

**A STUDY ON PROTECTION OF SHAREHOLDERS' INTEREST IN  
CONTEXT OF NEPAL INVESTMENT BANK LIMITED, EVEREST  
BANK LIMITED AND HIMALAYAN BANK LIMITED**

**A Thesis**

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# CHAPTER -I

## INTRODUCTION

### 1.1. Background of the Study

Two long-term securities available to a company for raising capital are: Shares and debentures. Shares include ordinary shares and preference shares. Ordinary shares provide ownership right to the investors. Debentures or bonds provide loan capital to the company and investors get the status of lenders. In order to cope with various financial situations, firm usually issue common stock to general investors or rights offering to existing shareholders and preference share and debentures as demanded by their target capital structure.

Common shareholders often have the right called the preemptive right to purchase any additional shares sold by the firm. If the charter of the company contains preemptive right, then the firm must offer any new common stock to existing shareholders. Otherwise there is a choice of public offering. If it sells to the existing shareholders, the stock flotation is called a right offering. Each shareholder is issued an option to buy a certain number of new shares, and the terms of the option are contained on a piece of the paper called a right. Protection of shareholders interests and rights motivates them to mobilize financial resources for the investment in development projects and thereby helps to economic development, in turn, further develop the capital. Thus when shareholders feels that their reasonable interests are fulfilled and if they satisfies with their investment, it motivates them to invest more in that sector. Shareholders' survival and betterment are all associated with the survival of the company so here comes the activities that should protect the shareholders from different aspects.

Shareholders' protection means safeguarding shareholders' rights and interests to encourage the shareholders to invest in productive sector for the economic enhancement of the nation. It is very natural that the investors support the investment sectors when they feel that they are fully protected and supported by the concerned regulating

authorities. Shareholders have justifiable reasons for expecting/demanding that the firms satisfy their claim in a responsible manner. In general, stockholders claims for appropriate returns on their investment, participation in distribution of profits, additional stock offering, assets on liquidation, vote of stock, annual general meeting (AGM) held timely, inspection of company books, transfer of stock, election of Board of director, and such additional rights as have been established in the contract with the corporation (Bhattarai, 2005:3).

The investors support investment sectors by investing their funds and savings. It is implied that Investors or every body wants to maximize his/her wealth in a proper and safe way, investors always endeavor to invest in such a sector which provide adequate return on their hard earn money. Whatever may be the type of investment; the major motto is to maximize the return with minimizing the risks involved there on.

Nowadays people are becoming more aware to select and invest in proper means of investment. Among them banker's fixed deposit is one of them but the people are not satisfied with the fixed deposit return due to low interest rate. So, people started to invest in productive sector like industrial, trading, service, banking sector etc for better return. The form of investment may be different such as a creditors, equity holders, stock holders etc. (NEPSE Trading Report, 2002:50).

The major investment in financial instruments in Nepal is the investment in ordinary shares i.e. equity share. The holders of ordinary shares, called shareholders or stockholders are the legal owners of the company. Common stock represents equity or an ownership position in a corporation. Equity shareholders are entitled for the dividends. Equity shares do not carry any special or preferential rights in the payment of annual dividend or repayment of capital. The rate of dividend on such shares is not fixed. Dividend on equity shares is paid out of the residual profits left after paying interest on debentures and preference share dividends. But shareholders share in the increasing profits of the company. Shareholders also enjoy voting rights in the management and control of the company. Their liability for the corporation's obligation is limited. Common stock holders may loose their initial investment but not more.

Similarly, equity shareholders are paid at the time of winding up of the company after all debts and preference shareholders have been paid in full, they are entitled to receive what is left after all the prior claims have been settled. Therefore equity shareholders are the real risk bearers; this is the reason why the common stock holder should always keep eyes on each and every activity of a company. Their survival and betterment are all associated with the survival of the company and here comes the activities that should protect the shareholders from different aspects (Joshi, 1996:15).

Buying of shares provides shareholders ownership of company and this ownership creates the right over the company. This is called shareholders right. Investors naturally want their rights and interest to be protected. Management of stockholder's firm should think toward maximization of shareholders' wealth because good for shareholder is good for company and management as a whole. As a risk taker shareholders have certain rights and specific rights. Some of the major rights are listed below:

1. Collective Rights.

- Rights to approve/disapprove the books of Account.

- Right to give suggestion to the management.

- Right to appoint Auditors.

- Right to approve the change in Memorandum and Articles of Association.

- Right to approve or reject the proposal submitted.

- Right to gather shareholders to support and oppose the management.

2. Specific Rights.

- Right to see the books of Account.

- Right to see the shareholder's Lists.

- Right to participate in Annual General Meeting.

- Right to put his/ her comment regarding Management activity.

- Right to vote for the election of Representative/s.

- Right to be elected.

- Right to get major decision made by management.

- Right to get price sensitive information.

- Right to trade.

Right to speculate.

Right to get market benefits.

Right to get clarification from management.

Right to get dividend.

Right to get the residual amount at the time of liquidation (NEPSE Trading Report, 2002:50, 51).

An efficient capital market is an essential pre-requisite of economic development; and the development of capital market in a country is dependent upon the availability of savings, proper organization of intermediary institutions to bring the investor and business ability together for mutual benefits, regulation of the investment, etc. The shares issued by the company to raise capital for investment is traded in capital market.

Security markets provide mobility of the scattered savings. Retail investors with limited capital fund could also participate in the industrial development process of the country through their investment in the securities. Capital market is the place where the various securities are traded to collect the necessary funds through mobilizing the individual and institutional surplus (Shrestha, 1996:17).

In this context, the influencing role of Stock Exchange Board lies in motivating for the investment of small saving of the country towards security. The board will afford a market place to issuers, in which they can confidently look forward to raising all the finance they need in a smooth, fair and efficient manner. Similarly, the Board will provide a high degree of protection of their rights and interests, through adequate, accurate and authentic information and disclosure of information regularly (Vaidya, 2001: 165-172).

Appearance of capital market in Nepal, has greatly contributed to development of primary as well as secondary market for corporate securities. Altogether smoothly but it still has been dull and inactive for the simple reason that the companies are not performing according to the expectations of the investors. Not only the stock market in Nepal has been very poor and operates in a traditional way but also the investors are not

so rational about their investment decision. But surprisingly the whim to invest the money in a commercial bank is very common and believed to be profitable in Nepal. Since 1985, government emphasis was on economic policy reforms, foreign investment and technology transfer. Since then several financial and commercial joint venture banks have been established in the process of development and liberalization of the economy. With the worldwide move towards open and market oriented economic system in the world economy, open market policy has been taken by the government to make competitive industrial environment by giving ample opportunities to the domestic as well as foreign investors to invest their savings in productive areas to support the capital formation. After, liberalization, economic activities have remarkably increased in Nepal. The growth of private sector firms in the field of finance like bank, finance companies, air services, insurance business in Nepal is quite remarkable. Besides, the foreign investment particularly in the form of joint venture has remarkably increased. Thus protection of shareholders' right is an inevitable hot issue to meet the objective of financial liberalization policy of government (Joshi, 1996:35).

Development problems are usually complex and at times very severe. Economic development is the urge of the present day world. The major concern of many countries of the world has been to accelerate their development process and thereby increase the welfare of their people. This is more so in the least developed country like Nepal, which suffers from various constraints like landlocked position, rugged terrain, and poor resource endowment, rampant poverty, poor stock market and moreover inappropriate economic policies have been responsible for the slow pace of development. Nepal is one such country where her disadvantage for accelerated development emerges from the fact that she had to start her effort for overall national development in extreme unfavorable and hostile conditions.

Banks are those financial institutions that offer the widest range of financial services- especially credit, savings, and payments services- and perform the widest range of financial functions of any business firm in the economy. Commercial banks are the heart of a financial system. Commercial banks work as the intermediary between

depositors and lenders and facilitate in overall development of the economy with major thrust in industrial development (Vaidya, 2001:29).

Now a day it is seen that people's interest has been increasing rapidly in investing in banking and financial sector. But listed banks and financial institution have to pay strong managerial role to accept accountability to create sufficient enabling environment to attract public money by providing at least general acceptable rate of return. So, management of the organization must be sensitive towards shareholders' rights if shareholders' interests are to be effectively met.

### **1.1.1 Profile of Sample Banks**

#### **a) Nepal Investment Bank Limited**

Nepal Investment Bank Limited was the second and major joint venture bank in the country with the key points of representation in major places of the country. It was established on 28th February 1986 as a joint venture between Nepalese and French partners had the official name Nepal Indosuez Bank Ltd. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one the largest banking group in the world. With the decision of Credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, has acquired on April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd.

Among the total share 50% of the total shares are owned by a group of companies, 20% by local Nepalese public and remaining by Rastriya Beema Sanstha and Rastriya Banijya Bank in equal percentage. It has the largest number of branches among the private banks i.e. 13 branches. A team of qualified and highly experienced professionals manages the Bank. In terms of the numbers of staffs employed also it comes in the list with 390 staffs including 143 (36.7%) are female staffers and 67 staff members have completed more than 10 years of service in the institution.

### **b) Himalayan Bank Limited (HBL)**

Himalayan Bank Limited was incorporated in 1992 A.D. by distinguished business personalities of Nepal in partnership with Employees Provident Fund and Habib Bank Limited, one of the largest commercial bank of Pakistan. Banking operation was commenced from January 1993 A.D. and is the first joint venture bank managed by Nepali Chief Executive. Besides commercial activities, bank also offers industrial and merchant banking facilities.

The bank is providing its services through a wide network of 20 branches across the nation and over 150 correspondents across the globe. All the major branches of the bank are connected through Anywhere Branch Banking System (ABBS), a facility which enables a customer to do banking transaction from any of the branches irrespective of their having accounts in other branch. The bank in association with Smart Choice Technology (SCT) is providing ATM and Himal remit services to its customers

### **c) Everest Bank Limited (EBL)**

Everest Bank Limited started its operation in 1994 with the view and objective of extending professionalized and efficient banking services to various segments of the society. EBL joined hands with Punjab National Bank (PNB) India as its joint venture partner in 1997. PNB is the largest nationalized bank having 112 years of banking history with more than 4500 offices all over the India. Of which 1400 branches are interconnected.

The bank is providing its services through a wide network of 35 branches across the nation and over 250 correspondents across the globe. All the major branches of the bank are connected through Anywhere Branch Banking System (ABBS), a facility which enables a customer to do banking transaction from any of the branches irrespective of their having accounts in other branch. The Bank in association with Smart Choice Technology (SCT) is providing ATM services to its customers. EBL Debit Card can be accessed at more than 60 ATMs and over 500 Points of Sales across the nation. The



bank is also managing the SCT ATM at Tribhuvan International Airport for the convenience of its customers and the travelers, the first and the only bank in Nepal to place ATM outlet at the Airport.

## **1.2 Focus of the Study**

Now a day it is seen that the public interests has been increasing rapidly in investing banking and financial sector. Moreover, the participation of a large number of shareholders in annual general meeting and voice raised by them shows how much they are interested in the growth and prosperity of their companies. This gives the challenge to companies and also Government of Nepal regarding how they can protect the shareholders' rights as custodian. Thus, many organizations promise protection of almost interest of shareholders. But in actual practice the study of various companies' activities gives controversial issues. The expected dividends has not been paid timely, the annual general meeting has not been arranged timely, wealth maximization objectives of shareholders' has not been met, the public director elected from shareholders has minor voice against the government domination etc. thus, the shareholders are exploited dramatically in the slogan of committing promises by company management. Thus, considering all these factors this study mainly focuses on the protection of shareholders interests in Nepal Investment Bank Limited., Himalayan Bank Limited and Everest Bank Limited.

## **1.3 Statement of the Problem**

The open and liberal economic policy towards the banking sector of Nepal government initiated many joint venture banks & finance companies, rural banks and co-operative societies in Nepal. The rapid growth of financial institutions has led a sharp competition among each other. Although joint venture banks have been managed for better performance than other local commercial banks within short span of time, they have been facing cutthroat competition from other commercial banks. They have been facing neck-to-neck competition among each other's and are taking advantage of weakness and inefficient of domestic commercial banks.

In fact efficient financial performance is a mirror of weakness & strength of the bank. A strong joint venture bank can contribute to national economy and also attract further foreign investors in this sector. Therefore, financial statement should be fully observed to find out whether the banks are economically and financially strong or not. Even though Nepal has poor capital market and lacks the rational investors but the whim to invest in commercial bank worth mentioning. The problem is that these investors who rarely know about stock market, market indexes, stock behavior invest their money and hope for the better result. They are even not concerned with the protection of investor's interest.

A study on stock market behavior reveals that higher dividend, higher book value, better liquidity position, higher dividend payout ratio (DPR), earning per share (EPS), higher profits, bonus etc are some key factors which always draw the attention of the investors.

There are several studies conducted to analyze the financial performance of different banks. But what is notable is that their performance from the point view of shareholders and with the protection of their interests like voting rights, transparent information, timely held annual general meeting etc. are not analyzed. Thus thinking about the problem of investor or protection of their rights is a matter of concern to this study, thus this study is therefore directed to highlight the following issues.

1. Are shareholders conscious and have knowledge about the matters relating to protection of their rights?
2. Is protection of shareholders' interest is properly mentioned in company act?
3. Are the earnings of the firm adequate?
4. Are companies activities have gone according to prospectus?
5. Are the financial ratios of NIBL, HBL and EBL in a good position?
6. What is the dividend policy of the company?
7. Are the complete information are disclosed to shareholders and related parties?
8. Is company able to hold annual general meeting in time?
9. Is the firm in a good position to meet its current obligation?

10. Do other investors consider the firm profitable and safe for the purpose of investing their money in the bank?

## **1.4 Objective of the Study**

Private investors are regarded as comprised foundation of industrialization for successful privatization. Their interests and rights should be protected to motivate them to invest in public limited companies. Considering this fact in mind the study is undertaken, the main objective of this study is to analyze the performance of NIBL, EBL and HBL from the viewpoint of the shareholders. Thus, this study concentrates on how far the shareholders' rights are being protected. Thus, the basic objectives of this study are as follow:

1. To study and analyze the performance of the NIBL, EBL and HBL in terms of liquidity, profitability and other financial ratios.
2. To compare whether NIBL, EBL and HBL has been providing transparent information or not.
3. To examine whether the shareholders are rational enough to know about the protection of their rights and interests or not.
4. To study the present state of affairs of the bank and provide suggestions on the basis of study findings.

## **1.5 Significance of the Study**

Joint venture commercial bank can play an important role in the upliftment of developing countries like Nepal. It also helps to improve the economy position of the country. The main objective of this research is to analyze the financial performance through the use of appropriate financial tools. This study will be helpful to different parties, since the significance of banking business for a national development is obvious. This study helps to the person and parties such as shareholders, management, brokers, customers, owners, investors & government etc and other policy-making person who are concerned with banking sectors. The present study will be more helpful

to aware the shareholder regarding financial performance of this Bank. Beside that other beneficiaries of the study can be categorized as following.

- i. Leaders and borrowers of this Bank
- ii. Managers of this Bank
- iii. Policy maker of Bank
- iv. Researchers
- v. General public
- vi. And also Nepal government who makes policies of country.

## **1.6 Limitation of the Study**

Nothing is perfect in itself. Everything has its own limitation. Likewise there are certain limitations observed in the study while writing this thesis.

Nothing is perfect in itself. Everything has its own limitation. Likewise there are certain limitations observed in the study while writing this thesis.

1. This study is to fulfill the partial requirement for the master's degree in management. So it is not a comprehensive study and it is focused to analyze certain aspects of NIBL, EBL and HBL in Nepal.
2. This study is being done in a limited time, cost and manpower.
3. This study is based on published and secondary data. It considers the period of 5 years from 2005-2009 for this propose and the local sources are used for the research.
4. Finding of the study would be fully dependent on the accuracy and the reliability of the data provided by the respected organization and respondents.

Despite these limitations, best possible efforts have been made to ensure that these limitations do not affect the findings of the study in a significant manner.

## **1.7 Organization of the Study**

This study is broadly divided into five chapters and they are as given below:

It begins with Introductory chapter, which includes.. The third chapter is research methodology, which explains the methods used in the study including presentation of the research design. Data Presentation and Analysis has done in fourth chapter. The final chapter is summary, conclusion and recommendation of the whole study.

The first chapter comprises of background of the study, statement of problem, objective of study, Focus of the study, significance and limitation of the study.

The second chapter includes the review of previous researches, reports and articles, books and journals on protection of shareholders' interest in the context of commercial banks.

