

2067/68

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Analysis on Commercial Banks

A Comparative Study of Commercial Banks

This report is based on unaudited Financial Result of 4th Quarter as at 32/03/2068 of the fiscal year 2067/68 of all commercial banks of Nepal.

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About Us:

(IMS) Investment Management Service Pvt. Ltd. is the organization that is completely involved in providing services to those who are interested in investing in Nepalese Share market. Its principal activities consist of all clerical and administrative work that assists corporate as well as individual clients to invest in Nepalese share capital market.

ShareSansar.com is a complete financial portal from where we avail all necessary information related to Nepal Share market to the general public in a most common way. Our site mainly focus on providing users with dynamic price of listed shares, top news of financial market, announcement of different financial activities and many more.

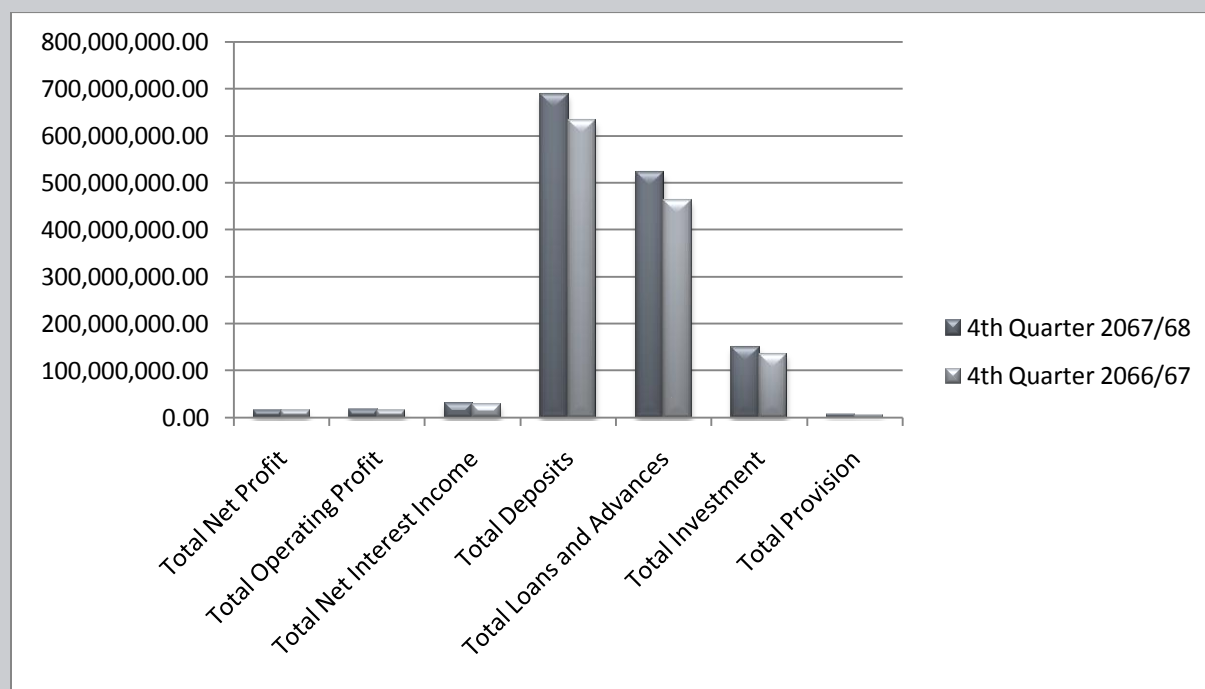
Our major focus is to make our website up-to-date and we are consistent toward our objectives. Website contains comprehensive and extensive database security market information which is easily accessible by the users within a second. Our website acts as dynamic platform where live share values of listed companies are always automatically updated as well as the information of increasing, decreasing or constant value of shares of each company.

Our main objective behind publishing this report is to give awareness to investors of stock market about the performance of commercial banks in the fiscal year 2067/68.

