CHAPTER I

INTRODUCTION

1.1 Background of the Study

Banks are creator of money. In fact they are the backbone of economic development. "It has widely been accepted that the economic activities of a country are greatly influenced by the development of a sound banking system. There is no step in business, where bank have no influence. Today so called developed countries also have fastened their economic development with the help of their banking system." (Encyclopedia America, 1976). The role of commercial bank in economic development is immense. The essence of commercial bank is the financial intermediation between the ultimate savers and borrowers. It draws its profit mainly from the difference of interest on deposit and lending, commercial bank have become the hearts of financial system as they hold the deposits of millions of people, Government and business units and make funds available through their credit and investing activities to individual business firms and government.

Commercial bank Act 1974 defines a commercial bank. "A commercial bank means bank which deals in exchanging currency, accepting deposits, giving loans and doing commercial transaction." Hence, the name is termed as commercial banks were established with concept of supplying short-term credit and working capital needs of the industrials, they stated to provide long-term loan for up to 10 yrs by the provision made in commercial bank Act 1974. After the enforcement to lend in priority and deprived sector, these banks initiated to provide credit to small and cottage industries agriculture and services etc. (Mithani, 2005).

The fate of a country is greatly determined by the active role of commercial bank. Main objective of commercial bank is to mobilize idle resources for productive use. Capital is most important to utilize those resources. The commercial banks are the most important institutions for capital formation. Commercial banks accumulated scattered saving in terms of deposits and grant long term loan to the industrial sector. As a result productive capacity of industry can be increased that reduces import of foreign goods and increase export abroad. Goods are available in cheaper price. Commercial bank provides facilities to their customers by other services also such as remittance of funds, purchase and sell of bill supply of timely credit and other market information.

Nepal Bank Limited is first commercial bank of Nepal which was inaugurated by late King Tribhuvan in 30th Kartik 1994 B.S. It was established as semi Government financial institutions. Its authorized capital is 10 million. It is joint venture of them HMG and now GoN and private shareholding management. Till now its authorized capital is 1 billion. At present the bank is operating through 106 branches in the 55 districts of the country with 2960 staffs. The head office of the bank is located at New Road Kathmandu (Khanal, 2011).

Later some developed bank and financial institution were established to provide medium and long term credit facilities to the industry and agriculture. In this context, Nepal industrial development corporation was established in 2016 B.S. to provide the financial and managerial assistance in the field of industry and to help the private sector in the field of industry. For mobilizing the saving and credit NBL arranged sound banking system. It mobilizes at the small and scattered saving of the people and makes available for investment in process productive enterprises.

NBL restructured and healed process. Treatment on bad debt of credit and restructuring of new policy develop. NBL has initiated the financial sector reform project on July 21, 2002 under the World Bank administered by the NRB since then, the management of the bank is handed over to International Chambers of Commerce Management Team Group of Scotland for 5 yrs. The bank had shown the significant operating result under the foreign management team after the completion of the foreign management team. The bank is still being managed by NRB management team from July 22, 2007 (www.nrb.org.np).

NBL has been playing a very significant for the economic development of the country which a part of roll lending commercial bank had also worked as a central bank for 20 yrs after its established. After collecting the small saving of the people, it makes a huge amount of capital and it diverts the unproductive money into productive used by lending to another group of people one and only vision statement of NBL "To remain the leading financial institution of the country" clearly explains the bank's interest toward lending aspect. Bank function of saving activities improves and its saving amount mobilization. Thus the foundation of resource mobilization is pillared on the bank's function of lending and collected fund is the material of pillar. Saving focus on increasing fund for future but lending focuses on the primary issue of economic development, i.e. to increase the investment in productive sector that impacts positively in every sector of economy such as employment, productive, income, government revenue international trade etc.

1.2 Statement of the Problems

Till 1980s there were only two commercial banks in the country, one bank fully owned by government and other is recently majority-privatization or partially state owned. Although these banks have opened their branches in many part of the country, they had many experience of facing many financial obstacles. There was no mentionable competition in between these banks and their branches and quality of service was out of question.

To increase the quality of providing the services and to develop the Competition in NBL reforms in financial sector were felt a need and applied. Have these reform initiated really made up the progress path of the NBL? A question is to be insisted. What change do these Financial Sector Reforms (FSR) brought to bank? Therefore in general the research problems are:

- What was the performance of Nepal Bank Limited before the introduction of financial sector reform program?
- What was the financial performance of Nepal Bank Limited during the management of ICCMT of Scotland under financial sector reform program?
- What is the financial performance of Nepal Bank Limited after handing over the management of bank management?
- What are the impacts of financial sector reform on the performance of Nepal Bank Limited?

1.3 Objectives of the Study

The study will be conducted to analyze the financial reforms in Nepal Bank Limited (NBL) where reform program has been running; the specific objectives of the study are as follows:

- To analyze the performance of Nepal Bank Limited before the introduction of financial sector reform program.
- To examine the financial performance of Nepal Bank Limited during the management of ICCMT of Scotland under financial sector reform program.
- To analyze the financial performance of Nepal Bank Limited after handing over the management of bank management.
- To find out the impacts of financial sector reform on the performance of Nepal Bank Limited.

1.4 Significance of the Study

- It will relate with value and usefulness of the research study.
- New ideas will solve the research problem, to take decision, improve situation and start strategies to improve banking management of NBL.
- It will give the proper direction for further researchers.
- It will help to make the GoN and other NGOs and INGOs plan for reforms for development of bank's management.
- It will help to improve overall sectors reforms of NBL other financial institution.
- It will help to find the area where it helps to get information about reform programs.

1.5 Delimitation and Limitation of the Study

To keep the study within the management limit and to complete within the specified time period, it may not possible to do all the desired works. Because of the errors of logic measurement and omission, all type of research may have limitations. So this study has following limitation.

- This research study has limitation of time and fund which hamper total analysis of NBL.
- The study will be base on the data provided by Annual Report of the Bank, International Monitory Fund, Asian Development Bank and World Bank, Nepal Government and other banking sources where as data may not be totally authentic.
- The study will base on mostly secondary data which are collected from various sources. The same data provided by different bodies sometimes may differ.
- Sometimes, the study will also largely base on primary data collection through questionnaire and interview. So lack of sufficient references and materials may be occurred.
- This study will only relate on Financial Reform (FSR) and NBL. It doesn't cover other banks and financial institutions.

1.6 Organization of the Study

This study consists of total five chapters and some preliminaries containing approval sheet, acknowledgement, table of content, abbreviation, list of tables and figures etc. The first or introductory chapter presents background of the study, focus of the study, statement of problem, objective of the study, significance of the study, limitation and delimitation of the study, organization of the study. The second chapter deals with the theoretical overview and review of related literature. The third chapter deals with methodology of the study with sub chapter like research design, nature and source of data, Population and sample, data collecting technique, data processing and analysis. The fourth chapter contains the data collected from various relevant sources and they are presented and analyzed using CAMELS rating. These data are taken from annual report and different figure are used for presentation of data. The last chapter five is about the summary conclusion and recommendation. The bibliography, appendices etc are given at the end of dissertation.

CHAPTER II

REVIEW OF LITERATURE

There are many studies related to the financial reforms of banking that the study primarily is to analyze financial reforms in the context of Nepal Bank Limited (NBL). This continuity in research is ensured by linking the present study with the past research studies. This chapter covers the review of literature; some studies have been undertaken by the management experts of MBS describing reform program in Nepalese financial sector. There are many studies related to the financial performance of banking, commercial and trading companies. The available literatures are reviewed relating to the field of financial sector reforms of NBL. Some of the literatures reviews relating to this study are presenting below.

2.1 Conceptual Review

2.1.1 Origin and Development of Bank

The economic activities existed in every civilization of mankind in all over the world. But the modern banking practice was originated from Europe. The first bank called ‘Bank of Venice’ was established in Venice in 1157. Then ‘Bank of Barcelona’ was established in 1401 and in 1407 ‘Bank of Genoa’ was established. In 1694, the ‘Bank of England’ was established as a joint stock bank. Nepal has a long history of using of money. History unveils that the first Nepali coins to be introduced were *Manank* during the reign of the King Mandev and *Gunank* during the reign of the King Gunakamdev. Afterwards the coins were reintroduced during the reign of Amshuverma. After the unification of Nepal, the great King Prithivi Narayan Shah started the coin *Mohar*. The *Taksar* was established in 1789 to issue coins scientifically. In 1876, during Rana Regime an office named *Tejarath Adda* was established in Kathmandu to provide loans against deposit of gold and silver. But the office did not have right to accept deposits.

To begin to the modern banking system, Nepal Bank Limited was established in 1937 as the first bank of the country. Nepal Bank Limited dominated the financial sector of the country for almost 30 years without any competitor. This bank played a major role to boost up the Nepalese economy during that period. Nepal Rastra Bank was established in 1955 as central bank of Nepal which was very essential for Nepalese economy. The second commercial bank, Rastriya Banijya Bank was established in 1965 under the Rastriya Banijya Bank Act, 2022 with full ownership of the His Majesty's Government.

2.1.2 Meaning of Commercial Bank

Commercial bank is an organization chartered either by the Comptroller of the Currency and known as a national bank or chartered by the state in which it will conduct the business of banking. A commercial bank generally specializes in demand deposits and commercial loans (Rosenberg, 1982).

Commercial bank is bank that concentrates on cash deposit and transfer services to the general public, often to be found on the High Street. It may be joint-venture bank or a private bank (Clark, 1999).

"Bank is an institution that deals in money and its substitutes and provides other financial services. Banks accept deposits and make loans and derive a profit from the difference in the interest rates paid and charged, respectively. Some banks also have the power to create money. Commercial bank is a bank with the power to make loans that, at least in part, eventually become new demand deposits. Because a commercial bank is required to hold only a fraction of its deposits as reserves, it can use some of the money on deposit to extend loans. When a borrower receives a loan, his checking account is credited with the amount of the loan; total demand deposits are thus increased until the loan is repaid. As a group, then, commercial banks are able to expand or contract the money supply by creating new demand deposits." (Encyclopedia Britannica, 2002).

"Banking, the business of providing financial services to consumers and businesses. The basic services a bank provides are checking accounts, which can be used like money to make payments and purchase goods and services; savings accounts and time deposits that can be used to save money for future use; loans that consumers and businesses can use to purchase goods and services; and basic cash management services such as check cashing and foreign currency exchange. Commercial banks specialize in loans to commercial and industrial businesses. Commercial banks are owned by private investors, called stockholders, or by companies called bank holding companies." (Microsoft Encarta Reference Library, 2003).

The main objectives of a commercial bank are to earn profit by collecting the fund scattered around the general public, and mobilizing it. So, the main functions of commercial banks happen to be collecting deposits from general public and lending loans to various economic sectors that require financing. Commercial banks make profit by charging a bit higher interest rate in loans than they pay to depositors. So the main source of income of commercial banks is interest income.

2.1.3 Profiles of the Organizations

Nepal Bank Limited (NBL)

Nepal Bank Limited is the first bank of Nepal inaugurated by King Tribhuqan on 30th Kartik 1994 (15 November 1937 A.D.). This marked the beginning of an era of formal banking in Nepal. In accordance with the government's policy of providing at least one banking facility for 30,000 people, NBL follows an active policy of opening up branches and sub-branches throughout the country. NBL's authorized capital was Rs. 10 million and issued capital was Rs.25 million of which paid up capital was Rs. 842 thousand with 10 shareholders. Although the bank has 211 branches, the total branches numbered around 99, as many as of them has been closed due to Maoist insurgency. Now the general public has majority ownership of 49.94% on NBL.

<u>Ownership Pattern of NBL</u>

⟩	General Public of Nepal	49.94%
⟩	Government of Nepal	40.49%
⟩	'A' class financial institutions	4.92%
⟩	NRB license financial institutions	3.42%
⟩	Other institutions	.52%
⟩	Other	.71%
	Total	**100%**

Source: <www.nbl.org.np>

As the first bank of the nation, NBL has been playing a significant role in the development of Nepalese economy. It has developed a sound infrastructure in the economy of Nepal. NBL is highly successful in creating banking habits among the people and to create magnetization in the monetized area of the country. The contribution of NBL to sustain and improve the economic aspect of nation cannot be underrated. Since the establishment, it has been helping communities and government in many ways Because of it being the first bank; it discharged the functions of central bank too for stability in the economy until the establishment of the NRB. The contributions made by the bank at that time in creating banking habits among the people, widening magnetized area and helping business communities and government have helped the bank to be glorious pioneer in its field.

NBL, established in 1937 A.D. with a single banking office with a view to providing banking facilities and to help economic welfare of the general public is now offering its services to the people with 98 branches all over the country. Besides the main functions of deposit collection and mobilization, NBL has served nations economic in many ways by investing on the shares of government and non-government organization like, Rastriya Beema Sanstha, Nepal Oil Corporation, Nepal Industrial Development Corporation, Nepal Standard Chartered Bank, Economic Service Centre, Nepal Housing Development and Finance Company, all of five Rural Development Banks, Citizen Investment Trust, Nepal Insurance Company, Agriculture Project Service Centre, Credit Security Corporation etc. What is more, it has been investing well among on other government on other side. NBL has been serving its customers by means of services like money transfer, collection, purchase and remittance of bills, cheque and note, opening of Letter of Credit etc. without these services, commerce of today connot seen dream of surviving. Secondly, it has been serving tourism industry by purchasing and issuing traveler’s cheque receiving and sending remittance. The underdeveloped countries like Nepal are always facing the acute problem of resource gap. In such a situation, the mobilization of domestic resources is very important which signifies the collection of small saving of people and them tapping those savings into the needy sectors of the economic for the development purpose. The main objective of domestic resources mobilization is to finance development expenditure. NBL has contributed largely for mobilizing domestic resources. It has been collecting small savings from the people and utilizing them in the needy sectors of the country’s economy. The extension of branch offices throughout the country has contributed favorably to banks resources mobilization capacity. Hence, it can be conclude that being the oldest bank. NBL has played a vital role and contribute immensely not only for the development of banking sector but also for the aggregate and balanced economic growth and development of the nation.

NBL provides the services of commercial bank including accepting deposits, providing loan and advance, ATM/Debit card service, SMS Banking, ABBS, E-Banking etc. It has also launched the NRN Banking presents various services to NRN from Kathmandu Banking Office.

2.1.4 Need and Importance of Financial Reforms

Development and sophistication of financial markets help pool and utilize resource, reduce costs and risk, expand and diversify opportunities, increase the allocate efficiency of resource, and promote the productivity and economic growth-raising process. Appropriate policies that increase the role and strength of the financial system and that contribute to make the financial system more accessible to all types of savers and borrower ultimately raise the level of domestic financial savings and improve the resource allocation and overall development process. Efficient financial systems contribute to greater accumulation of productive capital by increased mobilization of financial resources and sustained high investment levels. A policy that encourages an improved, stable and secure financial system and discourages the distortions and de facts in the system is vital to the sustained high level of economic growth. Thus, larger accumulation of financial resources and efficiency in financial intermediation are essential for promoting investment, productivity, economic growth and overall socio-economic development including gaining rapid strides in the goal of poverty reduction. The Nepalese financial system, however, is still characterized by the various institutional and structural deficiencies that need to be addressed for the sustained growth and vitality of this sector along with accelerating the pace of overall economic development. Nepal's rising development requirements also call for greater proportions of financial resources being available at the required size, price, modality and place for which the financial sector reform (FSR) measures become urgently important (Basyal, 2002).