The third chapter includes the research method, research design, nature and sources of data, population and sample, data collection procedure, tools for analysis (Statistical and financial tools), methods of analysis and presentation.

The fourth chapter includes presentations and analysis of data to indicate the computed facts on financial position of Nepal Investment Bank Limited, Everest Bank Limited and Himalayan Bank Limited.

The fifth chapter summarized the whole thesis report, presenting findings of analysis along with concluding remarks with recommendations. Bibliography and appendices are also enclosed at the end of the thesis.

## **CHAPTER- II**

### **LITERATURE REVIEW**

The basic ideas about the research study on the "protection of shareholders' interest" has drawn from the past research study, books, articles, journals, policy documents.

The literature review chapter includes:

1. Conceptual review (Book Review)
2. Article and journals review
3. Policy documents review
4. Review of NIBL Minute Book
5. Thesis review

#### **2.1 Conceptual Review**

In Nepal, the concept of shareholders rights is of recent origin and no effort has been recorded in book. Other books are prepared and created under so many years practice by scholars. So, it is considered here to put the view of these scholars' view regarding the investors' protection. What they have spelled out and in what way investors should be protected regarding their right and interest is worth mentioning for my study.

There is only one book written about the shareholders right on title of “Shareholders Democracy and Annual General Meeting Feedback” by M.K. Shrestha. He has focused various issues related to the protection of shareholders expectations. It is essential to run the public company should be protecting the rights of shareholders. Are these public limited companies capable of protecting the shareholders right? And how far the public directors can perform their responsibility? These are the basic questions for protecting the shareholders right (Shrestha, 1996:36).

Thus, it is necessary to develop a possible guideline for enhancing the efficiency for public limited companies to contribute directly in the growth of national economy on the one hand and insuring handsome return to the shareholders of the other hand to make their investment meaningful and worthwhile. At present the overall shareholders

democracy in terms of protection of their interest is basically focused on the payment of satisfactory dividend and the maximization of shareholders wealth by appreciating the value of share they hold.

Annual General Meeting is an important institution for the protection of the shareholders of a company. Because, in AGM shareholders can raise the voice in self favor. And they can also elect the director as a representative who can speak in favor of their interest in the Board. The AGM of public limited companies are generally represented by their boards which consists of government representatives, representative from the government owned institutions and one or two elected public directors. Managing board is the policy maker of company. These policies directly affect shareholders rights. Principally, there is formed Board of Public Limited Company with representative one third of minor shareholders and two third of major shareholders. As a result the role of public directors will be less effective to protect the right of minority shareholders (Bhattara, 2005:6).

The general Notion of shareholders is that the present arrangement of most of the public limited companies board proved less democratic because the chairman being a government nominee carries official bureaucracy instead of democracy in the management of public limited companies. Apart from this, other members of the boards come from government owned institution and they carry same bureaucratic behavior and at the same time they show little interest in the management of public limited companies. As a result of this, the originators and promoters of the company have very little chance to use their freedom in the policy matters. In addition the public director elected from share holders has minor voice against the government domination for making the things works according to their desire. This makes the public directors to face shareholders' criticism for not doing thing according to their desire. Therefore, the management board of the public limited companies must be left entirely to the public shareholders so as to accomplish the very core principle of shareholders democracy.

Shrestha has focused that to strengthen the power of public director, while HMG should appoint professional talents as chairman of the various public limited companies rather

than distributing the chairman position on a political basis. He has concluded that the suitable legal arrangement must be made to encourage the public share ownership to work hand in hand with promoters and originators of the public limited companies. Similarly, it needs readiness and positive official attitude to get to majority of the directors elected from the public shareholders in which government should play supporting role in changing some of the provisions of the company act to make the board democratic and accountable (Shrestha, 1996:21).

Development problems are usually complex and at times very severe. Economic development is the urge of the present day world. The major concern of many countries of the world has been to accelerate their development process and thereby increase the welfare of their people. This is more so in the least developed country like Nepal, which suffers from various constraints like landlocked position, rugged terrain, and poor resource endowment, rampant poverty, poor stock market and moreover inappropriate economic policies have been responsible for the slow pace of development. Nepal is one such country where her disadvantage for accelerated development emerges from the fact that she had to start her effort for overall national development in extreme unfavorable and hostile conditions.

According to F. Amling, "Investment may be defined as the purchase by an individual or institutional investor of a financial or real asset that produces a return proportional to the risk assumed over some future investment period".

According to Donald E. Fischer and Ronald J. Jordan "An investment is a commitment of funds made in the expectation of some positive rate of return. If the investment is properly undertaken, the return will be commensurate with the risk the investor assumes"

"Investment is concerned with purchasing something of value that will appreciate at a "fair" rate of return commensurate with the risk assumed over a long period of time. We propose that investors are interested primarily in eventually selling a security for more than they paid for it. Including the receipt of interest or dividends during the time the



security is held, the investor hopes to achieve a higher reward than would have been possible by simply placing the same amount of money in a savings account. This reward, or return, must be measured and estimated for each security being considered, with appropriate adjustments for decision-making costs.

As stated by Gitman in his book," The goal of the firm, and of all managers and employees, is to maximize the wealth of the shareholders for whom it is being operated. The wealth of corporate owners is measured by the share price of the stock, which in turn is based on the timing of returns (cash flows), their magnitude, and their risk. When considering each financial decision alternative or possible action in terms of its impact on the share price of the firm's stock, financial managers should accept only those actions that are expected to increase share price. Because share price represents the owner's wealth in firm, share-price maximization is consistent with owner-wealth maximization. Return and risk are the key decision variables in the wealth maximization process. It is important to recognize the earning per share because they are viewed as an indicator of the firm's future returns, often appear to affect share price.

Although shareholder wealth maximization is the primary goal, in recent years many firms have broadened their focus to include the interest of stakeholders as well as shareholders. Stakeholders are groups such as employees, customers, suppliers, creditors, owners, and others who have a direct economic link to the firm. A firm with a stakeholder focus consciously avoids actions that would prove detrimental to stakeholders. The goal is not to maximize stakeholder well- being but preserve it.

The stakeholder view does not alter the shareholder wealth maximization goal. Such a view is often considered part of the firm's "social responsibility" and is expected to provide maximum long-run benefit to shareholders by maintaining positive stakeholder relationships. Such relationships should minimize stakeholder turnover, conflicts, and litigation. Clearly, the firm can better achieve its goal of shareholder wealth maximization with the cooperation of - rather than conflict with – its other stakeholders" (Gitman, 2001:17-18).

The primary motive for buying a stock is to sell it subsequently at a higher price. In many cases, dividends will be expected also. Dividends and price changes are the principal ingredients in what investors regard as return or yield.

If an investor had impeccable information and insight about dividends and stock prices over subsequent periods, he would be well on his way to great riches. But the real world of investing is full of political, economic, social, and other forces that we do not understand sufficiently to permit us to predict anything with absolute certainty. Forces intermix and flow at crosscurrents. Nothing is static.

For the security analyst, what primary influences will determine the dividends to be paid on a stock in the future and what the stock price will be in the future are the ultimate questions to be answered. A logical systematic approach to estimating future dividends and stock price is indispensable.

Development problems are usually complex and at times very severe. Economic development is the urge of the present day world. The major concern of many countries of the world has been to accelerate their development process and thereby increase the welfare of their people. This is more so in the least developed country like Nepal, which suffers from various constraints like landlocked position, rugged terrain, and poor resource endowment, rampant poverty, poor stock market and moreover inappropriate economic policies have been responsible for the slow pace of development. Nepal is one such country where her disadvantage for accelerated development emerges from the fact that she had to start her effort for overall national development in extreme unfavorable and hostile conditions. common stock printed, and sell the shares to as many different people as they wish in order to raise the capital to start the new business. Thus common stock is always the first security issued by every new corporation. Bonds and preferred stock may be sold later to raise additional capital.

Common stock holders have a residual claim on the earnings and assets of their corporation. This means that the law requires corporations first to pay employee's wages, suppliers' bills, and shareholders share in whatever earnings or losses are left.

Also, if the corporation comes to its demise in bankruptcy, the law says that all bills must be paid before common stockholders are free to divide up whatever assets remain, if any, from the bankrupt operation.

Common stockowners enjoy certain advantages from their investment. First, they enjoy limited liability. That is, if the corporation goes bankrupt and does not have enough assets to pay all of its bills, the common stockowners cannot be forced to participate in the payment of unpaid bills. Second, stockholders enjoy unlimited participation in the firm's profits if earnings become highly lucrative. Third, shares of common stock are marketable securities, which are designed to be bought and sold with ease. Finally, only common stockowners are entitled to vote at the shareholders' meeting of the corporation. Thus, shareholders have a voice in management" (Francis, 1983:37-38).

"A security market, or financial market, can be defined as a mechanism for bringing together buyers and sellers of financial assets in order to facilitate trading. One of its main functions is "price discovery" – that is, to ensure that security prices reflect currently available information. The faster and more accurately price discovery is achieved, the more efficiently financial markets will direct capital to its most productive opportunities, thereby leading to greater improvement in public welfare. Primary market is the market in which securities are sold at the time of their initial issuance. Secondary markets involve trading financial assets previously issued. Development problems are usually complex and at times very severe. Economic development is the urge of the present day world. The major concern of many countries of the world has been to accelerate their development process and thereby increase the welfare of their people. This is more so in the least developed country like Nepal, which suffers from various constraints like landlocked position, rugged terrain, and poor resource endowment, rampant poverty, poor stock market and moreover inappropriate economic policies have been responsible for the slow pace of development. Nepal is one such country where her disadvantage for accelerated development emerges from the fact that she had to start her effort for overall national development in extreme unfavorable and hostile conditions.

## **Right to Income**

Common shareholders are only entitled to share in the earnings of the company if cash dividends are paid. Shareholders prosper from the market value appreciation of their stock, but they are entirely dependent on the board of directors for the declaration of dividends that give them income from the company. Thus, the position of common shareholder differs markedly from that of a creditor. If the company fails to pay contractual interest and principal repayments, it is liquidated. Shareholders, on the other hand, have no legal recourse against a company for not distributing profits. Only if management, the board of directors or both are engaged in fraud may they take their case to court and possibly, force the company to pay dividends. With stock options, however, the goals of management are likely to approximate those of shareholders.

## **Share certificate**

The ownership of a firm's stock is usually represented by a single certificated, with the number of shares held by the particular investor noted on it. Such a stock certificate is registered, with the name, address, and holdings of the investor included on the corporation's books. Dividend payments, voting material, annual and quarterly reports and other mailings are sent directly to the registered owner, taking into account the size of his or her holdings.

## **Voting and Proxy**

Inasmuch as the common shareholders of a company are its owners, they are entitled to elect a board of directors. In a large company, shareholders usually exercise only indirect control through the board of directors they elect. The board, in turn, selects the management; and management controls the actual operations of the company. With a proprietorship, partnership, or small company, the owner usually controls the operations of the business directly. With a large company, however, there may be times when the goals of management differ from those of the common shareholders. The only way a shareholder can reach management is through the board of directors. Because common shareholder are often widely dispersed geographically and, therefore, disorganized,

management can often exercise effective control of a large company even if it controls only a small percentage of the shares outstanding. By proposing the slate of directors that is favorable to its own interests, management is able to maintain control. An outside shareholder, however, does have the right to expect the directors will administer the affair of the company properly in his behalf. If the directors act in a manner that result in their personal gain, a shareholder can sue to recover any amount he may be entitled to.

### **Proxies**

Each common shareholder is entitled to one vote for each share of stock he owns. Because most shareholders do not attend the annual meeting, they may vote by proxy. A proxy is simple a form by which the shareholder assigns his right to vote to another person. Federal and provincial Securities Act regulate the solicitation of proxies and also require companies to disseminate information to their shareholders require companies to disseminate information to their shareholders through proxy mailings. Prior to the annual meeting, management solicits proxies from shareholders to vote for the recommended slate of directors and for any other proposals requiring shareholder approval. If shareholders are satisfied with the company, they generally sign the proxy in favor of management, giving written authorization to management to vote their shares. If a shareholder does not vote his shares, the number of shares voted at the meeting and the number needed to constitute a majority are lower. Because of the proxy system and the fact that management is able to mail information to shareholders at the company's expense, management has a distinct advantage in the voting process. As a result, it usually is able to perpetuate existing practices if it so chooses.

### **Dividends**

A dividend is a periodic payment made to stockholders to compensate them for those of and risk to their investment funds. Most commonly dividends are declared out of current earnings. The firm's board of directors determines the type, size, and the time of dividend payments. The firm may declare one dividend each year, or several interim

(usually quarterly) and a final year (year-end) dividend instead. The two most common types of dividends are (1) those that are reduced the assets of a corporation, such as cash dividends, and (2) those that neither decrease assets nor increase liabilities, such as stock dividends. Of the two types those payable in cash are the most common and most important, when the term dividend is used without qualification, we are referring to the cash dividend. Dividend policy, which determines the amount of earnings to be retained or paid out by the firm, is one of the key decision areas of financial management. A Corporation's board of directors is under no contractual obligation to pay dividends on common stock. A firm's dividend policy determines how much of its earnings it retains. At the same time, dividends may affect stock prices.

Development problems are usually complex and at times very severe. Economic development is the urge of the present day world. The major concern of many countries of the world has been to accelerate their development process and thereby increase the welfare of their people. This is more so in the least developed country like Nepal, which suffers from various constraints like landlocked position, rugged terrain, and poor resource endowment, rampant poverty, poor stock market and moreover inappropriate economic policies have been responsible for the slow pace of development. Nepal is one such country where her disadvantage for accelerated development emerges from the fact that she had to start her effort for overall national development in extreme unfavorable and hostile conditions.

### **Preemptive Rights**

Preemptive right gives current stockholders the right of first refusal for the purchase of the new shares when new shares are to be sold. This number is proportionate to the number of existing shares currently owned by the stockholders. Usually, the new shares are priced below the current market price of the stock, making such rights valuable. The stockholder can exercise the rights by purchasing his/her allotted amount of new shares, there by maintaining his or her proportionate ownership in the firm, but at the cost of providing additional capital. Alternatively, the rights can be sold to someone else." (Alexander, Sharpe and Bailey, 2003: 241-252)

"Although the stockholders own the corporation, they do not manage it. Instead, they vote to elect a board of directors. Some of these directors may be drawn from top management, but others are non-executive directors, who are not employed by the firm. The board of directors represents the shareholders. It appoints top management and is supposed to ensure that managers act in the shareholders' best interests.

Managers can best serve the interest of shareholders by investing in projects with a positive net present value. But this takes us back to the principal-agent problem. How can shareholders (the principals) insure that management (their agents) doesn't simply look after their own interests? Shareholders can't spend their lives-watching managers to check that they are not shirking or maximizing the value of their own wealth.

A company's board of directors is elected by the shareholders and is supposed to represent them. If shareholders believe that the corporation is under performing and that the board of directors is not sufficiently aggressive in holding the managers to task, they can try to replace the board in the next election. If they succeed, the new board will appoint a new management team. But these attempts to vote in a new board are expensive and rarely successful. Thus dissidents do not usually stand and fight but sell their shares instead. Selling, however, can send powerful message. If enough shareholders bail out, the stock price tumbles. This damages top management's reputation and compensation. If managers and directors do not maximize value, there is always the threat of a hostile takeover" (Brealey & Mayers, 2001:25-26).

### **2.1.1 Policy Documents Review**

Under this review the provisions made by government in Nepal Accumulated Act, Nepal Rastra Bank act, security exchange act, company act, considering the investors' protection in regards with their rights are examined here.

#### **Provision made in Nepal Rastra Bank Act 2002**

"NRB has provided some guidelines to commercial banks and financial institutions in order to protect the shareholders' right and interest.

### **Submission of report to Nepal Government.**

- i The bank shall have to submit the following reports to His Majesty's government within four months from the date of completion of each fiscal year.
  - a. Auditing report
  - b. Report of its activities.
  - c. Report on economic and financial position.
  
- ii The bank shall publish its monthly balance sheet within fifteen days from date of completion of each month." (NRB Act 2022)

### **Provision made by Nepal Accumulated Act:**

"Certain provision which is stated in the Nepal Accumulated Act 2053 about the protection of the investors is stated like below:

- ) "For the protection of the investors' interest and long term development of stock market it is essential to give training, instruction, seminar, gusty, necessary study, research etc.
- ) If organized form had submitted the documents to register purpose, it should be provided to the investors attested photocopy for the information whenever they require.
- ) It is not permitted to any person, firm or companies to cheat the investors about the value of share like below:
  - o Wrong or confused information published.
  - o Without conducting transaction of stock it is said that the transaction is conducted.
  - o Although value of share is not changed, it is published in the market either value of share is increased or decreased.
  - o To make influence, it is said that share price will be increased or decreased.
  - o To show wrong data interrelated with share transaction.



