of economy as well as resources for micro-finance institutions.

In this concern Government and the central bank is policy provider. Until recent times they have also implemented various activities focused on these areas; but very less attainment. Nepal Rastra Bank has introduced direct lending by issuing priority sector loan guidelines to commercial banks. Some awareness encouraged in participating in micro- finance activities. Some fund from the commercial banking sector has been following for the implementation of such program in the area of poverty reduction.

1.3 Banking Industry: A Historical Perspective

The institutional development of financial sector has just emerged 75 years before. In BS 1993, **The Tejarath Adda** was established in Kathmandu valley. This established helped the general public by providing credit facilities by providing credit facilities at very low rate. **The Tejarath Adda** provided credit facilities to the public especially on the collateral of gold and silver. It was the first institutional financial intermediaries at the time. Although it played a vital role in the banking system, it provided credit facility to only the government officials. The establishment of Nepal Bank Ltd. in 1994 was the first bank of financial sector in Nepal. Besides the need of banking institution was realized by the Government. Then Nepal Rastra Bank was established under NRB Act, 2012 as a central bank. NRB being a central bank play vital role to continue the Nepalese currency in the market, stability in exchange of Nepalese currency and the development of banking sector in Nepal. Similarly, Nepal Industrial Development Corporation and Rastriya Banijya Bank were established in 2014 and 2022. In this way the banking practices began with the establishment of the first banking institute NBL that was established as a joint venture of Government and private individuals. Today thirty-two commercial banks (recently ADB/N promoted to class-A) are operating in service sector. Some of them are foreign joint ventures. Such banking system is advancing ahead in liberalized and competitive environment.

1.4 Statement of the Problem

The worldwide experience is a clear testimony to the fact that financial system with growth and sophistication in financial markets comprise the main pillars for the accelerated economic growth and development of economy. Stable and secure financial system is vital to the sustained high level of economic growth. Efficient financial systems contribute to greater accumulation of productive capital through increased mobilization of financial resources and sustained high investment levels. Conditions like larger financial resources, efficiency in financial intermediation, competitive interest rate, flexible and market-based exchange rate, autonomy and professionalization in the decision making as well as the operational systems, and the implementation of a prudent monetary policy with core objectives of exchange rate, interest rate and price stability become essential for promoting investment, productivity, economic growth and overall socio-economic development. Also healthy and dynamic financial systems contribute the large-scale growth of efficient investment and sustained high economic growth scenario.

Since 2040s, Nepal has opened up and gradually liberalized the financial services. The institutional network and volume of operations of the financial system has been expanded and diversified with a number of commercials banks, which were five in 1990, and are 32 at the present. Similarly, a number of financial institutions came into operation rapidly. The establishment process, in fact took an aggressive move. Banking sectors outstanding to GDP ratio rose from 18.4 percent in 1980 to 28.7 percent in 1990 and 57.2 percent in 2011. Various micro economic policies were modified and adjusted during the liberalization period to facilitate the liberalization process.

Nepal has become 147th member of World Trade Organization (WTO). In general there is much curiosity in people about the opportunities and threats after the accession of membership of WTO. Many questions may arise at once. It is crystal clear that Nepal has to face various challenges in different aspects in coming days. The prominent one is financial sector because it is the vast and dynamic.

The commitments in Financial Services Sector Set-Forth in WTO.

1) Opening market to around 75 sectors and to 150 countries of the world.
2) Financial services in the form of operations can be carried out inside the country through a locally incorporated company.
3) Commercial presence allowed for all the companies rated at least B in international standard.
4) Allowed foreign equity participation (investment) in financial sector up to 67 percent of the issue share capital.
5) Branches of foreign companies will be allowed insurance services and wholesale banking after January 1, 2010.
6) Opening financial advisory/ consultancy services.
7) Composition of board of directors of financial institution in proportion to their equity participation.
8) Employment of foreign employees to the extent of 15% of the local employees.
9) Assurance of full competition in financial sector.

10) Entry in the financial sector is to be regulated.
11) Status Quo has to be maintained no further restriction can be imposed.

In spite of full-fledge liberalization process conducted in Nepal, financial system faces a number of problems and challenges, Negative net worth and huge accumulated losses, higher proportions of NPA, high interest rate differential, and large interest rate spread are the major ones. To overcome the weakness, several reform programs were surged up such as Structural Adjustment Program (SAP) and Enhanced Structural Program (ESAP) with assistance of World Bank, ADB and IMF. Another worth – mentioning reform was started with the report of commercial banks problems analysis and strategy study (CBPASS). The report had identified many problems such as poor management, weak internal governance and fragile financial position, non compliance of prudential regulations, poor accounting and auditing practices, excessive government interference and uneven legal frameworks. Similarly the internationalization of the financial sector to follow FDI and Technology transfer was started after the restoration of democracy in 1990. The policy reforms have significant impacts on the development of the financial system. Presently liberalization of financial sector is clear and it can be examined\assessed with the number of banks, financial institutions operating successfully their business in Nepal. Growing FDI, easy access to modern technology and increase in quality and variety of products/services are the positive impacts too.

Nepalese financial sector presently enjoys the full liberalization. The membership in WTO opens many alternative gates such as a perfect venue for dispute settlement, easy access to the markets of 150 countries of the world, product-wise and country-wise diversification and greater opportunity in the similar markets of the countries with similar geographical and economic situation. In a big challenge for the country like Nepal to explore the potential markets for its products/services and to hold that market in long run. In fact, Nepal is continuously facing some structural and supply side problems including weak technological adaptability, lack of skills and poor infrastructure. The services sector and especially financial service is not exception and thus it will be facing various challenges.

1) Future direction and speed of financial sector reform.
2) Financial policy and political stability.
3) Formulation and implementation of legal frameworks.
4) Restructuring and re-engineering of NRB.
5) Contributions of commercial bank to Nepal.

For this strong monitoring mechanism should be designed in financial service sector so as to meet the growing challenges. It will be our strength to explore the space in competitive market and to sell our services. Otherwise the challenges will remain out of competence letting us to close the contest.

Liberalization in services sector is inevitable. We cannot escape from the ground reality of globalization, widespread acceptance of WTO and necessity of membership in this international trade institution. It should not be opposed to hide our inefficiencies or governance problems. Rather it is right time to find out the impacts, continue and finish the reform process making the service sector really competitive. Otherwise, we will lose the opportunities. Transparency and disclosure practices are must for the sustainable liberalization process and for the growth and development of financial services sector especially commercial banks. In short, SWOT analysis is necessary in this sector. In this situation Nepalese commercial banking is advancing a head in this competitive environment. It has been freed from control mechanism. CBs are free to quote their own cost of fund (interest rate) and return on assets. Competitive environment has to some extent been conducive for quality service and sustainability. However to release the earmarked resources, NRB has taken off the imposition of the statutory liquidity requirement and even have been lowering down the bank rate and CRR. Banking sector is almost free to do their business at their own stake. Only few mandatory obligations are to be met as financing their resources to priority sector. Banking and Financial Institution Ordinance 2004 has been enacted as an umbrella act to create fair competition and control mechanism to promote financial institution as their own service-coverage activities. Nepalese banking and financial system has expanded rapidly. At the present moment we have thirty two commercial banks. In spite of rapid growth, some indicators show performance is not much encouraging towards the service coverage. In such a situation the study tried to analyze the present performance of banks, which would give the answers of following queries.

1) What are the comparative liquidity, profitability, activity, stability, solvency and capital adequacy position among top five commercial banks?
2) Are the positions of NPA of top five commercial banks in line with the standard?
3) Are the trends of different ratios of these banks satisfactory?

1.5 Objectives of the Study

The main objective of the study was to analyze the comparative financial status of top five commercial banks in Nepal. The objective has been further specified in the following sub-objectives.

1) To analyze and compare the liquidity, profitability, stability and market value positions among top five commercial banks.
2) To examine and compare solvency (capital structure) ratios such as core capital, supplementary capital and total capital fund.
3) To analyze and compare the position of (Non-Performing Assets) NPA.
4) To explain how the performance of commercial banks benefits Nepal.

1.6 Research Hypothesis

To make research specific, precise and objective, hypothesis are tested. Only two ratios: Cash Reserve Ratio and Net Profit Margin were taken for hypothesis testing.

Hypothesis 1

Null Hypothesis:

$H_{0:}$ There is no significant difference in CRR among five different banks.

H_0: There is no significant difference in CRR among five different banks in different years.

Alternative Hypothesis:

H_1: There is significant difference in CRR among five different banks.

$H_{1:}$ There is significant difference in CRR among five different banks in different years.

Hypothesis 2

Null Hypothesis:

$H_{0:}$ There is no significant difference in Net Profit Margin among five different banks.

H_0: There is no significant difference in Net Profit Margin among five different banks in different years.

Alternative Hypothesis:

H_1: There is significant difference in Net Profit Margin among five different banks.

$H_{1:}$ There is significant difference in Net Profit Margin among five different banks in different years.

1.7 Significance of the Study

Commercial banks are not one of the major core components of modern economy. They give greater contribution to GDP too. The production of finance and real – estate sub sector is increasingly comparatively. However various financial sector liberalization program such as SAP and ESAP has been initiated with the loan and assistance of World Bank, IMF and ADB, the banking sector continued to be in though in this situation too. The slowdown in the economic segments has a definite impact on the banking sector too. Globalization and accession to WTO, South Asia Free Trade Area (SAFTA) and BIMSTEC membership has invited more challenges as well as opportunities. In addition, Branches of foreign companies will be allowed insurance services and wholesale banking after January 1 2010.

At this situation, the commercial banks should be more competitive. They should become financially strength/ healthy and must have growth potentially. And they have to shape their plans and strategies accordingly. In such a situation, this study tried to analyze and indicate the overall financial health whether they are capable to compete the challenges and grab to opportunities or not.

So, the study basically covered the commercial banks falling in the same strategic group to be more meaningful. No single measure can tell much. Thus, a case study was conducted on based on top five private – sector commercial banks ranking by NEPSE according to their market capitalization ratio. Thus the study may be more fruitful and rationale to their stakeholders at present situation, where the commercial bank becomes advancing through IT – integration.

1.8 Limitations of the Study

The study was not free from shortcomings. The major ones are:-

1) The study considered only five years secondary data.
2) The study took into account only top five private- sector commercial banks.
3) The analysis was based on secondary data mainly the major (Key) ratios published by the commercial banks. Hence the reliability of results depends on the reliability of secondary data.
4) Time and resources put constraints for the study.

1.9 Organization of the Study

The first chapter includes general background of the study, historical perspective of banking industry, overview of sample banks, statements of the problem, objectives of the study, significance of the study and limitation of the study. The second chapter, Review of Literature contains the review of related books, journals, and past research works. Similarly the third chapter expresses the way and the technique of the studying applied in the research process. It includes research design, population and sample, data collection procedure and processing, tools and methods of analysis. The fourth chapter is the important chapter in which collected and processed data are presented, analyzed and interpreted with using financial tools as well as statistical tools. Finally, the fifth and the last chapter provide the summary of the study, conclusion and recommendations which are forwarded to the related banking industry to know their financial performance, strength and weakness.

CHAPTER-2

REVIEW OF LITERATURE

Review of literature is an essential part of any research work. In this part, the researcher reviewed various books, articles and previous researchers, publications of related subjects. This chapter consists of three sections: conceptual review, review of previous research work and research gap.

2.1 Conceptual Framework

Before presenting further performance highlights of the banks, it would be pertinent to have an overview on the general concept and banking scenario of the country and analytical techniques used to present and analysis of data for conceptual review point of view.

2.1.1 Banking: An Introduction

The Lexis "Banking" is a derivative of terminology "Bank". Bank itself is an organizational engaged in any or all the various functions of banking viz. receiving, collecting, transferring, paying, lending, investing, dealing exchanging and servicing (safe deposit, trusteeship, agency, custodianship) money and claims to money both domestically and internationally. This is a board concept under which different types of bank includes. There are several popular modalities of banking. It may differ country to country. Commercial banking is one of them. (NRB, Prashikshan;2003; 12). Banking and Financial Institutions are also the transmission channels of monetary policy, it is important for the effective monetary policy management to ensure that their financial health is sound and overall financial sector is stable.

2.1.2 Modern Banking in Nepal

Nepal Bank Ltd. is the first modern bank of Nepal. It is taken as the milestone of modern banking of the country. This was established in 1937 A.D. From the beginning, it has rendered the following services to the customers: -

a) Accept deposit.
b) Extend loan.
c) Render customer-related service i.e. issue of bill of exchange, hundies.
d) Invest in government bonds and securities.
e) Perform agency function.
f) Act as banker to the government.

Until mid 1940s, only metallic coins were used as medium of exchange. So the Government of Nepal felt the need of separate institution or body to issues national currencies and promote financial organization in the country. Hence, the NRB Act 1955 was formulated. Accordingly, Nepal Rastra Bank was established in 1956 A.D. as a central bank of Nepal.

A sound banking system is important for smooth development of banking system. It can play a key role in the economy. It gathers saving from all over the country and provides liquidity for industry and trade (Singh; 2062:13). In 1957 A.D., Industrial Development Bank was established to promote the industrialization in Nepal, which was later converted into Nepal Industrial Development Corporation (NIDC) in 1959 A.D.

Rastriya Banijya Bank was established in 1856 A.D., as the second commercial bank of Nepal. The financial shapes of these two commercial banks have a tremendous impact on the economy. That is the reason why these banks still exist in spite of their bad position.

As the agriculture is the basic occupation of major Nepalese, the development of this sector plays the prime role in the economy. So, separate Agricultural Development Bank was established in 1968 A.D. This is the first institution in agricultural financing. For more than two decades, no more banks have been established in the country. After declaring free economy and privatization policy, Government of Nepal encouraged the foreign banks for joint venture in Nepal; As a result, Nepal Arab Bank

Ltd. (NABIL) was established in 2041 B.S. This is the first modern bank with latest banking technology.

Then lots of commercial banks have been opened in the country. Nepal Indosuez Bank was established in 1985 A.D. as a private joint venture Bank. Nepal Grindlays Bank was established as a joint venture between ANZ Grindlays and Nepal Bank Ltd. This bank is now known as Standard Chartered Bank since July 2001. After the opening of Nepal Indosuez Bank and Nepal Grindlays Bank, Nepalese really saw modern banking. Himalayan Bank Ltd. is a joint venture with Habib Bank of Pakistan. It started its operation in 2049 with paid-up capital of Rs. 60 millions. Nepal SBI Bank Ltd. is a joint venture between Employees Provident Fund and State Bank of India, where Indian Banks holds 50% of the equity. The initial paid-up capital was Rs. 119.95 millions in 2050. Nepal Bangladesh Bank was established in 2050 B.S. in technical collaboration with IFIC Bank Ltd. of Bangladesh. Everest Bank Ltd. started its operation in 2051 B.S. It entered into joint venture with Punjab National Bank of India (PNB). PNB holds 20% equity stakes in the banks. Bank of Kathmandu was established in a joint venture with Syan Bank of Thailand. Nepal Bank of Ceylon is a Joint venture with a leading bank of Sri Lanka. Lumbini Bank was established in the year 2055 B.S. in Narayangadh. This is the first regional Bank of Nepal. Nepal Industrial and Commercial Bank was established in 2055B.S. It does not have any joint venture yet. But it has employed senior managers from India to handle its operation. Machhapuchre Bank started its operation from 2056 B.S. with its head office in Kathmandu. This bank has introduced internet banking which is a Hi-Tech Banking system of the world. Lately, Laxmi Bank was established in 2058 B.S. Its head office is situated in Kathmandu.

Now there are 32 commercial banks in Nepal. Among them, some banks have been opened by private sector in joint venture with foreign banks. Other commercial banks later established in the country. These commercial banks have played a very significant role in creating banking habit among the people, widening area and serving business communities and the government in various ways.

2.1.3 The Banks Services Offered to the Public

Banks accept the deposits from unproductive sectors and canalize them in the productive sectors. This is the basic function of banks. By this, they earn profit as interest by advancing the funds as loan at the interest rate higher than its cost. As the same, banks used to be just an intermediary between the saving and users of fund. They used to collect deposit from savers and provide loans to the businessmen and others. Now, the services provided by bank have been expanded to many areas as human wants and the development of technology. (Singh; 2062:15) General commercial banks offer the following services to customers.

1) Accepting Deposit

The primary function of bank is to accept deposits from savers. Banks accept deposits from those who can save money, but cannot utilize them in profitable sectors. People consider it more rational to deposit their savings in a bank because, by doing so, they earn interest. At the same time, they avoid the danger of theft, because a bank guarantees the safe custody of deposits.

This is oldest function of banks. The banker used to charge a commission for keeping the money in its custody at that time. To attract savings from all sorts' customers, the banks provide different types of account facilities. Among them, major accounts are as follows:

a) Current Account: - Especially businessmen open the current account, which have to make a number of payments every day. Money from these accounts can be withdrawn, as many times as desired by the depositors, there is no limit on the amount of cheque in this account. Generally, no interest is paid on this account. Rather, the depositors have to pay certain incidental charges such as interest on bank overdraft, remittance charge, guarantee charge etc. The main advantage of this account is safe custody of deposit and unlimited drawing facility to the account holders.

b) **Fixed Account: -** When account holders want to deposit their fund for certain time period, they have to open fixed account in banks. Money in these accounts is deposited for fixed period of time. It may range from one month, three months, six months, and one year up to five years. The money deposited into fixed account cannot be withdrawn before the expiry of that period. So the rate of interest on this account is higher than that on other types of accounts. The longer the period, the higher will be the rate of interest.

c) **Saving Account:** - Banks have provided saving account facility especially for general public, who have some saving out to their income and expenditure. The main objective of this account is to encourage and to mobilize small savings of the public. Certain restrictions are imposed on the account holders regarding the number of withdrawals and the amount to be withdrawn in a given period. Cheque facility is provided to the depositors. Rate of interest paid on this account is low as compared to that of fixed account. Similarly, withdrawal facility is also restricted in some limit as compared to that of current account.

d) **Home Saving Account:** - Account holders are provided the facility to deposit their saving in their own homes in this account. For this purpose, safe boxes locked by banker, are supplied to all account holders to keep them at homes and to put their small savings in them. Periodically, the boxes are taken to the bank where the amount of safe box taken out and created to their accounts. This account is appropriate for those, who have very small savings and hesitate to come to bank to deposit them. Especially, children and housewives are targeted under this account. This account promotes saving habits among the people providing them home deposit facility. Banks provide some interest as well as safe custody on this deposit.

e) **Recurring Deposit Account**: - Account holders have to pay in the installment deposit regularly in recurring deposit account. Generally, money in these accounts is deposited in monthly installment for a fixed period and is repaid to the depository along with interest on maturity. The rate of interest on these deposits is nearly the same as on fixed deposits. The main purpose of this account is to encourage regular savings of general public. People, who have fixed income, are targeted to make saving habit by this account.

2) Advancing of Loans

Commercial Bank is a profit oriented business organization. So banks have to advance loans to public and generate interest from them as profit. After keeping certain cash reserves, banks provide short, medium and long-term loans to needy borrowers. For security, banks generally provide loan on mortgage. General, loans for individual are provided on the mortgage of gold, silver, fixed deposit, receipts, Treasury Bills, Development bonds etc. whereas business loans are advanced on the mortgage of negotiable instruments such as land, building, go-down etc.

Nowadays, banking business is also facing sharp competitions. So bankers, sometimes, provide loans without mortgage, too. Such loans are advanced on the basis of goodwill and relationship with the party. The loan proposal is very good. The probability of success of proposal business is very high then bank may security. In this case, the bankers assume the loan proposal itself as the security of loan. According to the needs of the borrowers, banks provide different types of loan for different time period as given below: -

i. **Term Loans: -** Banks advance loans of different terms as required to customers. It provides medium-term loans on the basis of loan proposal. The maturity period of such loans is more than one year. Generally, the amount sanctioned is created to the account of the borrower. However, banks pay the amount in cash to the borrower in some case. The interest is charged on the entire amount of the loan and the loan is repaid either on maturity or on installments.

ii. **Cash Credit: -** Banks advance loan as cash credit to businessmen against certain specified securities. The amount of the loan is created to the current account of the borrower. In case of a new customer, a loan account for the sum is opened. The borrowers can withdraw money through cheque according to his requirement. Interest is charged only on the amount actually withdrawn from the account.

iii. **Overdraft:** - Generally, businessmen and organizations open current account in bank. They deposit all receipts in the account and pay all dues through cheque. Bank provides overdraft facilities to such account holders. Overdraft facility allows the customer to withdraw more than their deposits. The account holders have to go in a special contract with bank to get such facility.

iv. **Money at Call:** - It is a very short-term loan provided by bank at a very short notice. Generally, loan under money at call has time duration of only one day to fourteen days. After that period, the money should be refunded. Such loan is useful especially for other financial institution and traders.

3) Discounting of Bill of Exchange

Bill of exchange is a negotiable instrument, which is accepted by the debtor, drawn upon him/her by the creditor (drawer) and agrees to pay the amount mentioned on maturity. Discounting bill of exchange is another important function of modern banks. Under this function, banks purchase bill of exchange. Bank purchases it from holder in discount after making some managerial deduction in the form of commission. The banks pay the deducted value to the holders when traders discount it into bank. The percentage of discount is determined by mutual agreement between bank and trader, which is affected by duration of expiry and goodwill of drawer of bill of exchange.

4) Payment of Cheque

Cheque is the most developed credit instrument in the money market. In the modern business transactions, cheque has become much more convenient method of setting debts then the use of cash.

Banks provide cheque pads to the account holders. Account holders can draw cheque upon bank to pay money. Banks pay for cheque of customers after formal verification and official procedures. Providing the cheque payment functions, a bank renders a very useful medium of exchange in the form of cheque. Through a cheque, the depositors direct the bankers to make payment to the payee.

5) Remittance

It is system, through which cash fund is transferred from one place to another. Banks provide the facilities of remittance to the customers and earn some service charge. Generally, a bank provides such facilities through cheque, bank drafts, letters of credit (L.C.) etc. Remittance plays an important role in the modern national as well as international trade.

6) Collection and Payment of Credit Instruments

Modern business uses different types of credit instruments such as bill of exchange, promissory notes, cheque etc. Banks deal with such instruments. Banks collect and pay various credit instruments as the representatives of the customers. The remittance service of banks has benefited both the business and personal customers.

7) Exchange Foreign Currencies

Banks deal with foreign currencies. As the requirement of customers, banks exchange foreign currencies with local currencies, which is essential to state down the dues in the international trade.

8) Consultancy

Banks are large organizations. They can expand their function to consultancy business. In this function, banks hire financial, legal and market experts, who provide advices to customers in regarding investment, industry, trade, income, tax etc.