2.1.5 Historical Perspective of Financial Reform in Global and Nepalese Context (Reform Initiated)

Nepal started liberalizing its economy in mid-1980s and various reform measures had been initiated in the financial sector. The removal of entry barriers allowance of commercial banks for accepting current and fixed deposit in foreign currencies (US dollar and pound sterling), deregulation of interest rates, and downward revision of statutory liquidity ratio (SLR), departure of NRB from direct monetary instruments to indirect ones and establishment of credit information bureau were the major policy decision taken in the late 1980s. The SLR was as high as 36 percent of the total deposit liabilities of the commercial banks until December 1992. As a consequence of these decisions, the number of foreign banks established in joint venture from increased significantly. Before the establishment of Nepal Arab Bank Limited (1984), there were only two commercial banks namely Rastriya Banijya Bank (RBB) and Nepal Bank Limited. Among these banks the former was fully and later partially owned by the government. Nepal industrial development corporation (NIDC) and Agricultural development bank (ADB/N) were two development banks established with special objectives in providing long-term loans to industrial and agriculture sectors and the government owned most of their ownership. The ownership structure of these banks has not been changed till now. In the beginning of 1990s, there was a shift in economic policy from inward looking and import substituting to outward looking and export orientation in order to intensify the process of economic liberalization. At the arrival of shift in monetary control, new policies like complete removal of credit ceiling to private sector, and ceiling on net bank credit to government and government enterprises were introduced to ensure sufficient credit flows to the private sector. With the democratically elected first government of Nepali congress, streamlined its policies towards enhancing the role of private sector. With the privatization of many state owned corporations into private sector by government, NRB also provided greater autonomy to banks and financial institutions in choosing their investment portfolios.

Commercial banks' problems analysis and strategy study (CBPASS) was conducted to invigorate the banking reform. The CBPASS report recommended GoN to these public enterprises and recapitalization of RBB and NBL. NRB first increased capital adequacy ratio (CAR) of commercial banks to 3.5 percent in 1991 and further increased to 4 percent in 1992 on the basis of CBPASS finding of inadequate CAR of these banks. The high SLR brought distortions in the market by encouraging government to raise fund at lower interest rate on the on the one hand, and on the other it was an implied tax that discouraged the intermediary functions of the banks and financial institutions. These adverse effects of SLR compelled NRB to abolish it in mid July 1993. NRB issued licenses for financial cooperatives and NGOs to undertake limited banking transactions in 1994 to enhance competition in the financial markets. Furthermore, the establishment of Nepal Everest Bank Limited, Nepal Stock Exchange centre in 1994 and enactment of Development Bank Act, 1996 were other major steps to enhance competitions in the markets. As weakness of liberal financial markets, different anomalies related to asset quality of financial institutions, capital inadequacy, loan classification and provisions appeared in the banking system. These shortcomings warned systemic bank failures rather than failure of individual bank. NRB issued regulations related to capital adequacy, asset classification, provisioning, liquidity and corporate governance. In addition to these anomalies, severe governance and management shortfall, noncommercial lending practices, extremely poor record keeping, accounting practices and information system, and unskilled human resources with low morale stressed of NBL. KPMG Barents an international auditor's group conducted a study of NBL in to assess their financial position and reported negative net worth and technically insolvent states of these banks. A response to the suggestions made in KPMG report, NRB started financial and operational restructuring of these banks. By dismissing boards of NBL and RBB on account of failure to manage banks properly, NRB intervened and appointed board of directors. The NRB appointed boards finally handed over the management to foreign management groups of NBL and RBB under management contract in 2002 and 2003 respectively. In order to make banks and financial institutions strong, enactment of NRB act, 2002 and dent recovery act 2002 and amendment of public debt act and foreign exchange act are other important steps taken in addition to enactment of banking and financial institutions ordinance, 2004. Draft of anti money laundering act secured transaction act, asset management company act and insolvency act are some of the proposed acts for further reform in banking and financial institutions. Reforming program of NBL has been continued until 2007 adopting different contract from foreign institution and centre bank of

Nepal. First contract was finish in 2061 BS and another two year contract was added upto 2064 BS. After that central bank took handle of NBL and RBB and continued reforming program until now, forming internal operating committee by monitoring of Central bank of Nepal.

2.1.6 Priority Areas of Financial Reforms

After the inauguration of Nepal development forum in February 4, 2002, several prudential and regulatory measures were activated for the development of competitive, efficient and healthy financial sector. The governor of central bank, Dr Tilak Rawal presented a policy paper on financial sector reform during NDF-2002, pre-consultative meeting on January 23, 2002 in Kathmandu. The paper summarizes the key sector objectives and goals, specific objectives of the FSR, realignment of FSR with other ongoing reform initiatives of GoN, financial reform and poverty reduction, priority areas such as implementation modalities and monitoring and evaluation. To crosscheck the achievements made after NDF meeting, a brief review of major policy announcements is being made.

His majesty's government of Nepal GoN initiated series of reform programs with the support from country's major donor communities. The ultimate objective of the FSR was to create sound, stable and healthy financial system. The financial system should enable the policymakers to fully and timely avail the sound financial statistics. The development of institutional capacity will help generate resource availability on lowest possible cost for sustained development. Under the FSR program restructuring of the NBL for sound management, better technical capability, and improved financial operations is underway. Restructuring is expected to consolidate the operations and improve the financial health of these institutions. It is expected that the management contract made these institutions financially strong and operationally viable by eventually preparing them for privatization into the hands of safe and sound professional bankers of international repute. Restructuring, however, would mean to recapitalize NBL to guarantee minimum capital requirement as estimated by the KPMG/Barents study stood at NRs 25 to 30 billion. Taking loan from international financial institutions necessitates time bound conditionality to be fulfilled on stepwise restructuring activities. NBL has already been handed over to the ICC bank, Ireland.

2.1.7 Reform Programs and its Strategy in NBL

2.1.7.1 Project Plan

The Nepalese financial sector is in need of vigorous reform for addressing the various institutional and structural deficiencies that have impact and implications for the sustained growth and vitality of this sector.

Reform is vital for strengthening the financial system as well as improving its capability to face the vulnerability to the likely instability and other uncertainties that could affect the evolving financial system. The various components of the financial sector technical assistance project (FSTAP), viz., strengthening (re-engineering) the Nepal Rastra Bank, addressing the problems of big bank Nepal Bank Ltd.) and capacity building within the banking system.

Institutional problems and systemic challenges of the Nepalese Banking System of NBL. Even after a long and strong presence of the formal financial structure, a relatively large share of the rural financial needs in still being met by the informal financing arrangements. Problems like weakening or negative net-worth, higher proportions of non-performing assets (NPA), large interest rate spread between lending and borrowing rates in the formal financial sector, predominance of the informal financial system in the rural areas, and high interest rate differentials between the formal and informal financial markets of the economy have remained the major deficiencies of the financial system in Nepal.

2.1.7.2 Need

- Conditions like raising the efficiency in financial intermediation, maintenance of competitive and comprehensive interest rate structure,
- Promoting autonomy and professionalization in the financial sector transactions
- Inevitable for achieving a deep, broad, healthy and dynamic financial sector environment.

2.1.7.3 Project Development Objective

- The overarching foal of the FSRP is to create a well-regulated, sound, market oriented and stable financial system, which will help form the basis for fiscal consolidation, macroeconomic stability, private sector-led economic growth and poverty reduction on a sustainable basis.

- The FSTAP represents the phase-wise programme, focusing on three broad objectives:
  - Reforming the commercial banking sector
  - Helping to strengthen and develop the regulatory and supervisory framework and the monetary policy capability of the central bank and
  - Creating supportive, stable and sound financial system to enhance the growth and building up the capabilities to run the system efficiently.

2.1.8. Challenges of Reform Programs of NBL

To reform the giant bank in a short span of time period is not a easy task. Moreover, reform process is also affected by multidimensional phenomena. It requires a lot of efforts, devotion, cost and time to complete it. All reform initiatives have exhibited significant indication towards improvements but these are not being achieved in stipulated time as those were earlier expected to be completed due to various reasons. Here are some to the issues to take care in the process of reform:

Excessive Government Ownership: At the heart of virtually all the problems in the financial sector in Nepal is the overwhelming dominance of the government. As in many countries, government ownership has led to poor internal governance, weak management, fragile financial health, and an unhealthy politicization of these state-owned institutions.

A Weak Central Bank: Poor supervision by the central bank, Nepal Rastra Bank, is in part to blame for the severe problems of the two largest commercial banks and for the general deterioration in the system. However, the central bank is in no position to adequately discharge its responsibilities. It is handicapped by a lack of autonomy, an inadequate and outdated legal framework, and an excessive number of poorly trained and unproductive staff – as well as being in need of radical restructuring. The weak and outdated legal framework is among the main sources of the central bank's ineffectiveness. Adopted in 1955, the Nepal Rastra Bank Act was designed for a central bank operating in a government controlled economy – and supervising government-owned banks – and is ill suited to the development of a complex, modern central bank and banking system. The act bestowed too little power on the central bank for effectively managing monetary policy, improving the financial infrastructure, strengthening and improving financial markets and their supervision, and facilitating the growth of the financial sector

Poor Banking Environment: Outdated and inappropriate laws similarly lead to weakness throughout the Nepali financial system. Other problems also plague the banking environment, including weak corporate governance, lack of competition, the absence of a sound banking culture, and asymmetries in information.

Weak and Fragmented Legal Framework : The Commercial Banking Act (1974) has critical gaps in coverage and needs to be replaced with a new law covering all deposit taking institutions in Nepal (a new draft Banking and Financial Institutions Act is currently under consideration). Other parts of the legal framework for the financial sector also need to be strengthened or amended, including the Financial Intermediary Act (1998), Company Law, and Insolvency and Liquidation Laws. Enforcement too needs to be strengthened. Anecdotal evidence suggests that court action against defaulters tends to be excessively delayed, and asset liquidation has rarely been successful. Lack of strengthened laws and proper enforcement makes any intervention in the financial sector unlikely to have a meaningful and long-lasting impact. Another problem is the proliferation of laws and regulations applying to specific institutions rather than generalized banking functions. For example, neither of the two largest development banks is governed by the Development Banks Act; instead, both operate under their own institution-specific legislation. Such institution-specific laws and regulations have created a fragmented legal environment and, as a result, a fragmented financial system, thereby stifling competition. So at the same time that the legal framework is strengthened, it also needs to be rationalized and simplified.

Weak Corporate Governance: Corporate governance is extremely weak in Nepal. There are no clear rules of engagement between a company’s management, its board, its shareholders, and other stakeholders. Aggravating this situation are weak systems, poor procedures, and information asymmetry. Accounting and auditing traditions are also weak. Many banks cannot provide financial statements, and at times the accounts that banks do provide are un-audited – even though banks and finance companies are required to be audited annually be external auditors selected at general assemblies. The central bank serves as a poor role model for the system that it purports to supervise and regulate; it too fails to maintain good, up-to-date, externally audited accounts.

Lack of Competition: Although Nepal’s financial system has grown rapidly over the past decade, it still lacks the competitive environment critical for ensuring that financial intermediation benefits borrowers, depositors, other users of financial services, and shareholders. The lack of competition reflected the fragmentation of the system, but it also stems from the dominance of the two large (but inefficient) government-established commercial banks, which accounts for more than half the commercial banking system’s assets. The result is that the Nepali people have enjoyed only marginal benefits from the liberalization of the financial sector

Poor Banking Culture: The elements of a good banking culture are almost nonexistent in Nepal, whether among banks or among their customers. Banks find it difficult to make informed lending decisions because many of their private sector clients fail to maintain good financial information on their activities or are unwilling to reveal their true financial position. As a result, firm level data are largely unreliable, and banks are forced to reconstruct firm accounts from client estimates. Even when banks can undertake a proper financial analysis, they often extend credit on the basis of collateral rather than creditworthiness. Lenders always request primary collateral, and request secondary collateral or guarantees if needed. Nonetheless, they assess the value of the collateral only informally and do not re-evaluate it regularly. The Credit Information Bureau maintains a blacklist of customers to whom banks cannot extend credit. The bureau, however, established jointly by the central bank and the Bankers Association, is hindered in its operations by the inability or reluctance of the two largest banks to provide it with data. The apparent lack of follow-up by these banks when a customer defaults, results in a downward spiral or poor banking behavior. Another part of the problem lies in the implementation/enforcement of the prudential regulations. To date, only a small number of banks have established satisfactory internal guidelines.

Information Asymmetry and Lack of Financial Sophistication: The public has limited knowledge of the financial position of banks, creating a situation of severe moral hazard. The general public is financially unsophisticated and most people have little access to financial information. When financial institutions accounts and annual statements are disclosed, they are neither timely nor reliable – even if audited. Moreover, accounting and auditing practices in Nepal do not conform to international standards.

Corruption: Given all these factors – poor supervision, a weak legal environment, poor corporate governance, lax accounting and auditing standards, and an underdeveloped banking culture – it is no surprise that corruption has been a big contributor to the poor financial health of many of the financial institutions in Nepal. Fraud, self-dealing, insider dealing, and improper evaluation of collateral have been among the reported abuses. Such actions have taken resources from the poor and given them to the rich. Stemming corruption will require putting in place transparent systems, checks and balances at every level, and a system of continuous monitoring within and between financial institutions (The World Bank, 2008).

2.1.9 Progress on Reforming of NBL

Profit Situation: - Nepal Bank Ltd. which was incurring heavy net loss since 1999 reduced it to Rs. 250 million in FY 2002/03. The bank has made net profit of Rs. 710 million, Rs. 1.73 billion, Rs. 1.21 billion, Rs. 230 million, Rs. 530 million, Rs. 660 million and Rs. 330 million in FYs 2003/04, 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively.

Improvement in Capital Fund: - The negative capital fund of banks has been gradually improving. The negative capital fund of Nepal Bank Limited amounting Rs. 9.8 billion in mid-July 2003 was reduced to Rs. 8.9 billion, Rs. 7.16 billion, Rs. 6.30 billion, Rs. 6.25 billion, 5.72 billion, Rs. 4.88 billion and Rs. 4.49 billion.

Reduction in Non-performing Loan: - Though the amount of non-performing loan has not lowered as anticipated, there has been indication of gradual improvement. The non-performing loan of Nepal Bank Limited which stood at 60.47 percent in mid-July 2003 decreased to 53.74 percent, 49.64 percent, 18.18 percent, 13.49 percent, 8.05 percent and 4.94 in mid-July 2004, 2005, 2006, 2007, 2008 and 2009 respectively. It marginally increased to 4.98 percent in mid-July 2010.

Completion of Audit: - The task of auditing was pending in banks since last few years. But, Nepal Bank Ltd. completed its audit of 2008/09 and audit documents are being updated. The financial documents are being published regularly on a quarterly basis.

Human Resource Development and Management: - NBL have prepared and executed the Management Plan, Human Resource Development Plan and Skill Enhancement Plan in order to develop and upgrade the human resource skill in a planned way. Staff need assessment has been completed. Nepal Bank Ltd. Has reduced the number of staff to 2885 in mid-July 2008 and 2450 in mid-July 2010 from 6030 in mid-July 2001 by using voluntary retirement scheme (4 times) in order to bring the number of staff to a reasonable revel.

Improvement in Operating System and Internal Management: -
Management team of Nepal Bank has prepared and implemented different plans, policies and guidelines in order to make the banking system robust and competent. Specially, these include credit policy directives to facilitate credit management, ALM Guidelines to manage the asset and liability, and formation Asset Liability Committee (ALCO). Similarly, others include New Audit Directives, Internal Audit Directives, Audit Heads Classification Directives, HR Plan, Skill Enhancement Plan, Portfolio Status and Plan, Budget Plan and Strategic Plan. The bank has also prepared and put into effect the Credit Write-off Manual.

Computer Technology Expansion: - In order to make the banking transaction fast and convenient through the use of computer, an information technology plan has been prepared by Nepal Bank Limited. Following the plan, banking transactions of 44 branches of the bank including central office are operated through central networking and that of 36 branches through Pumori Plus. In addition, the bank has operated Any Branch Banking System (ABBS) in 44 branches. By mid-July 2010, 87 percent of total deposit and 90 percent of total credit has been computerized.

2.2 Review of Related Studies

Financial sector reform encompasses the deregulation of interest rate, relaxation of entry barriers, restructuring of NBL and RBB (recapitalization, classification of provisioning of loans, single limit amalgamation, consolidation and closure of loss making branches). Fresh competition in the financial sector was expected by the entry of joint venture banks as the liberal policy of competitive financial system. The liberal policy adopting towards establishing hire purchase or leasing company and institutional brokers in the private sector was expected to further enhance the dynamism of banking and financial market.

2.2.1 Review of Article and Book

Bank are such types of institution which deal in money and substitute for money. They deal with credit and instruments. The most important think for the bank is good circulation of saving and credit fluctuate flow of credit and weak division harms the whole economy and bank as well. Thus, to collect fund effectively and it well utilization is very challenging task for the bank. The decision of an investment of fund may be a question of life and death for the bank.