- To make influence interrelated with share transaction and its value and other functions.
- It can be cancelled the certificate of the stock professional if they are unable to bear the responsibilities of contract at the purchasing or buying period or promise in front of the investors or their liabilities in the stock trading period.
- Board can punish to him/ her by charging penalty Rs. 30,000/- if any person conducted his activities against the law or under its order or direction to hamper the organized corporation, stock market, stock professional or investors.
- Directory can be made and applied by the board under the law and its rules and regulation for the protection of the investors' and to manage stock transaction systematically.”(Nepal Accumulated Act 2053)

**Provision made by stock exchange:**

"It is stated in the law and rules of stock exchange how the investors should be protected and what is their importance in the capital market of Nepal as like below:

- ) Stock Exchange Board is established to manage and regulate stock exchange we for the development of stock market and for the protection of investor and their prosperity.
- ) Stock Exchange Board is established to develop stock market by giving suggestion to the government about the policy formulation under considering the protection of investors' interest.
- ) It will not be permitted if stock market's operation will not be conducted in favor of investors' facilities and welfare.
- ) It will be cancelled permission letter if the direction of the board is not followed by the concerned sectors without considering protection of investors or development of industry and commerce.
- ) It should be disclosed information through letter and newspaper for the information to the investors.

- ) Information sheet can be cancelled if it does not provide facility and welfare to the investors.
- ) If information sheet is cancelled, it should be informed to the investors.
- ) In any type of irresponsible activities, which hamper to the investors is conducted by anyone of the stock market by knowing rules and law of the stock exchange, should be punished by concerned authorities.
- ) Stock exchange transaction can be stopped by the stock market under considering the welfare and facilities of the investors.
- ) It can be ordered or directed to the member of the stock market like person, firm or companies to safeguard the investors' interest in regards with their welfare and facilities.
- ) It should be published the name of the members of the stock market in the main newspapers of the Nepal to inform the investors of the capital market.
- ) Those members, who are continuous for the coming year, should publish their name in the main newspaper of the Nepal for the information to the investors."

The entire development of capital market is totally depends upon whether the investors are legally protected or not. Protection of investors requires because they are of divergent nature and dispersed in different localities. They should be properly informed and should participate in different localities. They should be properly informed and should participate in making major decisions of the company"(Security Exchange Act, 2040).

Let's look on the provisions made in the protection of investors' interest in company act.

### **Provision made by Company Act 2058**

Different provisions made in company act regarding shareholders' right has presented as below.

### **Voting right**

Company Act, 2058, Article 58, section (1) provisions regarding "right to vote in the General Meeting." Only the person who has retained his name in the Registration Book of the shareholder shall, subject to clause (57) vote in the general meeting on the basis of one share one vote. Provided that if the shareholder who has the right to vote could not be presented in the meeting by himself, then he may nominate another shareholder of the same company as his representative by writing an application with bearing a signature in the model as prescribed.

Article 58, section (2), In the condition that the share is bought in partnership in the name of more than one person, one partner nominated from among the partners or a representative nominated by him pursuant to section (1) shall vote and if any shareholder pursuant to the same could not be nominated, only the vote or the representative letter given by the shareholder whose name is written first in the Registration Book pursuant to clause (35) shall be valid.

### **Annual General Meeting**

Article 63, section (1&3) provisions, Public company shall hold the first general meeting within one year from the date that it commences transaction and thereafter the general meeting shall be held annually within six months from the date of the completion of the fiscal year of the company.

If any shareholder submits an application mentioning the particulars that the general meeting is not summoned within the time pursuant to sub-clause (2), the office may make general meeting be held and even if the application pursuant to the same thereon is not submitted, the office shall make the general meeting be held within two months from the date pursuant to sub- clause (2) is expired.

### **Subjects to be presented and deliberated in the Annual General Meeting.**

Article 64, section (1&2) provisions in each annual general meeting of public company the operators shall present the annual account of last year, which is already audited.

If the shareholders who represent at least five percent votes out of the total vote want, any subject to be deliberated and decided in the annual general meeting by submitting an application to the operators prior to the dissemination of the notice pursuant to sub clause (2) of clause 54, the subject maybe laid in the meeting.

#### **Power of the shareholders to inspect the reckoning: - Article 124**

Article 124, provisions a shareholder of private company or his representative may inspect the following documents or records pertaining to the transaction of the company within office time.

- a. Decision file (minute) of the shareholders or promoters.
- b. Annual detail of the transaction.
- c. Share register
- d. Reckoning

#### **Details of the Transaction:**

Article 125, (1&2) provisions a shareholder of a private company may demand the details of the transaction of the company of any year. The details including the profit and loss account and balance sheet certified by the promoter who undertakes the transaction of the company, managing director or chief officer shall be provided within fifteen days of the demand of the details pursuant to sub- clause (1).

#### **No Partiality to be done to the Shareholders**

Article 131, sub clause (1,2,3) provisions, if a shareholder of a company finds that transactions are being done against his well being or are to be done or the works, which are to be done, are not done or the works, which are not to be done, are done, he may submit an application to the district court for remedy.

The shareholder, who applies pursuant to sub-clause (1), shall have to prove that the promoter who controls the company or Managing Director, Manager or Employee of

any person is to do or has done improper partiality with bad-faith against the memorandum articles or consensus agreement of the company.

If the particulars of the application pursuant to sub-clause (1), are deemed by the district court as reasonable with ground, the court may issue necessary orders in the name of the company to provide remedy as the court deems proper to all shareholders as the shareholder has stated in his application.

Notwithstanding anything contained in sub-clause (1) & (2). The remedy of the person who is subjected to loss due to the reason that the company or promoter or the person who is to control the company or its employee do not do the work which is to be done or do the work that is not to be done or by their partial behavior, shall not restrict only to this clause and the proceeding may be proceeded to get the privileges of one or other shareholders provided by the remedies of this or other existing laws.

## **2.2 Review of Articles and Journals**

Articles are not full research framework for giving complete direction to the concerned authorities. However; it gives co-operation to the researcher. So it is taken into the account for the Literature Review that how many persons have written article in favor of the protection of investors in capital market is reviewed here.

Many companies are involved in the floatation of shares in the present Nepalese capital market. All the companies are beneficial for themselves by achieving reliable goal. But they are avoiding the interest of investors, it is quite difficult to get ultimate goal of successiveness in the capital market. As capital market in Nepal is just emerging, is less concerned with the protection of investors.

"An article by Mr. Krishna Regmi, on the topic, "Companies at NEPSE not accountable to investors" has written about the poorly informed small investor, which denies investors their right to know how their investment is performing or where to make new investment. Moreover, in the absence of such information, poorly informed small investors are unknowingly exposing themselves to high risks while making investment

in the shares. Even though correct and timely dissemination of information is crucial for making a prudent economic decision, a significant number of public limited companies largely deny their investors such information.

Both the potential and existing investors are supposed to be provided with all the necessary information about the companies where they have put in their money, so that they can take appropriate judgment on buying, selling or retention of shares.

Figure of NEPSE shows that 37 % companies listed at the secondary market have not presented their financial statement for 2003/2004 at the stock exchange till date although the Security Transactions Act binds them to do so within four months of fiscal year end. Of the total of 124 listed companies, only 78 have forwarded their financial reports to it till date.

Security Transactions Act asks all the NEPSE listed companies to hold annual general meetings (AGM) within the four months of completion of the fiscal year and submit the financial reports to the NEPSE within that timeframe. On the other hand, Company Act provides them with a timeframe of six months for undertaking such activities. Security Transactions Act also makes it mandatory for the companies to inform the NEPSE about the annual report within minutes from the time announced in the AGM in order to avoid manipulation of share price. But companies do not abide by the Act and if this trend goes on hardly any company adheres to law."(The Kathmandu Post, April 13, 2005).

Another article by Ravindra Bhattarai, on the topic, "Define your objective before buying stocks" has given way to invest in securities according to investors' objective. "Stock market is perhaps poorly understood among Nepalese investors. Its development remains almost impossible unless the people accept it as a way of their life. For this, first of all they have to know what stock market is, and how it functions. If it is not understood, it cannot attract the interests of investors. Thus investors' awareness about stock market and their rights are also essential (Bhattarai, 2005:12).

People invest in the share market for different purposes. If someone is not clear about his/her purpose, the strategy followed can be wrong and the benefits not satisfactory, or there s/he may even incur a loss. So, it is necessary to define our objectives first and then start playing with the market. Some possible objectives would be to maximize dividend income, to maximize capital gain in short run, to maximize total gain and to minimize risk. A proper setting of objectives helps in identify the category of shares that help to accomplish the set objectives. If we observe stocks market regularly, we find various patterns of movement in different stocks. Thus setting clearly defined objectives will help to gain from such movement

Development problems are usually complex and at times very severe. Economic development is the urge of the present day world. The major concern of many countries of the world has been to accelerate their development process and thereby increase the welfare of their people. This is more so in the least developed country like Nepal, which suffers from various constraints like landlocked position, rugged terrain, and poor resource endowment, rampant poverty, poor stock market and moreover inappropriate economic policies have been responsible for the slow pace of development. Nepal is one such country where her disadvantage for accelerated development emerges from the fact that she had to start her effort for overall national development in extreme unfavorable and hostile conditions.

The next fundamental objective of buying securities is for the purpose of borrowing. Investors can borrow money by using the shares as collateral. Banks and finance companies provide loans up to 50% of the market price of the shares. To borrow in this way, one should have those securities that promise more certain return as well as growth. Such stocks are those of Standard Chartered Bank Nepal Ltd., Nabil Bank Ltd., Bishal Bazaar Company Ltd., Uniliver Nepal Ltd and Nepal Investment Bank Ltd. Therefore, it is better to buy these high priced stocks if investor intends to borrow by pledging them. Such borrowing can be used to buy more stocks and the selection of such stock will again depend on the purpose for which you want to buy them.

If the objective is to minimize the risk, investors require selecting stocks that remain less fluctuating in the market. For example, Bishal Bazaar Company Ltd, Himalayan Bank Ltd., Bottlers Nepal Ltd., Rastriya Beema Sansthan and Uniliver Nepal Ltd., are found to be such stocks" (New Business Age, May 2005:65).

"NEPSE is the only secondary market in the south Asian countries that does not have automation. Shares have been traded through tedious open and cry out system on the NEPSE floor. Ishwori Rimal, President of Association of Nepalese Securities Brokers, said that the secondary market would replace the current trading system that is done through "open and cry out method". This will attract new investors in the secondary market, there by increasing volume of transaction by over four folds. "He also said that the automation would bring down the shares transaction cost by around 10 times. He also further said that the project would also adopt management information system (MIS) at the SEBO to disseminate necessary information to investors and market practitioners in order to keep the secondary market abreast" (The Kathmandu Post, 21 Jan 2005).

As from above we know that trading system is not systematic in NEPSE. The trading technique/method in NEPSE is also not appropriate and it cheats investors.

An article in the "New Business Age", on the topic "Matching and cheating" technique of selling and buying of share in NEPSE is explained. Many investors in the Nepali stock market don't know that brokers who use a relatively unknown technique called "Matching" are cheating them. The investors cheated by this method are normally those who occasionally buy or sell shares, not the regular ones who are active almost every day in the market.

Matching and splitting are the most prevalent mode of securities transaction in Nepal. According to the Securities Board Nepal (SEBO/N), the regulator of the Country's stock market, about 65% of the total transactions in the NEPSE is executed through matching.

Matching is helping market manipulators to increase the price of their selected stock by matching small quantities of shares at a higher price and thus misleading the naive



investors who would be tempted to buy large quantity of shares at the artificially increased price from the same manipulators.

If matching is totally banned, the government may lose some revenue as the total transaction in stocks may be reduced and its impact will not only be on capital gain tax but also on the tax earning from the commission earned by the brokers. But the question is whether the cheating of the general investors should be allowed to continue. Thus it calls for a proper regulatory framework so that the investors are not cheated while the brokers also get a fair commission for their service even by pursuing their profession honestly" (New Business Age, April 2005:58.).

Though the market capitalization and the list of companies at the secondary market are on the continuous rise, NEPSE so far hasn't introduced a policy to recruit new brokers.

On the topic " NEPSE: Increasing capitalization, decreasing brokers", an article was published in the New Business Age. This reveals that there should also be some policy regarding brokers at NEPSE also necessary to update the investors with timely information. The NEPSE officials said that there should be the policy to let the brokers freely enter and exit the market to match the growing market capitalization. Shambhu Prasad Pant, assistant manager at the Research, Library and Listing Division at the NEPSE, said that "It is natural and necessary to increase the number of brokers with the rising capitalization". He also said that recruitment of new brokers is also necessary to update the investors with timely information and provide them with necessary advices. Reacting to absence of share trading outside the capital, pant said that recruitment of new brokers is profoundly important to start the share transactions outside Kathmandu as all brokers are currently based in the capital" (The Kathmandu Post, 29 December 2004).

An article on "The Kathmandu Post", has given emphasis on improvement of NEPSE for its productive growth". Investors and market operators hold the first right to information about any changes taking place in the company. Many companies take various share prices influencing decisions, including changes in management and

transactions of their assets now and again. However, they do not disclose such decisions to their investors; conceal these deliberately denying information to the investors and market operators.

Timely information is the most important factor in the share trading, as fluctuation in shares prices rely entirely on the performance of company. But, sadly enough, most of the companies enlisted with the NEPSE simply overlook this fact. As a result, investors are devoid of correct information and their ignorance has led them make their investment in wrong companies.

After NEPSE came into operation as the sole security market of the country some 11 years back, companies are still not making their financial reporting at par with the international accounting standards. In addition, they do not feel obliged to submit their performance reports on time. As far as public companies are concerned, the first thing that they have to learn is how to keep their balance sheets properly.

In term of numbers, presence of the Nepali companies at the stock exchange is below the satisfactory level. Herein lies a sour truth that stock exchange regulator is not playing their roles quite effectively, when it comes to enforcing the listed companies adopt best practices.

This is why the government should privatize them so that investors' confidence on the secondary market does not erode further. Needless to say that privatization will also pave the way to improve its performance. In order to attract more companies at the NEPSE, the government has to introduce a system, where by it provides some incentives to the companies that are best in practices and always abide by the norms.

At a time when almost all of the international stock exchanges are already automated, the NEPSE is still functioning in a traditional way. So, it is high time to privatize the stock exchange to make it more professional"(The Kathmandu Post, 7, February 2005).

## **2.3 Review of Thesis**

The several researchers have found various studies regarding shareholders' protection and financial performance of commercial banks. In this review, research which are concerned about the shareholders' protection, performance of Nepalese commercial bank regarding the welfare of the stockholders and other related studies which are related to secondary market in Nepal are reviewed for analysis.

Khatiwada (2002) in his study, "Protection of minority shareholders' rights and role of public directors" has analyzed the 8 randomly selected companies among 110 companies listed on NEPSE covering 4 fiscal year from 1997-2000. The population of this study constitutes all the listed companies on NEPSE.

The objectives of the study were:

- ) To provide conceptual thought on protection of minority shareholders' rights.
- ) To analyze the various variables that affects shareholders' right.
- ) To study the real problem of minority shareholders' in Nepalese public Ltd. companies.
- ) To survey the opinion of public shareholders relating to qualitative factors.

Major finding of the study were as follows:

- ) Board composition is one of the important affecting factors for the protection of minority shareholders. Most of the public limited company board is composed from government representatives, representatives from government owned institution and only one or two public elected directors. As a result, the shareholders' rights have been underestimated on one hand, and on the other hand, the public elected directors do not have ability to raise voice in favor of minority shareholders against the government domination.
- ) AGM is another important factor for the protection of minority shareholders rights. The majority of the respondents opined that the decisions are passed without taking the consent of all shareholders in AGM. They also stated that most of the public limited companies does not give notice at right time about the

AGM and without fulfilling the required no. of shareholders, AGM have been arranged.