9) Bank Guarantee

Customers are provided the facility of bank guarantee by modern commercial banks. When customers have to deposit certain fund in governmental offices or courts for specific purpose such as legal case, bank can present itself as the guarantee for the customer, instead of depositing fund by customer. Bank provides such facility only, when the customers have sufficient fund in their account.

10) Agency Functions

As the agents of customers, modern banks perform different types of functions such as:

i. **Periodic Payment:** - Banks can execute the standing order or instruction of customers for making periodic payment on behalf of their customers. Under this function, banks pay subscription, income tax, rents, insurance premium etc. for their respective customers and earn appropriate service charge.

ii. **Periodic Collection**: - On behalf of them, bank can collect incomes of customers such as dividends of share, interest on debenture and fixed deposits etc.

iii. **Purchase and Sales of Securities:** - On behalf of customers, banks undertake purchase and sales of various securities like share, stocks, bonds, debentures etc. Banks do not interfere in the decision and process of their customers regarding these investments. They simply perform the function of a broker only to purchase and sell the securities.

iv. **Representative:** - Banks can act as representative of their customers. They can proceed for passports, traveler's tickets, books, vehicles, plots of lands etc. for their customers. In connection to getting such things for customers, they can exchange correspondence to concerned parties.

v. **Trustee or Executor**: - When customers want to transfer their property to specific persons after demise, they can make a legal document about them and handover it to the banks as trustee or executor. Banks preserve such documents of customers' will and execute their will after demise.

11) Others

Except below functions, modern banks provide many general utility services as given below: -

i. **Locker System:** - Modern banks provide locker system to their customers. The customers can hire a specific number of lock boxes, keep precious assets, and document in it. Bank provide guarantee to safeguard the valuable assets locked in such box.

ii. **Traveler's Cheque:** - Carrying money while traveling is a risk in business. It is far more continent to use traveler's cheque. Traveler's Cheque helps their customers to make their traveling comfortable. Traveler's cheque if accepted by most traders. So customers need not take the risk of carrying cash with them during their travel, when bank issues traveler's cheque to them.

iii. **Credit Card: -** Credit card is the developed form of traveler's cheque. It is a plastic card with magnetic remark of account number and bank balance. Such card is issued by modern commercial banks to their customers, who have deposited specific sum in the account to get such facility. Credit card facility has become possible only by development of technology, because modern equipment and computerized system is essential to implement the credit card system. Credit card is very convenient means of payment. The cardholders have just to show the credit card to the seller to pay the value. The seller enters the card in a machine and returns to the purchaser. Payment of due is automatically received by the banks. So it is widely used in modern market. It is also called plastic money and bank money.

iv. **Underwriting Securities**: **-** Banks underwrite the securities issued by the Joint Stock Company, private company and even government organizations. Public have good faith upon banks. So people will not hesitate in buying securities carrying the signatures of a bank.

v. **Gift Cheque:** - Some banks issue special cheque to mark the auspicious occasions. They are known as gift cheque. Such cheque have already printed value such as Rs. 11,21,31,51,101,1001,etc.

vi. **Collection of Data:** - Banks collect data giving important information relating to banking, money, business, industry and economy. They conduct survey and research for the purpose. Such data are published along with articles on economic and financial matters in bulletin, journals and other financial magazines.

vii. **Individual Information of Customers:** - According to the demand of outside, banks provide individual information regarding the financial position, business reputation and respectability of their customers. The welfare of customers is top priority of modern banks. So they do not provide the information restricted by concerned customers. Significantly lower the per-unit cost associated with high-volume transactions. But they will depersonalize banking and result in further loss of jobs as capital equipment is substituted for labor. Recent experience suggests, however, that fully automated banking for all customers may take a long time. (Singh; 2062:21)

2.1.4 Need and Role of Bank in the Economy

A well-developed banking system plays an important role in the economic development of a country. The banking services have become pre-condition for overall development in the modern economy. A country needs adequate a wide-distributed banking services for fast industrialization. Besides providing financial resources, bank can also influence the direction in which these resources are to be utilized for industrialization.

In the developing country like Nepal, not only the banking facilities are limited to a few urban areas, but also the banking activities are limited mostly to trade and commerce. Therefore, a well-developed and diversified banking system is needed giving adequate attention to industry and agriculture. To fulfill this purpose, structural as well as functional reforms in the banking system are needed to enable the banks perform developmental role in the country.

In a modern economy, banks are known not merely as a dealer in money, but also the leaders in development. They are not needed only for storing the nation's wealth, but also are needed to provide resources for economic development.

It is the growth of commercial banking in the 18th and 19th centuries that facilitated the occurrence of industrial resolution in Europe. Similarly, the economic progress in the present day largely depends upon the growth of sound banking system in developing countries. Mainly commercial banks are essential for overall development of a country in the following ways:

1) Capital Formation

Capital formation is the most important determinant of economic development. Bank is essential for formation of capital. Capital formation has three well-defined stages: -

i. Generation of Saving.
ii. Mobilization of saving.
iii. Canalization of saving in productive uses.
iv. Bank plays a crucial role in all the three stages. On one side, banks stimulate saving to providing a number of incentives such as interest, safe custody to deposits. On another hand, they mobilize the fund by providing loan to those who have the opportunity of productive investment.

2) Price Stability

Banks can control and create the credit in the monetary market. According to the financial policy of government, banks regulate the interest rate in deposits and loan. They also provide different types of banking services for industrialization. Ultimately, this will increase the supply of product. In another hand, it will increase the employment and public earning. All these are the factor for helping to control market price.

3) Economic Development

A certain rate of inflation and sound financial atmosphere is essential for the overall economic development of a country. Banks can directly influence these sectors through the rate of interest and availability of credit. It is the business of banks to control over interest rate as well as credit.

A reduction in the interest rates makes the investment more profitable. It stimulates economic activities and increase in the interest rate. On the other hand, it discourages economic activities. Thus for the economic development, banks can follow low interest rate policy. If the inflation it to be controlled, they can adopt the high interest rate policy.

4) Monetization of Economy

Monetization of the economy is essential for accelerating trade and economic activities. Banks, which are the creator and distributors of money, allow money to pay an active role in the economy. Banks are needed for the process of monetization.

Banks provide adequate paper money and coins available in the market. Bank accepts currencies as deposits and exchanges. It helps to use money as the means of payment in business transactions. Businessman does not hesitate to accept money as payment, because it is widely accepted by banks. Banks spread their branches in the rural areas, which convert the non-monetized sectors of the economy into monetized sectors.

5) Implementation of Monetary Policy

An appropriate monetary policy is the infrastructure of the economy of a country. However, a well-development banking system is the backbone of the economy. In this way, a proper banking system is a necessary precondition for the effective implementation of the monetary policy. Credit control and regulation by the government and central bank is not possible without the active co-operation of the banking system in the country.

6) Promotion of Trade and Industry

Industrialization could not have been made possible without the development of banking system. Bank provides the facility of cheque, draft and bill of exchange, which revolutionized the trade and industry. Banks provide different types of banking services, which play important roles in internal and international trade. This encourages the specialization and accelerates the pace of industrialization.

7) Regional Balance

Banks can also play important roles in achieving balanced development in different regions of a country. They can transfer surplus capital from the developed regions to the less developed region, where it is scarce and most needed. The canalization of resources from urban sector to rural sector will promote economic development in underdeveloped areas of the economy.

8) The undeveloped economics are primarily agriculture economics

Majority of the population in the developing country like Nepal live in rural areas. Agriculture is the basis occupation for them. Therefore, economic development in these countries requires the development of agriculture and small-scale industries in rural areas. So banks provide even medium-term and long-term loans to agriculture and other neglected areas such as poultry farming, fishery, beekeeping, handicraft, etc.

9) Promote Saving

Bank is the most important and recognized for safe custody of public saving. Providing interest, safe custody and banking facilities, banks collects deposits from current, saving and fixed deposit account, which encourage public savings.

(Singh; 2062:27-30)

2.1.5 Financial Analysis

Financial analysis is based on historical accounting information, which reflects the transactions and other events that are affected the firm. The financial analysis helps to know strength, weakness, opportunities and threats. To know the financial health of the commercial banks, it is necessary to study their major indicators. A manager in the bank would be interested in the banks overall financial strength, its income and growth potential and the financial affects of pending decisions. A potential lender, such as a bank loan officer would be concerned primarily about the firms' ability to pay back the loan. Potential investors would be interested not only as the company's ability to repay its loan obligations, but also its future profit potential. Potential shareholders would want to assess the firm's ability to carry out its operation effectively and meet delivery schedule. Thus the needs of the analyst indicate the sort of financial analysis. The focus of the financial analysis is on key figures in the financial statements and the significant relationship between component parts of financial statement to obtain a better understanding of the firm's position and performance. (Khan and Jain; 2006:4.2)

Interested parties in financial analysis are management, investors of shareholders or owner, creditors, employees and trade union, brokers and lenders and government etc. (Dangol & Dangol; 2061:593). Financial statement analysis is technique of answering various questions regarding the performance of a firm in the past, present, and the future. (Pradhan; 2004:45)

2.1.5.1 Financial Statement

Financial statements provide information about a firm's position at a point in time as well as it operation over some past period. However the real value of financial statement lie in the fact that they can be used to help predict the firm's financial position in the future, and to determine expected earnings and dividends from and investors standpoint, predicting the future is what financial statement analysis is all about while from management's standpoint, financial statement analysis is useful both as a way to anticipate future conditions and more important as a starting point for planning actions that will influence future course of events. (Weston & Brigham; 1990: 93)

Financial statements are vital source of information to a company's stakeholders in learning about the financial health of the company and how their respective interest is there by affected. (Chitrakar; 2003:8) financial statements are prepared primarily for users outside an organization; managers also find their organization's financial statement useful in making decision. (Hilton & Ronald; 2002:9)

There are primarily four components of financial statements: -

1). Balance sheet

2). Income statement

3). Statement of Retained earnings

4). Statement of cash flows

1). Balance Sheet

The balance sheet shows the balances in the organization's assets, liabilities and owners equity as of the balance sheet date. It represents an organizational financial position at a point in time.

2). Income Statement

The income statement reports the income for the period between two- balance- sheet dates.

3). Statement of Retained Earnings

The retained earnings statement shows how income and dividends for the period have changed the organizations retained earnings.

4). Cash Flow Statement

It shows how cash obtained during the period and how it was used. The cash flow statement is designed to convert the accrual basis of accounting used to prepare the income statement and balance sheet back to a cash basis. This may sound redundant, but it is necessary. The accrual basis of accounting generally is preferred for the income statement and balance sheet because it more accurately matches revenue sources to the expenses incurred generating those specific sources.

However, it also is important to analyze the actual level of cash flowing into and out of the business. Like the income statement, the statement of cash flow measures financial activity over a period of time. And the cash flow statement also tracks the effects of changes in balance sheet accounts. The cash flow statement is one of the most useful financial management tools to run business.

It is useful in providing information to the users of financial statements about the ability of the enterprise to generate cash and cash equivalents and the need of the enterprise to utilize those cash flows. (Wagle and Dahaal; 2004: 11.1-11.2)

2.1.5.2 Importance of Financial Statement Analysis

a). To measure the firm's liquidity, profitability, and solvency position.

b). To assess the firm's operating, efficiency financial position and performance.

c). To fulfill the objectives and interest of short- term creditors, present and potential investors, long-term creditors, management and regulating authorities.

2.1.5.3 Objectives of Financial Statement Analysis

a). To judge the financial health of the firm.

b). To judge the profitability of the business undertaking

c). To evaluate the capacity to repay the loans and interests there on.

d). To evaluate the solvency position of the firm.

e). To examine and evaluate the return on investment and or capital employed.

2.1.5.4 Limitation of Financial Statement Analysis

Analysis of financial statement suffers from certain limitations. The major limitations of financial analysis can be summarized as follows:

1). Financial analysis fails to disclose the current worth of the enterprise.

2). Financial analysis is based on financial statements, which record historical facts. They do not record the changes in the price level.

3) The financial analysis is based on facts and figures contained on financial statements. Hence the limitations of financial statements such as influence of

personal judgment, disclose of monetary facts only are the limitations of financial analysis. (Munakarmi; 2002:467)

2.1.6 Ratio Analysis

Ratios are the tools for measuring liquidity, solvency, profitability and management efficiency of the firm and it is also equally useful to the internal management, prospective investors, and creditors and outsiders etc. The roles of accounting ratios are very significant to increase the efficiency of the management. As such it is very important tool of management accounting also. “An analysis of the firm’s ratios generally is the first step in financial analysis.” (Weston & Brigham; 1990:93)

Ratio analysis uses financial report and data and summarizes the key relationship in order to appraise financial performance. The effectiveness will greatly improve when trends are identified, comparative ratios are available and inter-related ratios are prepared. (Munakarmi; 2002:468)

Ratio analysis is widely used tool of financial analysis is fined as the systematic use of ratio to interpret the financial statement so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. The term ratio refers to the numerical or quantitative relationship between two items/ variables. The relationship can be expressed as; percentage, fraction and proportion of numbers. Alternative methods of expressing items, which are related to each other, are for the purpose of financial analysis referred to as ratio analysis. A rationale of ratio analysis lies in fact that makes related information comparable. Single figure by itself has no meaning but when expressed in terms of a related figure. It yields significance instances. (Khan and Jain, 1996:60) “Ratio analysis is a tool of scanning the financial statement of the firm.” Through one comes to know in which areas of the operation the organization is strong and in which areas it is weak (Bajracharaya; 2001:1017) ultimately, ratio analysis is a tool of scanning the financial statement of the firm.

2.1.7 New NRB Directives on Classification of Loan and Provisioning

Nepal Rastra Bank has issued Unified Directives to Bank and financial institution for implementation effective 2062.4.1 (16 July 2005). This also contains the new directive (No. 2) concerning classification of loan portfolios and provisioning. Except a few important changes, this directive has retained most of the provisions.

Classification of Loan and Advances

The classification criteria are as follows: -

1) PASS category: - all loans and advances the principal of which are not past due or past due for a period up to 3 (three) months. Only loans falling under PASS category are termed as "Performing Loans".

2) SUBSTANDARD category: - all loans and advances the principal of which are past due for a period of more than 3 months and up to 6 months.

3) DOUBTFUL category: - all loans and advances the principal of which are past due for a period of more than 6 months and up to 1 year.

4) LOSS category: - all loans and advances the principal of which are past due for a period of more than 1 year.

The respective overdue periods of PASS, Substandard and Doubtful loans shall be considered for higher classification from the next day of the date of expiry of the overdue period provided for each category.

Lending institutions are not restricted from classifying the loan and advances from low risk category to high – risk category. For instance, loans falling under sub- standard may be classified into doubtful or loss and loan falling under doubtful may be classified into loss category.

Loan Loss Provisioning

1) The loan loss provisioning on the outstanding loans and advances and bills purchases shall be done on the basis of classification as follows:

Table 1.2

Classification of Loan Loss Provision

Classification of Loan	Loan Loss provision
Pass	1%
Substandard	25%
Doubtful	50%
Loss	100%

2) Provision on restructured or rescheduled loans shall be made as follows: -

(i) A minimum of 12.5% provision shall be made on restructured or rescheduled loans.

(ii) In respect of restructuring or rescheduling of deprived sector loan and guaranteed of insured priority sector loan, the requisite provisioning shall be only 25% of the rates stated above.

(iii) Where the installment of principal and interest of restructured or rescheduled loan is serviced regularly for two consecutive years, such loan can be converted into PASS loan.

Rescheduling/ restructuring of loan resulting improvement in classification to lowest risk category (PASS) is not prohibited. However, such rescheduled loan shall require provisioning of at least 12.5%. The upper limit of such provisioning requirement is not specified even if a LOSS loan is reclassified and categorized as PASS loan. However, adjustments to loan loss provisioning is allowed only on satisfactory service of the loan up to 2 consecutive years.

Loan loss provisioning on rescheduled/ restructured sick industries recommended by sick industry preliminary Enquiry and Recommendation committee, upon recovery of minimum 12% outstanding interest is fixed at minimum 25% (upper limit is not prohibited though). The only concession provided this case is rescheduling is made possible against collection of 12% interest (in other case, it is 25%).At the same time, the provisioning is required at minimum 25% (in other cases it is 12.5%)

3) Full provisioning shall be made against the uninsured priority, deprived sector loans and small and medium scale industrial loans.

However, in case of insured loans the provisioning requirement will be only 25% of the prescribed normal rates. Concession provisioning is not limited to priority/deprived sector and small/medium industries only as was the case earlier. The condition is purchase of insurance cover. Accordingly all loans, including priority sector/deprived sector, not covered by the insurance (presumably with Deposit Insurance and credit Guarantee Corporation) fall under normal category. The norms of classification remain same for these loans and advances also. In the case of rescheduling/restructuring of insured credit, the proportion of loan loss provisioning would be 3.125% (being 25% of 12.5%).

4) Where the loan is extended only against personal guarantee, a statement of the asset, and equivalent to the personal guarantee amount not claimable by any other, shall be obtained. Such loans shall be classified as per above and where the loans fall under the category of pass. Substandard and Doubtful, in addition to the normal loan loss provision applicable for the category, an additional provision by 20 % point shall also be provided Additional loan loss provision as above shall also be provided for the loans which is partly covered by collateral of physical assets and personal/institutional guarantee is obtained to cover the shortfall. Classification of such loan and advances shall be prepared separately.

By virtue of above, the loan loss provision required against a personal guarantee loan will be 21%, 45% and 70% for pass, sub-standard and Doubtful category respectively. Such an additional loan loss provisioning will be required where loan is extended against the personal guarantee only without having obtained other form of collateral. The directive also requires additional provisioning where the value of partial collateral falls short of the loan amount and partially covered by personal guarantee.

NPA as categorized by NRB are classified loans and advances. For the probable loss on lending that cannot be recovered even after liquidation. NRB has directed to maintain loan loss provision. The loan loss provision is to be maintained by debiting profit and loss account. Thus as the quality of loan degrades the ratio of loan loss provision is increased the profitability of banks.

Effect of NPA on Profitability of the Bank: -

Under the circumstances assets that do not earn any income to the bank affects the profit in a number of ways. The resources locked up in NPA are borrowed at a cost and have to earn a minimum return to service this cost.

1) NPA on the one hand do not earn any income but on the other hand drain the profits earned by performing assets through the claim on provisioning requirements.
2) Since they do not earn interest they bring down the yield on advances and the net interest margin or the spread.
3) NPA has a direct impact on return on assets and return on equity.
4) NPA brings down the profits, affect the shareholder value and thus adversely affect the investor confidence

2.2 Review of Related Studies

Bohara (1994) had conducted a research on a topic "Financial Performance of NABIL and NIBL." The basic objectives of his study/research were to highlight the financial performance and role of joint ventures banks in the liberalized Nepalese Economy. The attempts of analyzing financial performance were concentrated in ratio analysis and to derived the strength and weakness of two banks as stated above by calculating following ratios: -

1) Liquidity ratio.
2) Turnover (activity) Ratio.
3) Solvency ratio.
    (i) Coverage ratio
    (ii) Leverage (Capital-structure) ratio.
    (iii) Capital adequacy ratio
4) Profitability ratio
5) Other relevant ratio

(i) Earnings Per Share (EPS)
(ii) Cash dividend per share
(iii) Tax per share
(iv) Dividend Per Share (DPS)
(v) Price Earnings Ratio (PE-ratio)
(vi) Market Price Per Share (MPS)
(vii) Book value ratio

Some remarkable suggestions/findings of the research were: -

- Banks need to balance disbursing cash dividend and issuing of bonus share.
- They need to increase operational profit by concentrating in consistent earnings rather than fluctuating earnings.
- They need to maintain liquidity in the form of CRR as per regulation of NRB.

Besides these suggestions, he had emphasized in small entrepreneurs development programs, branch expansion, and mobilization of deposits in the productive sectors.

Jha (1998) has conducted a research on a topic “Comparative Analysis of Financial Performance of the selected joint venture Banks”. Jha has mainly focused his research in examining different financial ratios of four commercial banks namely- NABIL, NIBL, SCBNL & HBL.

Time period covered by the research were five years from fiscal year 1993/94 to 1996/97. Necessary data and other informational had been collected mainly from secondary sources of data. In this research, the researcher has pointed out various findings some major findings of the research work: -

(i) ROA of NIBL was highest as compared to other sample banks respectively. Return on total deposit was also highest in case of NIBL. Interest earned on total assets was also highest in case of NIBL. However return on net worth or shareholders fund was highest in case of HBL. Ultimately profitability NIBL had better results expect in case of return on net worth.

(ii) Current, cash and bank balance to deposit ratio found that NIBL current ratio at the end of FY 1996/97 stood highest as compared to other banks.

(iii) Among the analysis of leverage ratio (total debt to total asset ratio, long-term debt to total asset ratio, total debt to net worth ratio & long-term debt to net-worth ratio), the total debt to total assets ratio was above 85% for all the selected banks during 1996/97, which signifies the excessive use of debts or outsider fund to finance total assets.

Ghimire (2003) conducted a research on a topic "Non Performing Assets of Commercial Banks: Cause and Effect." It mainly focused the research to analyze and identify the impact, cause and consequences of NPA of Commercial Banks namely NBBL, Nepal SBI Bank and BOK.

Time period covered by the research was five years from fiscal year 1997/98 to 2001/02. Necessary data and other information were collected from secondary sources of data. In this research, Ghimire pointed out various findings. Some major findings of the research were: -

(i) There is positive growth of operating profit maintained by all the samples banks but the growth of net profit is negative due to increase in loan loss provisioning.

(ii) It is found that there is some relationship between credit expansion and increment of NPA. NBA (Non-Banking Assets) is created due to having NPA. But it is not certain that NPA always creates NBA.

(iii) In regard to the creation of high level of NPA, it has been found that relationship of borrowers with top management is the major determining factor in lending. Commercial banks are giving least weight on personal integrity of the borrower. Follow up of overdue loan and advances in commercial banks starts one month later after the maturity of the loan. It proves the poor loan recovery system in those banks.

(iv) Supervision and monitoring system have been identified as average factor. It is also identified that banks give highest priority to trade found that the service sector is not given much priority.

Basnet (2005) had conducted a research on a topic "A Comparative Study on Financial Performance between the Commercial Banks." The study had covered only two banks i.e. NB Bank and Nepal SBI Bank. It had mainly focused his study in examining the financial performance of these two banks.

Time period covered by the research was five years from fiscal year 1998/99 to 2002/03. Necessary data was primarily based on secondary sources of data. In this research, Basnet had pointed out some remarkable findings: -

(i) Liquidity analysis indicated the banks did not maintain sufficient liquidity.
(ii) The efficiency analysis showed that the ratio is in fluctuating trend of Nepal SBI Bank and decreasing trend of NB Bank.
(iii) The profitability position of NB Bank was comparatively better than the same of Nepal SBI Bank.
(iv) Capital structure ratio of both banks was highly levered.