Major's Highlights of over all Banking Industry:

In '000'

	4 th Quarter 2067/68	4 th Quarter 2066/67	% Change
Total Net Profit	14,642,745.28	14,316,999.43	2.28%
Total Operating Profit	15,703,997.16	14,441,833.47	8.74%
Total Net Interest Income	31,700,729.72	28,116,804.61	12.75%
Total Deposits	687,574,753.9	631,282,529.5	8.92%
Total Loans and Advances	520,464,710.1	462,242,060.6	12.60%
Total Investment	148,837,719.9	135,825,169.1	9.58%
Total Provision	5,730,352.54	5,013,251.93	14.30%
Total Non Performing Loan	2.41%	1.92%	25.52%
Average Cost of Fund	8.83%	6.25%	41.28%
Average Net Interest Spread	3.47%	3.83%	-9.40%
Average Earning Per Share (EPS)	29.10%	36.00%	-19.17%
Average Return on Equity (ROE)	14.11%	17%	-18.58%
Average Return on Asset (ROA)	1.51%	2%	-24.50%
Average Price-to-Earning (P/E ratio)	11.75	18	-34.72%



Net Profit:

Net Profit is the residual **income** of a company after adding total **revenue** and gains and subtracting all **expenses** and losses for the review period. During the review period (as of 4th quarter, 2067/68) compared to same period of previous year, banking industry able to see the growth rate on net profit of just a meager 2.28% which is satisfactory viewing the current problems in the financial system. The total net profit of banking industry is Rs.14.64 billion during the review period. Rastriya Banijaya Bank has able to earn highest net profit where as Nabil Bank (excluding government bank) is ranked 1 in terms of Net profit during the review period.

Banks	Net Profit (Rs.)	Market Share	Rank
Rastriya Banijaya Bank	1,759,255	12.79%	1
Agriculture Dev. Bank	1,608,081	11.69%	2
NABIL Bank	1,294,046	9.41%	3
Nepal Investment Bank	1,263,332	9.19%	4
Standard Chartered Bank	1,119,171	8.14%	5

Table 1: Net Profit of Top Five Commercial Banks (Figure in '000')

Banks	Net Profit (Rs.)	Market Share	Rank
NABIL Bank	1,294,046	9.41%	1
Nepal Investment Bank	1,263,332	9.19%	2
Standard Chartered Bank	1,119,171	8.14%	3
Everest Bank Limited	931,301	6.77%	4
Himalayan Bank	888,857	6.07%	5

Table 2: Net Profit of Top Five Commercial Banks excluding Government Banks (Figure in '000')

The total market share on net profit of top 5 commercial banks is more than 50 percent which indicates that these banks are dominating in the market.

Banks	Change in Net Profit	Banks	Change In Net Profit
Global	115.15%	DCBL	-24.59%
HBL	70%	Sunrise	-29.22%
NMB	50.26%	NCC	-52.05%
Kist	40.44%	NBBL	-59.16%
Bank of Asia	28.22%	MBL	-93.56%

Table 3: Change in Net Profit

During the review period, Global Bank Limited is able to increase its net profit by 115.15 percent whereas. Machhachapuchhre Bank Limited shows a worst performance, its profit

decreases by 93.56 percent. Top five banks earning highest profit didn't appear on this table which indicates that these banks capacity of earning profit is in saturation points.

Operating Profit:

During the review period, the growth of operating profit of the commercial banks grew by 8.73% at Rs.15.70 billion as compared to previous financial year. Increasing competition, liquidity crunch, political instability, lack of trust of people towards banking system etc. had directly affected the earning capacity of the banks. Seeing the growth in operating profit proves banks still have capacity and expertise to survive and grow in this hard time as well.

NABIL Bank Limited has able to earn highest operating profit among all the banks during the review period. Janta Bank Limited has a highest growth rate of 251.61% whereas Machhachapuchhre Bank Limited has a significant decline in operating profit by 165.52%.