- ) The managerial attitude seems to be less democratic and minority shareholders interests have not been seriously taken in managerial plans and policies.
- ) There is an absence of clear provisions to protect the minority shareholders' interest.
- ) The brokers did not play fair role for the protection of minority shareholders' rights.
- ) Most of the minority shareholders were not familiar about their rights and were not capable of exercising their right.
- ) Most of the shareholders do not have consciousness about their voting power and most of the shareholders preferred proxy instrument to elect directors and collecting proxies had found to be misused by the management.
- ) No any arrangement has been made by the SEBO to check the use of proxy instrument.
- ) Companies did not have disclosed true as well as detail information in prospectus (Khatiwada, 2002:10, 81-87)

Pandit (2004) in his study, "Investors' preference and financial instruments in Nepal" analyzed the financial instruments used in Nepal and find out Preference of Nepalese investors in selecting securities. The overriding objective of this study was as follow:

- ) To explore widely used financial instrument of Nepal.
- ) To study the primary issue in Nepalese financial market.
- ) To analyze the preferences of the different investors of Nepal and to know what type of instruments the investor prefer the most.
- ) Finally, the study also aims to suggest and recommend to the concerned authorities and investors.

The entire number of investors of financial instruments is the population of this study. 122 investors were randomly taken as samples for this study as primary data and as

secondary data, different publications, reports, journal, bulletins of Nepal Rastra Bank (NRB), NEPSE, and SEBON are used. Main finding of the study were as below:

- ) History shows that in Nepal only four types (common stock, Preference shares, debentures, and mutual funds) of securities were issued at varying time. Nepali security market is completely dominated by the equity shares. Investors have not more choice so they are pouring their savings on those equity instruments.
- ) Many of them, who have just invested due to the influence of friends and relatives, even don't know how the transfer of share ownership takes place and what its process is.
- ) Instructional investors are also very passive in Nepal. Commercial banks, finance companies, insurance, pension funds, investment trusts etc are the major institutional investors of any economy. In our country all of these are not actively taking part in the capital market, especially in secondary market, it seems stock market liquidity needs to be improved seriously, the efficient services of market intermediaries, conducive and realistic policies of regulating authorities, awareness campaigns for investors, better concern toward the investors' psychology and preferences and so on are the major felt need, in this regard (Pandit, 2004:14,124-125).

Subedi (2003) in his study, "Investor's awareness in security Market", have aimed to find out whether the investors are aware or not in the stock market. Main objective of the study were to find out the major factors that affect the investors' decision. Questionnaire was used as primary data to analyze investors' awareness regarding stock market and stock price.

- ) A significant portion of investors responded that there were better opportunities for investors in non- securities sectors, however, majority group believe that securities sectors provide better opportunities. Among those investors, who chose securities market as better sector for investment, responded the banking, finance and insurance are the best alternatives. Investors feel that investment in common stock is popular since it provides sufficient return in comparison to

other field of investment. Investors who chose non- securities sector responded, the bank fixed deposit, fixed assets, business venture and other sectors are suitable alternatives.

- ) He also found majority of investors dissatisfied with security market were dissatisfied with the availability of information, grievance handling, and found dissatisfied with the present level of return from stock investment. The study also found that majority of investors doesn't think regulatory measures are adequate.
- ) This study also stated that dividend and capital appreciation were the most inspiring factors to attract the investors. Investors are found very highly affected by whim and rumor related to share price. No one bothers to analyze before they invest in shares. They just follow the trend, and buy the shares of the company whose demand is high. This is because of lack of awareness and educational and technical qualifications. Programs to educate investors; to intensify public awareness; to train market professionals need to be increased.

Joshi (2003) has analyzed in her Thesis "Role of Nepal Stock Exchange (NEPSE) in the securities Market" role played by NEPSE in promoting Nepalese securities market and to point out the existing financial institutional set up in the country and the main objectives are:

- ) Giving introduction of security market i.e. composition of primary and secondary market and their performance behaviors.
- ) To access the past and present behavior of business operation in the NEPSE market.
- ) To forecast the future trends of business economic activity in the NEPSE in terms of quality, value and volume.
- ) To prescribe ways and means by which secondary market would be more effective and meaningful.
- ) Study on legal provisions relating to protection of investors' interest.

Her study was based on the sample data taken from 11 companies among the 115 total listed companies of the fiscal yr 2057/58 and the samples were taken from each sector, which had six years data including the data of base year.

- ) NEPSE is the only Stock Market in Nepal. Apart from being developed from the time it established more effort is necessary for the better development of stock market. In the age of digital technology, NEPSE is having trading on open- cry system. Stock market is making progress through steady, as compared to the performance of previous years.
- ) Due to lack of access to the information supposed to be made available to the potential investors the secondary market is still lagging behind. They have problem of wrong information, which could not have led to true figures and healthy situations. More information needs to be provided to potential investors, and what factors they need to consider before investing their money in the share market.
- ) The existing problems could be resolved only when general people understand how market works, analyze the function of price and take decisions accordingly. They need to understand that keeping the shares may not be the best alternatives they have.
- ) From the analysis of primary data, majority of respondents thought that public does not have opportunities for investment apart from the share market. But other thinks that they could invest in fixed fund deposits in bank and finance companies.
- ) Some of the responded added that SEBO guidelines are still not favourable for some of the new company to issue their shares if it is for small amount. There are also problems like the listing of companies, which are not done in time, and people do not get the information and certificates on time (Joshi, 2003: 8,123-133).

Giri (2005) in his study, "Stock price behavior of listed companies" based on 5 commercial banks, 3 finance company and 2 insurance companies listed in the NEPSE.

So for the research work 10 listed companies has been taken as sampling companies and the data are of 5 years period (1998-2002)

Main objectives of the study were:

- ) To examine the stock price behavior of listed financial institutions.
- ) To study whether stocks of the sampled companies are over priced, under priced or equilibrium price.
- ) To study investor's response regarding on the change of stock price.
- ) To provide suggestions on the basis of findings.

Main finding of the study were follows.

- ) Price of security is the outcome of investor's psychology. Here in Nepalese Market, dividend and price appreciation of stock is major factor for the investors to decide about purchasing of shares. Along with the Dividend Per Share (DPS) and price appreciation, EPS, Net Worth Per Share (NWPS), market rumors, political & economic environment etc. are the other factors to influence the buying and purchasing behavior of the investors. But one must look into financial status of organization before making investment. The decision for investment largely depends on the information about the performance of the company.
- ) Among the analyzed financial indicators EPS seems to be most closely related with the market price of share. Most of the sample companies' stock price found to be under valued because their required rate of return is lower than the actual rate of return. The study also shows that Nepalese investors are more conscious towards the dividend and price appreciation of the shares they are investing. But most of the investors are only using buy and hold strategy as only few of them are trading their shares in secondary market (Giri, 2005:80-83).

A study entitled, "Investment policy of commercial Banks in Nepal" by Joshi (2005) was focused to highlight the investment policies of joint venture banks expecting that



the study can be bridge the gap between deposits and investment policies. From the study, the shareholders would get information to make decision while making investment on shares of various banks.

Objective of the study are as follows.

- a. To discuss fund mobilization and investment policy of Everest Bank Limited (EBL), Nabil Bank Limited and Bank of Kathmandu Ltd (BOK).
- b. To evaluate the Liquidity, efficiency and profitability and risk position.
- c. To evaluate the growth ratios of loan and advances, total investment with other financial variables.
- d. To analyze the trends of deposits utilization towards total investment and loans and advances.
- e. To conduct hypothetical test to find whether there is significant difference between the various important ratios of EBL & NABIL and BOK.

The study used the data taken from concerned banks, annual reports and analyzing these data using financial and statistical tools. EBL's investment policies have been compared with NABIL and BOK with 5 years data from 1999 to 2003.

The main findings were as below:

Objective of commercial bank is always to earn profit by investing or granting loan and advances to people associated with trade, business and industry. This means they are required to mobilize their sources properly to acquire profit. So investment has a great deal to do with economic health since bank loans support the growth of new business and trade empowering the economic activities of the country. The income and profit of the bank depends upon its lending procedure and policy in different sectors. In the comparison of three banks NABIL Bank's financial performances were as follows.

- Its total investment to total deposit is higher than other 2 banks
- NABIL has lowest liquidity but adequate liquidity position is maintained. It reflects that it has no idle assets.

- NABIL has average capital risk and total interest earned to total outside assets, compared to other two banks. (Joshi, 2005: 12, 92-94)

Another study entitled "A study on Capital Structure of NABIL Bank Limited by Subedi (2005), focused on to see whether the capital structure of NABIL is effective or not. The main objectives of the study were:

- ) To be familiar and analyze the composition of the capital of Nabil Bank Limited of the mixture of debt and equity.
- ) To examine the existing financial position regarding capital structure.
- ) To describe the relationship between deposits and capitalization of NABIL Bank Ltd.
- ) To show overall trend analysis
- ) To provide the recommendation suggestion for the development of an appropriate capital structure.

For this study, data and information are collected from balance sheet of NABIL Bank limited for the period of 5 years (2056-60). Main finding of the study are as follows:

- ) The capital and liabilities analysis says that the overall condition and position of capital and liabilities is better until 2057/58. After onwards 2057/58, all they declined continuously.
- ) Deposit is the major concern to the capital structure. So, the decreasing trend of deposit onward 2057\58 should be reconsidered. It effects on investment policy too.
- ) Fixed deposit among the total deposit is assumed to be long-term debt of bank. So, it is a sensitive part of capital structure. The more the fixed deposit increases, the more the long-term investment becomes possible.
- ) Capital structure position analysis says that the proportion of debt and equity is in normal position as like others. Capital adequacy ratio seems a bit lower than necessary. Interest margin is also in the general level of this industry.

- ) Net income in relation to total deposit is good but not so in case of fixed deposit. Non Performing Assets (NPA) should be reduced which decrease profit. (Subedi, 2005:3, 70-75).

Bista, (2007) conducted study on "The General Behavior of Stock Market", using serial correlation analysis and runs tests on daily closing prices of 21 stocks during 13 Jan, 2006 to 13 september,2006 is conducted with the following objectives.

- ) To discuss theoretically movements of stock market price changes of an individual common stock as a whole.
- ) To develop the empirical probability distribution of successive price changes of an individual common stocks markets as whole.
- ) To examine whether the successive price changes of stock market are independent of each other or not.

The main finding of the study is:

- ) On the basis of the run test and serial correlation, it seems that the independent assumption of random walk model in stock market prices is rejected by collected sample data of 21 companies, at least as a description of price behavior in Nepal Stock exchanges. The share price changes are dependent on each other.
- ) The random walk model of security speculative price behavior has been refuted at least in the Nepalese context, which clarifies that the knowledge of the past becomes useful in predicting the future movements of stock market prices.
- ) The securities, in the past, were incorrectly priced either over or under valued as actual market prices of securities.
- ) There exists frequent persistence than reaction in the general stock market climate because of the investor's irrational behavior that causes the irrational movement of prices of stock.

- ) The general stock market of Nepal for the initial period appeared to be inefficient in incorporating the possible appearance of information into the successive prices changes. Therefore the investing publics are not aware of the information available publicly, appropriately in adjusting with the actual market price.

Thapa, (2007) studied on “Dividend and Stock Price” which was carried out by the data for 16 enterprises from 2002 to 2006. This study used simultaneous equation model as developed by Friend and Puckett.

The main objectives of that study were as follows:

- ) To test the difference between dividend per share and shares prices
- ) To determine the impact of dividend policy on share prices.
- ) To identify whether it is possible to increase the market value of the stock changing dividend policy or payout ratio.

The main findings of the study are as follows:

- ) The difference between dividend per share and stock price is positive in the sample companies.
- ) Dividend per share affects the share prices variedly in different sectors.
- ) Changing the dividend policy or dividend per share might help to increase the market price of share.
- ) The difference between stock prices and lagged earning ratio is negative.

Pant, (2009) studied on "A study on share price movements of joint venture Commercial Banks in Nepal" is undertaken by using financial and statistical tools (standard deviation, correlation, beta, t- test etc) . The major objectives of the study are:

- ) To examine Nepal Stock exchange market and to judge whether the market shares of different banking indicators (book value per shares and major financial ratio) explain the share price movements.

- ) To analyze the scenario why the shares of selected banks emerge as blue chips to the potential investors and to make a conclusion on the basis of the financial ratios analysis.
- ) To examine how risky the investment in commercial banks share are.

The major findings are:

The market shares of these banks do not capture the market share and the growth rates of different banking indicators used.

- ) The ordinary least square equation of book value per share on market value per share. Share reveals that the independent variable doesn't fully explain the dependent variable on the basis of the above-mentioned two points. Nepal stock exchange operates in a weak form of efficient market hypothesis, indicating that the market price move randomly.
- ) Having good track record of the financial position, the market potential investors buy the shares of Joint Venture commercial banks. Therefore, the shares of joint venture commercial banks emerge as blue chips in the Nepalese stock market.
- ) The Beta coefficient, which measures the risky ness of individual security in relative term, suggests that none of shares of eight sampled banks are risky. The shares of publicly quoted joint venture commercial banks are less risky as compared to other average stocks traded in the stock exchange.

Dhakal, (2009) studied on "Stock Market Behavior of Listed Joint Venture Company" describes the Nepalese stock market as follows:

The main objective of this study is to study, examine and analyze the stock market behavior. The specific objectives are:

- ) To study and analyze stock price trend and volume of stock traded on the secondary market.

- ) To study and analyze the rate of listing of new companies and maintenance of listed company in Nepal Stock Exchange Ltd.
- ) To study and analyze the investors views regarding the decision on stock investment.
- ) To study and examine the signaling factors impact on stock price with the help of NEPSE index.

In his conclusion Dhakal said that Nepal stock exchange is not providing facilities for investors such as general awareness about investment, investment procedure for general public and movement of stock trend in different periods and their cause are not explained. Most of investors are complaining that the market makers, brokers, and NEPSE s staffs are making coalition for fraudulent activities towards investors. So NEPSE should clear this type of charge for the development of stock market.

## **2.4 Research Gap**

Very few specific researches have been undertaken on the subject related to the shareholders' protection and financial performance of Nepalese commercial banks. The researcher felt research gap and has conducted research on this topic since very few other research has been undertaken to assess the shareholders' protection and financial performance. It is necessary to research about the shareholders' protection and financial performance of Nepal Investment Bank Limited, Himalayan Bank Limited and Everest Bank Limited. The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make study meaningful and purposive. There has been lots of article published related to shareholders' protection and financial performance of commercial banks. There are various researches conducted on financial performance and policy of commercial banks, impact and implementation of NRB guideline in commercial banks. Most of the thesis studies are of comparative type. Comparing of the firms from same industry can make the sense. But at the same, the individual firm may have its own strategy for business. In such a case, comparative study may mislead the researcher. So, this is the exclusive study of NIBL, HBL and EBL. However the NRB directives are also taken into consideration,

while analyzing the data. While reviewing other studies on financial performance analysis related to single bank, the researcher found that the ratios are not properly analyzed. What actually the ratio indicates is not clear. So, this study has tried to analyze the different ratios in order to make fruitful analysis on the shareholders' protection and financial performance of the NIBL, HBL and EBL.

So, this study will be fruitful to those interested person, parties, scholars, professor, students, businessman and government for academically as well as policy perspective. Hope this study will help to others in future in the related field.

## **CHAPTER- III**

### **RESEARCH METHODOLOGY**

Research is a knowledge building process. It generates new knowledge, which can be used for different purpose. Research is undertaken not only to solve a problem existing in the work setting, but also to add or contribute to the general body of knowledge in a particular area of interest to the researcher. Thus research is an organized, systematic, data based, critical, scientific inquiry or investigation into a specific problem, undertaken with the objective of finding answers or solutions to it. (Wolff and Pant, 2005:5) Methodology is the research method used for investigation. Research Methodology is the way of doing and completing research work. It is the way to solve the research problem systematically. Thus sets of method used in this research are as follows.

#### **3.1 Research Design**

By research design we mean an overall framework or plan for the activities to be undertaken during the course of research study. The research design serves as a framework for the study, guiding the collection and analysis of the data, the research instruments to be utilized, and the sampling plan to be followed It is a strategy for conducting research. It is the main part of any research work. The present study aim at portraying accurately the relation between the attitude of the stockholders and the performance of the bank to find that whether interest of shareholders' of NIBL, HBL and EBL are protected or not.

#### **3.2 Nature and Source of Data**

For any statistical investigation collection of data is must important, any study without data analysis is impossible. This study is based on secondary data as well as primary data. Basically, it is mainly based on secondary data. Secondary data are collected from "Annual report of the NIBL, HBL and EBL and website of the bank." for the last five years.



### **3.3 Population and Sample**

At the present context, there are 27 commercial banks being operated in Nepal. This study has chosen 3 (11%) banks i.e. NIBL, HBL and EBL for research from total population because these organization look to provide more information and data conveniently. Beside this, it is one of those few commercial banks in Nepal, which are highly recognized in the form of income statement, balance sheet, financial ratios etc.