Chapagai (2001) published his article in April 2001, on the topic of "Financial Sector Reform Program: Present Situation and Future Challenges". His article clarify overall goal of the financial sector reform is to create a well-regulated, sound, market-oriented and stable financial system, which will help form the basis for fiscal consolidation, macroeconomic stability, private sector-led economic growth momentum and significant reduction in poverty on a sustainable basis. The FSR is considered as the vital element of GON's comprehensive economic reform strategy which aims at realizing the goal of expending economic growth and making significant gains on poverty reduction. The FSR is important in terms of meeting the financial needs of development, reinforcing the private sector-led economic growth process and ultimately impacting positively upon the significant reduction in poverty through job creating and enhanced resources allocation to potential growth sectors along with releasing vital resources required for addressing the specific poverty reduction programs and social development activities.

Pyakural (2060) had presented an article in the subject of "Financial Sector Reform in Nepal: Needs and Challenges". He explained in his article financial sector is going to be reformed and strengthened in Nepal. There is enthusiasm in initiating and executing market-led financial sector reform programs. The analysis of financial sector reform indicates that major reform agenda in economic reform in Nepal includes structural improvements in financial sector. Starting from reorienting the government's role as a regulator rather than implementer, the reform initiative has addressed financial sector legislation, prudential regulation and accounting/auditing practices, financial intermediation, market strengthening of micro-credits, restructuring of government-owned commercial banks and non-bank financial institutions and so on in anticipation to run financial institutions efficiency and in sound business principles. The country still has fragmented legal system necessitating the reform in ancillary financial sector legislation. The finalization of NRB Act is a commendable work. Speedy formulation and enactment of Asset Management Company Act, Credit Information Institution Act, Credit Rating Institution Act, Bankruptcy Act, and merger and Acquisitions Act is deemed necessary. Nepal is now embarking on the most far-reaching transformation of financial system. Opening up of financial markets without any negative consequences in country's development front, will need a conscientious approach toward financial opening. Too many policies and commitments with too large institutions backed by broad and overlapping responsibilities may invalidate consensus-based financial sector reform initiatives.

Shrestha (2004) has presented an article on the topic "Financial Sector Reforms in Nepal". The articles mainly deal the reform program on Nepal bank. He found financial sector reform plays a crucial role in the economic growth of the country. It is regarded as the engine of growth. As the apex financial institution of the country, NRB has a big role to play. The Nepalese commercial banks and especially RBB and NBL are in distress. They need correct diagnosis and surgical operations. Because of the cumulative weakness of the past, they are in serious trouble. GON, NRB and the World Bank are very serious to turn them into sound and efficient banking institution. GON has strongly committed for the reform of the financial sector in general RBB, NBL, ADB/N and NIDC in particular. The financial sector may invite financial crisis which may easily transfer to other sectors of the economy. As such, we have to be extra cautious for the financial liberalization and reform of the financial sector.

Poudel (2061), the first elected president of FIEUN, Nepal Rastra Bank Central Committee has published his article on “A Brief Note on Financial Sector Reforms in Nepal”. In his article deals financial sector reform program in Nepal aims at increasing the role of markets in making credit decisions with an objective of reducing intermediary cost of banks and financial institutions. His article mainly focuses on Importance of transparency, accountability and prudential norms has been recognized for the development and stability of the market-oriented financial system. Accordingly, reform measures have been initiated to make the financial system competitive, efficient and resilient. Despite measures initiated by the NRB to improve the financial health of two large commercial banks, the current level of NBL has become a threat to the stability of the financial system. Without cleaning up NBLs from their balance sheet, it is nearly impossible to transfer their ownership to the private sector. He suggested in such situation, government should take bold step to resolve the NPLs of these banks in order to make the financial sector reform successful.

Pandey (2007) has conducted a research on “Financial Sector Reform in Nepal: Assessment of impact on financial sector”. He pointed out, “FSR has brought positive impacts and challenges on capital flow levels”. He analyzes the access the impact of FSR in NBL. His study was focused on the assessment of the achievement of FSR’S, major variables considering like being number of financial intuitions, addition of financial services, deposit growth, growth of credit to the private sector, interest rate , non performing loans, capital market, and other related sectors.
The financial problem may invite financial crisis which may easily transfer to other sectors of the economy. As such, it is to be extra cautious for the financial liberalization and reform of the financial sector. Similarly, The Nepalese commercial banks especially RBB and NBL are in distress. They need correct diagnosis and surgical operations. Because of the cumulative weakness of the past, they are in serious trouble. NG, NRB and the World Bank are very serious to turn them into sound and efficient banking institutions. NG has strongly committed for the reform of the financial sector in general RBB, NBL.

Nepal (2009) has written a thesis on the topic “Financial Sector Reform in Nepal” In his study, he says,” There was effect of FSR that initiated on NBL which posed significantly reformative programs in banking management’. The study mainly deals the reform program on Nepal bank limited. He found financial sector reform plays a crucial role in the economic growth and development of the banking sector which are regarded as the engine of development. As the reformer of the financial institution of the country, FSR has a big role in reforming of Nepal bank limited.

Regmi (2010) in her article “financial sector reforms in Nepal and some challenges” says that reform of NBL has brought great achievement like improvement in credit management, auditing system, computerized system and progress in human resource management”. She insists that reform program has added antimony laundering policy, investment and treasury operation manual, revision of informal audit manual and trade finance manual in NBL and RBB.

Gautam (2010) in his article “Financial sector reform program; some aspects and some challenges” says “that reform program brought mentionable decrement of unproductive credit of NBL comparing to previous years”. He insists**,** after reform program of NBL , there are a lot of positive impact on NBL like increment of deposit and profit, decrease of staff and branches , improvement in internal qualitative competitive management and spread in financial service.

Dhungana (2011), in his article, Financial Sector Reform” says, “After placing the foreign management teams in NBL , the operational and profitability position have been improved within the two years period”. He insists on successfulness of reforming process as it introduced a new credit culture, sound HR development program, scientific process, and sound atmosphere, an in-built self-monitoring mechanism and customer service culture.

2.2.2 Review of Previous Study

Luitel (2007) “Comparative Analysis of Financial Performance of Joint Venture Banks” with reference to Standard Charted Bank Nepal Limited, Nabil Bank Limited and Himalayan Bank Limited, portrayed the objectives to (i) emphasis about the growth, objectives and role of commercial joint venture banks, (ii) infort about the major regulation such as NRB Directives, government policies and govern these bank, (iii) evaluate whether the selected joint venture banks are efficient to face challenges. Along with those objectives he presented the conclusions that (i) HBL is the highest deposit holding bank. Total deposit of HBL exceeded the deposit amount of other two banks. (ii) HBL has been seen to adopt the aggressive lending policy during the period of analysis. (iii) Loan and advances of HBL has always been grater as compared to SCBNL and Nabil during this whole period under analysis. (iv) EPS, DPS, and BVPS of SCBNL is found better as compared to Nabil and HBL. (v) Loan loss provision of SCBNL has always been least among selected JVs.

Paudel (2008), has conducted “A Study of Effectiveness of Saving and Credit Mobilization of Nepal Bank Limited Before and After Contract of ICCMT.” The study was under taken with objective of and evaluating the saving and credit of NBL in order to trace out gaps and draw backs in its performance. So, the ten years of two fragment period starting from F.Y. 2053/54 to 2057/58 before management contract and from F.Y. 2059/60 to 2063/64 after management contract was selected for the study. In her study she summarized that all aspect of the NBL were poorest in first period than that of second. The bank, therefore should focus on improving saving and credit position and improve further. Although the overall saving and credit mobilization of NBL can be considered as improving day by day. On her study she recommended that unlike in the past, NBL has to face strong competition in the market. Therefore it has to be financially competent and professionally strong to survive and prosper in the competitive environment for this, it should transform itself by increasing cost effectiveness enhancing service quality and improving efficiency.

Swar (2008) “Financial Performance Analysis of Nepal Bank Limited” presents with main objective to analyze the financial position of the NBL for two different periods F/Y 2051/052 B.S. TO 2056/057 B.S. and F/Y 2057/058 B.S. to 2061/062 B.S. According to his study NBL has not maintained a balanced ratio among its deposit liabilities. During the both period there is negative operating profit. Due to the bank’s failure in collecting earned interest and matured loan, it has suffered continuous loss. The net worth of the bank for the second period is negative due to the heavy loss during the years. Long term debts, total debts and total deposit ratios have gradually decreased. It indicates that bank has not followed any policy regarding these items. The financial position of the NBL is worse during the second period due to its failure to utilize its recourses efficiently and due to its inefficiency in risk management. The overall financial position of the bank is unsatisfactory during the both periods. It is worse during the second period. The recommendation has been made on the basis of study are:

- While making any type of investment, especially advancing the loan, loan proposal should be seriously studied and the most important factor is, securities against which loan is going to be provided should be valued fairly and properly.
- The inspection and supervision aspect of the bank should be effective and functional.
- The loan and advances department, and the loan recovery department should also be target oriented, i.e. after advancing loan, there should be regular supervision and follow up for the proper utilization of loan.
- Since NBL has large network, there may be irregularities from the staff. So, there should be effective provision of punishment and reward as per the performance.
- The bank's management should be totally out of political pressure.

Chand (2009) *"Comparative Study of financial Performance of Joint Venture Banks in Nepal"* submitted this study with the objectives to disclosure the financial performance of joint venture banks taking NBBL and EBL as sample. According to his report the findings are:

- Cash and bank balance to deposit ratio of NBBL is not competent in payment of deposit.
- EBL is investing more deposit than NBBL.
- EPS of EBL is growing whether EPS of NBBL is decreasing.

Thapa (2009) has conducted a study on "*financial performance of NBBL in framework of CAMEL*". The main objective was to analyze financial soundness of NBBL. The study was based on secondary data covered a period of 2001 to 2006.

The major findings are the leverage ratios are on decreasing trend and core capitals are also very low. Capital of NBBL is negatives due to tremendous accumulated loss and it has not net the capital adequacy requirements required by NRB. The bank is not using the adequate amount of core capital in the last there three years of study period. The non performing loans to total loans and advance ratios were observed unsatisfactory during the study period. The increasing trend of loan reserve indicates that the quality of assets is deteriorating year by year and increasing trend of operating expenses ratio indicates the decreasing operating revenue and increasing negative ratio of ROE and ROA show bank has incur big loss in year 2005 and 2006. It shows that the bank capital base is very weak and management quality of bank is poor. The bank is not serious and not following the NRB standard. The researcher has recommended maintaining stable capital adequacy ratio and strictly following the NRB directives. The bank should provide loan after proper credit assessment to the appropriate party only. In conclusion during her study period NBB is on weaker position than other ‘A’ class commercial bank.

Dhungel (2011), Conduct a research on Comparative Analysis of Financial Performance of Nepal SBI Bank and Machhapuchehhere Bank Limited (In Framework of CAMELS). This study focused to evaluate the financial performance between joint venture bank and domestic private commercial bank in the framework of CAMELS by using descriptive and analytical research design. For the study purpose, two banks Nepal SBI Bank Limited and MBL were selected randomly. In her study the period was covered for 5yrs 2063 B.S. to 2067 B.S. Regarding the capital adequacy ratio, bank under study are well capitalized and they are complying with the NRB directives. The total assets of both NSBI and MBL are in increasing trend. The ratio of provision for substandard loan doubtful loan and loss loan is below the NRB guidelines of NSBI bank but MBL is able to maintain the adequate provision except in one year.

The EPS also show NSBI is in better position than MBL. Profit margin of NSBI is in fluctuation trend and profit margin of MBL is decrease from 20.75% to 3.98%. Although beginning of the study period earning per employee of both bank are same.

In her study she recommended that the capital adequacy of both banks is adequate so it is recommended keeping it up to met NRB benchmark. The bank's short-term net financial assets are highly sensitive to interest rate risk as the CGAP ratio to earning assets is high. So the bank should minimize the mismatch of short term risk sensitive assets in order to minimize sensitivity to prevailing falling interest rates scenario.

Khadka (2011) has conducted "A Study on Daily Share Price Behaviors of Commercial Bank in Nepal." The main objective of the study is to analyze the daily stock price behavior of the sampled commercial banks in Nepal and to analyze the behavior of commercial bank index and NEPSE index. He has concluded from the analysis of serial correlation and analysis of runs test corroborate with the previous conclusion from the studies entitle "Share Price Behavior of Listed Companies", "The Efficient Market Hypothesis and the Behavior of share Prices in Nepal." He has taken NIC, NABIL, NSBI, BOK, HBL and SCB as sample bank on his study. The SD and C.V. of NIC have supported to the graph, the stock of NIC is the least volatile. The S.D. of NABIL, NSBI, BOK, and HBL are 842.41, 486.85, 372.40, and 333.34 respectively. The computed C.V. of BOK, NABIL, HBL and SCB are 33.03%, 30.71%, 28.9%, and 27.39% respectively. This implies that the relative variation measurement has categorized the volatility of sampled bank stocks different in comparison with the absolute variation measurement.

Observation of volatility indicates that most of the sampled stocks exhibit large variation in their prices. They are not doing will. Therefore the concerned authorities of the sampled hanks should be monitored the causes of variation. Investors should be extremely careful before making the investment decision. Analysis found that commercial sector is more sensitive than NEPSE index. He has recommended that studies only six commercial banks by covering the secondary data. Therefore, the forthcoming researcher should try to study the entire listed sector in the NEPSE. It is even better to study company wise. They should consume more time to obtain better empirical result.

Gaudel (2011), has conducted A Study on "Non-interest Income Effects on Total Income of Commercial Bank in Nepal." The study was started with the objective to find out the facts about the non-interest income of commercial banks in Nepal. Most of the banks relay on non-interest income more whereas less on net interest income. It is because of the growing share of non-interest income to the total income. In this context, commercial banks are diversifying in their services with an appropriate customer and business mix focusing on fee based revenues. Thus, an effort was devoted to analyze the non-interest income effect on total income of commercial banks in Nepal. She has taken five commercial banks as sample they are BOK, NCC, HB, KB, and NIB. She has recommended to contribute meaningful efforts to enhance percentage of non-interest income to the total income, because there are strong contribution of percentage of interest income and weaker of non-interest income to the total income over the study period. However, non-interest income is assumed as a most important source of bank revenues in these days.

2.3 Research Gap

Research is searching something new again and again. So it is never ending process. Different scholar and researcher have been conducted research in very topic on commercial bank like performance analysis, Share Price Behavior of Commercial Bank, Non-interest Income Effects on Total Income etc are found. But study related with Nepal Bank Limited was just two found i.e. Effectiveness of Saving and Credit Mobilization of Nepal Bank Limited Before and After Management Contract of ICCMT and Performance Analysis. Recently reform program has conducted by Nepal Rastra Bank with assistance of World Bank, Asian Development, and International Monetary Fund to restructuring and reforming of NBL and RBB. However only, NBL has been taken as study. However, no one researcher had carried out yet on the topic “Impact of Financial Sector Reform On The Financial Performance of Nepal Bank Limited”, which hugely affect the financial sector as well as overall economy of Nepal. So this is the first attempt on this title in the framework of CAMELS.

CHAPTER III

RESEARCH METHODLOGY

It is significance to have appropriate choice of research methodology that helps to make this research study meaningful and mere scientific. Therefore, appropriated methodology has been followed to meet the purpose objectives of the study. So, the methodology has been followed to meet the purpose objectives of the study. So, the methodologies of this research include the Research Design, the Population and Sample, Sources and Nature of Data, Data Collection Procedure, Data Processing Procedure, Method of Data Analysis.

3.1 Research Design

Research design is the plan and structure of investigation so conceived as to obtain answers to research questions. The plan is the overall scheme or program of the research. It includes an outline of what the investigator will do from writing hypotheses and their operation implications to the final analysis of data. (Cooper & Schindher, 2011) The study is based on historical data, which covers the fourteen years period from F/Y 2054/55 to 2067/68. It deals with the financial sector reform in Nepal, basic concern of Nepal Bank Limited.