Panta (2005) conducted a research on a topic "A Comparative Study of Everest Bank Ltd. and Nepal Industrial and Commercial Bank Ltd." The research mainly focused on the study in comparing and analyzing liquidity, profitability, solvency and activity ratio analysis as well as so other major ratio such as weighted avg. interest rate spread Fx-fluctuation gain to total income ratio etc.

Time period covered by the research was six years data from FY 1998/99 to 2003/04. Necessary data and other information had been collected from the secondary sources of data. In this research, Panta had pointed out various remarkable findings were: -

(i) CRR of the banks were maintained as per the directive of NRB.
(ii) Both banks had maintained NRB balance to deposit ratio remarkably higher than the standard prescribed by the NRB.
(iii) They should encourage to small, medium and large-scale organizations to avail their services.
(iv) Both banks were suggested to review their overall capital structure and investment portfolio to make better mix in capital structure as well as investment portfolio.

(v) Both banks were maintaining lower capital adequacy ratio. The net worth to total assets, net worth to total deposit and net worth total credit ratio also seemed less satisfactory.

Acharya (2010) conducted a research on a topic “A Comparative Study on Financial Performance of Nepal SBI Banks and Everest Bank Ltd.” It mainly focused on the study in examining financial performance of those banks through profitability, liquidity and activity analysis.

Time period covered by the research was five years from Fiscal year 2062/63 to 2066/67. Necessary data and other information were primarily based on secondary data. In this research, Acharya has pointed out various findings: -

(i) They had not given a special attention towards NPA.

(ii) Both banks had higher operating expenses.

(iii) Both banks had not found out the new productive sectors for their investment purpose.

(iv) Both banks had not given attention towards attracting new deposits.

Gupta (2010) conducted a research on a topic “Financial Performance Analysis of Everest Bank Ltd.” It mainly focused the research in examining the technique of financial analysis such as liquidity, activity, profitability ratios of EBL.

Time period covered by the research was five years from fiscal years 2005/06 to 2009/10. Necessary data and other information had been collected from the secondary and primary sources of data/ in this research, the researcher pointed out various findings. Some remarkable findings of the research were: -

(i) The banks liquidity position is below the normal standard and also inconsistency in liquidity policy.

(ii) The EBL should utilize its risky assets and shareholders fund to gain profit margin. Similarly it should reduce its expenses and should try to collect cheaper fund being more profitable.

(iii) EBL should be encouraging the small depositors for promoting small investors.

(iv) Return on equity is found unsatisfactory, as it has not efficiently utilized its equity capital.

Manandhar (2010) has conducted a research on “Interest Rates and Deposit Mobilization in Nepalese Commercial Banks." The sample banks referred are Rastriya Banijya Bank, Nepal Bank Limited, Himalayan Bank Limited and Nepal Bangladesh Bank Limited. The major findings of the research were: -

(i) The study focused on analysis of lending and interest rate together with analysis of inflation and interest rate.

(ii) The interest rate on both deposit and lending of all sample banks are in decreasing trend.

(iii) The interesting part is deposit amount and lending amount is increasing every year except of fixed deposit of RBB and NBL.

Shrestha (2011), submitted thesis on "Loan Management of Everest Bank Limited and Himalayan Bank Limited." The major recommendation is the liquidity position of sample banks should be able to meet the daily cash transaction. Bank should not invest all the deposit as loan. According to the policy of NRB some percentage should be kept in the banks for fulfilling the required demand for the customers. The findings of the research are: -

(i) The standard liquidity ratio is 2:1. In this research none of the sample banks are able to maintain the standard ratio.

(ii) They may fail to maintain the daily cash transaction if they do not increase the liquidity ratio.

(iii) The ratio of loan and advances and investment to total deposit ratio of HBL is the lowest and this has result in the highest ratio of interest expenses to total deposit.

(iv) The time total deposit to total fund utilized is below the average and there is high chance of growth in deposit as compare to loan and advances.

Shrestha (2011) conducted a research on a topic “A Comparative Analysis of Financial Performance of the selected joint venture Banks”. The researcher mainly focused research on comparative examining the overall performance NABIL, HBL, and NB Bank through financial analysis.

Time period covered by the research was five years from 2005/2006 to 2009/2010. Necessary data and other information had been collected mainly from the secondary sources of data. The researcher pointed out various findings. Some remarkable findings of the research were: -

(i) Liquidity analysis indicates better liquidity position of NB Bank. Although liquidity position of HBL and NABIL are lower, they were still able to meet their current obligations.

(ii) Activity/Turnover analysis indicated that the loan and advance to total deposit and to saving deposit ratio of NB Bank was the highest with NABIL in the second place while that of HBL was the least. This implied NB Bank was efficiently/utilizing its deposit on loan and advances.

(iii) Leverage/Capital Structure analysis indicated the long-term debt to net worth ratio of NB Bank was the highest and NABIL was the lowest. An unbalanced capital structure was the common situation in all the commercial banks. The banks were using excessive debt capital.

(iv) Profitability of these banks were reflected by the determination of return on investment, return on shareholders’ equity, interest earned to total assets ratio, interest income to interest expenses ratio.

(v) The market value ratio such as price-earning and dividend payout ratio of NABIL was the highest and HBL was the second highest.

2.3 Research Gap

There is a certain gap between the present research and past research. Previous research conducted generally on comparative financial analysis of two banks. In some cases, there was also found the comparative financial analysis of maximum of four banks without any ranking criteria. Those analyses expressed all items in the statement in the form of amount. The previous researchers did not disclose the practical comparative analysis, which is practiced by the commercial banks. Thus to fulfill this gap the present research is conducted. It covers top five commercial banks from the source of NEPSE. The analysis based on expressing all items in the statement as a percentage. It is modern approach to evaluate to performance analysis.

Most important point to remember about performance analysis is that every financial measure should be compared across time and across over same line of companies to be meaningful. Banks as a service- organization, only few financial ratios would be sufficient to compare the performance, however different sources and different analysts use different lists or combination of financial ratio analysis. Prior research has been conducted on the basis of traditional financial ratio analysis. The value of the approach was quantitative relations. The world is becoming more dynamic and subject to rapid changes. This research will be based upon the modern approaches to financial analysis; in which comparable group approach and include consideration of economic and strategic factors where feasible. Even the study will base upon those core indicators especially related with banking sector as well as it will compares across time and across same line of banks i.e. maximum of top five commercial banks. Thus, the research will be an interest to a wide range of its stakeholders and other government regulatory interests. This may be probable the first effort to performance evaluation of top five commercial banks in a systematic manner.

CHAPTER-3

RESEARCH METHODOLOGY

Research methodology describes the method and process applied in the entire aspect of the study. Research methodology refers to the various sequential steps (along with a rational of each step) to be adopted by a researcher in studying a problem with certain objectives. Thus the overall approach to the research is presented in this chapter. This chapter consists of research design, population and sample, data collection procedure and data processing and tools for analysis.

3.1 Research Design

A research design is the arrangement of condition and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In other words, research design is the plan, structure and strategy of investigation. It is a blueprint for the collection, measurement and analysis of data. “Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance. The plan is the overall scheme or program of the research. It includes an outline of what the investors will do from the writing the hypothesis and their operational implications to the final analysis of data.” (Kerlinger; 1986:275).

This research work tried to analyze the comparative performance of commercial banks in the present e-generation. The research followed analytical and descriptive research design. The study was based on financial data provided by the concerned banks i.e. the data became secondary sources to the research work. Only top five commercial banks took into account, which represent almost same strategic group. Comparative data of commercial banks presented in such a way, so as to make the research informative to the readers. Financial as well as Statistical tools were used to analyze and interpret.

3.2 Population and Sample

There are many financial institutions in Nepal; however the research basically covered top five commercial banks ranked by NEPSE. All commercial banks i.e. thirty two commercial banks operating in the country were the total population for the study. Only top five commercial banks ranked by NEPSE were selected as a sample using purposive sampling technique. The sampled Banks were: -

1) Standard Chartered Bank Nepal Ltd.
2) NABIL Bank Ltd.
3) Himalayan Bank Ltd.
4) Everest Bank Ltd.
5) Nepal Investment Bank Ltd.

The above banks selected are the five among the six joint venture banks. The banks are in operation in Nepal more than a decade. Due to the easy availability of data and ranking in the top position of list of commercial banks the above sample banks are selected.

3.3 Sources of Information/ Data Collection Procedure

The main sources of information were the concerned Banks and their published reports, NRB and its published reports, Experts views, Newspapers and many other published and non-published sources. Mainly the secondary sources of data were collected in order to achieve the real and fact data as far as available. The sources of data were as follows.

Primary Sources of Data: - This study was mainly based on secondary data. In some cases the responses from the administrative officers, the selected clients of commercial banks, and responses from the general public were also conducted wherever required.

Secondary Sources of Data: - The secondary sources of data were the information received from books, journals, newspaper, published reports, and dissertations and concerned websites etc. the major sources of secondary data were as follows: -

- Annual reports of the concerned banks.
- Related websites of concerned banks.
- Economic survey, ministry of Finance

- NRB Samachar, NRB Directives.
- Bank and Financial Institution Ordinance 2062.
- Banking and Financial statistics of NRB.
- Survey, reports journals issued by NRB.
- Annual reports, NEPSE.
- Book related to Financial Performance Analysis.
- Previous Dissertations.
- Newspaper, journals and Business magazines.
- Other publications etc.

3.4 Data Processing and Presentation Procedure

The information or data obtained from the different sources were in the raw form. From that information, direct presentation was not possible so it was necessary to process data and converts it into required form. Only after then, the data were presented for this study. For this study, only required data were taken from the secondary sources (Banks' Publications) and presented in this study. For presentation different tables were used. Similarly in same case graphical presentation were also made. For reference, the photocopies of raw data were annexed. So far as the computation was concerned, it has been done with the help of scientific calculator and computer software program.

3.5 Tools for Analysis and Presentation

As per the nature of the study various percentage data were collected. And this study required more financial tools cum statistical tools for analysis and presentation of used data to attain the objectives of the study.

3.5.1 Financial Tools

Various financial tools were used to measure the strength and weakness of commercial banks. In addition, Non-performing Asset and Weighted Average Interest Rate Spread have also studied the research work.

3.5.1.1 Liquidity Analysis/ Working Capital Analysis

It measures the adequacy of a firm's cash resources to meet its near term cash obligations. It is pre-requisite for the very survival of firm. Liquidity analysis measures the liquidity position and short-term obligations. "liquidity is the ability to meet anticipated and contingent cash needs arise from deposit withdrawals; liability maturity and loan disbursal (new loans and the drawdown of outstanding lending commitment cash new are met any increase in deposits and borrowing loan repayment, investment maturity and the sale of assets." (Scott David; 1992: 40)

To meet the current or short-term obligations, commercials banks must maintain adequate out in commercial banking. NRB has directed all the banks to maintain adequate CRR to meet its obligations. Thus, to measure the banks liquidity positions, CRR assumes the key indicators has other ratios. It is also found that central banks practically pay more attention towards the CRR of commercial banks.

Cash Reserve Ratio (CRR): CRR measures the ability to meet short term obligations and reflect the short- term financial strength and solvency of the bank. The cash reserve ratio (CRR) is being used as a prime and effective instrument to inject liquidity to and absorb liquidity from the economy. The CRR, which has been used particularly for last few years to reduce the cost of resources of commercial banks and to manage necessary liquidity in the economy, has been gradually lowered in the neighboring countries as well as the majority of the countries in the world in complement to the prevalent use of indirect monetary instruments and prudential regulatory measures. "In this context, CRR has been reduced from 6.0 percent to 5.0 percent for FY 2004/5, NRB)

3.5.1.2 Profitability Ratio Analysis

A company should earn profit to service and grow over a long-term period of time. Profits are essential but it would be wrong to assume that every action initiated by management of a company should be aimed at maximizing profit irrespective of social consequences.

Profit is the difference of revenues and expenses over a certain period of time. Profit is the ultimate output of a company and it will have no future if it fails to make sufficient profits. Therefore the financial manager should continuously evaluate the efficiency of its company. So the profitability ratio measures the net income of the firm relatively to its revenue and capital. The following major profitability ratios are calculated to measure the efficiency of banks.

a) Net Profit Margin

This ratio measures the overall profitability of the firm by establishing relationship between profit and sales revenue. The relationship between the net profit and sales indicated management's ability to operate the business with success to recover the cost of production, operating expenses of business and cost if borrowed fund and also to leave margin of reasonable compensation to the owners for providing their capital at risk. This ratio is calculated by"

$$\text{Net profit margin} = \boxed{\frac{\text{Net profit}}{\text{Total income}} \times 100 \quad = \ldots\ldots\ldots\ldots\ldots.\%}$$

b) Return on Assets (ROA)

It measures the productivity of the assets. It measures in terms of relationship between net profit and assets. The income figure used in computing this ratio should be operating income. (Munakarmi; 2002:485).

This ratio is calculated by: -

$$\text{Return on Assets} = \boxed{\frac{\text{Net profit}}{\text{Total Assets}} \boxed{\times 100} \quad = \ldots\ldots\ldots\ldots\ldots.\%}$$

c) Interest Income on Loan and Advances

The major source of operating income of any commercial bank is interest income. Interest earns from loans and advances and overdraft are the major sources of interest income. Investment on government securities and debentures are also the major source of interest income. Interest income to loan and advance ratio shows the high utilization of loan and advances. Higher percentage income reflects better operational efficiency or higher level of risk due to higher volume of investment in loan and advances. (Shrestha, 2003:124) this ratio is calculated by: -

Interest Income on loan and advances = $\frac{\text{Interest Income}}{\text{Total Loan and Advance}} \times 100$

= …………….%

d) Operating Ratio

Operating ratio of banks tries to establish relationship between operating expenses and total income. Operating expenses include administrative expenses, interest on short-term loan, discount allowed and bad debts. (Munakarmi; 2002:484) This ratio is calculated as follows:

Operating ratio = $\frac{\text{Operating Expenses}}{\text{Total Income}} \times 100$

= …………….%

3.5.1.3 Activity Ratio Analysis

Funds of creditors and owners are invested in various assets to generate sales and profits. The better the management of assets means larger the amount of sales. Activity ratios are employed to evaluate the efficiency with which the firm manages and utilized it assets. These ratios are also called turnover ratios because they indicate the speed with which assets are being converted or turned over into sales. Activity ratios, thus involve a relationship between sales and assets. A proper balance between sales and assets generally reflects that assets are managed well several activity ratios can be calculated to judge the effectiveness of asset utilization (Pandey; 1997:119) various activity ratios are calculated to find out the degree of effective utilization of resources by the bank.

Credit Deposit Ratio: - Loan and advances to total deposit ratio is calculated by dividing total function is to be mobilize the funds from the depositors to the borrowers. To measure the activity position of commercial banks, loan and advances to total deposit ratio is calculated. (Shrestha; 2003:96) This ratio is calculated by

$$\text{Credit Deposit Ratio} = \boxed{\frac{\text{Total loan and advances}}{\text{Total Deposit}} \times 100 = \ldots\ldots\ldots\ldots\%}$$

3.5.1.4 Long – Term Debt and Solvency Analysis

It is also known as leverage or capital structure ratio. Solvency analysis may be defined as financial ratios, which through light on the long-term solvency of a firm reflected in its ability to assure the long- term creditors with regard to (a) periodic payment of investors during the period of loan and (b) payment of principal on maturity or in predetermined installments at due dates. There are aspects of the long term solvency of the firm.

1). Ability to repay the principal when due and

2). Regular payment of the interest (Khan & Jain; 1996:98)

To measure banks capacity of borrowing as means of capital accumulation i.e over extension of credit and borrowing power, which determine the long-term solvency of the banks; several capital structure ratios are calculated. These ratios help to calculate the proportion of outsides and owners contributions of these banks. To highlight on debt serving capacity financial health, strength and weakness assets of the bank, it is better to calculate capital – structure ratio.

a) Capital Adequacy Ratio

Capital adequacy ratio is calculated by dividing total capital fund (net worth) by total deposits. Capital adequacy has remained one of the biggest issues in banking industry and the appropriate capital adequacy ratio for commercial banks has always been a controversial issue. According to capital adequacy principle, safety and stability fragile system ultimately rest upon the confidence of the depositors and creditors. NRB emphasizes upon capital as cushion to absorb unexpected losses arising from various risks that can create instability in banks earnings. Thus they prescribe a ratio of capital to total assets.

As per the direction of NRB, the commercial banks must maintain minimum percentage of adequacy of capital fund on risk weighted assets of the bank. NRB has provided a risk of on balance that and off-balance sheet of assets with risk rates of the basis of which commercial bank should calculate risk weighted assets. As per the directive of NRB in the 2003/04, commercial bank must maintain minimum 11% total capital fund 5.50% core capital on risk weighted assets. But in recent year, capital adequacy ratio (CAR) to be maintained by the banks and financial institution on the basis of risk-weighted assets (RWA) will be maintained at 11%, with core capital at 5.5 %, for FY 2004/05 in place of the previously fixed ratio of 12%. (Monetary Policy -2004/05, NRB) The ratio of core capital, supplementary capital and total capital fund on risk weighted assets in case of the banks has been found as follows:

1) Core Capital: - It is the combination of paid up capital, share premium, non redeemable preference share, general reserve fund and retained earnings of bank.
2) Supplementary capital: - It is the combination of general loan loss provision, exchange equalization reserve, assets re-valuation reserves, hybrid capital instruments, unsecured sub-ordinate term debt and other free reserves.
3) Total capital fund: - It is the addition of core capital and supplementary capital. (Pant; 2005:63)

b) Interest Expenses to Total Deposit Ratio

Ratio measures the cost of total deposits with borrowing in relative term. Interest expenses are the major expenses of the operation expenses of the commercial banks.

Interest expenses consist of interest paid on various deposits (saving fixed call) etc. and borrowings.

The performance of Banks depends upon its ability to generate cheaper fund. The cheaper the fund means more profitability on generating loan and advance and vice-versa.

High ratio is indicative of costly fund and this adversely affects the lending activities of bank. It is calculated by: -

$$\text{Interest Expenses to Total Deposit Ratio} = \boxed{\frac{\text{Interest Expenses}}{\text{Total deposit}} \times 100 = \ldots\ldots\ldots\%}$$

3.5.1.5 Market Value Analysis

The market value ratios represent a group of ratios that relate to the firm's stock price to its earning and book value per share. These ratios give management an indication of what investors think of the company/banks past performance and future prospectus. If the firm's liquidity, asset management, debt management and profitability ratios are all good then its market value ratio will be high and its price will be probably be as high as can be expected. (Weston & Brigham; 1996:104)

a) Earnings Per Share

Apart from the rate of return, the profitability of a firm from the profit of view of the ordinary shareholders is the earning per share (EPS). It measures the profit available to the equity shareholders on per share basis i.e. the amount they can get on each share held. In other words, this ratio measures the earning available to an equity shareholder on a per share basis. The objectives of computing this ratio is to measure the profitability of the firm on per equity share basis. There are two components of this ratio that are as under: -

1) Net profit after preference dividend.

2) Number of equity shares outstanding.

It is computed by dividing the net profit after preference dividend by the number of equity shares outstanding. It is expensed as an absolute figure.

$$\text{Earnings per share} = \frac{\text{Net Profit after Tax - Preference Dividend}}{\text{No. of Equity Shares Outstanding}}$$

= Rs………………….

b) Price- Earnings Ratio

Price-earning ratio is widely used by the security analyst to value the firm's performance as expected by investors. It reflects investors' expectation about the firm's growth in the firm's earning. This ratio measures investors' expectations and the market appraisal of the performance of the firm. (Munakarmi; 2002:490). Price-Earning Ratio shows how much investors are willing to pay per dollar of reported profits. (Weston & Brigham; 1996:296) This ratio is calculated as follows: -

$$\text{P – E Ratio} = \frac{\text{Market Price per Share}}{\text{EPS}} \times 100$$

= ………….. %

So, calculation of P/E-ratio of commercial banks is more appreciate by an investor's point of view.

c) Cash Dividend on Share Capital

The amount of earning distributed and paid as cash dividend is considered as the cash dividend on share capital or dividend per share. The net profit after taxes belongs to the equity shareholders. (Munakarmi; 2002:489) This ratio is computed by dividing the amount of dividend distributed to shareholders by the number of common shares outstanding. It is calculated as follows: -

$$\text{P-E Ratio} = \frac{\text{Market Price per Share}}{\text{EPS}} \times 100$$

= ………….. %

3.5.1.6 Other Relevant Ratios

To measure commercial bank's performance it is necessary to study other relevant ratios too. This ratio includes: -

1) Staff Expenses to Total Operating Expenses.
2) Staff Bonus to Total Staff Expenses.
3) Weighted Average Interest Rate Spread.
4) Exchange/ Fx-fluctuation gain to Total income.

a) Staff Expenses to Total Operating Expenses Ratio

Staff expenses to total operating ratio are the contribution of total staff expenses in total operating expenses. It is concluded that higher ratio means the bank has provided better salary and other allowances. It is also the sign of highly motivated staff. (Pant; 2005:60) On the other hand, the high ratio affects the net profit. This ratio is calculated as follows:

Staff Expenses to total operating expenses ratio = $\boxed{\dfrac{\text{Market Price per Share}}{\text{EPS}} = \ldots\ldots\ldots\ldots.. \%}$

b) Staff Bonus to Total Staff Expenses Ratio

This ratio is calculated with provision for staff bonus in terms of expenses. Provision of staff bonus, one of the important operating expenses of the banks, refers to the extra incentives services. Bonus helps to uplift the morale of the staff as well as make them prompt for the next operation. Bonus is distributed if the banks have more profit. A high portion of staff bonus shows that bank has high operating profit. This ratio is calculated as follows: -

Staff Bonus to total staff expenses ratio = $\boxed{\dfrac{\text{Staff Bonus}}{\text{EPS}} \times 100 = \ldots\ldots\ldots\ldots.. \%}$

c) Weighted Average Interest Rate Spread

It is the difference between interest rate charged by a bank on loan and advances and interest rate offered on deposits. Generally commercial banks charge more interest rate on lending then they provide interest rate on deposits. Interest rate spread is calculated as follows: -

Interest Rate Spread = Interest Rate on Lending – Interest Rate on Deposits

High spread shows the bank charges high rate for the borrowers than they provide for depositors.

d) Exchange Gain to Total Income Ratio

Foreign exchange gain is another source of income, which includes trading income and re-valuation income. This ratio is computed by dividing exchange gain by total income of the commercial bank. NRB has given instruction to allocate a portion of these incomes as "Foreign Exchange Fluctuation Fund" and to retain one third of his income and show it in the balance that as payable to NRB. This ratio is income of commercial bank. It also represents high foreign currency transactions. The higher transactions give the higher percentage of ratio.

$$\text{Fx-fluctuation gain to total income ratio} = \boxed{\frac{\text{Market Price Per Share}}{\text{EPS}} = \ldots\ldots\ldots\ldots\ldots\ \%}$$

3.5.1.7 Non-Performing Asset

Non-performing Asset (NPA) in terms of banking sectors consists of those loans and advances which are not performing well and likely to be turn as bad loan. It may be simply defined as bad loan. As per NRB directives, it has been financial institution. On the other hand investment becomes worthless, as expected return cannot be realizable. The profitability is directly affected.