Banks	Operating Profit (Rs.)	Market Share (%)	Rank
NABIL	2,170,458	15.03%	1
NIBL	2,040,566	14.13%	2
SCB	1,790,056	12.40%	3
ADBNL	1,586,635	10.99%	4
EBL	1,516,696	10.50%	5

Table 4: Operating Profit of Top Five Commercial Banks (Figure in '000')

Banks	Change in Operating Profit	Banks	Change in Operating Profit
Janta	251.61%	SRBL	-28.20%
Nepal Bank	126.95%	RBB	-36.29%
HBL	62.51%	ADBNL	-36.93%
KIST	40.66%	NBBL	-59.61%
NMB	36.13%	MBL	-165.52%

Table 5: Change in Operating Profit

Net Interest Income (NII):

Net interest income (NII) is the difference between revenues generated by interest-bearing assets and the cost of servicing (interest-burdened) liabilities. The major source of earning of commercial banks is net interest income. Due to higher lending rate and subsequent increment on the yield on asset, total Net Interest Income of the banking industry has increased by 12.75% during the review period. This shows that despite the liquidity crisis and the rising cost of funds, commercial banks have been able to maintain and even increase their NII by increasing its yield on asset through higher lending rate.

Banks	Change in Net Interest Income	Banks	Change in Net Interest Income
NMB	43.19%	NCCB	1.62%
GLOBAL	34.24%	KBL	0.38%
KIST	25.83%	NBBL	-1.74%
SBL	24.97%	MBL	-1.99%
Citizen Bank	24.78%	RBB	-7.69%

Table 6: Change in Net Interest Income (%)

Deposits:

The overall growth of the deposits of banking sector compared to previous year is 8.93% at Rs.687.57 billion at end of the fourth quarter of this fiscal year 2067/68. The large amounts of deposits help the banks make profit by mobilizing in different productive sectors. Therefore the efficiency and growth of banks lies heavily upon its capacity to attract higher deposits from public and institutions.

Rastriya Banijaya Bank has largest amount of deposits among all commercial banks whereas Nepal Investment Bank Limited leads the race among all banks excluding government banks. During the review period, NSBI has the highest growth rate of deposit at 56.53% whereas as MBL has negative growth rate of 9.05%.

Banks	Total Deposits (Rs.)	Market Share	Rank
Rastriya Banijaya Bank	73,924,079	11.43%	1
Nepal Investment Bank	50,139,080	7.75%	2
NABIL Bank	49,696,113	7.69%	3
Nepal Bank	46,804,206	7.24%	4
NSBI	42,415,443	6.56%	5

Table 7: Total Deposits of Top Five Commercial Banks (Figure in '000')

Banks	Change in Deposit	Banks	Change in Deposit
NSBI	56.53%	KBL	0.45%
SCB	43.07%	KIST	-0.91%
NMB	34.57%	Citizen Bank	-1.41%
NABIL	21.04%	Sunrise Bank	-3.33%
HBL	20.93%	MBL	-9.05%

Table 8: Change in Deposits (%)

Loans and Advances:

There is a satisfactory growth in lending of commercial banks i.e. 12.60% during the review period at Rs.520.46 billion. NMB Bank and Prime Bank Limited are able to have a satisfactory growth in lending i.e. 43.02% and 20.97% respectively whereas Machhachapuchhre Bank Limited has a negative growth (i.e. 1.61%).

Out of 31 commercial banks, 12 commercial banks real estate loan exposure is above limit set by Nepal Rastra Bank i.e. above 20 percent. DCBL Bank has the highest percentage of loan exposure in real estate i.e. 28.58% whereas Agriculture Development Bank has the lowest percentage i.e. 0.03%. There is a significant growth in long term loan of commercial banks i.e. 15% during the review period compared to same period of previous fiscal year which indicates that more loans are given for project financing for hydropower projects, industrial projects and other manufacturing and service sectors which can help in sustainable growth of overall economy.

Banks	Total Loan & Advances (Rs.)	Market Share	Rank
NIBL	41,887,693	8.59%	1
NABIL	38,905,481	7.98%	2
RBB	36,866,104	7.56%	3
ADBNL	34,810,353	7.14%	4
EBL	31,661,842	6.49%	5

Table 9: Total Loans & Advances of Top Five Commercial Banks (Figure in '000')

Banks	Change in Loan and Advances	Banks	Change In Loan and Advances
NMB	43.02%	RBB	3.29%
Prime Bank	20.97%	NIBL	2.29%
DCBL	19.85%	Sunrise Bank	-0.18%
NSBI	18.49%	KBL	-0.68%
NABIL	17.78%	MBL	-1.61%