Basically, the research design has two purpose the first one is to answer the research question or test the research hypothesis and other is to control variance (Wolf and Pant, 2000). So, research design is the plan structure, and strategy of investigation conceived so as to obtain answers to research questions and to control variance (Karlinge, 1986). We can’t imagine our research without research design. This Chapter is composed of Six selections:-

- Selection of Banks
- Period Covered
- Nature and sources of data

- Method of 'analysis and interpretation'
- Specification of the study

3.2 Population and Sample

Currently 31 ‘A’ class commercial banks are operation in Nepal which are population of the study. Out of 31 banks, 3 are public, 6 are joint venture and the remaining are fully domestic private banks. (Financial Institution Statistic, 2011) (Refers to Appendix I). Mainly the Financial Sector Reform programs was held in two bank in public sector i.e. RBB and NBL, but only one banks NBL was drawn as sample of the study.

3.3 The Nature and Sources of Data

It is universal that any research study must required some kind of data either primary or secondary or both. This study is related to financial sector reform in Nepal, so the main source of data is secondary source. And the main source for that data was Nepal Bank Limited. The other sources were concerned banks annual, financial and reform progress report, Unpublished Thesis, Research Study, Several Books and banking Journals, in different libraries and also from data given by Nepal Rastra Bank. Internet was also an important source like as website of HMG, National Planning Commission, Nepal Rastra Bank, World Banks were also considered. The use of primary source was very negligible in this study.

3.4 Data Collection Procedure

The study is basically based on the secondary data. So, the secondary data were directly collected from the annual reports collected from the corporate office of the banks. Data also been obtained browsing the official web sites of the concerned bank and NRB. Literature review is collected from western regional library and some supplementary data and information has been collected from NRB publication and newspaper.

In few cases, the direct contact research division of NRB, NBL head office through telephone was also done with responsible personnel. It was taken as primary data and used in this study also.

3.5 Data Processing Procedures

Analysis is the careful study of available facts so that one can understand and draw conclusion from them on the basis of established principles and sound logic (Cottleetal, 1998). This is an important part in research work. Therefore, collected data from secondary source and very negligible in primary source were presented in appropriate and suitable various form like tables, diagrams and figures.

Firstly data were extracted from the annual reports of the bank and put them in a sheet. Then data were entered into the spreadsheet to work out the financial ratios and prepare necessary figures, according to the need and requirement of this study. The analysis has been done according to the pattern and usefulness of data. Wide verities of methodologies have been applied according to the reliability and consistency of data. For this purpose, gathered data have been processed using computer programs like Microsoft Excel and Word.

3.6 Method of Data Analysis

In this research work, descriptive and analytical tools are used to get the meaningful result of the collected data and to meet the research objectives. For this purpose of study, the collected data is tabulated on the various heads. Then the tabulated data are analyzed using various financial tools which are briefly discussed below;

Financial Tools

To evaluate the performance of any organization financial tools are very useful to determine the strengths and weakness of a financial sector as well as it is historical performance and current financial condition. For this the CAMELS rating system is used, but all the indicators of CAMELS may not be possible. The ratios used in this study are as follow;

3.6. 1 Capital Adequacy

A. **Ratio of Core Capital to Total Assets: -** This is the ratio which is used to calculate the financial leverage of the company to get an idea of the company’s method of financing or to measure its ability to meet financial obligations. It shows the relationship between core capital and total assets. It measures the adequacy of the core capital. It is calculated by using the following model;

$$\text{Core Capital to total Assets Ratio} = \frac{\text{Core Capital}}{\text{Total Assets}} \times 100$$

B. **Risk Based Capital Adequacy Ratio: -** Risk based capital ratio can be defined as the numerical expression of total capital fund to total risk adjusted assets. It measures the adequacy of capital in the banks which is determined in the following way;

$$\text{Risk Based Capital Ratio} = \frac{\text{Total Capital Fund}}{\text{Total Risk Weighted Assets}} \times 100$$

Where,

Total Capital Fund = Core capital + Supplementary Capital

After the implementation of Basel II from 2065/66 core capital is known as Tier I and Supplementary capital is known as Tier II

Total Risk Weighted Assets = (on balance sheet risk adjusted assets + off balance sheet risk adjusted assets)

After implementation of Basel II total risk adjusted assets

= credit risk + operational risk + market risk

C. **Risk Based Core Capital Adequacy Ratio: -** Core capital adequacy ratio is the expression of numerical relationship between the core capital and total risk adjusted assets. It measures the adequacy of core capital. The ratio is expressed as:

$$\text{CCAR} = \frac{\text{Core Capital (Tier 1)}}{\text{Total Risk Weighted Assets}} \times 100$$

Where

CCAR = core capital adequacy ratio

Core capital (Tier I) = Paid up equity share capital + proposed bonus equity share + statutory general reserve + rationed earning + unaudited current year cumulative profit + capital adjustment + reserve + deferred tax reserve + current years' P/L a/c + other free reserve – (fictitious assets + investment raising out of underwriting commitment).

D. Risk Based Supplementary Capital Ratio: - Supplementary capital ratio is the expression of numeric relationship between supplementary capital and total risk adjusted assets of a bank. It measured the proportion of supplementary capital in total risk adjusted assets. The ratio is used to analyze the supplementary capital adequacy of the banks and determined in the given ways.

SCR = Supplementary capital ratio supplementary term debt + general loan loss provision + exchange equalization reserve + investment adjustment fund

3.6.2 Assets Quality

The following ratios are used to assess the quality of assets of the bank:-

A. Non-Performing Loan Ratio: - It shows the relationship between non performing loan and advance. It measures the proportion of non-performing loan and advances in total loan and advance. Higher ratio implies higher portion of non-performing loan. The ratio in used to assess the asset quality of the bank. This relationship can be measured by using the following relation:-

$$\text{Non-Performing Loan Ratio} = \frac{\text{Non Zperforming Loan}}{\text{Total Loan and Advance}} | 100$$

B. Loan Classified as Substandard, Doubtful and Loss to Total Loans: - The ratio of substandard doubtful and loss loans to total loans indicates the relationship between the substandard loan to total loans doubtful loans to total loans and loss loans to total loans. It shows the percentage of substandard, doubtful and loss loans to total loans. The lesser the percentage the better would be the quality of assets. It is worked out using the following relation:

Loan Classified as Substandard, Doubtful or Loss/ Total Loans

$$= \frac{\text{Total Substanard, Doubtful or Loss Loan}}{\text{Total Risk Weighted Assets}} | 100$$

C. Provision for Substandard Loans to Total Substandard Loans: - Provision for substandard loans to total substandard loan ratio is the expression of numerical relationship between loan loss provisions for substandard loan to total substandard loans. It measures the proportion of substandard loans to total substandard loans. The percentage loans to total substandard loans to total substandard loan are 25% according to NRB directives. This ratio can be calculated by using following formula:

Provision for Substandard Loans to Total Substandard Loan

$$= \frac{\text{Provision for Substandard Loan}}{\text{Total Substandard Loan}} \times 100$$

D. Provision for Doubtful Loans to Total Doubtful Loans: - Provision for doubtful loans to total doubtful loans is the expression of numerical relationship between loan loss provisions for doubtful loans for total doubtful loans. The proportion of provision for doubtful loans to total doubtful loans, according to NRB should be at least 50%. The ratio can be calculated using following relations:

Provision for Doubtful Loans to Total Doubtful Loans

$$= \frac{\text{Provision for Doubtful Loans}}{\text{Total Doubtful Loans}} \times 100$$

E. Provision for Loss Loans to Total Loss Loans: - Provision for loss loan to total loss loans is the expression of numerical relationship between loan loss provisions for loss loans to total loss loans. The proportion of provision for loss loans to total loss loans, according to NRB, should be at least 100%. This ratio can be calculated by using following Model:

Provision for Loss Loans to Total Loss Loans

$$= \frac{\text{Provision for Loss Loans}}{\text{Total Loss Loans}} \times 100$$

3.6.3 Management Efficiency

The following ratios can be used to determine the efficiency of bank's management;

A. **Operating Expenses Ratio: -** It is the ratio of total operating expenses to total operating incomes. A high or indicate the financial institution may not be operating efficiently. This can be, but is not necessary due to management deficiencies. In any case, it is likely to negatively affect profitability. It can be calculated using following model:-

$$\text{Operating Expense Ratio (OER)} = \frac{\text{Operating Expenses}}{\text{Operating Income}} \times 100$$

Where,

Operating Expenses = It includes interest expenses, office operating expenses, currency exchange loss, employee expenses, bad loan, advance written off and loan loss provision.

Operating Income = It includes interest income and non-interest income.

B. **Earning Per Employees: -** It is ratio of net earnings after tax to total number of employees. Low or decreasing earning per employee can reflect inefficiencies as a result of overstaffing in terms of profitability (IMF 2000). It is calculated using following model;

$$\text{Earnings Per Employee (EPE)} = \frac{\text{Net Profit after Taxes}}{\text{Total Non Z Employees}} \times 100$$

3.6.4 Earning Performance

The following ratios can be used to assess the quality of bank's earning

A. **Return on Equity: -** ROE is the relationship between net income and shareholders equity. It measures the rate of return on the shareholder's equity of common stock owners. It measures a firm's efficiency at generating profits for every rupee of net assets and shows how well a company used investment rupees to generate earning growth. ROE is equal to a fiscal year net income (after preferred stock dividends but before common stock dividend) divided by total equity (excluding preferred shares).

$$ROE = \frac{\text{Net Profit after Tax}}{\text{Share holders' Equity}} \times 100$$

B. **Return on Assets: -** ROA is calculated by dividing net income by total assets. It shows how profitable a country’s assets are in generating revenue. ROA gives an idea as to how efficient measurement is at using its assets to generate earnings. It is calculated by dividing a company’s annual earnings by its total assets. If a company has ROA of 20%, it means that the company earned Rs. 0.2 for each Rs 1 in assets

$$ROA = \frac{\text{Net Profit after Tax}}{\text{Total Assets}} \times 100$$

C. **Profit Margin: -** A ratio of profitability calculated as net income dividend by total operating revenue. A higher profit margin indicates a more profitable bank that has better control over its cost. It shows the proportion of net income in total operating revenues. A 20% profit margin, for example, means the bank has a net income of Rs 0.2 for each Rupee of revenue.

$$\text{Profit Margin (PM)} = \frac{Net\ \text{Pr}ofit\ after\ Tax}{Operating\ Income} \times 100$$

D. **Earning Per Share: -** The porting of a company’s profit allocated to each outstanding share of common stock is earning per share. EPS serve as indicator of a company’s profitability. It provides a direct measure of the return following to the bank’s stockholders. EPS is generally considered to be the single most important variable in determining a share’s price.

$$EPS = \frac{\text{Net Profit after Tax}}{\text{No. of Share}} \times 100$$

3.6.5 Liquidity Position

The following ratio can be used to assess the liquidity of the bank:

A. **Loan to Deposit Ratio: -** Loan to deposit ratio is the proportion of total loans and advances (before deduction of loan loss reserve) to total deposit. It can be calculated using following models;

$$\text{Loan to Total Deposit Ratio} = \frac{\text{Total Loan and Advance}}{\text{Total Deposit}} \times 100$$

B. **NRB Balance to Total Deposit Ratio: -** NRB balance to total deposit ratio is the expression of numerical relationship between NRB balance and total deposit of a bank. It measures the adequacy of NRB balance held by the bank. It can be calculated using following model;

$$\text{NRB Balance to Total Deposit Ratio} = \frac{\text{Total NRB Balance}}{\text{Total Deposit}} \times 100$$

C. **Liquid Assets Ratio: -** It shows the relationship between total liquid funds to total deposit. It shows the overall short term liquidity position. The higher ratio implies the better liquidity position.

$$\text{Liquid Asset} = \frac{\text{Liquid Assets}}{\text{Total Deposit}} \times 100$$

Total Liquid Assets = Cash in hand + NRB Balance + Domestic Bank Balance + Foreign Currency Bank Balance + Placement + Investment in Government Securities.

D. **Cash in Vault to Total Deposit Ratio: -** Cash in vault to total deposit is derived by dividing total cash in vault by total deposit of the bank. It shows the % of total deposit maintained in vault of the bank. It is calculated by using the following model;

$$\text{Cash in Vault to Total Deposit Ratio} = \frac{\text{Total Cash in Vault}}{\text{Total Deposit}} \times 100$$

Where,

Cash in Vault = Cash in Hand + Foreign Currency in Hand.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Data Presentation and Analysis

This chapter deals with presentation and analysis of data collected from annual reports of the bank. The raw data collected has been organized and processed using various tools discussed in the previous chapter – “Resource Methodology”. For meaningful conclusion 14 years (2054 to 2069) data has been analyzes. Appropriate financial tools of CAMELS are applied to check the validity of trends. The analysis of different indicators used by study is presented in ensuing section.

4.1.1 Capital Adequacy

Capital Adequacy determines how well banks can manage with shock to their balance sheet. Bank and other FTs should have adequate capitals to support its risks assets in accordance with the risk-weighted capital ratio framework. It has become recognized that capital adequacy of more appropriately relates to assets structure than to the volume of liability directly as affects the banking transaction. The adequacy of bank capital is the most important aspect of a bank. If there in inadequacy of capital, the bank should take step for the adequacy of capital as per legal requirements because its financial health cannot be regarded capable and healthy without having adequate capital.

4.1.1.1Core Capital to Total Assets

Core capital to total assets ratio shows how much amount of share shows how much amount of share holders funds is used to finance a bank’s assets. It shows the percentage of core capital in the total assets. Normally ratio of 6% or more than 6% is preferable as directed by Basel II.

Table 4.1

Core Capital to Total Assets

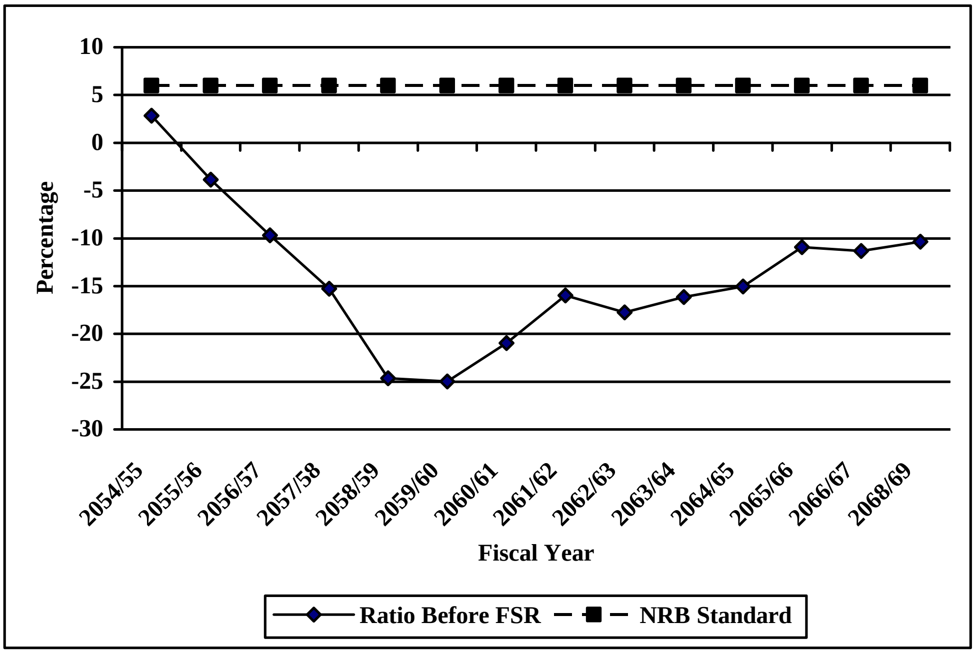
F/Y	Ratio Before FSR	Ratio During FSR	Ratio After FSR	NRB Standard
2054/55	2.84			6%
2055/56	-3.85			6%
2056/57	-9.69			6%
2057/58	-15.27			6%
2058/59		-24.63		6%
2059/60		-24.99		6%
2060/61		-20.95		6%
2061/62		-15.99		6%
2062/63		-17.75		6%
2063/64		-16.14		6%
2064/65			-15.04	6%
2065/66			-10.93	6%
2066/67			-11.31	6%
2068/69			-10.341	6%

Source: Appendix III

Table 4.1 present the core capital to total assets, the ratio is negative due to the regular loss that bank is facing. In other words the bank has negative net worth. On all the study period the ratio of core capital to total assets is negative, except in year 2054/55. It happened due to the regular accumulated loss which is the major problem of the bank. Hence after 2060/61 the bank is in profit but the reserve profit or loss is still in negative. The Basel II directs that the ratio of core capital to total assets must be at least 6%, but the bank is not at least near the direction. So the bank is facing more loose in competition in banking industry in other word there is too much difficult for the bank to face the competition position to private sector bank.