NPA as categorized by NRB are classified loans and advances. For the probable loss on lending that cannot be recovered even after liquidation. NRB has directed to maintain loan loss provision. The loan loss provision is to be maintained by debiting profit and loss account. Thus as the quality of loan degrades the ratio of loan loss provision is increased the profitability of banks.

Causes of NPA in Nepalese Commercial Banks

1) Lack of proper analysis of loan and advances.
2) Lack of clear lending policy.
3) Lack of good governance in debt management inside the bank.
4) Overall Economic crisis in the country.
5) Weakness is consortium financing.
6) Lack of internal control and auditing system.
7) Lack of proper supervision of central bank.
8) Bad intention of borrowers.

3.5.2 Statistical Tools

1) Arithmetic Mean: - Arithmetic Mean of a given set of observations is the sum of the observation divided by the number of observations. In such a case all the items are equally important. Simple Arithmetic Mean is used in this study as per necessary for analysis.

We have,

$$\text{Mean } (\bar{X}) = \boxed{\frac{\sum X}{N}}$$

Where,

$\sum X$= Sum of all values of the observations

N = Number of observation

X= Values of variables

2) Standard Deviation: - The standard deviation usually denoted by the letter Sigma. Karl Pearson suggested it as a widely used measure of dispersion and is defined as the given observations from their arithmetic mean of a set of value. It is also known as root mean square deviation. Standard deviation, in this study has been used to measure the degree of fluctuation of interest rate and that of other variables as per the necessity of the analysis (Gupta; 2002:238).

We have,

$$\text{Standard deviation} = \boxed{\sqrt{\frac{(X-\bar{X})^2}{n-1}}}$$

3) Coefficient of Variation (C.V.): - The relative measure of dispersion based on standard deviation is called coefficient of standard deviation and 100 times coefficient of standard deviation is called coefficient of variation. It is denoted by C.V. Thus,

$$\text{C.V.} = \boxed{\frac{\sigma}{\bar{X}} \times 100}$$

Where,

σ= Standard deviation

$\bar{X}$= Mean value of variances

Coefficient of variation being a pure number is independent of the units of measurement and thus is suitable for comparing the variability or uniformity of two or more distributions. The distribution having less C.V. is said to be less variable or more consistent or more stable. A distribution having greater C.V. is said to be more variable or less consistent or less stable. C.V. is used in this study for comparing the variable of sample banks.

4) Analysis of Variance Test (F-Test): - The analysis of variance is used to test whether the difference between the means of three or more populations is significant or not (Shrestha and Silwal; 2057:261). So, the researcher used F-Test i.e. two-way ANOVA to find out differences among the sample means.

Two-way ANOVA: - The Sum of squares of variations in columns (SSC) plus the sum of squares of variations in rows (SSR) plus the sum of square as the residual value (SSE) make up the total sum of squares of variations (SST), i.e.

SST = SSC + SSR +SSE

The total no. of degree of freedom = Cr – 1

Where C and r = No. of columns and no. of rows respectively.

Degree of freedom between columns = C – 1

Degree of freedom between rows = r – 1

Degree of freedom between residual = (C – 1) (r – 1)

Two – way ANOVA Table

Source of Variations	**d.f.**	**Sum of Square**	**Mean Sum of Square**	**F – Ratio**
Due to Column factor	C – 1	SSC	MSC = SSC/C -1	Fc = MSC/MSE
Due to Row factor	r – 1	SSR	MSR = SSR/r -1	Fr = MSR/ MSE
Residual (error)	(C – 1) (r – 1)	SSE	MSE = SSE/(c -1) (r – 1)	

Since $F_{cal} < F_{tab,}$ Ho is accepted, otherwise rejected.

CHAPTER-4

PRESENTATION AND ANALYSIS OF DATA

In this chapter raw data were properly processed, tabulated and analyzed to appraise the performance of selected commercial banks. For better understanding and presentation financial cum statistical tools were used. Tables were based on data provided by concerned banks and charts were also created according to the related table. In this chapter, Liquidity, Profitability, Activity, Solvency and NPA analyze were mainly conducted.

4.1 Liquidity/Working Capital Analysis

Commercial banks need liquidity to meet loan demand and deposit withdrawals. Liquidity is also needed for the purpose of meeting Cash Reserve Ratio (CRR) requirements prescribed by NRB. The commercial bank should ensure that they do not suffer from the liquidity crunch and also that idle. The failure of the bank to meet its cash obligation due to lack of sufficient liquidity will result bad credit image and loss of creditors confidence.

A very high degree of liquidity is also bad; idle or non-performing assets earn nothing. Therefore it is necessary to strike a proper balance between liquidity and lack of liquidity.

4.1.1 Cash Reserve Ratio

Adequate liquidity is also must in the banking sector in order to protect its solvency and to honor its short-term obligations and liabilities. Failing to do so, banks might have gone for liquidation and hence to protect the creditor's interest. Central bank (NRB) has directed all the banks to maintain the adequate CRR by the provisioning of 5.5% of total deposit. A bank must ensure that it has a sound liquidity position to face the instant claims by its creditors. So, CRR measures the ability to meet short-term obligation and reflect the short-term financial strength and solvency of the bank.

Table 4.1

Comparative Review of CRR

(In percentage)

Banks	Fiscal Year					Total	Mean	S.D	CV
	2006/07	2007/08	2008/09	2009/10	2010/11				
SCBNL	5.46	5.84	8.18	6.74	6.10	32.32	6.46	2.13	32.99
NABIL	6.00	8.37	9.03	3.02	4.90	31.32	6.26	5.15	82.30
HBL	5.92	5.13	6.76	6.76	5.75	30.32	6.06	0.70	11.54
EBL	2.94	4.56	14.26	15.53	9.55	46.84	9.37	5.62	59.98
NIBL	10.47	10.91	10.32	7.77	7.67	47.14	9.43	1.57	20.52
Total	30.79	34.81	48.55	39.82	33.97				
Mean	6.12	6.96	9.71	7.96	6.79				
(±) S.D	2.71	2.78	2.85	4.60	1.83				
C.V.	44.38	40.01	29.39	57.79	27.08				

Source: - Annual Report 2006/07 – 2010/11

From the table, it is concluded that NIBL has maintained the highest average CRR in comparison to other banks. NIBL is very strong to meet any kind of short obligations and it can grab any kind of financial opportunity to earn by investment. HBL is failed to maintain the CRR as directed by NRB. Depositors are quite anxious with the average CRR of HBL. This seems that HBL should strictly follow up its borrower for repayment of loan and need to be very strict while issuing loan. SCBNL and EBL have also been maintaining proper CRR as per directive of NRB.

The average CRR of five commercial banks for past five years seems satisfactory. They have maintained the proper CRR as directed by NRB. This shows that Nepalese commercial banks are able to maintain the CRR and they have sufficient liquid assets to meet any kind of short term financial obligation. This also shows that Nepalese commercial banks have sufficient liquid assets to invest for any kind of profitable opportunity if comes in the future. The C.V of HBL is very low. This shows that HBL has been maintaining CRR very uniformly and HBL has a very low risk in comparison to other banks.

Hypothesis Test

Null Hypothesis (i) H_0: $\mu_A = \mu_B = \mu_C = \mu_D = \mu_E$ i.e. there is no significant difference in the CRR among five different banks.

Null Hypothesis (ii) H_0: $\mu'_A = \mu'_B = \mu'_C = \mu'_D = \mu'_E$ i.e. there is no significant difference in the CRR among five different banks in different years.

Level of Significance = 5%

Test Statistics: The test is based on significance of CRR among five different banks in different years. Therefore, we use two- way ANOVA.

Table 4.2

Two – way ANOVA Table

Source of Variation	D.F	Sum of Square	Mean Sum of Square	F-Ratio
Due to Column factors	= 5-1 =4	38.43	MSC= SSC/C-1 = 38.43/4 = 9.61	FC=MSC/MSE = 9.61/5.57 = 1.72
Due to Row Factors	=5-1 =4	59.34	MSR=SSR/R-1 = 59.34/4 = 14.83	FR=MSR/MSE = 14.83/5.57 = 2.66
Due to Error	=4 x 4 =16	89.15	MSE=SSE/4 x4 = 89.15/16 = 5.57	

The detail calculation of the above table is presented Annex -1.

Area of Critical Region: - The tabulated value of F at 5% level of significance for (4, 4) d. f. is 6.39

Decision: -

(i) The calculated F (1.72) < Tabulated F (6.39). Therefore, null hypothesis is accepted and conclude that there is no significance difference in the CRR among five different banks.

(ii) The calculated F (2.66) < Tabulated F (6.39). Therefore, null hypothesis is accepted and conclude that there is no significance difference in the CRR among five different banks in different years.

4.2 Profitability Analysis

Profitability measures the success of the banks in terms of profit margin, return on assets, return on loan and advances and reflects the overall efficiency and effectiveness of management. The operating efficiency of the bank and its ability to ensure adequate return to its shareholders depends ultimately on the profit earned by the bank. "Sufficient profits must be earned to sustain the operation of the banks to be able to obtain fund from the investors for expansion and growth and to continue towards the social overheads for welfare of the society". (Pandey;1997:124). Thus profitability ratios are computed to measure the efficiency of the banks. So, an attempt has been made to analyze and interpret financial data of the subject matter in sequential order.

4.2.1 Net Profit Margin

Net Profit margin indicates margin of compensation left to the owners for providing their capital, after all expenses have been met. It helps in determining the efficiency with which the affairs of the business are being managed. A net profit margin would enable the firm to withstand adverse economic conditions and low margin will have opposite implications

Table 4.3

Comparative Review of NPM

(In percentage)

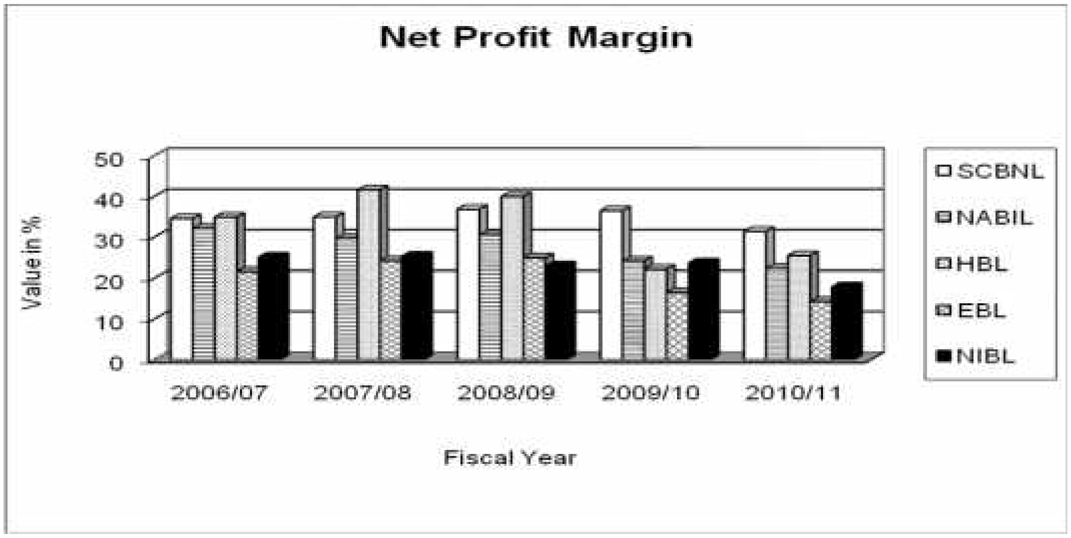
Banks	Fiscal Year					Total	Mean	S.D	CV
	2006/07	2007/08	2008/09	2009/10	2010/11				
SCBNL	34.55	34.94	36.84	36.47	31.40	174.20	34.84	2.04	5.84
NABIL	32.16	29.68	30.56	24.11	22.29	138.80	27.76	4.30	15.51
HBL	34.90	41.58	39.96	22.13	25.46	164.03	32.81	8.67	26.42
EBL	21.60	24.17	24.92	16.49	14.27	101.45	20.29	4.71	23.23
NIBL	25.07	25.33	22.97	23.67	17.91	114.95	22.99	3.02	13.14
Total	148.28	155.70	155.25	122.87	111.33				
Mean	29.66	31.14	31.05	24.57	22.27				
S.D	5.99	6.61	7.35	7.31	6.64				
C.V.	20.20	21.24	23.67	29.76	29.83				

Source: - Annual Report 2006/07 – 2010/11

From the computation using scientific calculator, the average Net Profit Margin of SCBNL shows highest value than other banks i.e. 34.84. It has also a lowest CV this means the chances of any unforeseen outcomes in financial transaction is very low. The deviation from average NPM is also very low. From table it is seen that SCBNL is very strong and very efficient bank to earn highest profit among other banks. The NPM of HBL and NABIL are also highly satisfactory but their CV was not as satisfactory as of SCBNL. From table according to standard deviation or CV of each bank it is seen that all the banks have positive sign to achieve profit in the future.

Figure - 4.1 makes it more obvious as below.

Figure-4.1



The above chart shows that the Net Profit Margin of SCBNL is increasing slightly and then decreasing at last. All the commercial banks Net profit margin is in decreasing trend when we compare first and the last fiscal year.

Test of Hypothesis

Hypothesis Test

Null Hypothesis (i) H_0: $\mu_A = \mu_B = \mu_C = \mu_D = \mu_E$ i.e. there is no significant difference in the net profit margin among five banks.

Null Hypothesis (ii) H_0: $\mu'_A = \mu'_B = \mu'_C = \mu'_D = \mu'_E$ i.e. there is no significant difference in the net profit margin among five banks in different years.

Level of Significance = 5%

Test Statistics: The test is based on significance of net profit margin among five different banks in different years. Therefore, we use two- way ANOVA.

Table 4.4

Two – way ANOVA Table

Source of Variation	D.F	Sum of Square	Mean Sum of Square	F-Ratio
Due to Column factors	= 5-1 =4	330.88	MSC= SSC/C-1 = 330.88/4 = 82.72	FC=MSC/MSE = 82.72/11.70 = 28.28
Due to Row Factors	=5-1 =4	770.70	MSR=SSR/R-1 = 770.70/4 = 192.67	FR=MSR/MSE = 192.67/11.70 = 16.47
Due to Error	=4 x 4 =16	187.24	MSE=SSE/4 x4 = 187.24/16 = 11.70	

The detail calculation of the above table is presented Annex -2.

Area of Critical Region: - The tabulated value of F at 5% level of significance for (4,4) d.f. is 6.39

Decision: -

(i) The calculated F (28.28) > Tabulated F (6.39). Therefore, we accept alternative hypothesis and conclude that there is significant differences in the CRR among five different banks.

(ii) The calculated F (16.47) > tabulated F (6.39). Therefore, we reject null hypothesis and conclude that there is significant difference in the NPM among five different banks in different years.

4.2.2 Return on Assets

This ratio judges the effectiveness in using the total fund supplied by the owners and creditors. Higher ratio shows the higher return on the assets used in business there by indicating effective use of the resources available and vice-versa.

Table 4.5

Comparative Review of ROA

(In percentage)

Banks	Fiscal Year					Total	Mean	S.D	CV
	2006/07	2007/08	2008/09	2009/10	2010/11				
SCBNL	2.42	2.46	2.56	2.70	2.55	12.69	2.54	0.10	3.99
NABIL	2.72	2.32	2.55	2.37	2.43	12.39	2.48	0.16	6.67
HBL	1.47	1.76	1.91	1.19	1.91	8.24	1.65	0.31	19.02
EBL	1.40	1.65	1.73	2.09	2.10	8.97	1.79	0.30	16.74
NIBL	1.79	1.77	1.68	2.19	2.02	9.45	1.89	0.21	11.06
Total	9.80	9.96	10.43	10.54	11.01				
Mean	1.96	1.99	2.09	2.11	2.20				
S.D	0.58	0.37	0.43	0.57	0.27				
C.V.	29.85	18.68	20.83	26.88	12.29				

Source: - Annual Report 2006/07 – 2010/11

From the computation using scientific calculator, the average ROA of SCBNL shows highest value i.e. 2.54. But even the ROA of NABIL seems higher. ROA of SCBNL is highly appreciable and SCBNL has uniform ROA. This shows that SCBNL and NABIL are utilizing their assets properly.

The average ROA of all the commercial banks in different year seems very poor. Their earnings from Assets seem unsatisfactory. Every bank is providing interest rate of 3% to 9.5% on deposits. It seems that every investor can earn better from deposit than investing in banks. The average C.V of five banks shows that even they have low ROA their ROA is also varies highly in every year.

Figure 4.2

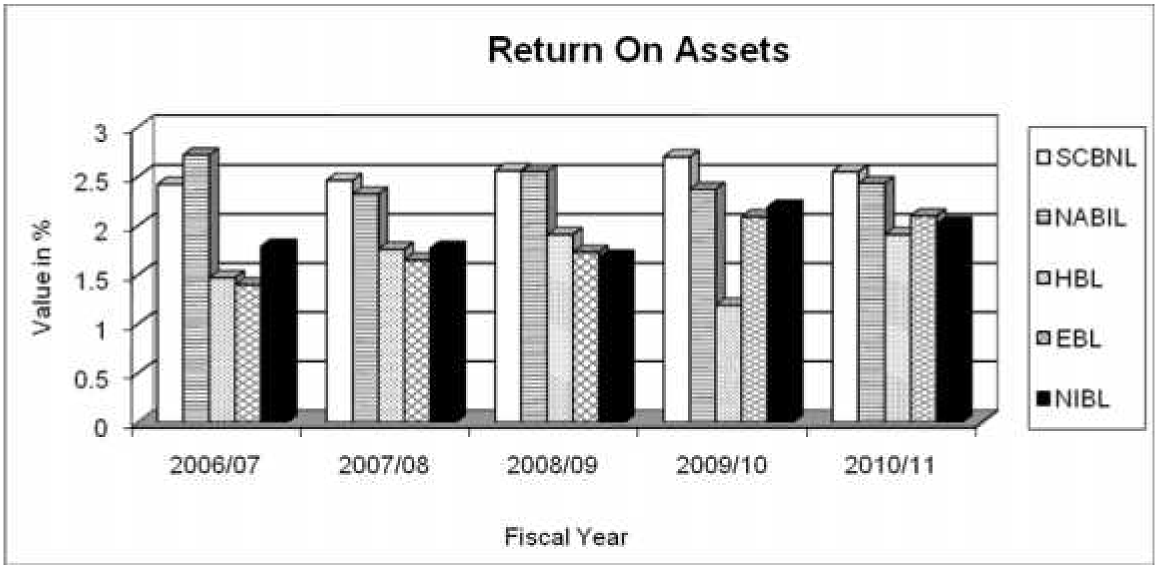


Figure 4.2 shows that the ROA of SCBNL, HBL, EBL and NABIL are in increasing order. All the commercial banks except NABIL have been utilizing its assets profitably. But NABIL has fluctuated ROA in different year with and ROA is low. HBL has a very low ROA in comparison to other banks. This shows that HBL management is very weak in managing its assets properly in comparisons to other banks. Always there will be depreciation, unseen cost, and opportunity cost incurred in Assets not only HBL, the ROA of the entire bank seems not so satisfactory. Assets are the major resources of every organization to earn. Failure to utilize assets means the risk for every organization for its survival. To acquire assets they have to spend and after acquiring assets if the organization could not utilize it profitably then this indicate very high risks.

4.2.3 Interest Income on Loan and Advances

Interest Income is the major source from the total loan and advances that earned High rate of interest income. It shows the high utilization of loan and advances.

Table 4.6

Comparative Review of Income on Loan and Advances

(In percentage)

Banks	Fiscal Year					Total	Mean	S.D	CV
	2006/07	2007/08	2008/09	2009/10	2010/11				
SCBNL	6.75	6.24	7.93	6.91	6.41	34.24	6.85	0.66	9.65
NABIL	4.62	3.96	4.02	3.47	3.73	19.80	3.96	0.43	10.95
HBL	2.89	3.26	3.04	1.82	2.83	13.84	2.77	0.77	27.98
EBL	2.10	2.40	2.61	2.95	2.94	13.00	2.60	0.34	13.15
NIBL	2.82	2.53	2.45	3.09	2.81	13.70	2.74	0.25	9.14
Total	19.18	18.39	20.05	18.24	18.72				
Mean	3.84	3.68	4.01	3.65	3.74				
S.D	1.87	1.56	2.27	1.92	1.55				
C.V.	48.81	42.47	56.76	52.71	41.35				

Source: - Annual Report 2006/07 – 2010/11

From the computation using scientific calculator, the average Interest Income of Loan and Advance of SCBNL (6.85) is highest among other banks. The NABIL has also high interest income with low consistent of CV and NABIL has very high prospects of earning similar interest income in the future. Even the HBL has highest interest income earning. SCBNL performance seems better in providing loan and advances for different years. Interest earning of all the banks also seems satisfactory and seems all of them have very good prospects to earn from interest income in the future.

Figure- 4.3

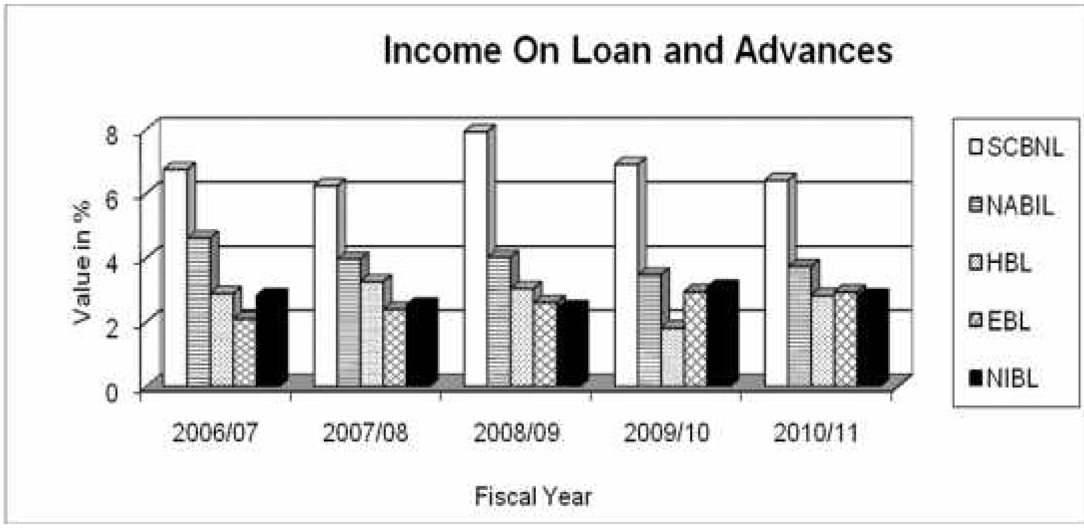


Figure 4.3 shows that the average Interest income earned on Loan and Advances by different banks were similar in different year. This shows they have not improved in their interest income earnings. It may be because of top competitions among them. The interest income only except EBL, all other banks has decreasing trend.