### **3.4 Data Collection Procedure**

For the purpose of the study, as secondary data, various related books, magazine, journals, newspapers, websites and the dissertation made in this field have been referred. As far as primary data is concerned, it is collected through questionnaires distributed to shareholders of different banks and financial institutions.

### **3.5 Method of Data Analysis**

To analyze whether shareholders' interest are protected or not overall performance of bank have analyzed with two important tools. The first most important tool is the financial tool, which include ratio analysis and another is statistical tool, which includes Trend analysis.

#### **3.5.1 Financial Tools**

To examine the performance of NIBL, HBL and EBL, this study has applied various financial ratios like liquidity ratio, profitability ratio, leverage ratio, and activity ratios. Ratio analysis is a powerful tool to analyze financial analysis. A ratio is a relationship between two accounting figures expressed mathematically. It is used as a benchmark for evaluating the financial position and performance of a firm. The absolute accounting figures of the financial statement do not give any meaningful understanding about the performance of the firm. It should be compared with some standard. A single ratio in itself does not indicate favorable or unfavorable condition. The standards of comparisons may consist of past ratios or projected ratios. So this study reflects whether

the NIBL, HBL and EBL financial performance has improved, deteriorated or remained constant over time. Beside this, these ratios are also used to examine the attitude of shareholders toward the organization.

### **3.5.1.1 Liquidity Ratio**

Liquidity ratio measures the firm's ability to meet current obligations by establishing a relationship between cash and other current assets. A firm should ensure that it does not suffer from lack of liquidity, and also that it does not have excess liquidity. As bank's current obligation is to hold cash to meet the demand of the customers (Pandey, 1995:108).

The success of a bank depends on the maintenance of adequate cash reserves required to honor the cheques presented by the customers. The failure of Bank to meet its obligations due to lack of sufficient liquidity, will result in a poor credit worthiness, loss of customer's confidence, even in legal tangles resulting in the closure of the company.

However, the bank must avoid excessive holding of cash since it is an idle asset and do not generate any income from this. Therefore, holding of huge amount of cash influences the profits of the bank. Therefore, it is necessary to strike a proper balance between high liquidity and lack of liquidity. The most common ratio, which indicates the extent of liquidity or lack of liquidity, is current ratio and quick ratio. For this study, following ratios have taken into consideration.

#### **3.5.1.1.1 Current ratio**

Firm's short-term creditors' main interest is in the liquidity position or the short-term solvency of the firm. Current ratio measures the firm's short-term solvency. It indicates the availability of current assets against the claims of current liabilities.

Current assets include those assets, which can be converted into cash within a year, and the current liabilities are the liabilities maturing in the current year. A current ratio of

minimum two times is considered better for the company. Current ratio is calculated by dividing current assets by current liabilities:

Current Ratio =

#### **3.5.1.1.2 Cash and bank balance to total deposit ratio:**

Cash and bank balance are the most liquid assets. This ratio is calculated to find out the percentage of most liquid fund with the fund back to make immediate payment. Total deposit includes current, saving, fixed and other kinds of deposit. The bank keeps certain amount of cash and bank balance in order to meet its cash requirements of its depositors. This ratio measures the bank's ability to pay its immediate and other obligations. This ratio is calculated by using this formula,

Cash and bank balance to total deposit ratio =

#### **3.5.1.2 Profitability ratio**

A company should earn profits to survive and grow over a long period of time. Creditors are more interested in the company's profitability because a profitable company is more likely to make principal and interest payments. Of course, stockholders care about a company's profitability because it affects the market price of the stock and the ability of the company to pay dividends. Some of the important profitability ratio have been calculated and interpreted in these studies which are presented below:

##### **3.5.1.2.1 Return on shareholder's equity (fund)**

Return on shareholders equity (ROSE) is calculated to see the profitability of owner's investment. ROSE indicates how well the firm had used the resources of owners. The

earning of a satisfactory return is the most desirable objective of a business. This ratio is, thus, of great interest to the present as well as the prospective shareholders and also of great concern to management that has the responsibility of maximizing the owner's welfare. The basic purpose of this ratio is to measure the productivity of shareholder's fund. Since the shareholders are interested in maximizing their wealth, which can be done by earning adequate returns on shareholder's fund. This ratio seeks to explore the capacity of management to make use of its shareholders fund in income generating purpose. Higher ratio leads the shareholders to realize that their funds are being efficiently utilized in profit making purposes. The ratio can be obtained as follows.

ROSE =

#### **3.5.1.2.2. Return on assets**

Return on assets (ROA) ratio also known as the 'primary ratio', attempts to measure the overall return the firm is generating on the amount of money invested in its assets. This ratio is computed as:

ROA =

#### **3.5.1.2.3. Dividend per share**

The net profit after taxes belongs to shareholders. But the income that they really receive is the amount of earnings distributed as cash dividends. Therefore, a large number of present and potential investors may be interested in DPS, rather than EPS. (Pandey, 1995:131). With DPS shareholders can take decision to stay or invest in the company. So, it should be calculated in the company for disclosing information to the investors about dividend policy through the help of DPS.

DPS =

#### **3.5.1.2.4. Earning per share**

The profitability of the common shareholders' investment can also be measured by calculating EPS. EPS is a matter of concern to the investors. Specially, it gives direction to the small investors as their numbers of shares are in nominal position. So, it is necessary to calculate EPS for the small investors and big investors too.

EPS simply shows the profitability of the firm on a per share basis, it does not reflect how much is paid as dividend and how much is retained in the business. But as a profitability index, it is a valuable and widely used ratio. It is calculated by dividing the profit after tax by the total no. of common share outstanding.

EPS =

#### **3.5.1.2.5. Dividend payout ratio**

This ratio indicates the percentage amount of dividend paid to shareholders out of earning per share. This ratio determines how much dividend per share has been paid out of earning per share. The higher ratio indicates less retention of earning in the bank. Banks do not distribute 100% of their earnings; they tend to retain some portion in order to expand their business. This ratio indicates as to what proportion of EPS has been used for paying dividend and what has been retained for plugging back.

From the shareholders point of view, the dividends are more desirable to increase their current wealth and retained earning are the most significant internal sources of financing for the growth of the firm. This ratio is calculated as follows.

DPR =

### **3.5.1.2.6. Price earning ratio**

Price earning ratio is widely used by the security analyst to evaluate the earnings growth potential of the company and is closely related to EPS. It indicates investor's judgment or expectations about the firm's performance. It reflects investor's expectations about the growth in the firm's earnings. Management is also interested in this market appraisal of the firm's performance and will like to find the causes if the P/E ratio declines. This ratio is useful in financial forecasting and it measures the times earnings per share are covered by its market price.

P/E Ratio =

### **3.5.1.3. Leverage ratio**

Leverage ratio is also known as capital structure ratio or solvency ratio. Solvency concerns the ability of the firm to stay financially healthy over the period of time. It is calculated to measure the long-term financial position of a firm. Leverage ratio measure the overall financial risk as well as the ability of the bank in using debt for the benefit of shareholders.

These ratios indicate the funds provided by owners and creditors. As a general rule, there should be an appropriate mix of debt and owner's equity in financing the firm's assets. Debt is more risky from the firm's point of view. The firm has a legal obligation to pay interest to debt holders, irrespective of the profits made or losses incurred by the firm. If the cost of debt is higher than the firm's overall rate of return, the earning of shareholders will be reduced. In addition, there is threat of insolvency. Use of debt magnifies the shareholders' earnings as well as increases their risk. Thus, there should

be an appropriate mix of debt and owners equity in financing the firm's assets. Thus, leverage ratios are calculated to measure the firm's ability of using debt to shareholders' advantage and financial risk.

#### **3.5.1.3.1. Debt equity ratio**

The relationship between borrowed fund and owner's equity is known as debt equity ratio. This ratio measures the proportion of debt in relation to equity finance in a firm's capital structure. The lower the ratio, the higher the level of the firm's financing that is being provided by shareholders and the larger the shareholders' protection. The ratio is calculated as:

Debt equity ratio =

#### **3.5.1.3.2. Debt to total capital ratio:**

It is a relationship between total debt and total capital. Total capital includes owner's equity as well as borrowed capital. It is calculated as following:

Debt to total capital ratio =

#### **3.5.1.3.3. Earning power ratio:**

This ratio is used to measure the return on relation to the investment made on total assets. The ratio can be calculated as,

Earning power ratio =

#### **3.5.1.3.4. Interest coverage ratio**

It measures the debt servicing capacity of the firm. This ratio indicates a firm's ability to cover interest charges. This ratio serves as one measure of the firm's ability to meet its interest payments and thus avoid bankruptcy. Higher the ratio, the greater the likelihood that the company could cover its interest payments without difficulty. This ratio is calculated as:

Interest coverage ratio =

#### **3.5.1.4. Activity ratio**

Activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its funds. These ratios are used to determine the efficiency, quality and the contribution of loans and advances in the total profitability.

##### **3.5.1.4.1. Total investment to total deposit ratio:**

This ratio reveals how efficiently the resources of the banks have been mobilized. High ratio shows the managerial efficiency regarding the utilization of the deposits and vice-versa. This can be calculated as below.

=

##### **3.5.1.4.2. Loans and advances to total deposit ratio:**

This ratio indicates the proportion of total deposit invested in loans and advances. Higher ratio indicates the proper use of total deposit where as lower ratio indicates less use of deposit or idle cash.



=

### **3.5.1.4.3. Loan and advances to fixed deposit Ratio:**

This ratio indicates to what extent of fixed deposit has been turned over to loans and advances. High ratio shows greater utilization of fixed deposit in loans and advances.

The ratio is calculated as:

=

### **3.5.2. Statistical tools**

Statistical tools are applied to analyze the data systematically and draw appropriate conclusion there from. This study has interpreted under the different statistical tools, which are described as below:

#### **3.5.2.1. Least square linear trend analysis**

Trend analysis is a mathematical method, widely used in practice. It is used to find out future tendencies bases on past assumptions. Trend study is designed to establish patterns of change in the past in order to predict future patterns or condition. The formula for computing trend analysis is as follows:

$$Y = a + bx$$

Where,

Y = the value of dependent variable

a=intercept of trend line

b= slope of trend line

x=value of the independent variable, i.e. time

Putting the above in normal equation, following two equations can be developed putting the above values in normal equation.

The constant 'a' is simply equal to the mean y value and constant 'b' gives the rate of change.

$$Y = Na - b X$$

$$XY = a X - b X^2$$

Since  $X = 0$

a =                      and b =

The constant 'a' is simply equal to the mean y value and constant 'b' gives the rate of change.

### **3.5.2.2. Weekly trend of shares traded in stock market.**

Every day shares are traded in volumes in the share market. On the basis of share price of banks in the market, a simple analysis about the performance of NIBL, HBL and EBL can be analyzed and in the same time its performance can be compared with other joint venture banks.

## **CHAPTER -IV**

### **DATA PRESENTATION AND ANALYSIS**

Introduction, review of literature of research methodology are presented in the previous chapters provides the basic inputs to analyze & interpret the data presentation & analysis of data which is the main core of this study. In this chapter, collected data are analyzed & interpreted as the stated methodology in the previous chapter. This chapter of study presents the data & facts, which is related to different aspects of Nepal Investment Bank Limited. The included data is collected from various sources. These available data are tabulated, analyzed and interpreted so that financial forecast of banks can be done easily. The main objective of analyzing the financial performance and interpretation is to highlight the strength and weakness of the business. The collected data are analyzed & interpreted by using the financial & statistical tools. Success of NIBL, HBL and EBL are milestone in the banking history of Nepal as it paved the way for the establishment of many commercial banks and financial institutions. NIBL, HBL and EBL provide full range of commercial banking services through its outlets spread across the nation and reputed correspondent banks across the globe. NIBL, HBL and EBL have good name in the market for its highly personalized services to the customers. Any shareholders or potential investors measure the quality and viability of a bank in terms of returns provided by the bank. In this regard two types of analysis are done.

A. Secondary data analysis.

B. Primary data analysis.

#### **4.1 Secondary Data Analysis**

Secondary data sources refer to those for already gathered by others. These data should only to be presented and analyzed. Annual reports of banks have analyzed in this section to analyze financial performance of bank to ensure that investors are in a safe position or not. For these financial ratios are calculated with the help of annual report of sample banks and NEPSE website's record.

### **4.1.1. Financial Tools**

Financial analysis is the process of evaluating relationship between components of financial statement, i.e. balance sheet and profit and loss account to obtain a better understanding of bank's position and performance. Financial analysis finds out the financial position of the company under this section ratio analysis and income & expenditure analyses. In this study, different financial tools have been used to measure the strength and weakness of the NIBL, HBL and EBL. To examine the performance of NIBL, HBL and EBL, this study has applied various financial ratios like liquidity ratio, profitability ratio, leverage ratio, and activity ratios.

#### **4.1.1.1. Liquidity Ratio**

Liquidity ratio refers to the ability of a firm to meet short-term obligation of a firm. It indicates the ability of the business to pay its short-term liabilities. Liquidity ratio is a relative measure of the nearness to cash of the assets and liabilities of a company. A firm should ensure that it does not suffer from lack of liquidity, and also that it does not have excess liquidity. In this aspect, current ratio, cash and bank balance to total deposit ratio are analyzed.

##### **4.1.1.1.1. Current Ratio**

The current ratio is the current assets to current liabilities. It shows, either the company is capable of paying back all its current liabilities or not. It measures the short-term solvency i.e. its ability to meet short-term obligation measures creditors versus current assets. It is the relationship of current assets and current liabilities. The calculation is made by dividing the total of current assets by total of current liabilities. The calculated result has presented in the table as shown below. A Current ratio of minimum 2:1 is considered better for the company.

**Table 4.1**  
**Current Ratio**

Year	2004/05	2005/06	2006/07	2007/08	2008/09
NIBL	1.07	1.09	1.09	1.07	1.07
HBL	4.79	1.29	2.09	1.65	1.52
EBL	2.07	1.37	2.38	2.14	2.23

Source: Annual Report of Bank

Table 4.1 shows that, the current ratios of NIBL is not in a favorable condition than EBL and HBL. Since Current ratio of minimum two times is considered as better one for the company, bank has to maintain its ratio up to 2 times. It shows that NIBL has low current ratio but this shows that bank has used lots of its fund in different investment, which can also be considered as significant. No idle asset in the form of current assets. The current ratio of the EBL and HBL is within the standard of 2:1. Finally, it can be concluded that current ratio of bank is below than normal standard ratio in case of NIBL but it can't say that the liquidity position of bank is poor. But this ratio only indicates the quantity and not the quality of assets and it doesn't distinguish between the types of current assets are either declining in value or being utilized in some others profit generating investment. From the point of view of working capital policy and utilization of current fund, bank is following the aggressive working capital policy and better utilization of current fund in case of NIBL.

#### **4.1.1.1.2. Cash and bank balance to total deposit ratio**

Cash and bank balance to total deposit ratio measure the capacity of the bank to meet unexpected demand made by the depositors i.e. current holders, saving, fixed, margin holders and other. Higher ratio shows higher liquidity position and ability to cover the deposits or to pay the depositors on time. Cash and bank balance are the most liquid assets. This ratio is calculated to find out the percentage of most liquid fund with the fund back to make immediate payment. The calculated result has presented in the table as shown below.

**Table 4.2**  
**Cash and bank balance to total deposit ratio**

Year	2004/05	2005/06	2006/07	2007/08	2008/09
NIBL	9.39	10.63	8.10	10.03	9.18
HBL	6.23	6.32	5.18	4.39	6.76
EBL	10.43	11.73	17.42	11.89	5.55

Source: Annual Report of Bank

From the table 4.2, it is seen that the ratios are well. Industrial average of Cash and bank balance to total deposit ratio is 10.64, 9.40, 8.53, 11.03 and 15.52 in 2005, 2006, 2007, 2008, 2009 respectively but NIBL and HBL have lower ratios which is very low than average ratios, where as E\$BL has higher in 2006, 2007 and 2008. Here this ratio is up to maximum of 10.63% and 6.32% in case of NIBL and HBL of total deposit is in liquid form, which means banks are in a good position to make immediate payment of the banks and they have not excess balance in the form of idle assets. High ratio is not favorable for the bank; it doesn't produce appropriate profit to bear the high interest. The ratio of the bank is below the standard of 12% (as directed by NRB) except EBL in 2006/07. The analysis shows that the banks have made more investment in profit generating activities rather than holding the cash and bank balance or the investment of the banks are high.