Figure 4.1

Trend Line showing the Core Capital to Total Assets



Here Figure 4.1 shows the trend analysis of core capital adequacy ratio the line of the bank is below the based line due to the negative ratio and the NRB standard was 6% straight line. The ratio of the bank is negative all over the study period so that the line was under the base line.

4.1.1.2 Risk Based Capital Adequacy Ratio

Capital Adequacy ratio is the measure of bank's capital. This ratio is used to protects depositors and promote the stability and efficiency of financial system. Capital adequacy ratio above the central bank standard indicates the sufficiency of capital and ratio below the standard indicates lake of adequate capital in bank. Higher capital ratio above the standers indicates higher security to depositors, strong financial position and higher internal sources. On the opposite, the lower capital adequacy ratio below the standard indicates lower security to depositors, comparatively weak financial position and lower internal sources.

The central bank of Nepal, Nepal Rastra Bank has fixed the minimum requirement of capital adequacy ratio i.e. total capital fund (core capital plus supplementary capital) to total risk adjusted assets as 10% under Basel II direction. The commercial banks of Nepal have to follow the directives issued by NRB and have to maintain capital adequacy ratio as per directives.

Table 4.2

Capital Adequacy Ratio of NBL

F/Y	Ratio Before FSR	Ratio During FSR	Ratio After FSR	NRB Standard
2054/55	11.64			10%
2055/56	1.44			10%
2056/57	-12.87			10%
2057/58	-29.360			10%
2058/59		-19.58		10%
2059/60		-29.14		10%
2060/61		-25.20		10%
2061/62		-18.53		10%
2062/63		-32.085		10%
2063/64		-27.83		10%
2064/65			-27.57	10%
2065/66			-12.94	10%
2066/67			-15.15	10%
2068/69			-13.38	10%

Source: Appendix IV

Table 4.2 shows the risk based Capital adequacy ratio. This ratio is used to protects depositors and promote the stability and efficiency of financial system. On above valuation the bank is not maintaining the NRB standard instead it has negative ratio all over the study period it means lake of adequate capital in bank, lower security to depositors, comparatively weak financial position and lower internal sources. On all study period the bank meet the standard only on 2054/55 with 11.64%. The poorest condition was on 2062/63 which is -32.085%.

Figure 4.2

Trend Line showing the Capital Adequacy Ratio of NBL

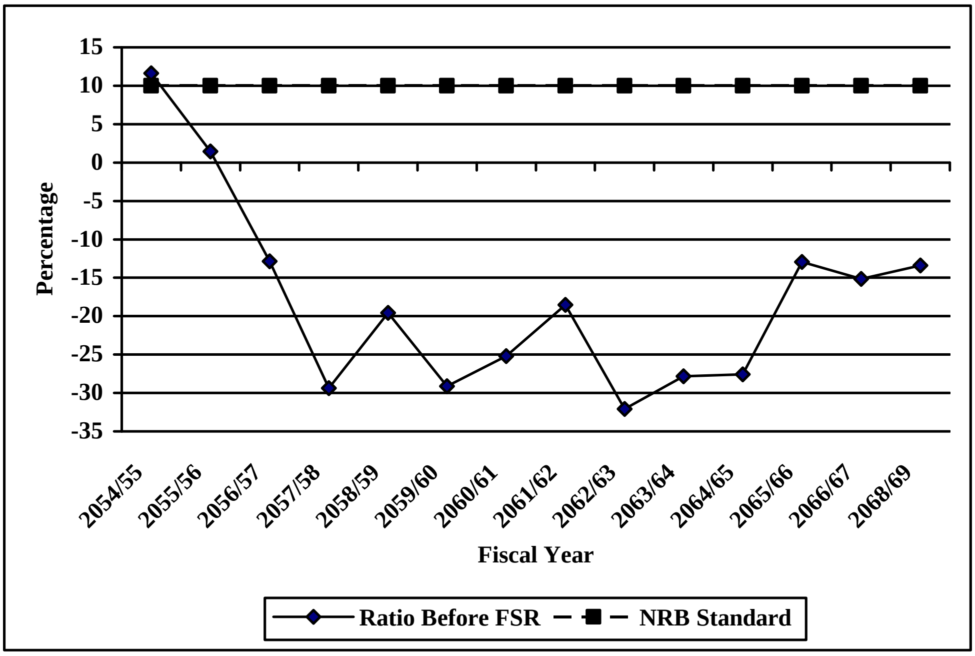


Figure 4. 2 shows the trend analysis of Capital Adequacy Ratio. In this figure also the trend line is under the based line due to the negative ratio. The bank is facing the regular loss from the beginning so why the accumulated loss gives this result. The gig jack line is banks ratio line and the straight line is NRB Standard. All over the study period the bank is not maintaining the NRB Standard.

4.1.1.3 Risk Based Core Capital Adequacy Ratio

Core Capital is the primary capital of commercial bank. Core capital is the minimum amount of capital that the financial institution must have on hand in order to be in compliance with the regulations put in place by central bank. The establishment of core capital as a basic regulations put in place by central bank. The establishment of core capital as a basic requirement for functioning helps to keep the financial community stable as well. This helps to maintain consumer confidence, keep FTs viable and overall minimize shifts in the general economy core capital includes paid up equity capital, irredeemable non-cumulative preference shares, share premium, general reserve, accumulated profit, capital redemption reserves, capital adjustment reserve, dividend equalization reserves and other free reserves. Amount of fictitious assets, goodwill, investment in financial instrument issued by the organized organization in excess to the limit specified by NRB are deducted from the sum of all elements of the core capital.

Core capital adequacy ratio is defined as core capital to total risk weighted assets ratio. It measures the adequacy of shareholders fund. If the ratio is high above NRB standard it shows the strong financial position of the bank and higher security to creditors and depositors fund if the ratio is below the NRB standard it shows weak financial position of bank and higher risk to the creditors and depositors funds. NRB has directed through its directives to all commercial banks to maintain minimum core capital ratio for the safety and soundness of the commercial banks. According to NRB directives the commercial banks are directed to maintain 5.5%.

Table 4.3

Core Capital Adequacy Ratio

F/Y	Ratio Before FSR	Ratio During FSR	Ratio After FSR	NRB Standard
2054/55	4.89			5.5%
2055/56	-12.03			5.5%
2056/57	-27.65			5.5%
2057/58	-62.77			5.5%
2058/59		-26.91		5.5%
2059/60		-29.75		5.5%
2060/61		-26.19		5.5%
2061/62		-19.56		5.5%
2062/63		-34.94		5.5%
2063/64		-32.47		5.5%
2064/65			-27.55	5.5%
2065/66			-13.28	5.5%
2066/67			-15.75	5.5%
2068/69			-15.99	5.5%

Source: Appendix V

Table 4.3 shows the core capital adequacy ratio. The ratio also was negative as above two ratios. The bank may loose the confident of its customers, FIs viable and overall minimize shifts in the general economy. The bank also has loose financial community stable as well. The ratio calculated above are below the NRB standard it shows weak financial position of bank and higher risk to the creditors and depositors funds. Except one year i.e. 2054/55, bank has negative ratios in all over the study period. The maximum ratio was in year 2054/55 i.e. 4.89% and the lowest ratio was on 2057/58 i.e. -66.72%.

Figure 4.3

Trend Line showing the Core Capital Adequacy Ratio

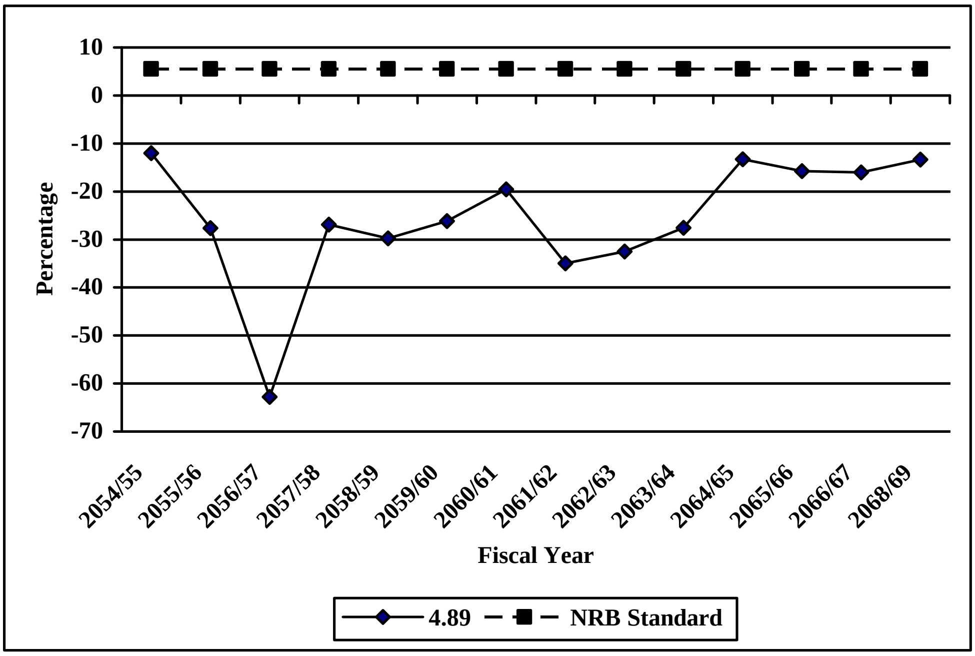


Figure 4.3 shows the Core Capital Adequacy Ratio. In this figure also the trend line is below the based line that means negative due to the accumulated loss. The maximum low ratio was in year 2057/58, because at that time the line is too below.

4.1.1.4 Supplementary Capital Adequacy Ratio

Supplementary Capital is the secondary capital of the commercial bank. Supplementary capital includes general loan loss provision, assets revaluation reserve. Supplementary capital ratio is a tool used to analyze the supplementary capital adequacy of bank. The ratio shows the percentage of supplementary capital in total risk weighted assets. It also shows the contribution of supplementary capital to the total capital adequacy ratio. NRB directed to the commercial banks to include the supplementary capital in the total capital structure while measuring the capital adequacy ratio. NRB has fixed the maximum limit of supplementary capital ratio as not more than core capital ratio of bank in each year.

Table: 4.4

Supplementary Capital Adequacy Ratio

F/Y	Ratio Before FSR	Ratio During FSR	Ratio After FSR	NRB Standard
2054/55	6.76			3.09
2055/56	13.47			1.64
2056/57	14.78			1.80
2057/58	33.41			2.62
2058/59		7.33		-21.62
2059/60		0.61		-24.99
2060/61		0.99		-20.95
2061/62		1.03		-15.99
2062/63		2.85		-17.75
2063/64		4.64		-16.14
2064/65			3.095	-15.04
2065/66			1.64	-10.93
2066/67			1.80	-11.31
2068/69			2.62	-10.34

Source: Appendix VI

Table 4.4 shows the supplementary capital to total risk weighted assets. As Directed by NRB the ratio must be less than the Core capital ratio that means it must be not more than core capital. But all the ratios all over the study period are all above the core capital. The highest ratio was in year 2057/58 which is 33.77% and the lowest ratio was on 2059/60 which is 0.61%.

4.1.2 Assets Quality

Assets Quality ratio is one of the most critical factors in determine overall condition of any commercial banks. Primary factor that can be considered are the quality of loan portfolio, mix of risk assets and credit administration system. Assets of a bank comprise of cash and bank balance, call, one and short notices, investment, loans and advances and fixed assets. However, investment and loan and advances play a major role in determine the quality of assets. These ratios look at the amount of different types of assets and attempt to determine if there are too high or too low with regard to current operating levels. The quality of assets is measured in term of ratio of non-performing loans to total loans and loan classified as substandard/doubtful/loss to total loans. Provision for NPAs is also the measuring rod used to analyze the assets quality of the bank. These ratios used to evaluate managerial efficiency for proper utilization of assets and it also measures the degree of effectiveness in use of resources of funds by commercial bank.

4.1.2.1 Assets Composition

Assets composition is related to the left hand side of the bank balance sheet. The asset side of the balance sheet shows how the funds entrusted is utilizes.

Appendix VII mentions the assets combination for the fiscal year 2054/55 to 2067/68. The cash balance of NBL is on increasing trend and balance with NRB is also in increasing trend in the year. The money at call in the three phases is continually decreased but in year 2062/63, 2064/65 and 2066/67. The investment position is fluctuating but increased in last three years and loan, advance and bills purchase is also in decreasing trend on all three phage. There is the very good done on investment during the management contract period the maximum investment is made on the year 2064/65 i.e. 16570.76 million, but on before the management contract period the investment is not good, and after handing over there is slightly decreased in the investment. The overall total assets combination was in increasing trend from 2054/55 to 2061/62 and then after the total was decreased in two year and again in increasing trend. Over the study period the growth is 66.19%.

Source: - Appendix VII

4.1.2.2 Non Performing Loan Ratio

Loans and advances are major part of assets composition. So the sound financial condition of bank is largely depended on the quality of assets held by them. One of the indicators to measure the quality of assets being held by bank is non-performing assets ratio. The increasing trend of ratio shows the worsening quality of bank assets. Normally 5 to 10 percent of non-performing assets is considered satisfactory for quality of bank assets.

NRB has directed banks to classify the loans into performing loan and nonperforming loan. The loans that are not due and 3 months past due are called pass loan or performing loans. Moreover, non-performing loans are classified into three groups: i) substandard ii) doubtful iii) loss. The loans that are past due for more than 6 months or one years past due are called doubtful loans and the loans that are past due for more than one year are called loss loan. The Provision for Standard Loan in just 1%, Sub-Standard is 25%, Doubtful Loan is 50% and the Loss Loan is 100%. (Refers to Appendix II)

Table: 4.5

Ration of Non-Performing Loan to Total Loan

F/Y	Ratio Before FSR	Ratio During FSR	Ratio After FSR
2054/55	27.46		
2055/56	31.99		
2056/57	42.34		
2057/58	50.80		
2058/59		56.27	
2059/60		60.47	
2060/61		53.74	
2061/62		49.64	
2062/63		18.18	
2063/64		13.49	
2064/65			12.38
2065/66			4.94
2066/67			4.84
2068/69			5.75

Source: Appendix VIII

The above table 4.5 presented comparisons between total loan and non performing loan of NBL. The table shows the non-performing loan percentage of total loan distributed or total investment of banks for income generating purpose. We know the main-income source of banking sector is their investment or loan distribution out of total deposit collection. The table shows the ratio of 2054/55 to 2067/68. The increasing trend of ratio shows the worsening quality of bank assets. The highest ratio was in year 2059/60 i.e. 60.47% and lowest ratio was in year 2066/67 i.e. 4.84.

From the beginning of the study period the ratio is in increasing trend i.e. the ratio is increasing continuously from 2054/55 to 2059/60 after 2060/61 its begins to decreased it shows that the financial sector reform program is successful. Though the amount of non-performing loan has not lowered as anticipated, there has been indication of gradual improvement. The non-performing loan of Nepal Bank Limited which stood at 27.46 percent in 2054/55 decreased to 5.75 in 2068/69.

4.1.2.3 Ratio of Loans Classified as Substandard, Doubtful or Loss Loan to Total Loan

Table: 4.6

Substandard/Doubtful/Loss Loan to Total Loans

FY	Before FSR			During FSR			After FSR		
	% of Substandard to Total Loan	% of Doubtful Loan to Total Loan	% of Loss Loan to Total Loan	% of Substandard to Total Loan	% of Doubtful Loan to Total Loan	% of Loss Loan to Total Loan	% of Substandard to Total Loan	% of Doubtful Loan to Total Loan	% of Loss Loan to Total Loan
2054/55	14.10	9.53	3.83						
2055/56	17.04	11.43	3.51						
2056/57	17.02	19.45	5.86						
2057/58	14.53	28.07	8.19						
2058/59				6.85	20.97	28.45			
2059/60				7.11	14.58	38.77			
2060/61				1.30	7.13	45.31			
2061/62				0.77	0.38	11.13			
2062/63				0.38	0.71	17.09			
2063/64				0.13	0.22	13.15			
2064/65							63.98	0.13	11.84
2065/66							64.77	0.091	4.519
2066/67							326.04	0.065	3.47
2068/69							78.18	0.38	4.39

Source: Appendix IX

Table 4.6 exhibits the ratio of substandard loan to total loan, doubtful loan to total loan and loss loan to total loan. In case of NBL Percentage of substandard loan to total loan, Percentage of doubtful loan to total loan and Percentage of loss loan to total loan all continuously decreased throughout the study period which shows satisfactory level. Ratio of substandard loan to total loan is high in the first period of the study, but decreased on the second and third period. The ratio of doubtful loan also higher in the first period and started to decreased from the second period. As for ratio for loss loan the highest ratios are on the second period of the study period.