4.2.4 Operating Ratio

Operating ratios indicates an operating efficiency of every company. It determines the operational efficiency on the basis of total operating expenses incurred in proportion to total assets of any company.

Operating Ratio = Total operating expenses / Total Assets

Table 4.7

Comparative Review of Operating Ratio

(In percentage)

Banks	Fiscal Year					Total	Mean	S.D	CV
	2006/07	2007/08	2008/09	2009/10	2010/11				
SCBNL	2.94	2.78	2.68	2.94	3.82	15.16	3.03	0.45	14.94
NABIL	3.97	3.86	4.34	5.54	6.91	24.62	4.92	1.29	26.30
HBL	30.32	29.14	29.49	25.60	22.88	137.43	27.49	3.14	11.44
EBL	3.60	3.75	4.04	5.20	6.95	23.54	4.71	1.40	29.74
NIBL	1.38	1.27	1.09	1.23	1.34	6.31	1.26	0.11	8.60
Total	42.21	40.80	41.64	40.51	41.90				
Mean	8.44	8.16	8.33	8.10	8.38				
S. D	12.27	11.77	11.89	8.89	8.44				
C.V.	145.38	144.28	143.28	109.74	100.69				

Source: - Annual Report 2006/07 – 2010/11

From the computation using scientific calculator, the average operating ratio of five commercial in bank different years seems in increasing order except HBL and NIBL when we compare from fiscal year 2006/07 and 2010/11. This indicates the operating expenses are increasing every year. Out of five banks HBL (27.49) operating expenses is very high. Similarly, the operating efficiency of NIBL (1.26) is quite lower than other banks. NIBL seems very efficient to manage its expenses and its C.V also shows less risk of stability of their expenses in the future.

Figure- 4.4

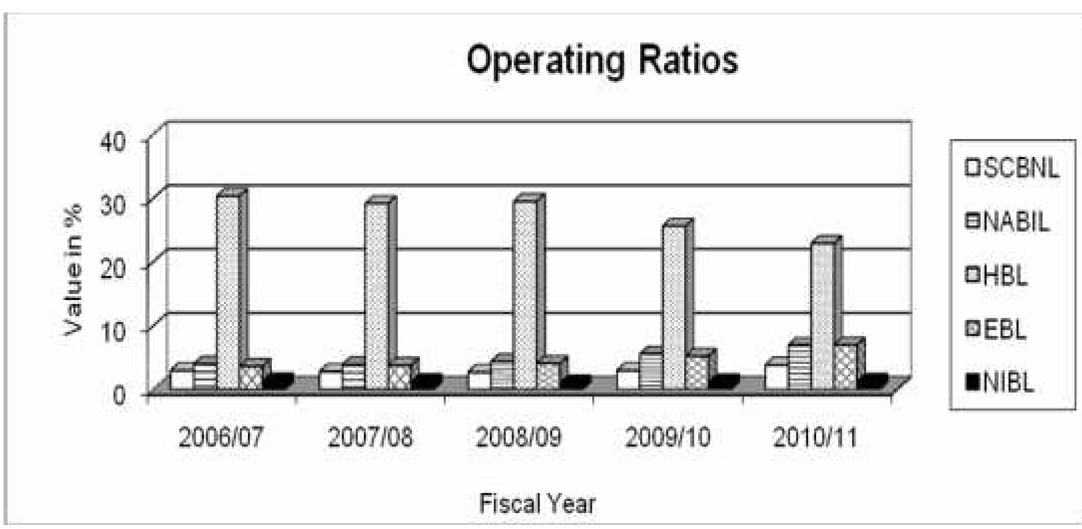


Figure 4.4 shows that the operating expenses of SCBNL in proportion to its total assets is very high. Increasing trend of operating expenses is quite risky for HBL management. But other bank has acceptable operating expenses according to their Operating ratio.

4.3 Activity Ratio Analysis

The activity ratios measure the effectiveness of asset utilization, reflecting the management's efficiency to use available resources. The bank uses the fund of creditors and owners in various profit generating assets like loans and advances, investments, etc. So, the activity ratios are employed to evaluate the efficiency of the bank in terms of resources and also an attempt has been made to analyze and interpret financial data of the subject matter in sequential order.

4.3.1 Credit Deposit Ratio

Banks make profit by lending or utilizing the deposits by charging a higher rate of interest to the borrowers than they pay the depositors. It measures the extent to which the banks are successful to mobilize the outsider fund i.e. total deposits in loan and advances for the purpose of profit-generation. Comparative Credit Deposit Ratio of selected top five commercial banks has been tabulated below: -

Table 4.8

Comparative Review of Credit Deposit Ratio

(In percentage)

Banks	Fiscal Year					Total	Mean	S.D	CV
	2006/07	2007/08	2008/09	2009/10	2010/11				
SCBNL	43.78	46.95	39.27	45.98	49.11	225.09	45.02	3.74	8.31
NABIL	68.13	68.18	73.87	71.17	78.29	359.64	71.93	4.28	5.95
HBL	56.57	63.37	73.58	77.43	80.57	351.52	70.30	9.92	14.11
EBL	77.44	78.56	73.43	76.24	76.98	382.65	76.53	1.93	2.52
NIBL	72.56	79.91	78.86	81.74	83.54	396.61	79.32	4.18	5.27
Total	318.48	336.97	339.01	352.56	368.85				
Mean	63.70	67.39	67.80	70.51	73.77				
S.D	13.55	13.37	16.11	14.21	13.97				
C.V.	21.27	19.84	23.76	20.15	18.94				

Source: - Annual Report 2006/07 – 2010/11

From the computation using scientific calculator, the average Credit Deposits ratio of NIBL shows higher value than other banks i.e. 79.32. It is quite risky for NIBL as it has granted loan to other of the deposit if NIBL could not collect the money. But average credit deposit ratio of five banks in different year seems satisfactory for utilizing the deposit funds. The C.V of Everest banks (2.52) seems very close consistent which refers that they have been utilizing the deposit uniformly in every year.

Figure- 4.5

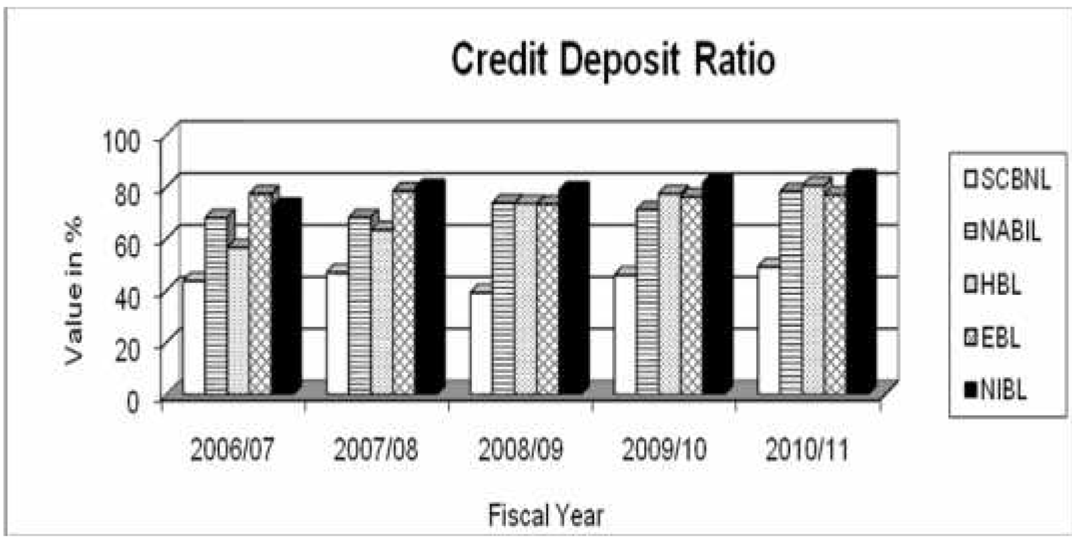


Figure 4.5 shows that the Credit Deposit ratio of NIBL is highest it shows NIBL is efficient to utilize the deposit fund but NIBL has also more risk for mobilizing more than 70% of deposit.

4.4 Solvency/Capital – Structure Analysis

A bank should have strong –term as well as long- tem financial position. The long-term financial position of the bank is judged by the leverage or capital structure ratio analysis. It measures the extent of the bank's total debt burden. It reflects the bank's ability to meet its short-term as well as long-term obligations.

To measure banks capacity of borrowing as means of capital accumulation, i.e. over extension of credit and borrowing power, which determine the long-term solvency of the banks. For this several capital-structure ratios are calculated.

4.4.1 Capital Adequacy Ratio

Capital adequacy ratio shows whether the commercial banks are maintaining sufficient amount of shareholders fund (net worth) in comparison to total amount of their deposits. Extremely high or low ratio is inappropriate in terms of lowered return of lowered solvency respectively. For this several capital adequacy ratios are calculated.

4.4.1.1 Core Capital

Table 4.9

Comparative Review of Core Capital

(In percentage)

Banks	Fiscal Year					Total	Mean	S.D	CV
	2006/07	2007/08	2008/09	2009/10	2010/11				
SCBNL	13.77	11.52	13.05	12.52	12.10	62.96	12.59	0.86	6.86
NABIL	10.40	8.75	8.74	8.77	8.83	45.49	9.10	0.72	7.98
HBL	9.61	9.36	8.81	8.68	8.88	45.34	9.07	0.39	4.36
EBL	7.80	9.04	8.52	8.39	8.46	42.21	8.44	0.49	5.85
NIBL	7.90	7.71	8.56	8.50	8.77	41.44	8.29	0.45	5.50
Total	49.48	46.38	47.68	46.86	47.04				
Mean	9.90	9.28	9.53	9.37	9.41				
S.D	2.43	1.39	1.97	1.77	1.51				
C.V.	24.00	15.01	20.65	18.85	16.09				

Source: - Annual Report 2006/07 – 2010/11

From the table it is known that SCBNL (12.59) has highest core capital than other. This shows that SCBNL is very strong than any other banks for maintaining core capital. For any kind of profitable investment opportunity that comes in the future SCBNL seems more capable to take the opportunity. The creditors or depositors of SCBNL are very safe with the core capital maintained by SCBNL.

Figure- 4.6

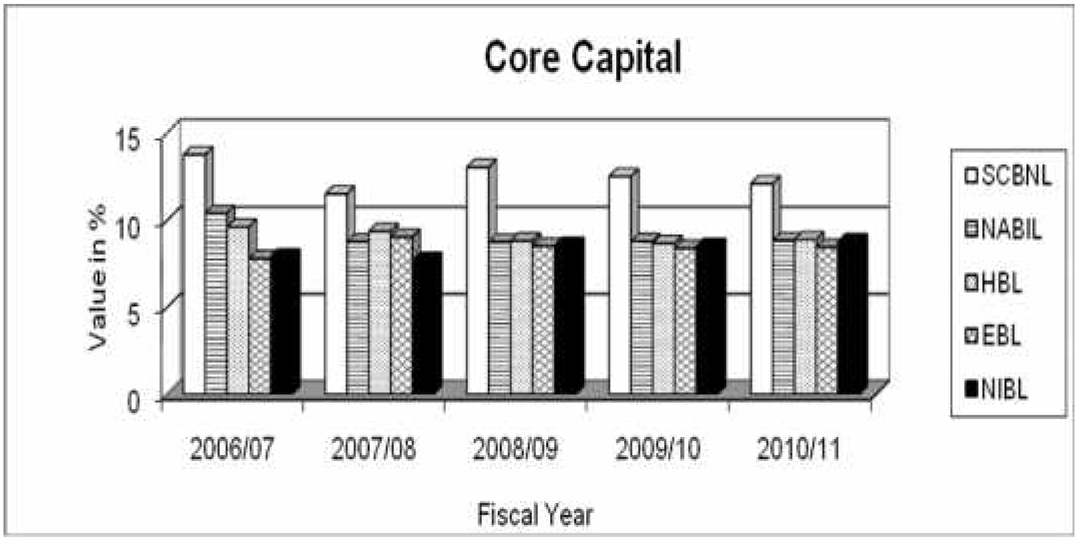


Figure 4.6 shows that the core capital of EBL and NIBL are increasing in nature and this reflects that earning and reserve are also increasing. SCBNL seems very strong to maintain the core capital but fails to maintain its consistency of increasing trend. The core capital of EBL seems lowest in among the five banks.

4.4.1.2 Supplementary Capital

It is the combination of general loan loss provision, exchange equalization reserve, assets re-valuation reserve, hybrid capital instruments, unsecured sub-ordinates term debt and other free reserves. The proper maintain of supplementary capital will safeguard the organization from any kind of uncertain risk in the future.

Table 4.10

Comparative Review of Supplementary Capital

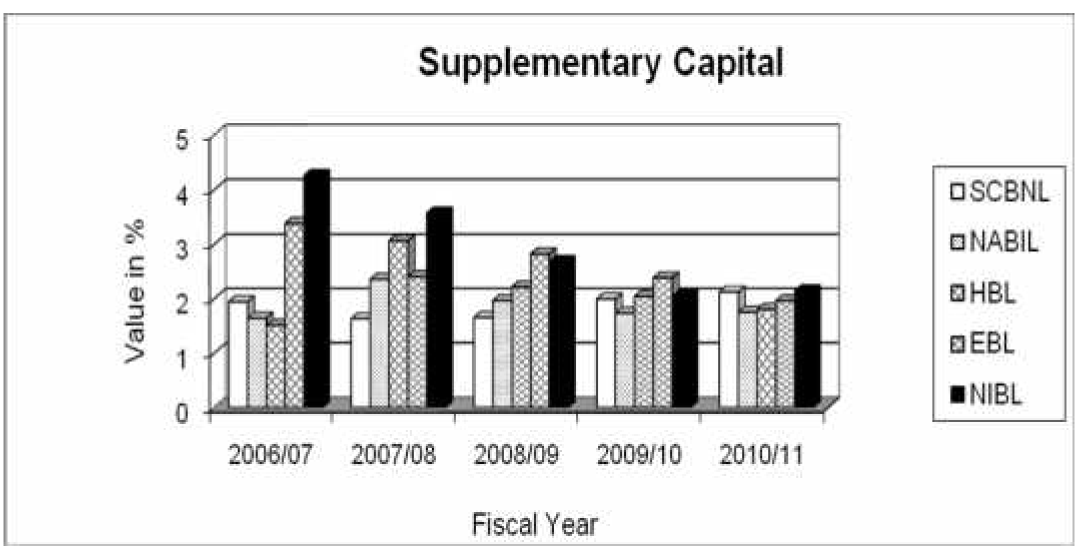
(In percentage)

Banks	Fiscal Year					Total	Mean	S.D	CV
	2006/07	2007/08	2008/09	2009/10	2010/11				
SCBNL	1.94	1.63	1.65	1.99	2.12	9.33	1.87	0.22	11.57
NABIL	1.64	2.35	1.96	1.73	1.75	9.43	1.88	0.28	14.89
HBL	1.51	3.06	2.21	2.04	1.80	10.62	2.12	0.58	27.57
EBL	3.38	2.40	2.82	2.38	1.96	12.94	2.59	0.53	20.67
NIBL	4.26	3.57	2.68	2.05	2.14	14.70	2.94	0.95	32.44
Total	12.73	13.01	11.32	10.19	9.77				
Mean	2.55	2.60	2.26	2.04	1.95				
S.D	1.21	0.74	0.48	0.22	0.18				
C.V.	47.56	28.46	21.52	11.03	9.10				

Source: - Annual Report 2006/07 – 2010/11

From the computation using scientific calculator, the average supplementary capital of NIBL (2.94) is highest. It shows that NIBL performance is very efficient in comparison to other banks but its C.V. shows that they have no stability in maintaining the supplementary capital. SCBNL (11.57) has a lowest supplementary capital. This also refers that NIBL is taking more risk.

Figure 4.7



From the diagram there is fluctuation in keeping supplementary capital by all the commercial banks .They do not have any uniform maintenance of their supplementary capital. This shows banks are not efficient to manage the supplementary capital uniformly.

4.4.1.3 Total Capital Fund

Table 4.11

Comparative Review of Total Capital Fund

(In percentage)

Banks	Fiscal Year					Total	Mean	S.D	CV
	2006/07	2007/08	2008/09	2009/10	2010/11				
SCBNL	15.71	13.15	14.70	14.51	14.22	72.29	14.46	0.92	6.36
NABIL	12.04	11.10	10.70	10.50	10.58	54.92	10.98	0.63	5.76
HBL	11.13	12.42	11.02	10.72	10.68	55.97	11.19	0.68	6.07
EBL	11.20	11.44	11.34	10.77	10.43	55.18	11.04	0.42	3.82
NIBL	12.17	11.28	11.24	10.55	10.91	56.15	11.23	0.60	5.35
Total	62.25	59.39	59.00	57.05	56.82				
Mean	12.45	11.88	11.80	11.41	11.36				
Std. Deviation	1.88	0.87	1.64	1.74	1.60				
C.V.	15.12	7.36	13.89	15.22	14.13				

Source: - Annual Report 2006/07 – 2010/11

From the computation using scientific calculator, the average Total Capital Fund maintained by SCBNL (14.46) is highest. This shows that SCBNL is very rich in comparisons to other banks. Even the HBL seems very top for its total capital fund. EBL (3.82) records seem more satisfactory according to the C.V. This shows the maintenance stability of total capital fund of EBL is highly stable.

Figure 4.8

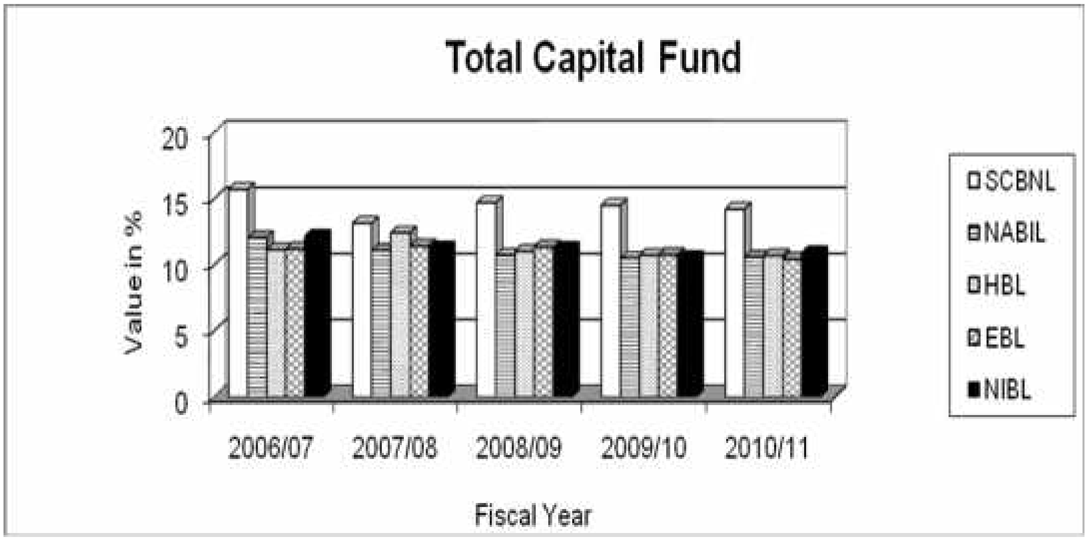


Figure 4.8 show that every bank has maintained their total capital fund sufficiently. SCBNL has the highest total capital fund than other banks but the fluctuation is also high in maintaining the total capital fund uniformly. Even the total capital fund of HBL and NIBL is lower than SCBNL these two banks are efficient to manage its total capital fund uniformly. They have stability in maintaining total capital fund.

4.4.2 Interest Expenses to Total Deposit Ratio

The main earning resource of every bank is the deposit or for the deposit they have to pay some interest to depositor. To attract depositor bank used to give more interest. Bank will be said efficient if they could get deposit fund in minimum interest rate. The interest of depositor toward bank or the reliability of bank will be measure from the interest expenses. It will be great achievement for banks if they could receive deposit in a very low interest rate.

If sometime banks could not mobilize the deposit fund on any profitable investment then it will be good for bank if the cost of interest on deposit is very low. Finally the interest expenses to total deposit ratio also shows customer reliable or interest upon the banks.

Table 4.12

Comparative Review of Interest Expenses to Total Deposit Ratio

(In percentage)

Banks	Fiscal Year					Total	Mean	S.D	CV
	2006/07	**2007/08**	**2008/09**	**2009/10**	**2010/11**				
SCBNL	1.65	1.59	1.53	1.64	2.62	9.03	1.81	0.47	25.97
NABIL	2.54	2.64	3.22	4.43	6.15	18.98	3.80	1.51	39.87
HBL	2.55	2.59	2.70	4.13	5.90	17.87	3.57	1.46	40.83
EBL	2.70	2.61	2.98	4.18	6.05	18.52	3.70	1.45	39.31
NIBL	2.71	2.79	3.53	4.99	7.20	21.22	4.24	1.89	44.53
Total	12.11	12.22	13.96	19.37	27.92				
Mean	2.422	2.44	2.79	3.87	5.58				
S.D	0.39	0.48	0.58	1.29	1.73				
C.V.	16.15	19.79	20.88	33.43	31.07				

Source: - Annual Report 2006/07 – 2010/11

From the computation, the average interest expense of SCBNL (1.81) is lowest among other banks. This indicates that SCBNL has generated a very cheaper fund in comparison to other banks and it has more chances of earning higher than other banks and it has low risks for not getting cheaper fund in the future according to its CV which is 25.97%.