#### **4.1.1.2. Profitability Ratios**

All the business organization including bank should earn profit to survive and grow over a long period of time. Success of the bank will be endangered if it cannot satisfy either of these parties. Therefore, profitability ratios are calculated to evaluate the efficiency of the company in terms of its profit. It is an indicator of the degree of managerial success in terms of achieving profit. In this aspect, some of the important profitability ratio such as, Return on shareholder's equity, Return on assets, Dividend per share, Earning per share, Dividend Payout Ratio, Price earning ratio, have been calculated and interpreted in this study which are presented below.

#### 4.1.1.2.1. Return on Shareholder's Fund

Common or ordinary shareholders are entitled to the residual profit. The rate of dividend is not fixed. The earning may be distributed to shareholder or retained in the business. This ratio indicates the capacity of the banks to utilize its owner's fund. It is one of the important ratios to judge whether the firm has earned a satisfactory returns from its shareholders or not. Higher ratio indicates the sound management and efficient mobilization of the owner's fund. Net profit denotes net profit after tax and net worth includes paid of capital, reserve and surplus, other free reserve exchange fluctuation reserves and undistributed profit. The basic purpose of this ratio is to measure the productivity of shareholder's fund. Since the shareholders are interested in maximizing their wealth, this ratio seeks to explore the capacity of management to make use of its shareholders fund in income generating purpose. Higher ratio leads the shareholders to realize that their funds are being efficiently utilized in profit making purposes. This ratio can be calculated by dividing net profit after tax by shareholders' equity (Net worth). The higher ratio indicates the better utilization of the shareholder's fund.

**Table 4.3**  
**Return on shareholder's fund**

Year	2004/05	2005/06	2006/07	2007/08	2008/09
NIBL	20.93	19.67	24.77	26.68	25.93
HBL	56.64	33.32	46.91	48.95	23.68
EBL	28.13	45.70	31.19	45.13	16.25

Source: Annual Report of Bank

The above table 4.3 shows that the return on shareholder's fund or shareholder equity ratio has ranged between 19.67 in the year 2004/05 and 26.68 in the year 2007/08 in case of NIBL. Where as it has ranged between 56.64 in 2004/05 and 23.68 in 2008/09 for HBL and 45.70 in 2005/06 and 16.25 for EBL respectively. On the basis of above table it is seen that ROSE is in increasing trend. It shows that it has utilized the shareholders equity efficiently.

#### 4.1.1.2.2. Return on Assets

This ratio measures the profitability with respect to the total assets. It indicates the efficient of the banks in utilizing its overall resources. This ratio measures how far the management has utilized all the assets of a firm in profit generating activities. Higher ratio indicates higher efficiency in the utilization of total assets and vice-versa. This ratio is calculated to know what the assets of the company producing. It is determined by dividing Net profit after tax by Total Assets.

**Table 4.4**  
**Return on assets**

Year	2004/05	2005/06	2006/07	2007/08	2008/09
NIBL	1.25	1.44	1.64	1.82	1.79
HBL	2.58	1.65	2.39	2.80	1.55
EBL	1.83	2.27	1.28	2.53	0.93

Source: Annual Report of Bank

The above table 4.4 shows that the net profit to total assets ratio has ranged between 1.25 in the year 2004/05 and 1.82 in the year 2007/08 in case of NIBL. Where as HBL has ranged between 2.80 in 2007/08 and 1.55 in 2008/09 and EBL has ranged between 2.53 in 2007/08 and 1.28 in 2006/07. On above table 4.4 it can find that the entire ratios are more than one times. Returns on assets are in increasing trend. A higher ratio indicates the efficiency of banks in developing their entire resources. Higher ratio implies the banks have lower proportion of non- performing assets. HBL and EBL are becoming more and more efficient in utilizing its assets to earn profit than NIBL.

#### 4.1.1.2.3. Dividend Per Share

With DPS shareholders can take decision to stay or invest in the company. So, it should be calculated in the company for disclosing information to the investors about dividend policy through the help of DPS.



**Table 4.5**  
**Dividend per share**

Year	2004/05	2005/06	2006/07	2007/08	2008/09
NIBL	15	12.5	20	5	7.5
HBL	11.58	30	15	25	12
EBL	20	25	10	20	30

Source: Annual Report of Bank

Dividend per share provided by NIBL seems to be inconsistent than HBL and EBL but the ratio is in itself better for the investors. Beside this had increased till 2006/07 in case of NIBL, but in case of HBL and EBL it had increased till 2005/06 and now it is giving a good dividend to its shareholders.

#### **4.1.1.2.4. Earning Per Share**

Earning per share measures the efficiency of a firm in relative terms. It is a widely used ratio. It measures the profit available to the ordinary shareholders on per share basis. The earning per share calculation made over years indicates whether the bank's earning power on per share basis has changed over that period or not but it does not reflect how much is paid as dividend and how much is retained in the business. EPS is a matter of concern to the investors. EPS simply shows the profitability of the firm on a per share basis. It is calculated by dividing the profit after tax by the total no. of common share outstanding.

**Table 4.6**  
**Earning per share**

Year	2004/05	2005/06	2006/07	2007/08	2008/09
NIBL	21.7	39.50	59.35	62.57	57.87
HBL	47.91	59.24	60.66	62.74	61.90
EBL	54.22	62.78	78.42	91.82	99.99

Source: Annual Report of Bank

From Table 4.6, it was found that EPS of NIBL, HBL and EBL are increasing trend through out the study period. Performance of NIBL, HBL and EBL regarding EPS looks quite satisfying. It was well increasing up to 2007/08 but in 2008/09 it has decreased a little and 2007/08 it is the highest among past years, which is very good news for the shareholders. Thus performance of NIBL, HBL and EBL regarding EPS looks to be fruitful to the investors.

#### 4.1.1.2.5. Dividend Payout Ratio

This ratio determines how much dividend per share has been paid out of earning per share. The higher ratio indicates less retention of earning in the bank. Banks do not distribute 100% of their earnings; they tend to retain some portion in order to expand their business. This ratio can be calculated by dividing dividend per share divided by earning per share.

**Table 4.7**  
**Dividend payout ratio**

	Year	2004/05	2005/06	2006/07	2007/08	2008/09
NIBL	DPS	15	12.5	20	5	7.5
	EPS	21.7	39.50	59.35	62.57	57.87
HBL	DPR	69.12	31.64	33.69	7.99	12.96
	DPS	11.58	30	15	25	12
	EPS	47.91	59.24	60.66	62.74	61.90
EBL	DPR	24.0	50.0	24.0	39.0	33.0
	DPS	20	25	10	20	30
	EPS	54.22	62.78	78.42	91.82	99.99
	DPR	60.0	39.0	12.0	21.0	60.0

Source: Annual Report of Bank

The above table 4.7 shows NIBL has distributed cash dividend in increasing rate then it has decreased in the year 2007/08 and again it had increased in 2008/09. Where as it had increased after 2006/07 in case of HBL and EBL. Higher DPR mean lower

retention ratio. But in the year 2004/05 its retention ratio is less. It has distributed 69.12%, 24.0% and 60.0 % as cash dividend by NIBL, HBL and EBL respectively.

#### 4.1.1.2.6. Price Earning Ratio

The price earning ratio helps the security analysts to evaluate a company's performance and to decide whether share should be purchased or not in the company. Management is also interested in this market appraisal of the firm's performance and will like to find the causes if the P/E ratio declines.

**Table 4.8**  
**Price earning ratio**

Year	Year	2004/05	2005/06	2006/07	2007/08	2008/09
NIBL	MPS (Rs.)	940	800	1260	1729	2450
	EPS (Rs.)	21.7	39.5	59.35	62.57	57.87
	P/E Ratio	18.18	20.25	21.23	27.63	42.33
HBL	MPS (Rs.)	920	1100	1740	1980	1760
	EPS (Rs.)	47.91	59.24	60.66	62.74	61.90
	P/E Ratio	19.20	18.56	28.68	31.55	28.43
EBL	MPS (Rs.)	870	1379	2430	3132	2455
	EPS (Rs.)	54.22	62.78	78.42	91.82	99.99
	P/E Ratio	16.04	21.96	30.98	34.11	24.55

Source: Annual Report of Bank

The table 4.8 shows the P/E ratio of NIBL and EBL are low in 2004/05 and low in 2005/06. But EPS of the banks are in good position. But shareholders should not worry because market price of share is in good position after 2005/06 in increasing trend, which can be seen in the share price analysis.

#### 4.1.1.3. Leverage Ratios

Leverage ratio is also known as capital structure ratio or solvency ratio. Leverage ratio measures the overall financial risk as well as the ability of the bank in using debt for the

benefit of shareholders. In this aspect, debt equity ratio, debt to total capital ratio, earning power ratio, Interest coverage ratios have analyzed.

#### 4.1.1.3.1. Debt Equity Ratio

This ratio measures the proportion of debt in relation to equity finance in a firm's capital structure. The lower the ratio, the higher the level of the firm's financing that is being provided by shareholders and the larger the creditor's protection. This ratio can be calculated by dividing total debt by shareholders' equity.

**Table 4.9**  
**Debt equity ratio**

Year	2004/05	2005/06	2006/07	2007/08	2008/09
NIBL	17.47	12.89	14.35	13.95	13.67
HBL	36.51	24.84	20.38	40.53	39.18
EBL	44.20	36.03	31.13	18.73	34.44

Source: Annual Report of Bank

From the shareholders' point of view, less ratio is good because lower the ratio, higher the level of the firm's financing that is being provided by shareholders and the larger the shareholders' protection so, as ratio is decreasing it seems favorable for shareholders and less debt portion is good for management too.

#### 4.1.1.3.2. Debt to Total Capital Ratio

It is a relationship between total debt and total capital. Total capital includes owner's equity as well as borrowed capital. It is calculated as total debt divided by total capital.

**Table 4.10**  
**Debt to total capital ratio**

Year	2004/05	2005/06	2006/07	2007/08	2008/09
NIBL	43.13	25.88	34.40	32.69	30.50
HBL	1.65	1.23	1.03	2.31	2.56
EBL	2.87	1.79	1.28	1.05	1.93

Source: Annual Report of Bank

Portion of debt on total capital is only 25.88% in the year 2005/06 and it is increasing trend till 2008/09. According to the industrial average of 27 commercial banks, debt to total capital ratio is in the year 2004/05 & 2005/06 i.e. 31.08% & 27.40%. As well as in the year 2006/07, 2007/08 & 2008/09 it has 28.05%, 18.68% & 15.06% respectively. The ratio of NIBL seems in sound condition than HBL and EBL because bank will not have to pay more on interest and shareholders can get good return.

#### **4.1.1.3.3. Earning Power Ratio**

This ratio is used to measure the return on relation to the investment made on total assets. The ratio can be calculated as, Earning before interest and taxes divided by total assets.

**Table 4.11**  
**Earning power ratio**

Year	2004/05	2005/06	2006/07	2007/08	2008/09
NIBL	4.82	5.05	5.06	5.48	5.45
HBL	3.31	2.13	3.08	3.59	1.94
EBL	2.29	2.92	1.67	3.27	1.18

Source: Annual Report of Bank

From the above table 4.11, it is found that earning power ratio is in increasing trend in case of NIBL and fluctuating trend in case of HBL and EBL. It is slightly decreased in 2008/09 for all sample banks but earning made on investment of total asset is in good position.

#### **4.1.1.3.4. Interest Coverage Ratio**

This ratio is calculated to test the firm's servicing capacity. This ratio indicates a firm's ability to cover interest charges. Higher the ratio, the greater the likelihood that the company could cover its interest payments without difficulty. This ratio is calculated as net profit before interest and tax by interest paid.

**Table 4.12**  
**Interest coverage ratio**

Year	2004/05	2005/06	2006/07	2007/08	2008/09
NIBL	2.17	2.06	1.99	2.33	2.24
HBL	3.10	1.89	2.75	3.33	1.68
EBL	1.18	1.52	1.11	2.17	1.06

Source: Annual Report of Bank

From table 4.12, it can be said that interest coverage ratio of the banks are in good and increasing position. It is more than two times in every year except in the year 2006/07 in case of NIBL and 2005/06 in case of HBL. But interest coverage ratio of the EBL less than two times in every year except in the year 2007/08. The banks could cover its interest payments without difficulty.

#### **4.1.1.4. Activity Ratio**

Activity ratio is also called the turnover ratio and a performance ratio. Activity ratio concerned with measuring the efficiency in assets management. The activity ratios are used to measure the efficiency speed and rapidity with assets and are converted into cash. It reflects the firm's efficiency in utilizing its assets. If the bank does not utilize its assets properly to profit generating sector it will cause less profit etc. Activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its funds. These ratios are used to determine the efficiency, quality and the contribution of loans and advances in the total profitability. In this aspect, Total investment to total deposit ratio, Loans and advances to total deposit ratio, Loan and advances to fixed deposit Ratio have been analyzed.

##### **4.1.1.4.1. Total Investment to Total Deposit Ratio**

This ratio reveals how efficiently the resources of the banks have been mobilized. High ratio shows the managerial efficiency regarding the utilization of the deposits and vice-versa. This ratio can be calculated by dividing total investment by total deposit.

**Table 4.13**  
**Total investment to total deposit ratio**

Year	2004/05	2005/06	2006/07	2007/08	2008/09
NIBL	36.21	28.58	29.97	28.05	19.95
HBL	22.02	19.44	21.58	23.49	26.14
EBL	20.79	25.70	24.63	20.46	23.37

Source: Annual Report of Bank

From table 4.13, it is found that total investment out of total deposit of bank is in inconsistency. It has higher ratio in 2004/05, 2008/09 and 2005/06 for NIBL, HBL and EBL respectively, and the lower in 2008/09, 2005/06 & 2007/08 for NIBL, HBL & EBL respectively due to unfavorable investment environment of country. Its total investment out of total deposit is 19.95%, 26.14% & 23.37% in 2008/09 for NIBL, HBL & EBL respectively which is not good for the investor. According to the industrial average of total investment to total deposit ratios among 26 commercial banks the ratios are 31.91%, 29.13%, 34.38% 30.89%, 27.51% in the year 2005, 2006, 2007, 2008, 2009 respectively. Therefore sample banks managerial efficiency is not in very good position because ratios are slightly below the industrial average.

#### **4.1.1.4.2. Loans and Advances to Total Deposit Ratio**

This ratio measures how much extent the bank is successful in utilizing the outsider's funds in the profit generating purpose. Loan and advances are the most profitable and least liquid assets of the bank and this also account for the largest part of the revenue of the bank. This ratio indicates the proportion of total deposit invested in loans and advances. Higher ratio indicates the proper use of total deposit where as lower ratio indicates less use of deposit or idle cash. This ratio is calculated as loans and advances divided by total deposit.

**Table 4.14**  
**Loans and advances to total deposit ratio**

Year	2004/05	2005/06	2006/07	2007/08	2008/09
NIBL	63.68	73.33	69.63	72.56	79.91
HBL	53.34	58.64	59.09	62.83	64.13
EBL	78.37	73.35	73.61	78.47	75.48

Source: Annual Report of bank

The above table 4.14 shows that ratio has ranged between 63.68 in the year 2004/05 and 79.91 in the year 2008/09 for NIBL. It has ranged between 53.34 in the year 2004/05 and 64.13 in the year 2008/09 for HBL and it has ranged between 73.35 in the year 2005/06 and 78.37 in the year 2004/05 for EBL. The ratio is in increasing trend through out the study period except in 2006 for NIBL. It is fluctuating trend in case of EBL. From the above table 4.14, it was found that loan and advance, account for the largest in 2005, 2006, 2007, 2008, 2009 are 47.17%, 56.29%, 53.38%, 60.50%, 65.01% respectively, which shows that sample banks have less idle cash and have used large amount of deposit in revenue generating activities like loans and advances.

#### **4.1.1.4.3. Loan and Advances to Fixed Deposit Ratio**

This ratio represents how many times the funds are used in loan and advance against fixed deposits. Fixed deposits are long-term interest bearing obligations and loan and advance are the main sources of earning of the bank (firm). This ratio indicates to what extent of fixed deposit has been turned over to loans and advances. High ratio shows greater utilization of fixed deposit in loans and advances. The ratio is calculated as Loans and Advances divided by fixed deposit.