4.1.2.4 Ratio of Provision for Substandard Loan to Total Substandard Loan

Provision for substandard loans to total substandard loan ratio is the expression of numerical relationship between loan loss provisions for substandard loan to total substandard loans. It measures the proportion of substandard loans to total substandard loans. The percentage loans to total substandard loans to total substandard loan are 25% according to NRB directives.

Table: 4.7

Provision for Substandard Loan to Total Substandard Loan

F/Y	Ratio Before FSR	Ratio During FSR	Ratio After FSR
2054/55	14.43		
2055/56	11.42		
2056/57	13.13		
2057/58	15.49		
2058/59		25.61	
2059/60		23.11	
2060/61		32.22	
2061/62		36.68	
2062/63		28.12	
2063/64		31.88	
2064/65			89.19
2065/66			31.44
2066/67			25
2068/69			25

Source: Appendix X

Table 4.7 exhibits the ratio of provision for substandard loan to total substandard loan. As per NRB guidelines, provision for substandard should be at least 25% of the total substandard loan. But the table shows that the minimum standard was not maintained in the first period i.e. before the reform program existed, but the ratio is maintained in the second period of the study i.e. during the management contract. The highest ratio is on the year 2064/65 i.e. 89.199% which is very much more than the standard and the just 25% is in the year 2066/67 and 2067/68. The lowest ratio is on the year 2055/56 i.e. 11.42% which is lower than the NRB standard.

4.1.2.5 Ratio of Provision for Doubtful Loan to Total Doubtful Loan

Provision for doubtful loans to total doubtful loans is the expression of numerical relationship between loan loss provisions for doubtful loans for total doubtful loans. The proportion of provision for doubtful loans to total doubtful loans, according to NRB should be at least 50%.

Table: 4.8

Ratio of Provision of Doubtful Loan to Total Doubtful Loan

F/Y	Ratio Before FSR	Ratio During FSR	Ratio After FSR
2054/55	46.34		
2055/56	46.93		
2056/57	47.09		
2057/58	47.45		
2058/59		51.16	
2059/60		28.76	
2060/61		61.77	
2061/62		63.16	
2062/63		69.46	
2063/64		50.62	
2064/65			50.68
2065/66			56.28
2066/67			50
2068/69			50

Source: Appendix XI

Table 4.8 shows that the ratio of total provision for doubtful loan to total doubtful loan. As shown in above table the bank is not maintaining the minimum standard directed by NRB on first phase i.e. before the reform program. During the contract period the ratio is more than the standard but in year 2059/60 it is just 28.75 which is less than the standard. Expect this in all period during the contract and after handing over the bank is maintaining the standard. The maximum ratio was in year 2062/63 i.e. 69.45%, and the minimum ratio was in year 2059/60. On 2066/67 and 2067/68 the ratio was just to standard i.e. 50%.

4.1.2.6 Provision for Loss Loans to Total Loss Loans:

Provision for loss loan to total loss loans is the expression of numerical relationship between loan loss provisions for loss loans to total loss loans. The proportion of provision for loss loans to total loss loans, according to NRB, should be at least 100%.

Table: 4.9

Ratio of Provision for Loss Loans to Total Loss Loans

F/Y	Ratio Before FSR	Ratio During FSR	Ratio After FSR
2054/55	36.55		
2055/56	90.07		
2056/57	95.34		
2057/58	85.86		
2058/59		95.96	
2059/60		96.64	
2060/61		98.23	
2061/62		100	
2062/63		100	
2063/64		100	
2064/65			100
2065/66			100
2066/67			100
2068/69			100

Source: Appendix XII

Table 4.9 shows the provision for loss loan to total loss loans on the table 1st i.e. before the reform program started the bank is not maintaining the minimum standard that NRB directed, that means the ratios are below 100%, in the first year the ratio is just 36.54%, which is very low than standard. After 2054/55 the ratio is increased continuously up to 2061/62 and after that it is constant to 100% till now. Before

2060/61 the bank is not maintaining the standard that directed by NRB for loan loss provision.

4.1.3 Management Quality

Sound management is a key to financial institutions performance. Although several indicators can be used as proxies for the soundness of management, such evaluation is still primarily a qualitative exercise, particularly when it comes to the evaluation of the management of operational risk, that is, the functioning of internal control systems. The productivity of employee is used as measuring rod for evaluation. Likewise sustainability of earning shows the efficiency of management. NRB has been using a separate rating for the off-site supervision which used the components of CAMELS except for the M representing management and the rating is thus labeled CAMELS. However, only operating expenses ratio and earning per employee are used as indicators for management quality.

4.1.3.1 Operating Expenses Ratio

Operating expenses ratio shows the relationship between total operating expenses and total operating incomes. It measures the proportion of total operating expenses in total operating revenue. Low ratio indicates that the bank is operating efficiently and high or increasing ratio can indicate that financial institution may not be operating efficiently. This can be, but is not necessarily due to management deficiencies. In any case, it is likely to negatively affect profitability. Operating expenses includes interest expenses, employees' expenses, office operating expenses, currency exchange loss, bad loan advance written off and loan loss provision and operating incomes includes interest incomes and non-interest incomes.

Table: 4.10

Total Operating Expenses to Total Operating Revenue Ratio

F/Y	Ratio Before FSR	Ratio During FSR	Ratio After FSR
2054/55	709.79		
2055/56	808.57		
2056/57	867.25		
2057/58	1091.71		
2058/59		1148.85	
2059/60		188.33	
2060/61		110.72	
2061/62		90.56	
2062/63		122.69	
2063/64		97.78	
2064/65			101.98
2065/66			93.98
2066/67			122.51
2068/69			91.75

Source: Appendix XIII

Due to increasing in office operating expenses and employee expenses bank may have raised their operating expenses. High or increasing ratio indicate that the bank was not be operating efficiently. The above study shows that the bank has very high in the operating expenses ratio. Before the reform program it was very poor the maximum was in year 2058/59 i.e. 1148.85. But after the reform program it is slightly decreasing. It also maintain in after handing over the contract.

4.3.2 Earning Per Employee

Earning per employee is another indicator of measuring management quality. It shows the relationship between net operating income and number of employees. Low or decreasing earning per employee can reflect inefficiencies as a result of overstaffing, with repercussion in terms of profitability.

Table: 4.11

Earning Per Employee

F/Y	Rs. Before FSR	Rs. During FSR	Rs. After FSR
2054/55	2444		
2055/56	-401361		
2056/57	-429670		
2057/58	-361177		
2058/59		-543400	
2059/60		-46325	
2060/61		172288	
2061/62		503237	
2062/63		343850	
2063/64		77287	
2064/65			70647
2065/66			268866
2066/67			82195
2068/69			134871

Source: Appendix XIV

The table shows that the NPAT of the bank is in increasing trend. The bank is facing continuous loss up to the half period on the whole study period. Before the reform program on four year the bank is facing high loss but a few profit in year 2054/55 i.e. Rs. 15 million. But after 2059/60 the bank is on some profit the highest profit was in year 2061/62 which is Rs. 7207.26 million. The problem of the bank is over staffing. Among the study period the no of staff is continuously decreasing. The employee was 6517 in year 2054/55 but it was decreased to 2843. Earning per employee is negative in the beginning of the study period because of loss. After 2060/61 it becomes positive.

4.1.4 Earnings Quality

Earning is the yardstick indicating the management, shareholders and depositors to evaluate the performance of bank, sustainability of earning and to forecast growth of the bank. The success of the bank heavily relies upon the efficiency of its management to diver the bank to earn good profits. Net profit is major yardstick to measure such profits. A required level of profit is necessary for the firm’s growth and survival in the competitive environment. Profitability is vitally more important form assuring that a bank stays in business or activity. Net profit of any bank decreases resulting from high nonperforming loans, lack of avenues for earning fee based income and operating inefficiencies. Higher profitability ratio indicates higher efficiency of banks and lower profitability ratio indicates lower.

4.1.4.1 Return on Equity

Return on Equity is measure of the rate of return flowing to the bank's shareholders. This ratio expresses the capacity of the bank to utilize its owner's fund. It reveals that how well the firm has deployed the resources of the owner to earn profit. Organization objective is to maximize profit as well as its wealth. Earning on adequate return on the shareholder's fund can maximize shareholder's wealth. ROE is the profit as a percentage return on the owner's stake in a firm. The level of profit depends on the ROE i.e. the profit per dollar invested. Computed as the ratio of net income to the equity, it reflects the income earned from its internal sources. The ROE measures the book return to the owners of the firm. It is a bottom line ratio in that sense (Weston and Copeland). Return on equity reveals how well the bank uses resources of the owners. The high ratio represents sound management and efficient mobilization of owner's equity and vice-versa. ROE of 15% is treated as standard and banking industry are desired to have higher than this (NRB directive). ROE is the measure of the rate of return flowing to the bank's shareholders. ROE is the profit as a percentage return on the owners' stake in a firm. The level of profit depends on the ROE i.e. profit per Re. invested.

But the bank was incurring heavy loss till 2060, so it has huge accumulated loss the equity capital by the end of fiscal year 2068/069 i.e. last year of study period is negative due to the accumulated loss. The calculated ROE of several years are in negative figure so that figures are not included in Table. The figure of ROE calculation is shown in Appendix XV.

4.1.4.2 Return on Assets

Net profit is the after tax profit of a firm, which can be utilized by the firm for its own purpose or for the benefit of owners. Total assets also termed, as working fund is the total utilization of a firm's fund. It is primarily an indicator of managerial efficiency; it indicates how capable the management of the bank has been converting the institution's assets into net earnings. Return on total assets is a popular tool to measure how well its asset is utilized in generating profit. It measures the profit earning capacity by utilizing available resources i.e. total assets. It shows the percentage of net profit in total assets. Return on assets as an indicator of earning quality indicates how well the management of the bank is converting the bank's assets into net earnings. If the company has a TOA of 10%, it means the company earned Rs. 10 for each Re. 1 in assets. Return will be higher if the banks resources are well managed and utilized. According to World Bank the return on assets should be 1 % and higher in banking industry.

Table: 4.13

Return on Assets

F/Y	Rs. Before FSR	Rs. During FSR	Rs. After FSR
2054/55	0.05		
2055/56	-6.34		
2056/57	-6.17		
2057/58	-5.24		
2058/59		-7.79	
2059/60		-0.63	
2060/61		1.61	
2061/62		3.68	
2062/63		3.36	
2063/64		0.68	
2064/65			0.57
2065/66			1.88
2066/67			0.56
2068/69			0.75

Source: Appendix XVI

Table 4.13, the return on asset ratio of NBL is minimum in 2058/59 with -7.796% and maximum in 2061/62 with 3.677%. The ratios are negative on the previous years due to the loss. After the reform program the bank is able to make profit so the ratio become positive but in year 2063/34, 2064/65, 2066/67 and 2066/67 the bank is not maintaining the minimum standard directed by NRB, during the contract period and after handing over the contract of financial sector reform.

4.1.4.3 Earning Per Share

The earnings per share serve as an indicator of a company's profitability. It shows the relationship between net profit and number of shares. It provides the direct measure of return flowing to the bank's stockholders. EPS are generally considered to be the single most important variable in determining a share's price. It is the amount the shareholders get on every share they held.

Table: 4.14

Earnings Per share

F/Y	Rs. Before FSR	Rs. During FSR	Rs. After FSR
2054/55	4.19		
2055/56	-666.54		
2056/57	-709.26		
2057/58	-572.56		
2058/59		-807.42	
2059/60		-66.18	
2060/61		186.65	
2061/62		454.84	
2062/63		317.38	
2063/64		70.18	
2064/65			62.89
2065/66			235.09
2066/67			65.56
2068/69			100.80

Source: Appendix XVII

The above table shows the earning per share of the bank. The EPS is fluctuating over all the period. The maximum in year 2061/62 i.e. Rs. 454.84, because of maximum profit of Rs. 1730.34 and the minimum EPS was in year 2058/59 because of maximum loss of 3071.30. During the reform program the bank is able to earn profit so that the EPS become positive rather than continuously loss on the period of before the reform program. After handing over the contract, the EPS became low than the contract period.

4.1.4.4 Profit Margin

Profit Margin shows the relationship between net income and total operating revenue. A ratio of profitability calculated as net income divided by total operating revenues. A higher profit margin indicates a more profitable bank that has better control over its costs. It shows the proportion of net income in total operating revenue. A 10% profit margin, for example, means the bank has a net income of Rs. 0.10 for each rupee of revenue.

Table 4.15

Net Profit Margin

F/Y	Rs. Before FSR	Rs. During FSR	Rs. After FSR
2054/55	0.59		
2055/56	-97.42		
2056/57	-108.89		
2057/58	-91.958		
2058/59		-1007.91	
2059/60		-26.57	
2060/61		58.92	
2061/62		110.71	
2062/63		70.41	
2063/64		17.28	
2064/65			13.08
2065/66			36.99
2066/67			9.04
2068/69			14.34

Source: Appendix XVIII

Table 4.15 exhibits the net profit margin which is the combination of NPAT and operating income. The Net Profit Margin is negative during the first phase of the study expect in the year 2054/55. During the reform program Profit Margin is negative only on beginning of two year after that the result is continuously positive. The maximum profit margin ratio is 110.715% in year 2061/62 and the lowest ratio is in year 2058/59 which is -1007.908%. Hence, higher profit margin indicates a more profitable bank that has better control over its costs, the bank is controlling its costs better in year 2061, 2062, 2063 and 2066.

4.1.5 Liquidity Position

Liquidity represents the ability to fund assets and need obligations as they become due. Liquidity is essential in all banks to compensate for expected and unexpected balance sheet fluctuation and provide funds for growth. Liquidity risk is the risk of not being able to obtain funds at a reasonable price within a reasonable time period to need obligations as they become due. Because liquidity is critical to the ongoing viability of any bank, liquidity management is among most important activities that a bank conducts.

4.1.5.1 Loan to Deposit Ratio

This shows the ratio of amount of loan to the amount of deposit. This is the measure of liquidity in the banking sector. It is the amount of a bank's loans divided by the amount of its deposits at any given time. The higher the ratio, the more the bank is relying on borrowed funds, which are generally more costly than most types of deposits.

Table: 4.16

Loan to Deposit Ratio

F/Y	Rs. Before FSR	Rs. During FSR	Rs. After FSR
2054/55	60.56		
2055/56	50.93		
2056/57	41.72		
2057/58	33.46		
2058/59		25.21	
2059/60		22.76	
2060/61		24.85	
2061/62		22.87	
2062/63		27.23	
2063/64		28.34	
2064/65			31.68
2065/66			38.98
2066/67			54.94
2068/69			57.06

Source: Appendix XIX

The above table shows that NBL have higher loan to deposit ratio in the year 2054/55 by 60.55% and less in the year 2059/60 by 22.76 percent and same way total deposit is maximum in year 2068/69 that is Rs. 46804.20 million and the lowest deposit is in year 2054/55 which is Rs. 28138.27 million. The Loan to Deposit ratio is higher in the period before the reform program but in reform contract period the ratio is slightly decreased and then after the ratio again slightly increased. It seems that during the contract period the bank is investing more amount from the deposit than other period.

4.1.5.2 Liquid Assets to Deposit Ratio

Liquid assets to deposit ratio is computed by dividing total liquid assets to total deposits. It measures the percentage of liquid fund with the bank to meet short-term obligation. Cash in hand, balance with NRB, balance with bank/financial institution, money at call and short notice. Nepal government treasury bills and Nepal government's other securities are included in liquid assets. Higher ratio implies better liquidity position and vice versa.