Figure- 4.9

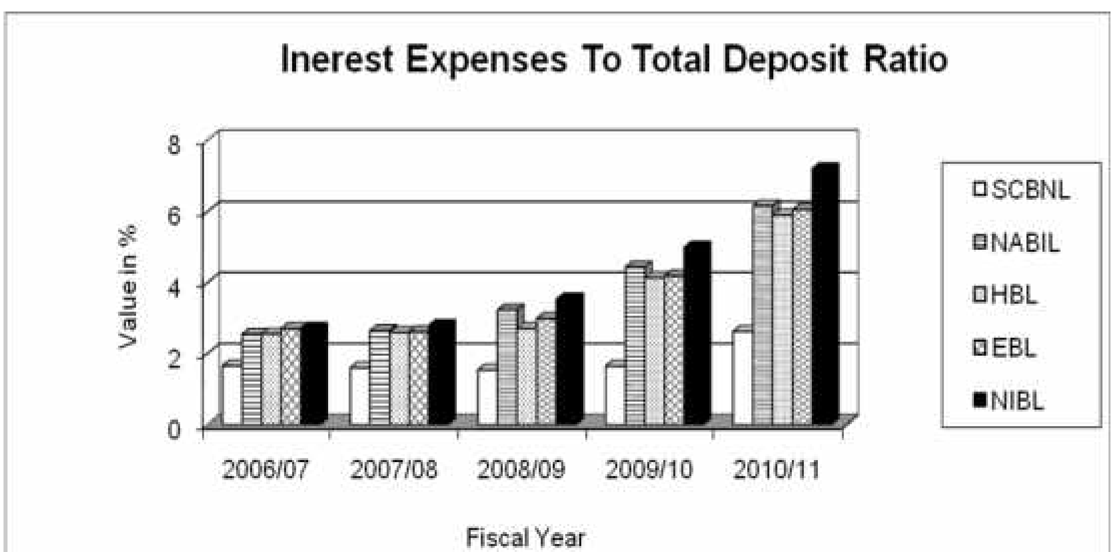


Figure 4.9 shows that interest expenses of all the banks are in increasing trend. It is good sign for generation of expensive fund. However it is seen that NIBL is taking more risk in comparison to other banks. NIBL has generated expensive fund in comparison to other banks.

4.5 Market Value Analysis

Market value analysis indicates the market value of the banks as compared to the bank value and measured the stock price relative to earnings. In this analysis part, the researcher analyzes and compares the various market related ratio analysis such as EPS, P-E Ratio and Cash Dividend on Share Capital for better presentation.

4.5.1 Earning Per Share

The earning per shares shows the profitability of the bank on per share basis. It shows the earning available to each share holders out of the total earning.

Earning is the basis for the existence of any company or organization. Higher earning means the efficient of any organizational performances. Every year share holder expects their dividend as the earning increases then dividend will be distributed to share holder also highly. If the earning of the company or organization increases then the value of share stock will also increase from which share holder can earn trading their shares.

The earning is the measure criteria of evaluating the performance of any kind of company or organization. Every share holder or owner of company expect of receiving high dividend as they have taken risk by investing in share. To pay proper dividend and for growth of any company or organization earning plays vital role.
The calculation of EPS made over the years indicates whether the banks earning power on per share basis are satisfactory or not.

Table 4.13

Comparative Review of Review of EPS

(In percentage)

Banks	Fiscal Year					Total	Mean	S.D	CV
	2006/07	2007/08	2008/09	2009/10	2010/11				
SCBNL	167.37	131.92	109.99	77.65	69.51	556.44	111.29	40.15	36.08
NABIL	137.08	115.86	113.44	83.81	70.67	520.86	104.17	26.66	25.59
HBL	60.66	62.74	61.90	31.80	44.66	261.76	52.35	13.69	26.15
EBL	78.40	91.82	99.99	100.16	83.18	453.55	90.71	9.81	10.81
NIBL	62.57	57.87	37.42	52.55	48.84	259.25	51.85	9.60	18.52
Total	504.76	460.21	422.74	345.97	316.86				
Mean	100.95	92.04	84.55	69.19	63.37				
S.D	43.42	32.34	33.37	27.01	16.16				
C.V.	43.007	35.14	39.47	39.04	25.50				

Source: - Annual Report 2006/07 – 2010/11

From the computation using scientific calculator, it is seen that the Earning of SCBNL is highest among other banks but its C.V. (36.08) indicates that SCBNL has very bad prospects of earning low in the future. SCBNL has a stability earning. NIBL (51.85) and HBL (52.35) have very low earning per share in comparison to other banks. Going through the average earning of all the five banks seems not satisfactory as the earning of all banks is in decreasing trend. But the average C.V of all the banks shows high instability rate. In aggregate we can say that there is high risk of changes in the EPS of Nepalese commercial banks.

Figure- 4.10

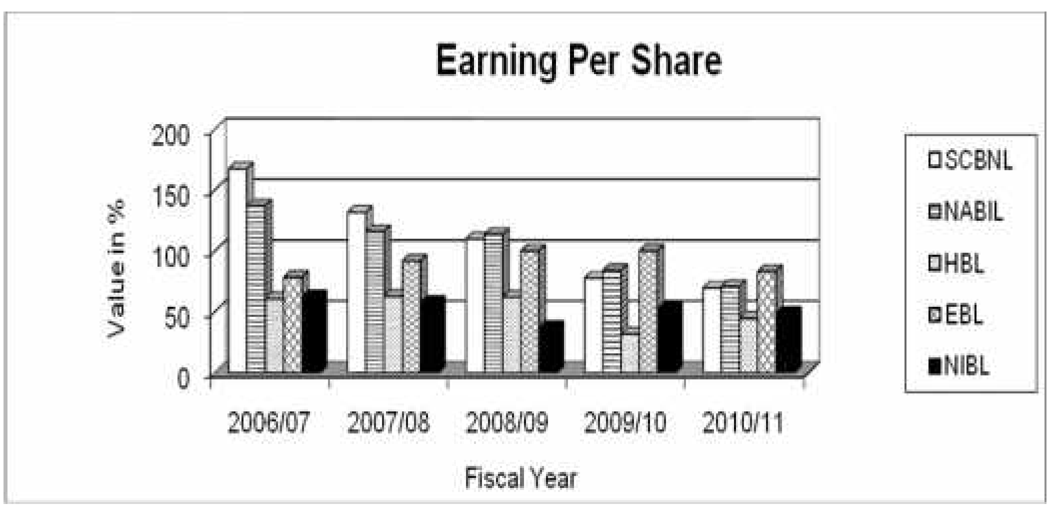


Figure 4.10 show that NABIL and EBL has very high earning per share than other banks. With their EPS share holders of these will not be satisfied. These banks should make control in their expenses.

4.5.2 Price- Earning Ratio

Price-Earning Ratio is used to access the banks performance as expected by the investors. Higher the ratio, the better it is for the owners. Every investor expects of increasing in the value of their net worth. As the value of the share stock raises this means that company or any organization are growing and they are performing better. Most of the share holders they like to proper utilization of their earnings rather to keep it idle. According to present value concept, every earning will create more value if the earnings are utilized effectively and efficiently in future.

The more price-earning ratio means the higher value of the stock price or it indicates that there is increased in increased value of the investors in initial investment. Every investor wants to invest for their long term purpose. So the higher price-earning ratio indicates safer investment or utilization of investment of shareholders.

Table 4.14

Comparative Review of P-E Ratio

(In percentage)

Banks	Fiscal Year					Total	Mean	S.D	CV
	2006/07	2007/08	2008/09	2009/10	2010/11				
SCBNL	35.25	51.77	54.64	42.23	25.90	209.79	41.96	9.99	23.81
NABIL	36.84	45.53	43.19	28.45	17.72	181.73	36.35	10.96	30.16
HBL	28.69	31.56	28.43	25.66	12.88	127.22	25.44	7.33	28.80
EBL	30.99	34.11	24.55	16.27	13.15	119.07	23.81	9.06	38.07
NIBL	27.63	42.33	37.10	13.42	10.54	131.02	26.20	14.05	53.62
Total	155.27	205.30	187.91	126.03	80.19				
Mean	31.05	41.06	37.58	25.21	16.04				
S.D	4.77	7.55	12.00	11.39	6.09				
C.V.	15.36	18.39	31.94	45.20	38.00				

Source: - Annual Report 2006/07 – 2010/11

From the computation, the average P-E ratio of SCBNL (41.96) is highest. This shows that SCBNL has a very safe future in comparison to other banks. The Share price of SCBNL is more than 30 times higher than earnings. This also indicates that performance of SCBNL is very satisfactory to its share holders and its C.V. (23.81%) also shows more stable and higher than other banks. NABIL (36.35) has also good P/E ratio after SCBNL. This P/E ratio shows that banks are using their earnings properly which has maximize the value of their investment.

The average P/E of commercial banks does not show satisfactory as the average ratio is in decreasing order. This indicates that commercial banks of Nepal have not properly utilized their earning and investment. Also the decreasing P/E ratios indicate that commercial banks are performing worse every year. The commercial banks of Nepal have also very low risk in allocating their funds as the deviation is very low. In fiscal year 2006/07 the average C.V. (4.77) of P/E ratios of commercial banks seems very consistent. It means the P/E ratios of the banks are quite similar.

Figure - 4.11

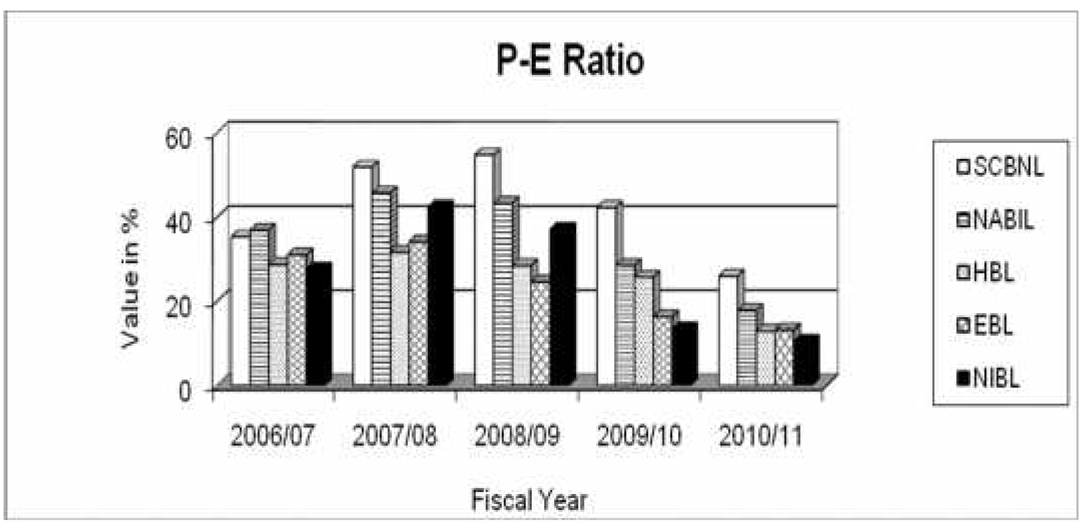


Figure 4.11 shows that the PE ratio of SCBNL is highest but it has fluctuating P/E ratio. P/E ratios of all the commercial banks are in decreasing order. It shows that commercial is not performing and utilizing their earning and investment.

4.5.3 Cash Dividend on Share Capital

This ratio measures the dividend distributed upon equity share to share holders. Higher distribution of dividend means the higher earning or higher financial achievement of any organization. Dividend is distributed only if the organization has earned properly. Dividends are the net income for the utilization of investment. No dividend can be made if there are no earnings and prospects of earnings. Every shareholder expects more dividends from their investment in share. Failure to distribute dividend creates some negative feelings to its share holder. In general, higher the ratio better it is and vice – versa. Generally two components affect this ratio: -

1) Amount of earning distributed as dividend, and
2) No. of equity/ common shares outstanding.

Table 4.15

Cash dividend on Share Capital

(In percentage)

Banks	Fiscal Year					Total	Mean	S.D	CV
	2006/07	2007/08	2008/09	2009/10	2010/11				
SCBNL	80	80	50	55	50	315	63	15.65	24.84
NABIL	100	60	35	30	30	255	51	30.08	58.98
HBL	15	25	12	11.84	16.84	80.68	16.14	5.38	33.35
EBL	10	20	30	30	50	140	28	14.83	52.97
NIBL	5	7.50	20	25	25	82.50	16.50	9.62	58.28
Total	210	192.50	147	151.84	171.84				
Mean	42	38.50	29.40	30.37	34.37				
S.D	44.52	30.29	14.55	15.64	15.02				
C.V.	106.01	78.68	49.50	51.51	43.71				

Source: - Annual Report 2006/07 – 2010/11

From the table it is seen that dividend received by share holder of SCBNL (63) is highest among other banks and the C.V of SCBNL (24.84) also indicate that distribution of dividend is also very stable means that SCBNL shareholder have very high prospects of earning dividend in the future. SCBNL has a very low chances of varies in the rate of dividend earning. The dividend of SCBNL is in decreasing order this indicates that earning of SCBNL is not highly satisfactory.

In aggregate also the average dividend earnings of Nepalese commercial banks seem decreasing order which is not satisfactory for the shareholder of Nepalese banks. But it is also seen that there is great variation in Dividend earned by different banks. Most of the banks like NABIL, EBL and NIBL have high fluctuation in providing dividend to its shareholder. This indicates the most of the commercial banks are in risk and they are not able to give satisfactory dividend to their share holder this may can brings serious problem to the bank or lose the trust of shareholder towards the bank. Because of not receiving dividend then many Nepalese investors will not investment their fund in banking field while banks are one of the major factors for development of any country.

Figure- 4.12

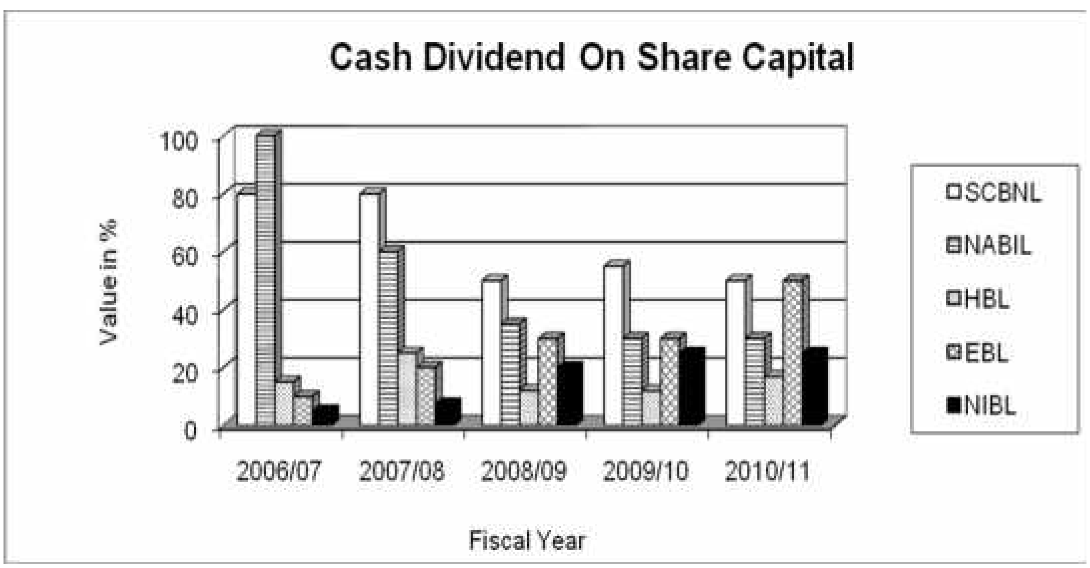


Figure 4.12 shows that dividend provided by SCBNL is highest among other banks for past five years. The dividend distributed by HBL, EBL and NIBL are in increasing trend which indicates that these banks are earning highly every year. The SCBNL and NABIL are distributing dividend higher in the beginning of the study period but are decreasing in the last fiscal year.

4.5.4 Dividend (including bonus) on Share Capital

Table 4.16

Dividend (including bonus) on Share Capital

(In percentage)

Banks	Fiscal Year					Total	Mean	S.D	CV
	2006/07	2007/08	2008/09	2009/10	2010/11				
SCBNL	130	130	100	70	50	480	96	35.78	37.27
NABIL	140	100	85	70	30	425	85	40.31	47.42
HBL	40	45	43.56	36.84	36.84	202.24	40.45	3.76	9.29
EBL	30	30	30	30	10	130	26	8.94	34.40
NIBL	30	40.83	20	25	50	165.83	33.17	12.17	36.68
Total	370	345.83	278.56	231.84	176.84				
Mean	74	69.17	55.71	46.37	35.37				
S.D	55.95	43.51	35.01	21.98	16.60				
C.V.	75.60	62.90	62.84	47.40	46.94				

Source: - Annual Report 2006/07 – 2010/11

From the computation using scientific calculator, the average dividend bonus of SCBNL (96.00) is highest among other banks. This means that SCBNL has earned very remarkably or they are earning more than they expected but its C.V. (37.27) is highest after NABIL (47.42) it seems there is high variation in distributing bonus for different year. This means that shareholder of SCBNL have is not high prospect to get dividend bonus in the future also. The bonus distributed by EBL (26.00) is very poor in comparison to other banks and it has also high variance in distributing bonus for different years. This may be able to bring very negative feeling to its shareholder.

Figure-4.13

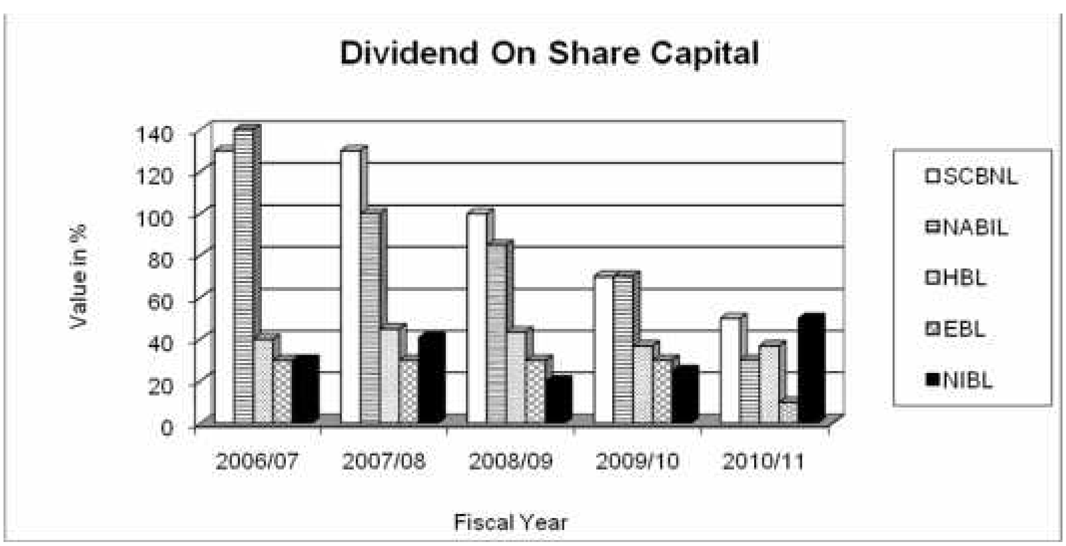


Figure 4.13 shows that the Dividend (including bonus) on Share Capital of SCBNL is highest but in decreasing order. The dividend amount distributed by NABIL is also in decreasing order. But the dividend distributed by HBL is consistency and NIBL is in increasing order.

4.6 Other Relevant Ratios

To make more analytical and best presentation of comparative performance analysis, it is necessary to computed following relevant ratios.

4.6.1 Staff Expenses to Total Operating Ratio

Table 4.17

Comparative Review of Staff Expenses to Total Operating Ratio

(In percentage)

Banks	Fiscal Year					Total	Mean	S.D	CV
	2006/07	2007/08	2008/09	2009/10	2010/11				
SCBNL	23.75	24.28	23.58	26.43	21.86	119.90	23.98	1.64	6.85
NABIL	24.41	21.17	23.96	13.79	11.91	95.24	16.91	6.30	37.26
HBL	47.40	45.91	47.54	46.83	47.06	234.74	46.95	0.64	1.37
EBL	11.03	15.42	12.53	10.52	9.13	108.13	21.63	11.33	52.38
NIBL	37.39	37.41	38.50	39.23	41.73	194.26	38.85	1.78	4.60
Total	143.98	144.19	146.11	136.80	131.69				
Mean	28.80	28.84	29.22	27.36	26.34				
S.D	13.97	9.90	13.71	15.72	17.68				
C.V.	48.49	34.32	46.92	57.46	67.13				

Source: - Annual Report 2006/07 – 2010/11

From the computation, the operating expense to its total assets of HBL (46.95) is highest but the C.V of HBL (1.37) is also quite lower. This shows that HBL could not cut- off or lower down its operating cost in near future also. The operating expense to its total assets of NABIL (16.91) is lowest as compared to other commercial banks.

From the staff view point, staffs of HBL are getting the highest salary and compensation than other banks. This will motivate HBL staffs for their better performances. It also can be predicted that in the future also HBL staffs can have better salary and compensation in the future.

The average staff expenses of commercial banks are increasing every year. This is good for the staffs of bank to perform better and it also motivate bank's staff to perform better and attract more candidates to make their career in banking field. However as the staffs expenses are increasing every year it is also very challenging for every banks to earn more to meet the expenses.

Figure- 4.14

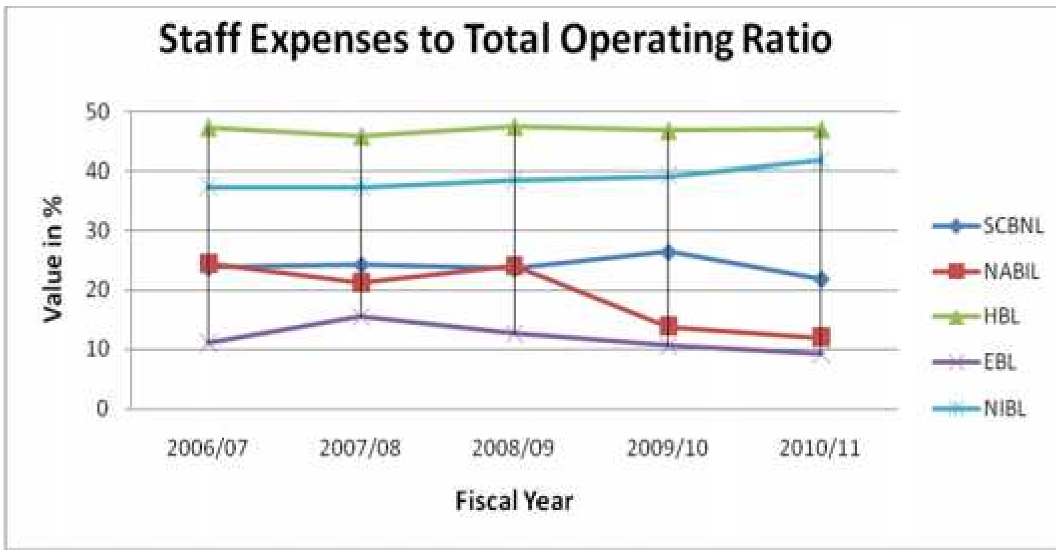


Figure 4.14 shows that all banks staff expenses are in decreasing order except NIBL. This indicates the staffs of banks are not getting better payment and compensation. The staff expenses of HBL are the highest among other banks while the staff expense of NABIL is lowest.