**Table 4.15**  
**Loan and advances to fixed deposit ratio**

Year	2004/05	2005/06	2006/07	2007/08	2008/09
NIBL	3.25	2.43	2.43	2.36	3.46



HBL	2.08	2.44	2.15	3.11	4.21
EBL	2.29	2.35	2.48	2.85	3.25

Source: Annual Report of Bank

Loans and advances are the most profitable among all the assets of the bank because they earn the major portion of income for the bank. At the same time, loans and advances are the assets, which have highest risk attached to them. Fixed deposit is the major source of fund, which a bank can utilize to finance long term loans. Since duration of fixed deposit is longer and its maturity date is also known, bank can employ such fixed deposit to invest in long-term investment that yields high returns.

The above table shows that ratio has ranged between 2.36 in the year 2007/8 and 3.46 in the year 2008/09 in case NIBL. It has ranged between 2.08 in the year 2004/5 and 4.21 in the year 2008/09 in case HBL and it has ranged between 2.29 in the year 2004/5 and 3.25 in the year 2008/09 in case of EBL. The ratio is in fluctuating trend through out the study period. From above table we can see that loan and advances to fixed deposit is in increased in 2008/09. That means sample banks have invested more funds on loans and advances in relation to its fixed deposits. According to industrial average of loans and Therefore NIBL is using its fixed deposit into more profitable investments.

#### **4.1.2. Statistical Tools**

Statistical tools are applied to analyze the data systematically and draw appropriate conclusion there from. This study has interpreted under the different statistical tools, which are described as below:

##### **4.1.2.1. Trend Analysis**

Trend analysis occupies an important place in the analysis and interpretation of financial statement. Trend in general terms, signifies a tendency. Trend analysis helps in forecasting and planning future operation. It is a statistical tool, which shows the

previous trend of the financial performance and forecasts the future financial result of the firm.

Trend analysis informs to various persons who are directly or indirectly related to joint venture bank. To shareholders of the bank, it informs about the expected future return, which helps them to decide whether to stick in the present investment or to search for the alternative investment opportunities. Depositors can save the degree of safety in the form is widely used in practice. It is applied for finding out a trend line for those series, which changes periodically in absolute amount. The future values of the following items for coming years, up to 2013 have been analyzed and forecasted with the help of trend analysis.

- ) Deposits
- ) Loans and advances
- ) Net Profit

The formula for computation of trend analysis is as follows:

$$Y = a + bx$$

Where,

Y = the value of dependent variable

a = intercept of trend line

b = slope of trend line

x = value of the independent variable, i.e. time

Putting the above in normal equation, following two equations can be developed putting the above values in normal equation.

$$Y = Na - bX$$

$$XY = aX - bX^2$$

Since  $\sum X = 0$

$$a = \frac{\sum Y}{N} \text{ and } b = \frac{\sum XY}{\sum X^2}$$

Here, N = No. of years.

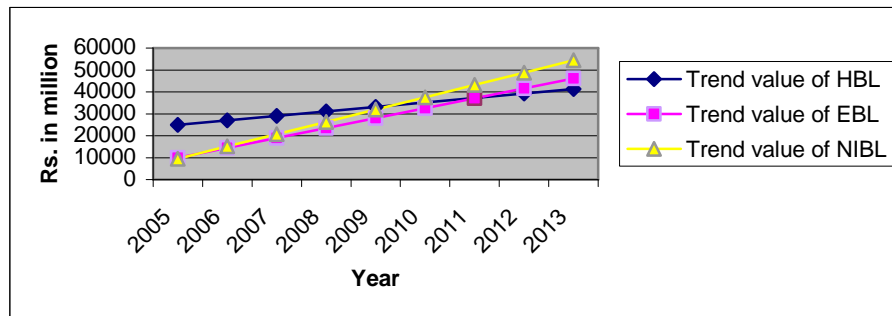
The constant 'a' is simply equal to the mean y value and constant 'b' gives the rate of change.

#### 4.1.2.1.2. Least Square Linear Trend of Total Deposit

The forecasted total deposit for coming years would be 37555.91, 43164.74, 48773.57 and 54382.4 million in 2010, 2011, 2012 and 2013 respectively for NIBL. Similarly forecasted total deposit for HBL would be 35222.55, 37270.44, 39318.33 and 41366.22 million in 2010, 2011, 2012 and 2013 respectively. Whereas the forecasted value for EBL would be 32544.72, 37081.64, 41618.56 and 46155.48 million in 2010, 2011, 2012 and 2013 respectively. During the study period, total deposit was in increasing trend. This is shown by the diagram below. Please refer annex 1 for calculations and details.

**Figure 4.1**

**Least square linear trend of total deposit**



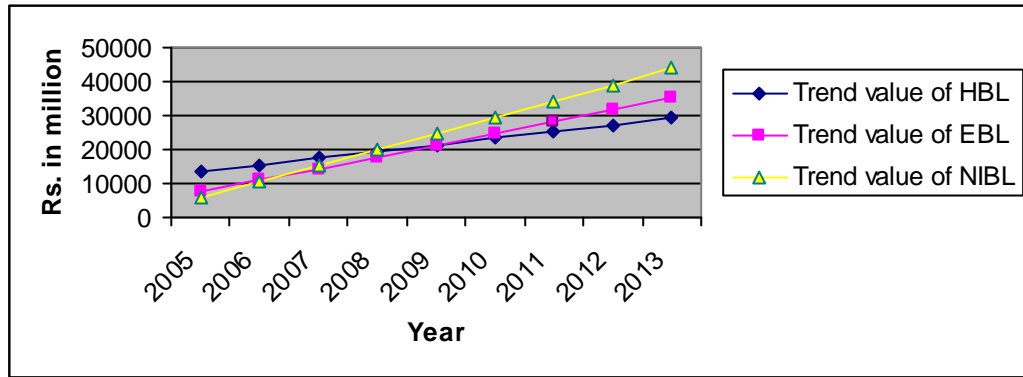
#### Least square linear trend of Loans and Advances

The forecasted Loans and Advances for coming years would be 29562.88, 34332.62, 39102.36 and 43872.1 million in 2010, 2011, 2012 and 2013 respectively for NIBL. Similarly forecasted total deposit for HBL would be 23297.99, 25251.08, 27204.17 and 29157.26 million in 2010, 2011, 2012 and 2013 respectively. Whereas the forecasted value for EBL would be 24765.61, 28232.94, 31700.27 and 35167.60 million in 2010, 2011, 2012 and 2013 respectively. During the study period, loans and advances was in

increasing trend. This is shown by the diagram below. Please refer annex 2 for calculations and details.

**Figure 4.2**

**Least square linear trend of loans and advances**

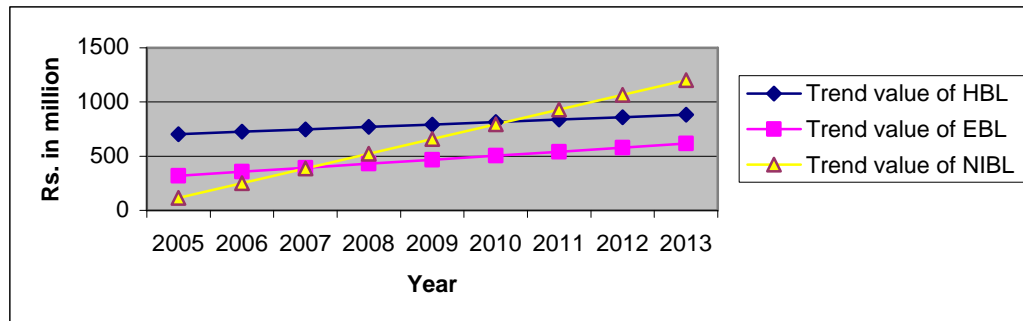


**Least square linear trend of Net Profit**

The forecasted for coming five years would be 793.88, 929.61, 1065.34, and 1201.07 million in 2010, 2011, 2012 and 2013 respectively for NIBL. Similarly forecasted total deposit 2010, 2011, 2012 and 2013 respectively respectively. During the study period, net profit was in increasing trend. This is shown by the diagram below. Please refer annex 3 for calculations and details.

**Figure 4.3**

**Least square linear trend of net profit**



**4.1.2.2.1. Weekly trend of shares traded in stock market**

**Table 4.16**

**Share price in Nepal Stock Exchange (closing price in Rs. On 2008 and 2009)**

S. N.	Company	13 <sup>th</sup> Oct	21 <sup>st</sup> Oct	28 <sup>th</sup> Oct	2 <sup>nd</sup> Nov.	10 <sup>th</sup> Nov.	25 <sup>th</sup> Nov.	14 <sup>th</sup> Dec.	27 <sup>th</sup> Dec.	31 <sup>st</sup> Dec.	14 <sup>th</sup> Jan.
1	Nepal Investment Bank	900	910	858	800	870	790	900	890	880	851
2	NABIL Bank	2765	2835	2770	2550	2800	2675	2679	2680	2725	2600
3	Std. Chartered Bank Nepal Ltd.	3510	3690	3599	3460	3580	3595	3605	3550	3490	3305
4	Himalayan Bank	1507	1500	1430	1361	1530	1020	1110	1075	1095	975
5	Nepal SBI Bank	1690	1709	1690	1675	1735	1600	1680	870	900	840
6	Nepal Bangladesh Bank	63.6 8	73.3 3	69.6 3	72.5 6	79.9 1	63.6 8	73.3 3	69.6 3	72.5 6	79.9 1
7	Everest Bank	53.3 4	58.6 4	59.0 9	62.8 3	64.1 3	53.3 4	58.6 4	59.0 9	62.8 3	64.1 3
8	Bank Of Kathmandu	78.3 7	73.3 5	73.6 1	78.4 7	75.4 8	78.3 7	73.3 5	73.6 1	78.4 7	75.4 8
9	NIC Bank Ltd.	63.6 8	73.3 3	69.6 3	72.5 6	79.9 1	63.6 8	73.3 3	69.6 3	72.5 6	79.9 1
10	Macchapuchhre Bank	53.3 4	58.6 4	59.0 9	62.8 3	64.1 3	53.3 4	58.6 4	59.0 9	62.8 3	64.1 3
11	Global Bank Ltd	508	506	499	455	473	422	422	418	420	320

Source: Website of Nepal Stock Exchange, Weekly Share Trading

Every day shares are traded in volumes in the share market. On the basis of share price of banks in the market, a simple analysis about the performance of NIBL, HBL and EBL can be analyzed and in the same time its performance can be compared with other joint venture banks. Hence weekly traded value of few weeks ending in October, November, December and January for different commercial banks are taken. It is shown in above table.

From the above analysis, we can see that market price of NIBL is higher than other competitive banks except Standard Chartered Bank, Himalayan Bank, Everest Bank and NABIL Bank, Bank of Kathmandu and Nepal SBI bank has also higher stock price compare to Nepal Investment Bank at the middle of December to January went to

decline so far. Standard Chartered bank's shares price are highest among all, which is suitable for big investor.

Although share price of SCBNL and NABIL is higher than NIBL, the ratio of share price increment of NIBL is higher than SCBNL and NABIL. NIBL share price has been increased by 18 % in the month of September than in August whereas SCBNL and NABIL has only 6% and 10 % increment respectively. In the same way till October NIBL share price has again increased about 6 % but share price of SCBNL has decreased in this month and NABIL has only 1% increment in the month of October. Above analysis of share price shows that NIBL ratio of share price increment is higher than that of SCBNL and NABIL. Other Banks like Macchapuchhre and NIC Banks have least percentage of increment of share price i.e. 2% and 1% of increment in the month of October. One of the leading bank Himalayan Bank also has increment of just 2% in the month of October 2009 whereas it has decreased in the month of August and increased 3% in September.

NIBL is one of the commercial banks, which has been providing maximum return to the shareholders and different service. But what is to be notice is that share price of NIBL has been decreasing in August. Some fluctuation has been seen which is not beneficial to the interest of shareholders so the shareholders should keep on eye in the performance of NIBL. But we can see that at the same time-share price of other banks are also falling or fluctuating. This factor will certainly make the investor not to worry about the present scenario. In the month of September its share price is good in market and in October its share price in market is really good which can make an investor satisfied with their investment. So as a whole, NIBL is occupying a good position in the market and is in a position to maximize shareholder's wealth.

## **4.2. Primary Data Analysis**

A questionnaire was distributed to the shareholders as primary data analysis for completion of this research. Details of questionnaire are in annex 6. Population of this

research is shareholders. Only 30 questionnaires were distributed to the shareholders who are currently shareholders of different banks and financial institutions.

#### 4.2.1. Sector wise Preference for Investment

Regarding the sector of investment, the investors are asked whether the investors are interested in which sector to invest.

**Table 4.17**  
**Sector wise preference for investment**

S.N.	Research variable	No. of investors	% of investors
1	Hotel	3	10%
2	Banking and insurance	27	90%
Total		30	100%

Source: Field Survey, 2010

Table 4.17 shows the result sector wise investment. It is clear from the above table that 90% investors are attracting by banking and insurance sectors.

#### 4.2.2. Decision Making Analysis

**Table 4.18**  
**Decision making analysis**

S.N.	Research variable	No. of investors	% of investors
1	Market price	12	40%
2	Own analysis	16	53%
3	Only on new established company	2	7%
Total		30	100%

Source: Field Survey, 2010

In the context of investors' decision-making regarding base for investment in shares, 53% respondents said that they invest on share form their own analysis. Some 40% invest on share on the basis of market price. This shows how investors are getting more potential regarding investing their assets into secondary market. That's why they analyses market price or other technical or own analysis. But they don't invest according rumor or anything else. The statement has been cleared from the above table.

### 4.2.3. Motive for Holding Share

**Table 4.19**

**Motive for holding share**

S.N.	Research variable	No. of investors	% of investors
1	Price appreciation	12	40%
2	Dividend	12	40%
3	Liquidity	4	13%
4	Social status	2	7%
Total		30	100%

Source: Field Survey, 2010

Correspondents were asked for their motive on investment. 40% of the respondents were interested in dividend then 40% were interested in price appreciation of share. Shareholders who were interested on liquidity and social status were 13% and 7% respectively. Above table shows the clear vision about this.

### 4.2.4. Analyzing Sample Banks' Market

**Table 4.20**

**Analyzing NIBL, HBL and EBL Market**

S.N.	Research variable	No. of investors	% of investors
1	NIBL, HBL and EBL only	4	14%
2	NIBL, HBL and EBL and others	16	52%
3	Other than NIBL, HBL and EBL	10	34%
Total		30	100%

Source: Field Survey, 2010

With regard to market analysis of NIBL, HBL and EBL, 14% has invested only on NIBL, HBL and HBL and EBL Banks' share. This mean NIBL, HBL and EBL banks' share have good position in market and investors consider it profitable and safe for investing their money.



#### 4.2.5. Investment Satisfaction

**Table 4.21**  
**Investment satisfaction**

S.N.	Research variable	No. of investors	% of investors
1	Yes	25	82%
2	No	5	18%
Total		30	100%

Source: Field Survey, 2010

Regarding satisfaction on the investment made by investor, correspondent of 82% said that they are satisfied with the decision and investment they made. Because a shareholder who has analyzed market and done market analysis has get satisfactory return from their investment. But 18% of them are unsatisfied because company didn't performed well due to unfavorable situation of country.

#### 4.2.6. Analysis of Right Issue

**Table 4.22**  
**Analysis of right issue**

S.N.	Research variable	No. of investors	% of investors
1	Yes	27	90%
2	No	3	10%
Total		30	100%

Source: Field Survey, 2010

This analysis has done to identify that will the satisfied shareholders purchase the further share issued by the company. This analysis showed that 90% of the people would buy the right issue. This analysis also analyses the market position and investors confidence toward organization.

#### 4.2.7. Investors' Analysis Regarding Performance of Organization

**Table 4.23**  
**Investors' analysis regarding performance of organization**

S.N.	Research variable	No. of investors	% of investors
1	Dividend and bonus	17	57%
2	Market price	63.68	73.33
3	Financial status	53.34	58.64
4	Technical analysis	78.37	73.35
Total		30	63.68

Source: Field Survey, 2010

On the basis of performance of organization, 57 % of the investors said that they analyze share and financial status respectively. This shows investors are aware enough that they analyses performance of their organizations' performance on the basis of dividend, bonus, market price etc.

#### 4.2.8. Investors' Rationality Toward AGM

**Table 4.24**  
**Investors' rationality toward AGM**

S.N.	Research variable	No. of investors	% of investors
1	Yes	17	55%
2	No	13	45%
Total		30	100%

Source: Field Survey, 2010

When respondent were asked that "Did you attend any AGM of the company and discussed about your organization's performance whose shares you owned, for this 55% said yes and 45% said no. This reveals that investors are rational toward their right to attend AGM and discuss on the topic they want.