Table: 4.17

Liquid Assets to Deposit Ratio

F/Y	Rs. Before FSR	Rs. During FSR	Rs. After FSR	Industrial Average	Variance
2054/55	27.87			18.20	9.67
2055/56	24.21			18.20	6.01
2056/57	21.38			15.87	5.51
2057/58	22.60			15.87	3.74
2058/59		23.53		13.34	10.193
2059/60		13.62		13.34	0.28
2060/61		18.03		13.06	4.97
2061/62		16.38		13.06	3.32
2062/63		15.39		15.7	-0.302
2063/64		17.95		15.7	2.25
2064/65			12.09	18.81	-6.725
2065/66			20.92	18.81	2.11
2066/67			23.25	14.14	9.107
2068/69			24.01	14.14	1.698

Source: Appendix XX

Higher the liquid assets to deposit ratio so bank are high as compared to industrial average. The above table 4.17 shows the liquid assets ratio of NBL. As shown in analysis the bank is crossing the minimum standard that the NRB directed, except in year 2064/65 that is 12.085 which is 6.725% less than the standard. On the first period the variance is continuously decreased. But on the second period the variance is fluctuated. On the third period also fluctuated but in 2064/65 it is negative.

4.1.5.3 NRB Balance to Total Deposit Ratio

This is the ratio of NRB cash balance to total deposit. It measures the proportion of NRB cash balance to total deposit. It shows whether bank is holding the balance required by NRB. NRB through its directives has been directing bank to maintain certain percent of deposit amount in NRB. The limitation of the study is that the calculation is based in year-end volume of deposit and NRB balance whereas NRB requires banks to calculate CRR on weekly average balance.

Table: 4.18

NRB Balance to Total Deposit Ratio

F/Y	Rs. Before FSR	Rs. During FSR	Rs. After FSR	Industrial Average	Variance
2054/55	10.79			7.23	3.56
2055/56	7.53			723	0.301
2056/57	6.88			5.55	1.33
2057/58	7.96			5.55	2.41
2058/59		9.55		6.64	2.91
2059/60		7.57		6.64	.0926
2060/61		11.84		9.85	1.99
2061/62		12.16		9.85	2.31
2062/63		14.94		7.23	7.71
2063/64		13.39		7.23	6.16
2064/65			10.59	6.88	3.71
2065/66			14.65	6.88	7.76
2066/67			17.47	7.23	10.24
2068/69			19.96	7.23	12.73

Source: Appendix XXI

NRB balance to total deposit is the ratio of total NRB balance to total deposit, that means at which percentage that the bank is deposited on Nepal Rastra Bank among the total deposited collected. Above the study shows that the bank is maintaining the minimum balance as per the NRB directed. The maximum variance is in year 2068/69 which is 11.42% and the minimum variance is in year 2055/56 which is 0.301%. Ratio of NRB balance helps the bank to maintain liquidity crisis.

4.1.5.4 Cash in Vault to Total Deposit Ratio

This ratio shows the percentage of total deposit held as cash in vault. This ratio is computed by dividing cash in vault by total deposits. This is liquid fund with bank to meet the immediate payment. Cash and foreign currencies in hand are included as cash in vault. Total deposit means current savings and fixed deposits account as well as call account deposit and certificate of deposit. For the purpose deposits, held in convertible foreign currency, employees guarantee amount and margin account will not be included (NRB Directives Manual, 2068).

Table: 4.19

Ratio of Cash in Vault to Total Deposit Ratio

F/Y	Rs. Before FSR	Rs. During FSR	Rs. After FSR	Industrial Average	Variance
2054/55	6.12			2.61	3.51
2055/56	5.05			2.61	2.89
2056/57	4.61			2.71	1.89
2057/58	5.00			2.71	2.29
2058/59		4.86		2.17	2.69
2059/60		4.05		2.17	1.875
2060/61		2.83		2.32	0.51
2061/62		2.98		2.32	0.66
2062/63		3.10		2.97	0.13
2063/64		2.78		2.97	-0.187
2064/65			2.83	2.81	0.02
2065/66			3.35	2.81	0.54
2066/67			3.74	2.92	0.82
2068/69			3.36	2.92	0.44

Source: Appendix XXII

Above table 4.19 shows the cash in vault to total deposit ratio. It is for urgent payment provision. On the first period of the study i.e. before management contract the variance is high then other period. Except 2063/64, the bank was maintain the industry average for cash in vault ratio. The highest variance was in year 2054/55 i.e. 3.51 and the lowest variance was in year 2063/64 i.e. -0.187.

4.2 Major Findings of the Study

4.2.1 Nepal Bank Ltd. which was incurring heavy net loss since 2055/56 reduced it to Rs. 250 million in FY 2059/60. The bank has made net profit of Rs. 710 million in 2060/61. The negative capital fund of banks has been gradually improving. The negative capital fund of Nepal Bank Limited amounting Rs. 9747.55million in 2059/60 but it was reduced to Rs. 4098.99 in 2068/69. On all the study period the ratio of core capital to total assets is negative, except in year 2054/55. It happened due to the regular accumulated loss which is the major problem of the bank. Hence after 2060/61 the bank is in profit but the reserve profit or loss is still in negative.

4.2.2 The Risk Based Capital Adequacy Ratio; this ratio is used to protects depositors and promote the stability and efficiency of financial system. On above valuation the bank is not maintaining the NRB standard instead it has negative ratio all over the study period it means lake of adequate capital in bank, lower security to depositors, comparatively weak financial position and lower internal sources. On all study period the bank meet the standard only on 2054/55 with 11.64%. The poorest condition was on 2062/63 which is -32.085%.

4.2.3 The Core Capital Adequacy Ratio; the ratio also was negative as above two ratios. The bank may loose the confident of its customers, FIs viable and overall minimize shifts in the general economy. The bank also has loose financial community stable as well. The above all calculated ratios are below the NRB standard it shows weak financial position of bank and higher risk to the creditors and depositors funds. Except one year i.e. 2054/55, bank has negative ratios in all over the study period. The maximum ratio was in year 2054/55 i.e. 4.89% and the lowest ratio was on 2057/58 i.e. -66.72%.

4.2.4 The Supplementary Capital to Total Risk Weighted Assets; as directed by NRB the ratio must be less than the Core capital ratio. But all the ratio all over the study period are all above the core capital. The highest ratio was in year 2057/58 which is 33.77% and the lowest ratio was on 2059/60 which is 0.61%.

4.2.5 The negative capital fund of banks has been gradually improving. The negative capital fund of Nepal Bank Limited amounting Rs. 9.8 billion in mid-July 2003 was reduced to Rs. 8.9 billion, Rs. 7.16 billion, Rs. 6.30 billion, Rs. 6.25 billion, 5.72 billion, Rs. 4.88 billion and Rs. 4.49 billion.

4.2.6 Non-performing Loan; presented comparisons between total loan and non performing loan of NBL. Loans and advances are major part of assets composition. So the sound financial condition of bank is largely depended on the quality of assets held by them. One of the indicators to measure the quality of assets being held by bank is non-performing assets ratio. The increasing trend of ratio shows the worsening quality of bank assets. Normally 5 to 10 percent of non-performing assets is considered satisfactory for quality of bank assets. We know the main-income source of banking sector is their investment or loan distribution out of total deposit collection. The table shows the ratio of 2054/55 to 2068/69. The increasing trend of ratio shows the worsening quality of bank assets. The highest ratio was in year 2059/60 i.e. 60.47% and lowest ratio was in year 2066/67 i.e. 4.84. From the beginning of the study period the ratio is in increasing trend i.e. the ratio is increasing continuously from 2054/55 to 2059/60 after 2060/61 its begins to decreased it shows that the financial sector reform program is successful. Though the amount of non-performing loan has not lowered as anticipated, there has been indication of gradual improvement. The non-performing loan of Nepal Bank Limited which stood at 60.47 percent in mid-July 2003 decreased to 53.74 percent, 49.64 percent, 18.18 percent, 13.49 percent, 8.05 percent and 4.94 in mid-July 2004, 2005, 2006, 2007, 2008 and 2009 respectively. It marginally increased to 4.98 percent in mid-July 2010.

4.2.7 The Ratio of Substandard Loan to Total Loan, Doubtful Loan to Total Loan and Loss Loan to Total Loan; In case of NBL % of substandard loan to total loan, % of doubtful loan to total loan and % of loss loan to total loan all continuously decreased throughout the study period which shows satisfactory level.

4.2.8 The Ratio of Provision for Substandard Loan to Total Substandard Loan; As per NRB guidelines, provision for substandard should be at least 25% of the total substandard loan. But the table shows that the minimum standard was not maintained in the first period i.e. before the reform program existed, but the ratio is maintained in the second period of the study i.e. during the management contract.

4.2.9 The Ratio of Total Provision for Doubtful Loan to Total Doubtful Loan; the bank is not maintaining the minimum standard directed by NRB on first phase i.e. before the reform program. During the contract period the ratio is more than the standard but in year 2059/60 it is just 28.75 which is less than the standard.

4.2.10 The Provision for Loss Loan to Total Loss Loans; on before the reform program started the bank is not maintaining the minimum standard that NRB directed, that means the ratios are below 100%, in the first year the ratio is just 36.54%, which is very low than standard. After 2054/55 the ratio is increased continuously up to 2061/62 and after that it is constant to 100% till now.

4.2.11 Operating Expenses Ratio; due to increasing in office operating expenses and employee expenses bank may have raised their operating expenses. High or increasing ratio indicate that the bank was not be operating efficiently. The above study shows that the bank has very high in the operating expenses ratio. Before the reform program it was very poor the maximum was in year 2058/59 i.e. 1148.85. But after the reform program it is slightly decreasing. It also maintain in after handing over the contract.

4.2.12 Nepal Bank Ltd. which was incurring heavy net loss since 1999 reduced its loss to Rs. 250 million in FY 2002/03. The bank has made net profit of Rs. 710 million in 2060/61 and it increased to 383.44 million in 2068/69. Earning Per Employee; the NPAT of the bank is in increasing trend. The bank is facing continuous loss up to the half period on the whole study period. Before the reform program on four year the bank is facing high loss but a few profit in year 2054/55 i.e. Rs. 15 million. But after 2059/60 the bank is on some profit the highest profit was in year 2061/62 which is Rs. 7207.26 million. The problem of the bank is over staffing. Among the study period the no of staff is continuously decreasing. The employee was 6517 in year 2054/55 but it was decreased to 2843. Earning per employee is negative in the beginning of the study period because of loss. After 2060/61 it becomes positive.

4.2.13 Return on Equity measures of the rate of return flowing to the bank's shareholders. This ratio expresses the capacity of the bank to utilize its owner's fund. It reveals that how well the firm has deployed the resources of the owner to earn profit. The ratio was almost all negative due to mass amount of negative reserve and fund. From many years NBL is suffering from accumulated loss, which effect on ROE also. In year 2055/56, 2056/57 and 2057/58 the bank has poor condition on ROE.

4.2.14 Return on Asset; ratio of NBL is minimum in 2058/59 with -7.796% and maximum in 2061/62 with 3.677%. the ratios are negative on the previous years due to the loss. After the reform program the bank is able to make profit so the ratio become positive but in year 2063/34, 2064/65, 2066/67 and 2066/67 the bank is not maintaining the minimum standard directed by NRB, during the contract period and after handing over the contract of financial sector reform.

4.2.15 Earning Per Share; the EPS is fluctuating over all the period. The maximum in year 2061/62 i.e. Rs. 454.84, because of maximum profit of Rs. 1730.34 and the minimum EPS was in year 2058/59 because of maximum loss of 3071.30.

4.2.16 Net Profit Margin is the combination of NPAT and operating income. The Net Profit Margin is negative during the first phase of the study expect in the year 2054/55. During the reform program Profit Margin is negative only on beginning of two year after that the result is continuously positive. The maximum profit margin ratio is 110.715% in year 2061/62 and the lowest ratio is in year 2058/59 which is -1007.908%. Hence, higher profit margin indicates a more profitable bank that has better control over its costs, the bank is controlling its costs better in year 2061, 2062, 2063 and 2066.

4.2.17 Loan to Deposit Ratio; the higher loan to deposit ratio in the year 2054/55 by 60.55% and less in the year 2059/60 by 22.76 percent and same way total deposit is maximum in year 2068/69 that is Rs. 46804.20 million and the lowest deposit is in year 2054/55 which is Rs. 28138.27 million.

4.2.18 The Liquid Assets to Deposit Ratio; as shown in analysis the bank is crossing the minimum standard that the NRB directed, except in year 2064/65 that is 12.085 which is 6.725% less than the standard.

4.2.19 NRB Balance to Total Deposit; is the ratio of total NRB balance to total deposit, that means at which percentage that the bank is deposited on Nepal Rastra Bank among the total deposited collected. The Above study shows that the bank is maintaining the minimum balance that the NRB directed. The maximum variance is in year 2068/69 which is 11.42% and the minimum variance is in year 2055/56 which is 0.301%. Ratio of NRB balance helps the bank to maintain liquidity crisis.

4.2.20 The Cash in Vault to Total Deposit Ratio; it is for urgent payment provision. On the first period of the study i.e. before management contract the variance is high then other period. Except 2063/64, the bank was maintain the industry average for cash in vault ratio. The highest variance was in year 2054/55 i.e. 3.51 and the lowest variance was in year 2063/64 i.e. -0.187.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

As the last part of the thesis report, this chapter presents with the summary, conclusions and recommendations for corrective measures to be undertaken by the concerned institution.

The first part of the chapter briefly summarizes total study in respect to the general interdiction of the study, various theoretical and application associations of the present study. Study methodology and key finding of the study. The second part of the chapter deals with present researcher's conclusions drawn on the basis of this research before and after change. Finally, the recommendations have been presented in the third section of this chapter.

5.1 Summary

Financial liberalization was initiate in late 1970s in Latin America and was carried out by South Asian Countries. Neal initiate financial sector reform in mid-1980s and GoN and Nepal Rastra Bank have been implementing comprehensive financial sector reform program since 2000. GoN has strongly committed for the reform of the financial sector in general NBL and RBB in particular. The financial sector may invite financial crisis which may easily transfer to other sectors of economy. RBB and NBL take more than 60% of Nepalese financial sector, without minimizing. NPL of these banks Nepalese financial sector cannot be improved. There is a critical need to reform, revitalize and modernize the Nepalese financial sector. The efficiency of the banking sector can't improve mainly because of the problems in two state owned banks Nepal Bank Limited and Rastriya Banijya Bank. This condition provides little incentive for the other private joint venture banks to become innovative, competitive and efficient in extending their services. In the past the government has played a vital role in the establishment and operation of the financial system and that has resulted in strong political influence over the operation of most banking activities. In addition, lack of adequate supervisory and regulatory oversight in the Nepal Rastra Bank has led to structural and operational weakness in the financial system, which needs to be urgently addressed. The new management taken by NoG in assist of World Bank, DFID and various donors for improve the whole situation of NBL and RBB.

The commercial bank plays a vital role in accelerating the tempo of growth in developing country like Nepal. It mobilizes the saving of the people and diverts them in to productive channels through lending function. Scattered resources have no meaning and importance until and unless they are mobilized and unitized efficiently in some productive sectors of nation's economy. Commercial banks contribute a lot in the process of capital investment in order to aid industry trade commerce, agriculture and other sector of the economy for the economic and there by overall development of nation. It is obliviously a strong capital base and the commercial bank has a pivotal role in forming such base.

Nepal Bank Ltd. is the pioneer banking institution of country established on Kartik 30, 1994 B.S. as the oldest commercial bank NBL. The main objectives of removing, financial inconveniencies of the people are assisting in the trade and commerce of the country. Since its establishment NBL has been contributing to the Nepalese economy for great extent by collecting and mobilizing the scatters of small saving deposit from the people. In the early stage of economic development of Nepal, it was alone in the financial scenario of country. The bank has played an immense role from every angle and side to help the country to arrive at present situation.

The proper utilization of the mobilized resources has been becoming a relevant issue for the bank. Because of excessive (loss) new management from foreign country has been introduced, to make it competitive in the country. Within the financial sector reform program, a management team "ICCMT" consisting of international banker from bank of Scotland (Ireland) was appointed in NBL to restructure the bank. This ICCMT has taken over the management control and responsibilities of NBL of July 22, 2002 (Sharwan 6, 2059). Then the new management used the resources in productivity.