4.6.2 Staff Bonus to Total Staff Expenses

Table 4.18

Comparative Review of Staff Bonus to Total Staff Expenses

(In percentage)

Banks	Fiscal Year 2006/07	2007/08	2008/09	2009/10	2010/11	Total	Mean	S.D	CV
SCBNL	33.71	34.63	36.70	32.93	30.40	168.37	33.67	2.31	6.86
NABIL	41.43	41.42	43.50	44.29	42.05	212.69	42.54	1.29	3.04
HBL	19.78	24.51	22.81	15.41	19.30	101.81	20.36	3.50	17.22
EBL	52.80	41.70	47.68	52.48	45.41	240.07	48.01	4.73	9.86
NIBL	49.76	54.50	57.53	64.61	51.39	277.79	55.56	5.87	10.57
Total	197.48	196.76	208.22	209.72	188.55				
Mean	39.50	39.35	41.64	41.94	37.71				
S.D	13.31	10.97	12.96	18.81	12.82				
C.V.	33.69	27.89	31.11	44.85	34.00				

Source: - Annual Report 2006/07 – 2010/11

From the Staff Bonus to Total Staff Expenses table it was seen that staff bonus distributed to staff of NIBL (55.56) is highest. This shows that NIBL has a better policy of Human Resource mobilization. Even EBL has distributed highest bonuses it has also very low C.V which refer the staff bonuses distributed in different years are very consistent and staffs of EBL can have more gain in the future.

The average staff bonuses of all the banks are also in increasing order when we compare first and last fiscal year of the study period. This shows the banking career is becoming more earning and respectable for the employee. However the bonuses are in increasing order but there is very high differences in banks for distribution of bonuses.

Figure 4.15

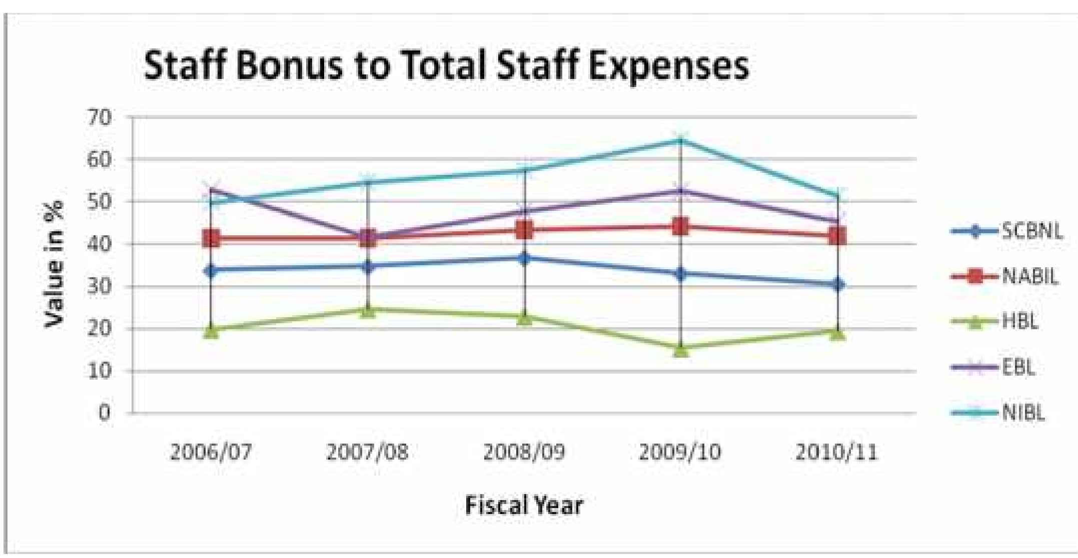


Figure 4.15 shows that the Staff Bonuses of different banks are increasing. The NIBL staffs are enjoying their highest bonuses.

There are great differences in banks for distributing bonuses rate to the total staff expenses. This is quite dangerous for the banks for staff turnover. As the staff turnover will be very costly to banks.

4.6.3 Weighted Average Interest Rate Spread

It is the difference between interest rate charged by a bank on loan and advances and interest rate offered on deposits. Generally commercial banks charge more interest rate on lending than they provide interest rate on deposits. Interest rate spread is calculated as follows:

Interest Rate Spread= Interest Rate on Lending – Interest Rate on Deposits

Table 4.19

Comparative Review of Weighted Average Interest Rate Spread

(In percentage)

Banks	Fiscal Year					Total	Mean	S.D	CV
	2006/07	2007/08	2008/09	2009/10	2010/11				
SCBNL	3.95	4.01	3.98	3.44	3.28	18.66	3.73	0.34	9.21
NABIL	4.15	3.94	4.16	4.40	4.37	21.02	4.20	0.24	5.83
HBL	3.57	3.66	3.66	4.21	3.96	19.06	3.81	0.26	6.97
EBL	3.91	4.34	4.40	4.78	4.60	22.03	4.41	0.33	7.42
NIBL	3.99	4.00	3.94	4.36	4.06	20.35	4.07	0.16	4.12
Total	19.57	19.95	20.14	21.19	20.21				
Mean	3.91	3.99	4.03	4.24	4.04				
S.D	0.21	0.24	0.27	0.49	0.50				
C.V.	5.39	6.07	6.84	11.62	12.43				

Source: - Annual Report 2006/07 – 2010/11

From the table it is concluded that the average interest rate spread of EBL (4.41) is highest among other banks where SCBNL (3.73) has lowest average interest rate spread. This means EBL charge highest interest rate while lending loan and SCBNL charges lowest interest rate for lending loan. NIBL (4.20) has also very high chances of having high interest rate spread in the future also. We can say that EBL is very efficient to utilize its deposit. The average interest rate spread of five banks seems very positive. This informs that banks are efficient to manage the deposit.

Figure 4.16

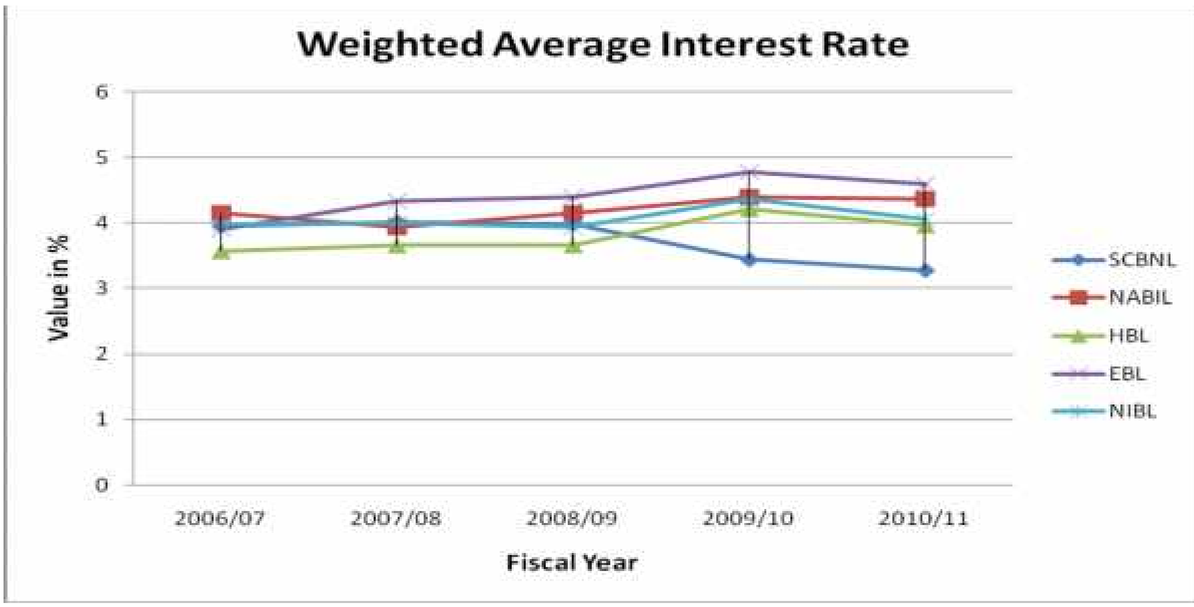


Figure 4.16 shows that the average interest rate spread of different banks are not similar. They have lot of difference in Weighted Average Interest rate.

4.6.4 Exchange Gain to Total Income

Foreign exchange gain is another source of income, which includes trading income and re-evaluation income. This ratio is computed by dividing exchange gain by total income of the commercial bank. NRB has given instruction to allocate a portion of these incomes as “Foreign Exchange Fluctuation Fund” and to retain one third of his income and show it in the balance that a payable to NRB. This ratio is income of commercial bank. It also represents high foreign currency transactions. The higher transaction gives the higher percentage of ratio.

Fx- Fluctuation Gain to total Income Ratio= Fx- Fluctuation gain/ total income X 100%

Table 4.20

Comparative Review of Exchange Gain to Total Income

(In percentage)

Banks	Fiscal Year					Total	Mean	S.D	CV
	2006/07	2007/08	2008/09	2009/10	2010/11				
SCBNL	15.44	14.75	15.36	15.40	10.86	71.81	14.36	1.92	13.36
NABIL	10.02	7.81	7.47	6.17	4.60	36.07	7.21	2.01	27.92
HBL	6.71	8.27	8.51	4.80	3.66	31.95	6.39	2.13	33.29
EBL	2.10	3.45	2.44	1.37	0.05	9.41	1.88	1.27	67.43
NIBL	6.77	6.03	4.79	4.19	3.47	25.25	5.05	1.34	26.61
Total	41.04	40.31	38.57	31.93	22.64				
Mean	8.21	8.06	7.71	6.39	4.53				
S.D	4.93	4.19	5.10	5.33	3.94				
C.V.	60.04	51.98	66.14	83.47	86.92				

Source: - Annual Report 2006/07 – 2010/11

From the computation, the average Exchange gain of SCBNL (14.36) is highest among other banks. It has also very low standard deviation and C.V 13.36) which indicates there is less risk in fluctuations occur in their exchange gain income and the chances of variation from average gain is also very low in the future. This means that SCBNL can earn highest exchange gain in the future. EBL (1.27) has the lowest exchange gain (67.43) with high risk and variation occurred in future from the present average exchange gain.

The average exchange gain of five banks in year 2010-2011 (86.92) is the highest in comparison to other years. The exchange gain income is increasing every year this shows that they are earning their exchange gain income. Exchange gain income is also one of the major income sources of every bank. If the international business activities increased i.e. import or export increased then exchanging activities of foreign currency also increased.

Figure– 4.17

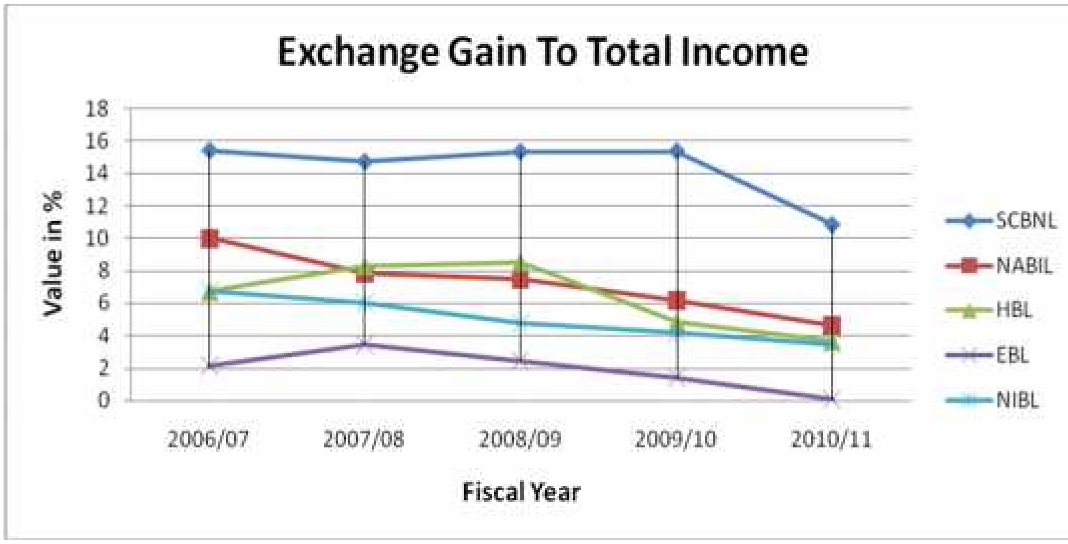


Figure 4.17 it is seen that the exchange gain of SCBNL is highest in comparison to other banks but it is in decreasing trend. There is also lot of difference in exchange gain rate among five banks. This shows that there is no any uniformity in exchange gain earning among banks. The exchange gain earning of all commercial banks are in decreasing trend.

4.7 Non – Performing Assets

Non- performing asset (NPA) in terms of banking sectors consists of those loans and advances which are not performing well and likely to be turn as bad loan. It may be simply defined as bad loan. As per NRB directives, it has been categorized all classifieds loans and advances. NPA has several impacts on the financial institution. On the one hand investment becomes worthless, as expected return cannot be realizable. The profitability is directly affected.

NPA as categorized by NRB are classified loans and advances. For the probable loss on lending that cannot be recovered even after liquidation. NRB has directed to maintain loss provision. The loan loss provision is to be maintained by debiting profit and loss account. Thus as the quality of loan degrades the ratio of loan loss provision is increased the profitability of banks.

Table 4.21

Comparative Review of NPA

(In percentage)

Banks	Fiscal Year					Total	Mean	S.D	CV
	2006/07	2007/08	2008/09	2009/10	2010/11				
SCBNL	1.83	0.92	0.66	0.61	0.62	4.64	0.93	0.52	55.68
NABIL	1.12	0.74	0.80	1.48	1.77	5.91	1.18	0.58	49.77
HBL	3.61	2.36	2.16	3.52	4.22	15.87	3.17	0.88	27.74
EBL	0.80	0.68	0.48	0.16	0.34	2.46	0.49	0.26	52.29
NIBL	2.37	1.12	0.58	0.67	0.94	5.68	1.14	0.72	63.33
Total	9.73	5.82	4.68	6.44	7.89				
Mean	1.95	1.16	0.94	1.29	1.58				
S.D	1.11	0.69	1.93	1.31	1.57				
C.V.	56.92	59.59	205.32	102.75	99.36				

Source: - Annual Report 2006/07 – 2010/11

From the computation, the average of NPA of EBL (0.49) seems comparatively lower than other bank. It means that EBL management is very effective to manage its lending procedure. Higher the NPA means higher the losses and risk. The NPA of HBL (3.17) is highest in comparison to other banks this indicates that HBL is facing some kind of risk. HBL is inefficient to proper analysis of loan and advances.

The average NPA of five banks is quite satisfactory. The decreasing trend of NPA of banks indicates that banks are performing better for allocating its assets to Loan and advances properly however the C.V shows there is great variation in NPA of five banks. This indicates some of bank like HBL position of having NPA is not satisfactory and they are taking risks. Increase in NPA means big threat for survival of any organization or company.

Figure 4.18

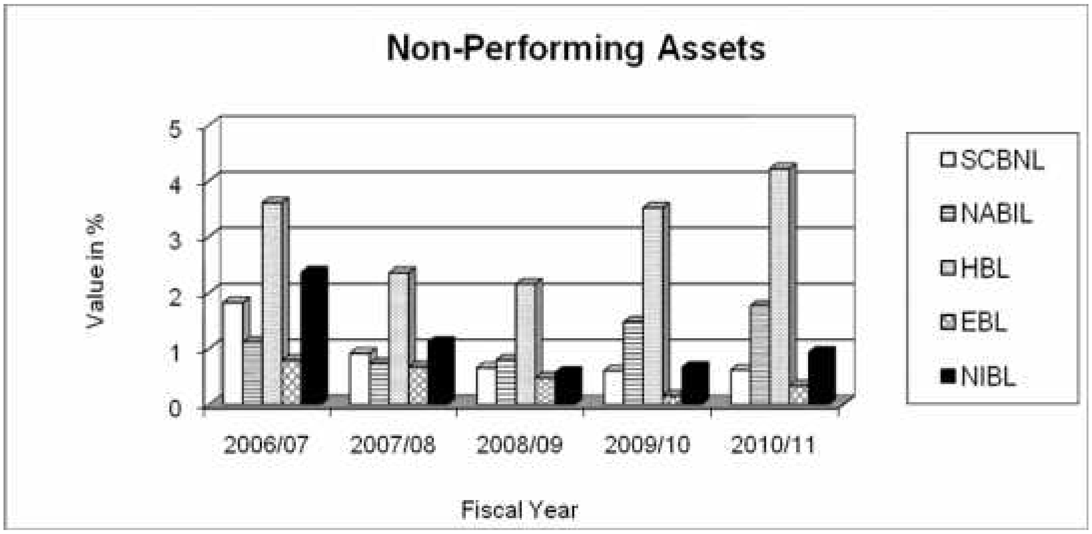


Figure 4.18 it was seen that NPA of HBL is in increasing order which indicates negative sign for the bank but in comparisons to other banks the NPA of HBL is highest in every year. This shows that the HBL fails to recovers it Loan and Advances that they have given to their borrowers. The HBL NPA is remarkably higher than other banks.

The NPA of EBL is highly satisfactory they have a minimum NPA than other banks in different years. This indicates that EBL is very efficient to lend its loan and advances or they have proper utilization of their deposits funds.

The NPA of SCBNL, EBL and NIBL all are in decreasing order which indicates that banks are properly issuing loan and advances or utilizing the assets of bank rationally.

4.8 Major Findings

1) Liquidity Analysis

(i) Analysis of liquidity (CRR) indicates better liquidity managed by all the banks over the five years period. All the commercial banks are able to maintain the liquidity (CRR) as per the directives of central bank.

2) Profitability Analysis

(i) Review of Net Profit Margin indicates unsatisfactory in comparison over the five years period to each other. All the commercial banks net profit margin has decreased.

(ii) Review of ROA indicates SCBNL (2.54) and NABIL (2.48) have higher than other banks i.e. they effectively using the total fund supplied by the owners and creditors. They also have successful to get higher return on the assets used in business.

(iii) Review of Interest Income on Loan and Advances indicates all the top five banks earned high rate of interest income on loan and advances over the study period. Only EBL (2.10 -2.94) has increasing trend when we compare first and last fiscal year, which means it has high utilization of loan and advances.

(iv) Review of Operating ratio indicates NIBL (1.26) is more successful to minimize the operating ratio whereas SCBNL (3.03) have holds comparatively second position. But, HBL (27.49) ratio is unsatisfactory.

3) Activity Ratio Analysis

Review of Credit Deposit ratio indicates NIBL (79.32) has higher value over the study period or in overall average too. EBL (76.53) holds 2nd position. Similarly, NABIL (71.93) and HBL (70.30) had moderate value whereas SCBNL (45.02) has least. It means that SCBNL did not make profit by lending or utilizing the deposits by charging a high rate interest to the borrower than they pay the depositors.

4) Market Value Analysis

(i) Review of Earning Per Share (EPS) indicates SCBNL (111.29) and NABIL (104.17) have higher ratio. They hold first and second position respectively. HBL (52.35) and EBL (90.71) have moderate ratio whereas NIBL (51.85) has least. It means NIBL had least profitability on per share basis in comparison to top four banks.

(ii) Review of P-E ratio indicates SCBNL (41.96) have higher value than other banks. NIBL, NABIL, HBL and EBL have getting more competitive value. This shows they all have better P-E ratio.

(iii) Review of Cash Dividend on Share Capital indicates SCBNL (63.00) has higher value and it have been providing greater cash dividend on share capital to its shareholders. NABIL have moderate value whereas HBL, EBL and NIBL have least value.

(iv) Review of Dividend including bonus on Share Capital indicates that SCBNL (96.00) have higher value than others. NABIL (85.00) has moderate value. It means SCBNL has been providing nearly hundred percent dividends including bonus on share capital, where EBL (26.00) has least on an average and not providing such dividend in each year for the study period.

5) Solvency Analysis

(i) Review of Capital Adequacy ratio indicates all the banks have lower capital adequacy ratio in terms of core capital except EBL and NIBL when we compare first and the last fiscal year. SCBNL (12.59) is successful to maintain capital adequacy ratio as per the directives of central bank. NIBL (8.29) have least ratio. Off course it is inappropriate in terms of lowered return of lowered solvency point of view.

(ii) Review of Interest Expenses to Total Deposit ratio indicates SCBNL (1.81) has ability to generate cheaper fund than other banks. NABIL, HBL and EBL have moderate ratio among them where NIBL (4.24) has comparatively higher ratio among them. It means NIBL fails to generate cheaper fund among them.

6) Other Relevant Ratios

(i) Review of Staff Expenses to Total Operating ratio indicates HBL (46.95) and NIBL (38.85) have contributed more staff expenses in total operating expenses. NABIL (16.91) holds least value, whereas EBL and NIBL have moderate value. It means NABIL has not been contributing more staff expenses in total operating expenses. It means NABIL has not been providing sound salary and other allowances in comparison with HBL, NIBL, EBL and SCBNL.

(ii) Review of Staff Bonus to Total Staff Expenses indicates NIBL (55.56) has higher value whereas SCBNL, NABIL and NIBL have moderate value. HBL (20.36) has lower value. It means HBL has been providing lower staff bonus to its staff with comparison among top five banks.

(iii) Review of Weighted Average Interest Rate Spread indicates NIBL (4.07), NABIL (4.20) and EBL (4.41) have higher average value respectively. SCBNL (3.73) and HBL (3.81) have lower value spread. It means weighted average interest rate spread of NIBL, NABIL and EBL have almost same spread whereas HBL and SCBNL have comparatively lower.

(iv) Review of Exchange Income/ Gain indicates SCBNL (14.36) has higher average value than other banks. NABIL, HBL and NIBL have moderate average value. EBL (1.88) has least value with comparison to them. It means SCBNL has been gaining more income from foreign exchange income where as EBL has not been gaining satisfactory among top five banks.

7) Non- Performing Asset (NPA)

(i) Review of NPA indicates EBL (0.49) and SCBNL (0.93) have comparatively lower average of such ratio. NABIL (1.18) and NIBL (1.14) have comparatively moderate average. But HBL (3.17) has higher average of Non-Performing asset. EBL has been maintaining in consistency manner whereas HBL has inconsistency.

CHAPTER-5

SUMMARY, CONCLUSIONS & RECOMMENDATIONS

5.1 Summary

Banks, which deal with commercial activities, are known as commercial banks. These financial institutes help to integrate every financial activity of the community. The main objective of a commercial bank is to play a vital role in the development of good trade.

Commercial banks are mechanisms of mobilizing funds in returnable resources. They offer financial support to all types of business through providing various types of loans and other financial services. Commercial banks aid the economic development of the nation.

Commercial banks pool together the savings of the community and use the funds productively through prudent investments. The commercial act 2031 defines commercial banks as a bank which deals in exchanging currency, accepting deposits, giving loans and is involved in commercial activities.

The commercial banking in Nepal started from 1937 A.D (Baisakh 1994 B.S) with the establishment with Nepal Bank Limited, it was established with 51% ownership of Nepal government and 49% of equity participation from private sector.