#### 4.2.9. Investors' Awareness Toward Voting Right

To examine that are shareholders are rational about their voting right and use their right. Respondents were asked that did they vote ever.

**Table 4.25**  
**Investors' awareness toward voting right**

S.N.	Research variable	No. of investors	% of investors
1	Yes	17	57%
2	No	13	43%
Total		30	100%

Source: Field Survey, 2010

This analysis reveals, only 57% respondent are using their voting right. Thus investors' right to vote for management is there. So, concerned authorities like SEBO should be active to let the shareholders know on their voting rights and others rights and interests. The above table shows the fact explained above.

#### **4.2.10. Investors' Interest toward Management of Organization**

**Table 4.26**  
**Investor's interest toward management of organization**

S.N.	Research variable	No. of investors	% of investors
1	Yes	11	35%
2	No	19	65%
Total		30	100%

Source: Field Survey, 2010

Regarding participation in company's management, investors were asked, "Do you want to be elected to the company's management? Above table reveals that 65% respondent said no. The reason is that they were also involved in other job so they are not interested or may be they are lacking qualitative number of share to participate in management.

#### 4.2.11. Investors' View Regarding Shareholders Interest in Banks

**Table 4.27**

##### **Investors' view regarding shareholders interest in NIBL, HBL and EBL**

S.N.	Research variable	No. of investors	% of investors
1	Yes	15	50%
2	No	3	15%
3	I don't know	7	35%
Total		30	100%

Source: Field Survey, 2010

Responded were asked that, in your view is the interest of shareholders protected in banks? For this 50 % rs. This mean bank has good reputation in market toward shareholders' satisfaction and maintaining their rights. Some said they don't have idea about it and some said no.

#### 4.2.12. Investors' Perception Toward Nepalese Political Environment

**Table 4.28**

##### **Investors' perception toward Nepalese political environment**

S.N.	Research variable	No. of investors	% of investors
1	Yes	26	85%
2	No	1	5%
3	I don't know	3	10%
Total		30	100%

Source: Field Survey, 2010

Regarding political environment effect on Nepalese stock market respondent were asked, "Does the political environment affect the Nepalese stock market? For this 85 %

said yes because of the fluctuating share price occurring these days due to political instability.

#### **4.2.13. Investors' Rational Toward Analyzing Factor Influencing Stock Price**

**Table 4.29**

**Investors' rational toward analyzing factor influencing stock price**

S.N.	Research variable	No. of investors	% of investors
1	Signaling factor	17	55%
2	Company's management	3	10%
3	Company's performance	3	10%
4	Above all	7	25%
Total		30	100%

Source: Field Survey, 2010

Respondent were asked, which factor is responsible to influence stock price? Following analysis of table shows 55 % investor said signaling factor and 10 % said company's performance. This reveals that investors are aware of signaling factor, which includes several things that are responsible for the fluctuation of stock price.

### **4.3 Major Findings of the Study**

The main objective of this study is to concentrate on how far the shareholders' rights are being protected in NIBL. The major findings of this study are summarized below:

The study showed that, the current ratios of NIBL, HBL and EBL is not in a favorable condition. Since Current ratio of minimum two times is considered as better one for the company, bank have used lots of their fund in different investment, which can also be considered as significant. No idle asset in the form of current assets. The current ratio of the bank is below the standard of 2:1. Finally, it can be concluded that current ratio of

bank is below than normal standard ratio but it can't say that the liquidity position of bank is poor. But this ratio only indicates the quantity and not the quality of assets and it doesn't distinguish between the types of current assets are either declining in value or being utilized increasing trend. It shows that it has utilized the shareholders equity efficiently

The study showed that the net profit to total assets ratio has ranged between 1.25 in the year 2005 and 1.82 in the year 2008 for NIBL. From the study it can be found that the entire ratios are more than one times. Returns on assets are in increasing trend. A higher ratio indicates the efficiency of banks in developing their entire resources. Higher ratio implies the banks have lower proportion of non- performing assets. NIBL, HBL and EBL are becoming more and more efficient in utilizing their assets to earn profit.

From the study, it was found that EPS of NIBL is increasing trend through out the study period whereas EPS of HBL and EBL are fluctuating trend. Performance of NIBL, HBL and EBL regarding EPS looks quite satisfying. It was well increasing up to 2008 but in 2009 it has decreased a little and 2008 it is the highest among past years, which is very good news for the shareholders. Thus performance of NIBL, HBL and EBL regarding EPS looks to be fruitful to the investors.

From the study it showed that NIBL, HBL and EBL have distributed cash dividend in increasing rate then it has decreased in the year 2008 and again it had increased in 2009. Higher DPR mean lower retention ratio. But in the year 2005 its retention ratio is less. It has distributed 69.12% cash dividend

It was found that total investment out of total deposit of bank is in inconsistency. It has higher ratio in 2005 year and the lower in 2009 for NIBL due to unfavorable investment environment of country. Its total investment out of total deposit is 19.95% in 2009 which is not good for the investor. According to the industrial average of Total investment to total deposit ratios among 23 commercial banks the ratios are 31.91%, 29.13%, 34.38% 30.89%, 27.51% in the year 2004, 2005, 2006, 2007, 2008

respectively. Therefore NIBL, HBL and EBL managerial efficiency is in very good position because ratios are higher than the industrial average.

Loans and advances are the most profitable among all the assets of the bank because they earn the major portion of income for the bank. At the same time, loans and advances are the assets, which have highest risk attached to them. Fixed deposit is the major source of fund and advances in relation to its fixed deposits. According to industrial average of loans and advances to fixed deposit ratios in 2005, 2006, 2007, 2008, 2009 are 2.36, 2.15 & 2.18 respectively which shows that NIBL's ratios are higher than industrial average. Therefore NIBL is using its fixed deposit into more profitable investments.

Shareholders' awareness about stock market and their rights are also essential for their protection. To get shareholders awareness, questionnaire were distributed which showed that shareholders in our country are also aware of security market and are mostly attracted by banking and insurance sectors. They also analyse market price or before investing their assets in securities, they do their own analysis or other technical analysis.

Shareholders are getting more potential they analyse performance of their organization on the basis of dividend, bonus, market price etc. But very few people are investing in share for liquidity this means shareholders' motive is to buy and hold the share. This seems that most of the shareholders are passive.

Investors are rational toward their right to attend AGM and discuss on the topic they want. But most of shareholders are not interested to elect for the management of their organization. Above all, the shareholders are enjoying dividend, other benefits and their interest so they are satisfied to a large extent.

## CHAPTER-V

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Summary

Shareholders' protection means safeguarding shareholders' rights and interests to encourage the shareholders to invest in productive sector for the economic enhancement of the nation. It is very natural that the investors support the investment sectors when they feel that they are fully protected and supported by the concerned regulating authorities. Shareholders have justifiable reasons for expecting/demanding that the firms satisfy their claim in a responsible manner. In general, stockholders claims for appropriate returns on their investment, participation in distribution of profits, additional stock offering, assets on liquidation, vote of stock, annual general meeting (AGM) held timely, inspection of company books, transfer of stock, election of Board of director, and such additional rights as have been established in the contract with the corporation. Protection of shareholders interests and rights motivates them to mobilize financial resources for the investment in development projects and thereby helps to economic development, in turn, further develop the capital. Thus when shareholders feels that their reasonable interests are fulfilled and if they satisfies with their investment, it motivates them to invest more in that sector. Shareholders' survival and betterment are all associated with the survival of the company so here comes the activities that should protect the shareholders from different aspects.

The investors support investment sectors by investing their funds and savings. It is implied that Investors or every body wants to maximize his/her wealth in a proper and safe way, investors always endeavor to invest in such a sector which provide adequate return on their hard earn money. Whatever may be the type of investment; the major motto is to maximize the return with minimizing the risks involved there on. NIBL, HBL and EBL are the Nepal's private sector commercial banks. NIBL, HBL and EBL are the pioneer in introducing many innovative products and marketing concept in



banking sector of Nepal. This study mainly focuses on the performance of NIBL, HBL and EBL regarding shareholders' interest protection.

Investors being backbone of the capital market, their protection is the major factor for increasing the investment opportunities. Investors' protection means safeguarding shareholders' rights and interests to encourage the shareholders to invest in productive sector. So, when they feel that they are fully protected and supported by the concerned regulating authorities, they support investment sector.

Investors don't get timely information from companies due to delay in audit report for not conducting AGM timely. Beside this, investors are not curious enough to learn about companies. So we are in conclusion that the economic strength of a nation is measured in many ways. One of the major ways is to protect the investors but not neglecting them for increment of their interest into the investment sectors especially in the capital market.

After completing the basic analysis required for the study the final and the most important tasks of the researcher is to give meaningful findings to the concerned parties to initiate the action and achieve the desired results. The last chapter of this study is Summary, conclusion and recommendation developed from the whole study.

The study showed that, the current ratios of NIBL, HBL and EBL are not in a favorable condition. Since of 2:1. Finally, it can be concluded that current ratio of bank is below than normal standard ratio but it can't say that the liquidity position of bank is poor. But this ratio only indicates the quantity and not the quality of assets and it doesn't distinguish between the types of current assets are either declining in value or being utilized in some others profit generating investment.

The study showed that the net profit to total assets ratio has ranged between 1.25 in the year 2005 and 1.82 in the year 2008 for NIBL. From the study it can be found that the entire ratios are more than one times. Returns on assets are in increasing trend. A higher ratio indicates the efficiency of banks in developing their entire resources. Higher ratio

implies the banks have lower proportion of non- performing assets. NIBL is becoming more and more efficient in utilizing its assets to earn profit.

From the study, it was found that EPS of NIBL is increasing trend through out the study period. Performance of NIBL regarding EPS looks quite satisfying. It was well increasing up to 2008 but in 2009 it has decreased a little and 2008 it is the highest among past years, which is very good news for the shareholders. Thus performance of NIBL regarding EPS looks to be fruitful to the investors.

From the study it showed that NIBL has distributed cash dividend in increasing rate then it has decreased in the year 2008 and again it had increased in 2009. Higher DPR mean lower retention ratio. But in the year 2005 its retention ratio is less. It has distributed 69.12% cash dividend

It was found that total investment out of total deposit of bank is in inconsistency. It has higher ratio in 2005 year and the lower in 2009 due to unfavorable investment environment of country.

Loans and advances are the most profitable among all the assets of the bank because they earn the major portion of income for the bank. At the same time, loans and advances are the assets, which have highest risk attached to them. Fixed deposit is the major source of fund, which a bank can utilize to finance long term loans.

From the study it showed that ratio has ranged between 2.36 in the year 2008 and 3.46 in the year 2009. The ratio is in fluctuating trend through out the study period. From the study it was found that loan and advances to fixed deposit is in increased in 2009. That means NIBL has invested more funds on loans and advances in relation to its fixed deposits.

## **5.2 Conclusion**

Finally some conclusion can be forwarded on the basis of whole study. Protection of investors in NIBL, HBL and EBL have been analyzed through different ways like;

financial ratios, trend analysis and questionnaire analysis and the literature review, are briefly concluded as shown below.

- ) Correct and timely dissemination of information is crucial for making a prudent economic decision. Since NEPSE is not accountable to investors, investors are poorly informed and are not able to know how their investment is performing, where they have put in their money.
- ) The trading technique/method in NEPSE is also not appropriate and it cheats investors. At a time when almost all of the international stock exchanges are already automated, the NEPSE is still functioning in a traditional way. So, it is high time to privatize the stock exchange to make it more professional.
- ) From NIBL, HBL and EBL banks' minute book review, we can get that shareholders are given necessary information according to company act. Qualitative no of shareholders and dividends are also declared in the reviewed minute book. AGMs are also conducted in time.
- ) NIBL, HBL and EBL have low current ratio but this shows that banks have used their fund in different investment, which can also be considered as significant. Bank's cash and bank balance to total deposit ratio is also in the position to make immediate payment of the bank and has not excess balance in the form of idle assets. High ratio is not favorable for the bank; it doesn't produce appropriate profit to bear the high interest. Thus it has no idle asset in the form of current assets. NIBL, HBL and EBL have maintained its cash and bank balance ratio closer to its industrial average.
- ) ROSE is in increasing trend. It shows that it has utilized the shareholders equity efficiently.
- ) Returns on assets are in increasing trend. A higher ratio indicates the efficiency of banks in developing their entire resources and also implies that bank have lower proportion of non- performing assets. NIBL, HBL and EBL are becoming more and more efficient in utilizing its assets to earn profit.
- ) Dividend per share provided by NIBL, HBL and EBL seem to be inconsistent but satisfactory to the shareholders.

- ) NIBL, HBL and EBL have distributed cash dividend in increasing rate as it has distributed cash dividend in five year.
- ) Debt equity ratio is increasing, but it is favorable for shareholders if it decreases and less debt portion is good for management too.
- ) Debt to total deposit ratio is better when it is decreasing so that shareholders can get good return.
- ) Earning power ratio is in increasing trend it is slightly decreased in the year 2005.
- ) Interest coverage ratio of the bank is in good and increasing position. It is more than two times in every year except the year 2004. Company could cover its interest payments without difficulty.
- ) Total investment to total deposit ratio has slightly decreased in current year due to unfavorable investment environment of country. But its ratio is higher than industrial average of commercial banks which is very good for the bank, which means bank is making good investments which will earn revenues.
- ) Loan and advance in relation to total deposit is fluctuating but in current year it is generating more than 70 % from total deposit, which shows proper use of total deposit. Loan and advance account for the largest part of the revenue of the bank.
- ) From the trend analysis, trend of net worth, total deposit, loans and advance and net profit are in increasing trend in future, which is positive sign for the company as well as shareholders.
- ) NIBL, HBL and EBL's share price are good in market and which can make an investor satisfied with their investment. NIBL, HBL and EBL are occupying good position in the market and is in a position to maximize shareholder's wealth. Shareholders who were provided questionnaires also consider NIBL, HBL and EBL are profitable and safe for investing their money.
- ) Shareholders' awareness about stock market and their rights are also essential for their protection. To get shareholders awareness, questionnaire were distributed which showed that shareholders in our country are also aware of security market and are mostly attracting by banking and insurance sectors. They also analyses

market price or before investing their assets in securities, they do their own analysis or other technical analysis.

- ) Shareholders are getting more potential they analyses performance of their organization on the basis of dividend, bonus, market price etc. But very few people are investing in share for liquidity this mean shareholders motive is to buy and hold the share. This seems that most of the shareholders are passive.
- ) Investors are rational toward their right to attend AGM and discuss on the topic they want. But most of shareholders are not interested to elect for the management of their organization. Above all, the shareholders are enjoying dividend, other benefits and their interest so they are satisfied to a large extent.

### **5.3 Recommendations**

Following recommendation have been presented to the concern parties for whom this research can be useful to overcome inefficiency and to improve its efficiency.

- NIBL, HBL and EBL have conducted their AGM in time and also the previous years AGMs, which is healthier situation from the point view of shareholders. So different regulating authorities should charge strong penalty to those companies who doesn't held AGM in time.
- NIBL, HBL and EBL have provided timely information regarding AGM and necessary information regarding AGM to the personal address of shareholders in time. So, transparent and easy availability of information should be distributed to shareholders.
- The current ratio of NIBL, HBL and EBL is not in a favorable condition. Since Current ratio of minimum two times is considered as better one for the company, bank has to maintain its ratio up to 2 times to meet its current obligation.
- Concerned authorities like Nepal government and SEBO should take a series of initiatives and encourage the protection of shareholders' rights by enforcing legal provision and clear-cut policies. Concerned authorities should be responsible toward investors who are unaware about Nepalese capital market. They should make investor aware of their rights and responsibilities, which will be helpful to produce democratic pattern in the capital market.

- Being a company run by shareholders, the management should never mind to provide transparent information to everyone whether it is a shareholders or any other individual. So, more transparent information regarding shareholders should be contained in the website or prospectus or report of every shareholder's organization.
- In the year 2006, their retention ratio is less. NIBL has distributed 93% cash dividend. Since retained earning is the source of internal financing, which is used to fulfill the capital requirement of the firm, it should reduce DPR so that it does not have to spend on external fund. If retention policy is applied honestly it can also be beneficial to the investors.
- Earning power ratio is slightly decreased in the year 2005. So bank should concentrate on investing its total assets to increase it's earning before interest and tax.
- Total investment to total deposit ratio has slightly decreased in current year so company should pay attention toward investment of the bank because it is main function of bank, which generate profit.
- Investors should be self conscious to protect their rights by demanding timely information from companies. Shareholders can form their committee to work together with management to serve their purpose.

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