Therefore this study was undertaken with the objective of analysis and evaluating the overall financial performance of the NBL before financial sector reform program, during the management contract by Scotland and after handing over the contract by the Scotland. So, the fourteen years of three fragment periods starting from F.Y. 2054/55 B.S. to F.Y. 2057/58 B.S. before management contract, From F.Y. 2059/2060 B.S. to 2063/2064 during the management contract and From F.Y. 2064/65 B.S. to 2067/68 till the date after handing over the management to the bank was selected for the study.

For this, CAMELS rating is used to see the performance over the three periods of positions of the bank in the meaningful base.

The basis study data is obtained from secondary sources. The main sources are annual reports and financial statement official records periodic publication of the NBL. Various published reports and articles on the NBL in different newspaper and periodicals and so on. Similarly all available reports published by NRB about the commercial banks and the NBL have also been used.

First chapter “Introduction” Provides the brief introduction of this study. Financial system plays an important role in allocating resources among productive sectors and helps to increase income and employment in an economy. Therefore, some economists call its the “brain of the economy”. Financial sector is the backbone or engine of growth economy. It mobilizes and allocates financial resources most productively and efficiently and induces investment, increases employment opportunities and productivity, achieves growth targets and attains overall economic development in financial system; so each country has to reform its financial sector.

The literatures related to the financial sector reform have been reviewed in second chapter. In this chapter, the theoretical review and empirical review i.e. review of related studies has been presented separately. From the theoretical review section, we may take advantages of conceptual foundation of financial sector reform and its related areas have been reviewed. Similarly, by reviewing some previous studies, many inputs can be taken for this study and other researchers can also take advantages form this section. From this chapter we can conclude that, all the theoretical concept of financial sector reform are not properly applicable in the NBL contest and almost all previous studies conducted by previous studies conducted by previous master level students has almost same conclusion.

The third chapter explains about the methodology of this study. Mostly the secondary data are used in this study. This study covers the fourteen years data of NBL. Descriptive and analytical research design has been used in this study. Financial as well as graphical tools are used. This includes analysis of Capital adequacy, Assets Quality, Management Soundness, Earning Position and Liquidity Position.

Data are presented and analyzed in the fourth chapter. Data analysis tools mentioned in the third chapter that kind of tools used to analyze the data in this chapter. Various analyses that are related to the financial sector reform have been used to evaluate the financial position of NBL. The major findings of analysis are presented below.

Under **Capital Adequacy Analysis**, core capital to total assets, risk based capital adequacy ratio, risk based core capital adequacy ratio and Risk based supplementary capital ratio are calculated. From above presentation the bank is facing negative accumulated loss due to the regular loss on the very previous years. It summarized that the bank is not maintaining its capital well. The negative core capital and capital fund means that, the bank is suffering from adequacy risk.

Under **Assets Quality;** Non-performing loan ratio, ratio of loans classified as substandard, doubtful and loss to total loan, provision for substandard loan to total substandard loan, provision for doubtful loan to total doubtful loan and provision for loss loan to total loss loans are calculated. Assets Quality ratio is one of the most critical factors in determine overall condition of any commercial banks. Primary factor that can be considered are the quality of loan portfolio, mix of risk assets and credit administration system. There is the very good done on investment during the management contract period the maximum investment was made on the year 2064/65 i.e. 16570.76 million, but before the management contract period the investment is not good, and after handing over there is slightly decreased. Loans and advances are major part of assets composition. So the sound financial condition of bank is largely depended on the quality of assets held by them. All continuously decreased throughout the study period which shows satisfactory level. And in terms of provision for Substandard, Doubtful and Loss loan the bank is maintaining well on latest period.

Under **Management Efficiency** operating expenses ratio and earning per employee are calculated. Sound management is a key to financial institutions performance. Although several indicators can be used as proxies for the soundness of management, such evaluation is still primarily a qualitative exercise, particularly when it comes to the evaluation of the management of operational risk, that is, the functioning of internal control systems. Operating expenses ratio shows the relationship between total operating expenses and total operating incomes. The bank has high ratio on operating expenses. Earning per employee is another indicator of measuring management quality. It shows the relationship between net operating income and number of employees. Low or decreasing earning per employee can reflect inefficiencies as a result of overstaffing, with repercussion in terms of the bank. The bank is facing continuous loss up to the half period on the whole study period. Before the reform program on four year the bank is facing high loss but a few profit in year 2054/55 i.e. Rs. 15 million. But after 2059/60 the bank is on some profit the highest profit was in year 2061/62 which is Rs. 7207.26 million. The numbers of employees are also high in the beginning and less in the latest years.

Under Earning Performance; Return on Equity, Return on Assets, Net Profit Margin and Earning per Share are calculated. Earning is the yardstick indicating the management, shareholders and depositors to evaluate the performance of bank, sustainability of earning and to forecast growth of the bank. The success of the bank heavily relies upon the efficiency of its management to diver the bank to earn good profits. Net profit is major yardstick to measure such profits. The bank was in mass loss on previous years after 2060/61 it started to gain profit. All the above ratios are negative in previous years i.e. earlier than 2060/61 and become positive than after. The maximum profit gain is in year 2061/62 which is Rs. 1730.13 Million in this year all the above ratio is higher. The shareholders equity is also negative due to regular negative reserve funds.

Under Liquidity Position; loan to deposit ratio, NRB balance to total deposit ratio, liquid assets ratio and cash in vault to total deposit are calculated. Liquidity represents the ability to fund assets and need obligations as they become due.

Liquidity is essential in all banks to compensate for expected and unexpected balance sheet fluctuation and provide funds for growth. Liquidity risk is the risk of not being able to obtain funds at a reasonable price within a reasonable time period to need obligations as they become due. In terms of loan to deposit ratio the ratios are high that means the bank is not investing more form its deposit. In the second period the bank is investing well than other period. NRB balance to total deposit ratio is the ratio that that much fund is invested in Nepal Rastra Bank from the bank's overall deposit, which helps the bank for liquidity crisis. Liquid assets ratio is also the ratio which helps the bank in liquidity crisis time and cash in vault to total deposit is the fund that was in hand which also helps in liquidity crisis time. All the ratios of the bank is in better condition that means the bank is safe in liquidity position.

Fifth Chapter is the concluding chapter. This chapter explains about the overall conclusion of this study. Summary, Conclusion and Recommendation are presented separately.

5.2 Conclusions

A sound financial system plays a important role in economic development and reduction of poverty in a developing country like Nepal by creating a pool of inventible resources, reducing costs of capital, minimizing risk, expanding and diversifying opportunities and increasing the allocate efficiency of resources use. A healthy financial sector is crucial for attracting foreign capital as its create confidence among the investors. The overarching goal of the FSR is to create a well-regulated, sound, market-oriented and stable financial system, which will help from the basis for fiscal consolidation, macroeconomic stability and private sector-led economic growth momentum.

The overall indicators of NBL can be considered as improving day by day after reform program. On the basis of the key findings of the study the following conclusions have been derived from this study: -

5.2.1 The net worth of the bank for all year is negative due to the heavy loss before management change. The net worth is improving trend after management change. Furthermore the liquidity position of bank all ratios are satisfactory in after management. Whereas recovering capacity has increased fast.

5.2.2 NBL which has incurring heavy net loss since 2055/56 reduced it to Rs 250 million in FY 2059/60/ and started to earn profit of Rs 710 million in 2060/61 and continued it on wards.

5.2.3 Hence there is a lack of demarcation between operational and non-operational activities. Decreased in interest paid and earned to total assets ratios in the first period indicates decreased operating activities of bank during the period. The first period at an average shows negative net profit. The only positive aspect is, if risk had been managed during the first period, percentage of loan and advances on total deposit would have been greater than second period.

5.2.4 But, due to the bank's failure in collecting earned interest and natured loan, it has suffered continuous loss the performance of new management is due to decreased in non-performing assets and by making profit to the bank. The last years of the bank performed well showing positive operating profit and net profit.

5.2.5 Provision for substandard loan, doubtful loan and loss loan was not maintaining the standard at beginning of the study period but after reform program it was maintained.

5.2.6 No of staff was 6517 in 2054/55 and it reduced to 2843 in 2068/69, it occur that the earning per employee is increased after the reform program.

5.2.7 In terms of capacity of the bank to utilize its owner's fund the bank is failure due to negative shareholders' equity.

5.2.8 EPS was found maximum in year 2061/62 i.e. Rs. 454.84 because of maximum profit of Rs. 1730.34 million and the minimum profit in year 2058/59 because of maximum loss of Rs 3071.30 million.

5.2.9 The NRB balance and the cash in Vault both are more than the industry average on all over the study period, but the liquid assets to deposit ratio was less than the industry average in two years of the study period of 2062/63 and 2064/65.

5.2.10 Thus, we can conclude that the financial position of NBL is being better after change management due to its policy of utilized resources efficiency and due its affectivity in risk management recovering the past loan and than after also the bank doing good due the policy made by the management and the way made by them. The overall of the bank is satisfactory during second period and improving trend then after also.

5.3 Recommendation

On the basis of the present study it has been reiterated several times that the role of commercial banks it vital for the economic development of any country. Recommendations have been forwarded for necessary policy improvements in respect with saving and credit of NBL.

Unlike in the past, NBL has to face strong competition in the market. Therefore it has to be financially competitive environment for this; it should transform itself by increasing cost effectiveness, enhancing service quality and improving efficiency. Till now, NBL has computerized its 112 i.e. all branches. The bank cannot provide better facilities to their customer and staff now arrange for improved and modern technology such as fully computerized banking system, ABBS transaction, ATM, SMS banking and web remittance etc. services and other modern banking situation.

In such a situation the contribution of commercial banks in the mobilization and utilization of resources the new management may have tried to take the opportunities from the financial market and build up the position of the bank slightly improved. The following aspects for the bank further improvement of the saving and credit of NBL.

5.3.1. As the calculation shows that the bank has negative capital fund and core capital and as well negative shareholders' equity also so that the bank should try that to make it positive for its better performance.

5.3.2. The bank is facing huge loss before management of ICCMT, but after ICCMT the loss become profit, but the bank has reduced its profit after handing over the contract, so the bank should try to follow the policy that the financial reform did during its contract period.

5.3.3. The major problem is that the bank has negative ROE, so the bank should try to make it positive for invertors' confident build up.

5.3.4 NBL has given more priority to invest its fund in government securities. Than other sector securities issued by government are risk free but such instruments yield lower interest income. To increase profit, the bank should identify the profitable lending areas and expand loan and advance on it rather than concentrating on low return securities only.

5.3.5 Due to NBL being a very large organization there may be irregularities in various aspects on the side of staff. Hence for effective performance there should be provision of punishment and reward system among them, which will certainly lead the bank towards better performance.

5.3.6 Books of accounts should be made up to data. It helps the bank to reduce the manipulation of accounts, gain the trust of customers. For which, computerized accounting system be introduced in technically favored branches.

5.3.7 It should collect huge fund by giving high interest rates that creates better investment situation, rather than low interest.

5.3.8 The bank has shown the significant improvement in operating result during and after period of foreign management's attempt toward strong recovery in NPA, tight control in overhead costs and a significant reduction in the cost of funds returns the bank in sustainable profitability. So, it is highly recommendable that the similar type of management team with professionals for some additional period to maintain good performance.

BIBLIOGRAPHY

Acharya B. (2010). *Research Methodology and Report Writing.* Kathmandu: Book Centre Publication and Distributers.

Adhikari, D. P. (2011). "Comparative Financial Analysis of Commercial Banks in the Framework of Basel II: with Reference to Nepal Investment Bank and Everest Bank Limited". Unpublished Master Thesis Prithiv Narayan Campus Tribhuvan University.

Baral, K. J. (2065). Workshop on the Development of Research Proposal for MBS Dissertation. *Documentation of Electronic Publication*, 61.

Basyal, T. R. (2006). Arunodaya. *Financial Sector Reform: Needs and Future Action* , 75.

Chapagai, C. (2010). Arunodaya. *Financial Sector Rrform Program: Presesnt Situation and Future Challenges* , 291.

Dhungana, B. R. (2005). Nepal Rastra Bank Samachar. *Financial Sector Reform in Nepal* , 45.

Dhungana, B. R. (2011). Nepal Rastra Bank Samachar. *Financial Sector Reform*, 210.

Dhungel, A. (2011). *A Comparative Analysis of financial Performance of NSBI Bank Ltd an MBL on Framework of CAMEL.* Pokhara: Unpublished Master Thesis Prithiv Narayan Campus Tribhuvan University.

Dhungel, A. (2011). "A Comparative Analysis of Financial Performance of NSBI Bank Ltd and MBL on framework of CAMELS." Unpublished Master Thesis Prithiv Narayan Campus Tribhuvan University.

Donald R. C. and Panela S. S. (2006). *Business Research Methods.* New Delhi: Tata McGraw-Hill publishing company limited.

Encyclopedia America . (1976).

Gaudel, G. (2011). *Non Interest Income Effects on Total Income of Commercial Banks in Nepal.* Pokhara: Unpublished Master Thesis Prithiv Narayan Campus Tribhuvan University.

Gautam, B. (2011). Public Administration Revenue Administration & Governance (PARAG). *Financial Sector Reform: Some Question and Some Challenges* , 411.

Gautam, B. P. (2010). Nepal Bank Samachar. *Financial Sector Reform Program: Some Aspect and Some Challenges*, 19.

Karlinger F.N. (1998). *Foundation of Behavioural Research.* New York: Holt, Rimehart and Winston.

Khadka, S. B. (2011). *Daily Share Price Bhaviour of Commercial Bank in Nepal.* Pokhara: Unpublished Master Thesis Prithiv Narayan Campus Tribhuvan University.

Khanal, S. (2011). Nepal Bank Samachar. *Commercial Banking in Nepal*, 11.

Koch, T. w. (2006). *Bank Management.* South-western: Thomson Learning, Inc.

Luitel, T. (2007). Comparative Analysis of Financial Performance of Joint Venture Bank.Unpublished Master Thesis Prithiv Narayan Campus Tribhuvan University.

Mithani, D. (2005). *Money, Banking, International Trade and Public Finance.* Himalaya Publishing House.

Nepal, A. K. (2009). Nepal Rastra Bank Samachar. *Financial Sector Reform In Nepal* , 25.

NRB Directives Manual . (2068). Retrieved from www.nrb.org.np.

Pant, P. (2009). *Social Science Research and Thesis Writing.* Kathmandu: Buddha Academic Publishers and Distributors Pvt. Ltd.

Pant, P.R. & Wolff K. H. (2009). *A Hand Book Social Science Research and Thesis Writing.* Kathmandu: Buddha Academic Publishers and Distributors Pvt. Ltd.

Poudel, G. P. (2011). Nepal Rastra Bank Samachar. *Financial Sector Reform and Recapitalization of NBL and its Challenges* , 65.

Poudel, S. (2008). *A Study of Effectiveness of Saving and Credit Mobilization of NBL Before and After Management Contract ICCMT.* Unpublished Master Thesis Prithiv Narayan Campus Tribhuvan University.

Poudel, S. (2060). Economic Mimams. *A Brief Note on Financial Sector in Nepal* , 205.

Pyakuryal, B. (2060). Prashichhan. *Financial Sector Reform in Nepal: Needs and Challenges*, 55.

Regmi, S. (2010). Nepal Rastra Bank Samachar. *Financial Sector Reform in Nepal and Some Challenges* , 57.

Rosenberg, J. (2006). *Dictionary of Banking and Finance.* New York: John Wiley & Sons.

Ross. (1999). *Commercial Bank Management.* New Delhi: Tara McGraw Hill.

Shekhar K.C. & Shekar, L. (2007). *Banking Theory and Prictice.* New Delhi: Vikash Publishing House Pvt. Ltd.

Shrestha, G. K. (2004). Economic Review. 72.

Swar, P. (2008). “Financial Performance Analysis of Nepal Bank Limited.” Unpublished Master Thesis Shankar Dev Camput, Tribhuvan University.

Thapa, P. (2009). “Financial Performance Analysis of NBBL in the Framework of CAMELS.” Unpublished Master Thesis Prithiv Narayan Campus Trubhuvan University.

The World Bank. (2008, October 16). *Nepal Financial Sector Study Report*. Retrieved from www.worldbank.org.