Having felt the need of development of banking sector and to help the government to formulate monetary policies, Nepal Rastra bank was set up in 14th Baisakh, 2013 B.S. Since then, it has been functioning as the government bank and has contributed to the growth of financial sector. Though Nepal Rastra Bank has at present, adopted a deregulatory approach, it requires continuous modification in view of fast changing world.

Integrated and speedy developed of the country is possible only when competitive banking service reach every books and corners of the country. Today number of commercial bank are concentrated in only few places because lack of development of infrastructure in remote places. Government must give attention toward remote places.

Bank plays vital role in the economic development of nations. So today it is challenging for government to formulate the new banking policy rationally in remote area. Actually more than 60% of total areas of Nepal are covered with rural areas. For the economic upliftment of rural areas it is necessary to provide banking services in rural areas.

Function of commercial bank

1) Accepting the deposit
2) Lending of Money
3) Remittance
4) Miscellaneous function
   i) Collecting of cheques, bills and other instruments
   ii) Opening letter of credit
   iii) Insurance of traveler’s cheques.
   iv) Underwriting of capital issues
   v) ATM facility

As a financial intermediary commercial banks may give greater contribution to GDP for economic development. They play an imminent role in the financial system whereas our economic structural moved to 61.1% in 2059 and 63.42% in 2068.

There is no doubt; commercial banks are the real intermediaries who transfer saving to the borrowers so that the money can use in the productive sector. The overall situation of the country did not improve in this year too. Due to the reason, economic sector has been badly affected. The growth rate (at factor cost) of agriculture and non-agriculture sector (before adjusting bank service charges) is estimated to be 3.8% and 2.6% respectively there by 3.5% of economic growth rate.

The research work entitled the comparative study on financial performance analysis of commercials banks include the following banks: -

1) Standard Chartered Bank Ltd.
2) NABIL Bank Ltd.
3) Himalayan Bank Ltd.
4) Everest Bank Ltd.
5) Nepal Investment Bank Ltd.

The research work should have reached the destiny where we satisfy with the queries of research problems which were specified in the statement of the problem in the introductory chapter. To conduct the research work, the researcher consulted mainly the secondary sources such as documents published by concerned banks and also consulted the personalities of the related bank as primary sources where as necessary. Before presenting and analyzing the data, there was also need to review of related books, prior research on the topic. Obviously, it helped the researcher to construct conceptual framework and to analyze and interpret the secondary data according to objective set forth previously. Then the research work was analyzed and interpreted by financial tools such as cash reserve ratio, net profit margin, return on assets, earning per share, P-E ratio and non-performing assets (NPA) as well as statistical tools such as mean, standard deviation, CV and F-test (two – way ANOVA).

In this way, the researcher analyzed and presented the 4th chapter, which was the main body of the research work. On the basis of data analysis and presentation, the researcher extracted some major findings. It has been explained along with the data analysis and presentation. So, on the basis of major findings the researcher reached in the conclusions keeping in the previously set objectives in mind. Ultimately, the researcher will recommend on the research problem to its stakeholders.

To know the real performance of banks, the researcher observed and analyzed the comparative performance analysis of top five commercial banks for five years period. It is hoped that the comparative performance analysis of top five commercial banks will give a rational result and represent the overall banking scenario in terms of performance analysis.

To analyze the liquidity position, only cash reserve ratio has been calculated. Considering the overall data presented for five years period, it seems that the banks have been maintaining the CRR as per the directives of central bank. In profitability, NPM, ROA, Operating ratio has been calculated. All ratios show at satisfactory level. In viewpoint of assets utilization ratio, credit deposit ratio is calculated. It shows increasing trend. In market value analysis, EPS, P-E ratio, cash dividend on share capital has been calculated. This shows also in increasing trend except first year. The NPA analysis is also decreasing. In the review of statistical tools, F-test ratio shows there is significant relationship among five banks variances.

5.2 Conclusion

After the analysis of relevant data of top five commercial banks, following conclusions are extracted based on the findings: -

All the banks have maintained cash reserve as per the directives of NRB. All the commercial banks have been making adequate deposits which helps to meet short-term obligations.

Net Profit Margin indicates unsatisfactory in comparison over the five years period to each other. All the commercial banks net profit margin has decreased. ROA indicates SCBNL (2.54) and NABIL (2.48) have higher than other banks i.e. they effectively using the total fund supplied by the owners and creditors. Interest Income on Loan and Advances indicates all the top five banks earned high rate of interest income on loan and advances over the study period. Only EBL (2.10 -2.94) has increasing trend when we compare first and last fiscal year, which means it has high utilization of loan and advances, which means it has been high utilizing the loan and advances.

NIBL is successful comparatively in utilizing the deposits by charging higher rate of interest to the borrowers than pay to the depositors. But in the case of SCBNL, it is comparatively unsuccessful to utilizing the deposits by charging higher rate of interest, while remaining banks are in satisfactory level.

To the view point of Earning Per Share, SCBNL and NABIL have getting comparatively more EPS than other banks, whereas SCBNL get in consistency manner too. HBL and NIBL have unsatisfactory EPS but its variables indicate consistency in some extent. SCBNL has better P-E ratio but it shows inconsistency to some extent, however HBL shows consistency in nature in spite of moderate P-E ratio. Investors of SCBNL have more expectations to the viewpoint of market appraisal of the performance of the bank.

SCBNL has been providing comparatively greater cash dividend on share capital in a consistency manner too. HBL, EBL and NIBL have been providing lower cash dividend in inconsistency manner. SCBNL has been providing Dividend (including bonus) on share capital comparatively greater than other banks in a consistency manner. SCBNL provides nearly 100 % over the study period. In this view point, NABIL has also been providing better dividend in a consistency manner to some extent but lower average, EBL has not provided dividend (including bonus) on share capital , EBL shows greater inconsistency too.

Except SCBNL, all remaining bank have been maintaining lower capital adequacy ratio as per the directive of central bank. SCBNL is successful to generate cheaper fund, whereas EBL is unsuccessful to generate cheaper fund. So, EBL earns less profitability on generating loan and advances.

Having strong EPS than others, SCBNL has not been bearing sound salary and other allowances expenses in total operating expenses. EBL also shows least ratio. HBL has not been comparatively focusing to provide staff bonus rather it bears sound salary and allowances benefit than other banks. HBL and EBL have charging comparatively lower spread, whereas HBL shows more consistency than EBL.

There is no need to pay more attention towards exchange gain to SCBNL. But an EBL effort towards exchange gain is less satisfactory than other while remaining banks are comparatively satisfactory level.

Performance of all banks in maintaining NPA is satisfactory, whereas HBL, NIBL and NABIL's performance is comparatively not sound.

5.3 Recommendations

Based on the analysis, interpretation and conclusions of the research work, certain recommendations can be advanced to overcome the weakness and inefficiency and to improve the performance to its stakeholders. This effort may give insights to its stakeholders too.

1) To meet short – term obligations, it is strongly recommended to all the commercial banks to maintain CRR as per the directives of central Bank. Otherwise they will suffer from liquidity crunch and will lose creditors confidence.
2) It is recommended to HBL, EBL and NIBL to effective utilization of total fund (assets) so as to make more profitability.
3) Interest income on loan and advances is at satisfactory, so it is recommended to give continuity as previous.
4) It will be sound competitive to HBL to maintain Operating ratio on Total assets comparatively lower.
5) It will be sound effective while SCBNL utilize the deposits by charging higher rate of interest to the borrowers than the depositors as a viewpoint of effective management of assets.

6) It is recommended to NIBL to pay more attention about profitability (EPS). It will be still sound effort while giving continuity to maintain as previous by SCBNL and NABIL.

7) It is recommended to all the commercial banks except SCBNL to give consistency in P-E ratio.

8) It is recommended to HBL, EBL and NIBL to give contribution on cash dividend in a consistency manner than dividend (including bonus) on share capital.

9) Except SCBNL, it is strongly recommended to all banks to maintain capital adequacy ratio as per the directives of central bank.

10) It is strongly recommended to EBL to generate cheaper fund by bearing favorable lower interest rate on deposits.

11) It will be better to SCBNL and NABIL to bear comparatively sound contribution towards staff expenses out of total operating expenses at view point of employee satisfaction and their effective utilization.

12) It is recommended to HBL to pay more attention towards staff bonus to be competitive among top five banks.

13) It is recommended to SCBNL and HBL to pay more attention towards interest rate spread.

14) It is recommended to EBL to pay more attention towards exchange of foreign currencies. It will give contribution to total income too.

15) It is recommended to HBL to conscious about the NPA in recent years.

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APPENDIX-1

Two way ANOVA test

Banks	Fiscal Year					Row total	Row square total	Row square total/5
	2006/07	2007/08	2008/09	2009/10	2010/11			
SCBNL	5.46	5.84	8.18	6.74	6.10	32.32	1044.58	208.92
NABIL	6.00	8.37	9.03	3.02	4.90	31.32	980.94	196.19
HBL	5.92	5.13	6.76	6.76	5.75	30.32	3799.49	183.86
EBL	2.94	4.56	14.26	15.53	9.55	46.84	2193.98	438.80
NIBL	10.47	10.91	10.32	7.77	7.67	47.14	2222.18	444.43
Column Total	30.79	34.81	48.55	39.82	33.97	187.94	10241.17	1472.20
Column square total	948.02	1211.74	2357.10	1585.63	1153.96	7256.45		
	189.60	242.35	471.42	317.13	Column square total/5	1451.29		

1) Correlation Factor (C.F) = T^2 / N

$= (187.94)^2/25$

$= 1412.86$

Square of Variable

Banks	Fiscal Year					Row total
	2006/07	2007/08	2008/09	2009/10	2010/11	
SCBNL	29.81	34.10	66.91	45.43	37.21	213.46
NABIL	36.00	70.05	81.54	9.12	24.01	220.72
HBL	35.05	26.32	45.69	45.70	33.06	185.82
EBL	8.64	20.79	203.35	241.18	91.20	565.16
NIBL	109.62	119.3	106.50	60.37	58.83	454.62
Column Total	219.12	270.56	503.99	361.80	244.31	1599.78

2) Total Sum of Squares (TSS) = $\sum xi^2$- C.F

$= 1599.78 – 1412.86$

$= 186.92$

3) Sum of square due to column factors (years) SSC= $(30.79)^2/5 + (34.81)^2/5+ (48.55)^2/5+ (39.82)^2/5+ (33.97)^2/5$ – C.F

$= 1451.29 – 1412.86$

$= 38.43$

4) Sum of square due to row factors (years) SSR = $(32.32)^2/5 + (31.32)^2/5 + (30.32)^2 5 + (46.84)^2/5 + (47.14)^2/5$ – C.F

= 1472.20 – 1412.86

= 59.34

5) Sum of squares due to error (SSE) = TSS-SSC-SSR

= 186.92 – 38.43 – 59.34

= 89.15

Source of Variation	D.F	Sum of Square	Mean Sum of Square	F-Ratio
Due to Column factors	= 5-1 =4	38.43	MSC= SSC/C-1 = 38.43/4 = 9.61	FC=MSC/MSE = 9.61/5.57 = 1.72
Due to Row Factors	=5-1 =4	59.34	MSR=SSR/R-1 = 59.34/4 = 14.83	FR=MSR/MSE = 14.83/5.57 = 2.66
Due to Error	=4 x 4 =16	89.15	MSE=SSE/4 x4 = 89.15/16 = 5.57	

Table value for column factor is at -----% level of significance at (….., …..) d.f is …….. since, FC = 050 < > d.f (…) , H_0 is accepted/ rejected i.e there is (no) significant difference in CRR among five different banks. Also table value for row factor is at ……% level of significant at (….., …..) d.f is …….. since, FC = 0.50 < > d.f (…) , H_0 is accepted/ rejected i.e there is (no) significant difference in CRR among five different banks. Hence, there is significant difference. Hence it is concluded that there is (no) significant difference in CRR among five different banks in different years.

APPENDIX-2

Hypothesis Test

Null Hypothesis (i) H_0: $\mu_A = \mu_B = \mu_C = \mu_D = \mu_E$ i.e. there is no significant difference in the net profit margin among five banks.

Null Hypothesis (ii) H_0: $\mu'_A = \mu'_B = \mu'_C = \mu'_D = \mu'_E$ i.e. there is no significant difference in the net profit margin among five banks in different years.

Level of Significance = 5%

Test Statistics: The test is based on significance of net profit margin among five different banks in different years. Therefore, we use two- way ANOVA.
Under H_0, Test Statistics,

FC= MSC/MSE ~ F {(K – 1) (R-1) (K-1)} for column
FR= MSR/MSE ~ F {(R– 1) (R-1) (K-1)} for row

Two way ANOVA test

Banks	Fiscal Year					Row total	Row square total	Row square total/5
	2006/07	2007/08	2008/09	2009/10	2010/11			
SCBNL	34.55	34.94	36.84	36.47	31.40	174.20	30345.64	6069.13
NABIL	32.16	29.68	30.56	24.11	22.29	138.80	19265.44	3853.08
HBL	34.90	41.58	39.96	22.13	25.46	164.03	26905.84	5381.17
EBL	21.60	24.17	24.92	16.49	14.27	101.45	10292.10	2058.42
NIBL	25.07	25.33	22.97	23.67	17.91	114.95	13213.50	2642.70
Column Total	148.28	155.70	155.25	122.87	111.33	726.43	110027.02	20004.50
Column square total	21986.96	24242.49	24102.56	15097.04	12394.37	97823.42		
Column square total/5	4397.39	4848.50	4820.51	3019.41	2478.87	19564.68		

1) Correlation Factor (C.F) = T^2 / N

= $(693.43)^2/25$

= 19233.80

Square of Variable

Banks	Fiscal Year					Row total
	2006/07	2007/08	2008/09	2009/10	2010/11	
SCBNL	1193.70	1220.80	1357.18	1330.06	985.96	6087.70
NABIL	1034.26	880.90	933.91	581.29	496.84	4508.49
HBL	1218.01	1728.89	1596.80	489.74	648.21	5681.65
EBL	466.56	584.19	621.01	271.92	203.63	2147.31
NIBL	628.50	641.60	527.62	560.27	320.77	2678.76
Column Total	4541.03	5056.38	5036.52	3233.28	2655.41	20522.62

= 20522.62 – 19233.80

= 1288.82

3) Sum of square due to column factors (years) SSC= $(148.28)^2/5 + (155.70)^2/5 + (155.25)^2/5 + (122.87)^2/5 + (111.33)^2/5$ –C.F

= 19564.68- 19233.80

= 330.88

4) Sum of square due to row factors (years) SSR = $(174.20)^2/5 + (138.80)^2/5 + (164.03)^25 + (101.45)^2/5 + (114.95)^2/5$ – C.F

= 20004.50 – 19233.80

= 770.70

5) Sum of squares due to error (SSE) = TSS-SSC-SSR

= 1288.82 – 330.88 – 770.70

= 187.24

Source of Variation	D.F	Sum of Square	Mean Sum of Square	F-Ratio
Due to Column factors	= 5-1 =4	106.706	MSC= SSC/C-1 = 330.88/4 = 82.72	FC=MSC/MSE = 82.72/11.70 = 7.07
Due to Row Factors	=5-1 =4	1029.715	MSR=SSR/R-1 = 770.70/4 = 192.67	FR=MSR/MSE = 192.67/11.70 = 16.47
Due to Error	=4 x 4 =16	39.461	MSE=SSE/4 x4 = 187.24/16 = 11.70	

Table value for column factor is at -----% level of significance at (….., …..) d.f is ……..
since, FC = 10.82 < > d.f (…) , H_0 is accepted/ rejected i.e there is (no) significant difference in CRR among five different banks. Also table value for row factor is at ……% level of significant at (….., …..) d.f is …….. since, FC = 10.82 < > d.f (…) , H_0 is accepted/ rejected i.e there is (no) significant difference in CRR among five different banks. Hence, there is significant difference. Hence it is concluded that there is (no) significant difference in CRR among five different banks in different years.

Overview of Sample Banks

1) Standard Chartered Bank Nepal Limited (SCBNL)

Standard Chartered Bank Limited, which was formerly known as Nepal Grindlays Bank, was established in 1987 A.D. as a second foreign joint venture bank under the company act. Its ownership is 75% of the shares held by Standard Chartered Grindlays Bank, 25% of shares by local ownership. Standard Chartered Bank completes 150 years of operation in 2003. This was considered a unique opportunity to refresh the Brand. Standard Chartered plays an active role in supporting those communities in which its customers and staffs live. The focus of the Standard Chartered group is on projects that assist needy children, particularly in the area of education and environment. The bank is in a position to service customers through a large domestic network. In addition to which the global network of Standard Chartered Bank gives the Bank the unique opportunity to provide truly international banking in Nepal. SCBNL focuses mainly on corporate and consumer banking, catering to a wide range of customers from individuals, to mid-market local corporate to multinationals and large public sector companies as well as embassies, aid agencies, airlines, hotels, and government corporations. The bank has been the pioneer in introducing consumer-focused product and services in the country.

Share Capital

(Rs. In million)

Particulars	F.Y. 2006/07
1. Share Capital	
Authorized Capital	**1000.00**
a. 10,000,000 ordinary shares of Rs. 100 each	1000.00
1.2 Issued Capital	**500.00**
b. 5,000,000 ordinary shares of Rs. 100 each paid	500.00
up	**374.64**
1.3 Paid up Capital	374.64
c. 3,746,404 ordinary shares of Rs. 100 each paid up	

2) NABIL Bank Limited (NABIL)

NABIL commenced its operation on 12th July 1984 as the first joint venture bank in Nepal. Dubai Bank Ltd. Dubai (later acquired by Emit rates Bank International Limited, Dubai-EBIL,) was the first joint venture partner of NABIL. Later EBIL sold its entire stock to National Bank Limited, Bangladesh (NBL). NABIL Bank ltd. had the official name Nepal Arab Bank Limited till 31st December 2001. Hence 50% shares, 20% shares has been hold by financial institutions and remaining 30% shares were to general public of Nepal. NABIL Bank Ltd has been providing banking services through 15 branches and 2 counters in all major cities.

Share Capital

(Rs. In million)

Particulars	F.Y 2006/07
1. Share Capital	
1.1Authorized Capital	**500.00**
a. 5,000,000 ordinary shares of Rs. 100 each	500.00
1.2 Issued Capital	**491.65**
b. 4,916,544 ordinary shares of Rs. 100 each paid up	491.65
1.3 Paid up Capital	**491.65**
c. 4,916,544 ordinary shares of Rs. 100 each paid up	491.65

3) Himalayan Bank Limited (HBL)

Share Capital

(Rs. In million)

Particulars	**F.Y. 2006/07**
1. Share Capital	
1.1 Authorized Capital	**1000.00**
a. 10,000,000 ordinary shares of Rs. 100 each	1000.00
1.2 Issued Capital	**650.00**
b. 6,500,000 ordinary shares of Rs. 100 each paid up	650.00
1.3 Paid Up Capital	**643.50**
c. 6,435,000 ordinary shares of Rs. 100 each paid up	643.50

Himalayan Bank Ltd. was incorporated in 1992 by the distinguished business personality of Nepal in partnership with Employee Provident Fund and Habib Bank Limited, one of the largest commercial Bank of Pakistan. Banks operation was commenced from January 1992. It is the first commercial bank of Nepal with maximum share holding by Nepalese Private Sector. Promoter's Shareholders are 51%, Habib Bank 20%, Employee Provident Fund 14%, and Nepal Public shareholders 15%. Beside commercial activities, the bank also offers industrial and merchant banking.

The bank at present has five branches in Kathmandu Valley namely Thamel, Newroad, Maharajgunj, Pulchowk (Patan), and Suryavinayak. Beside, it has nine branches ourside the Kathmandu Valley namely Banepa, Tandi, Bharatpur, Birgunj, Hetauda, Bhirawa, Biratnagar, Pokhara, and Dharan. The bank is also operating a counter in the premise of the Royal Palace. The Bank has a very aggressive plan of establishing more branches in different parts of the kingdom in near future.

4). Everest Bank Limited (EBL)

Everest Bank Ltd. was established in 1994 and started its operations with a view and objective of extending professional and efficient banking services to various segments of the society. EBL joined hands with Punjab National Bank (PNB), India as its joint venture partner in 1997. PNB is the largest Public Bank of India having 109 years of banking history with more than 4400 officers all over India and is known for its strong system and procedures and a distinct work culture. Drawing its strength form its joints venture partner, EBL has been steadily growing in its size and operations ever since its inception and today it has established itself as leading private sectors bank of the Nation, reckoned as one of the fasted growing Commercial Bank of the country. It has a main policy is to grant a loan as possible rate and through easy procedures, beside many other commercial activities. The local Nepalese promoters hold 50% stake in the bank's equity, while joint venture partner PNB contributes 20% of equity whereas the public holds remaining 30%. The Bank provides a wide range of banking facilities through a wide network of 15 branches (Baneshwor, Newroad, Teku, Pulchowk, Lazimpat, Satungal, Biratnagar, Dhubai, Janakpur, Birgunj, Simara, Butwal, Bhirawa, Dhangadi, ICD-Dry port, Parsa) covering all the 5 regions of the country and over more than 250 reputed correspondent banks across the globe.

Share Capital

(Rs. In million)

Particulars	F.Y 2006/07
1. Share Capital	
1.1 Authorized Capital	**6000.00**
a. 4,500,000 ordinary shares of Rs. 100 each	4500.00
b. 1,500,000 9% cumulative irredeemable preference share of Rs. 100 each.	150000
(redeemable when the capital of the bank reaches at Rs. 50 crore)	
1.2 Issued Capital	
c. 3,168,000 ordinary shares of Rs. 100 each paid up	**466.80**
d. 1,500,000 9% cumulative irredeemable preference share of	316.80
Rs. 100 each.	150.00
(redeemable when the capital of the bank reaches at Rs. 50 crore)	
1.3 Paid up capital	
e. 3150000 ordinary shares of Rs. 100 each paid up	
(including 752,357 Bonus shares of Rs. 100 each issued as	**455.00**
fully paid)	315.00
f. 1,400,000 9% cumulative irredeemable preference share of	
Rs 100 each.	
(redeemable when the capital of the banks reaches at Rs. 50 crore)	140.00

5) Nepal Investment Bank Limited (NIBL)

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd. was established in 1986 as a joint – venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was credited Agricole Indosuez, a subsidiary of one of the largest banking group in the world

With the decision of Credit Indosuez to divest, a group of companies comprising of bankers, industrialists and businessmen, has acquired on April, 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd. now the name has been changed to Nepal Investment Bank.

A group of companies is holding 50% of the Capital, RBB HOLDING 15% of the capital and the Rastriya Beema Sansthan holding the same. The general public is holding the remaining 20%. It has been awarded by Bank of the year Award- 2005.