Table 10: Change in Loan and Advances

Banks	Change in Real Estate Loan	Banks	Change in Real Estate Loan
DCBL	28.58%	EBL	5.83%
Sunrise Bank	24.00%	Nepal Bank	5.78%
Prime Bank	23.04%	RBB	4.86%
LAXMI	22.52%	C&T Bank	4.10%
Citizen Bank	22.40%	Megh Bank	1.97%
KIST	21.55%	ADBNL	0.03%

Table 11: Change in Real Estate Loan (%)

Total Provision:

The figure of provision of possible losses is creeping this fiscal year which is a worrying sign for banking sectors. The total provision of possible loss is Rs.717.10 million which increased by 14.30% compared to last fiscal year. The problem seen in real estate, share market as well as deteriorating industrial environment has made impact on people capacity to pay back principal and interest amount resulting increasing amount of total provision of banks.

Banks	Total Provision (Rs.)	Banks	Total Provision (Rs.)
ADBNL	2,431,891	Civil Bank	31,552
NBBL	422,426	C&T Bank	24,863
RBB	419,482	Bank of Asia	22,516
MBL	337,850	LAXMI	13,622
GLOBAL	252,931	SBL	13,087

Table 12: Total Provision of Top Five Commercial Banks (Figure in '000')

Non Performing Loan (NPL):

The risk of commercial banks increased during the review period as compared to previous year. The average non-performing loan as a percentage of total loans has increased to 2.41 percent from 1.92 percent previous year. Out of 31 commercial banks, 4 banks NPA is above 5% which is regard as more risky where as remaining banks able to maintain their NPA below 5%.

Banks	NPA	Banks	NPA
NBBL	18.20%	NIC	0.60%
RBB	10.12%	NIBL	0.59%
ADBNL	8.64%	Prime Bank	0.48%
Nepal Bank	5.29%	EBL	0.34%
MBL	4.17%	NMB	0.27%

Table 13: NPA of Commercial Banks

Earnings per Share (EPS) and Return on Equity (ROE):

The significance of EPS is obvious, as the viability of any business depends on the income it can generate. Earnings per share allow us to compare different companies' power to make money. During the review period, the EPS of banking industry is Rs.29.10 whereas out of 31 commercial banks only 9 banks able to earn above industry average.

The average return on equity is 14.11% compared to 17.33% of last year. This shows that commercial banks are not able to increase profit in the ratio of growth of paid up capital whereas investor can expect less return than previous year. ROE is a best indicator of financial performance measure of a company. The mandatory requirement of NRB to raise paid up capital has hit banking sector EPS and ROE.

Banks	EPS	Banks	EPS
RBB	150.07	Century Bank	2.05
Nepal Bank	100.80	C&T Bank	1.82
EBL	72.78	Megha	1.52
SCB	69.51	Civil Bank	0.58
NABIL	63.75	MBL	0.51

Table 14: EPS of Commercial Banks

Banks	ROE	Banks	ROE
EBL	25.31%	Megha	1.45%
NABIL	25.23%	Civil Bank	0.57%
SCB	24.97%	MBL	0.46%
BOK	22.73%	Nepal Bank	-9.08%
NIC	22.02%	RBB	-21.44%

Table 15: ROE of Commercial Banks

Price to Earnings Ratio:

The P/E gives you an idea of what the market is willing to pay for the company's earnings. The higher the P/E the more the market is willing to pay for the company's earnings. Some investors read a high P/E as an overpriced stock and that may be the case, however it can also indicate the market has high hopes for this stock's future and has bid up the price. The overall average P/E ratio of banking industry is 11.75 which indicates that the price of commercial banks in secondary market is correctly valued (P/E ratio around 10-15 is regarded as correctly values as per international standard).

(Note: P/E Ratio of Machhachapuchhre Bank is excluded while calculating average P/E ratio)

Banks	PE Ratio	Banks	PE Ratio
NBBL	6.29	NSBI	22.73
ADBNL	7.66	DCBL	24.11
LUMBINI	7.99	Sunrise Bank	24.14
NIBL	9.82	SCB	25.90
NCCB	10.58	MBL	262.64

Table 16: P/E ratio of Commercial Banks (Times)

Conclusion:

The volatile political situation coupled with low economic growth, widening trade deficit, high inflation and liquidity crunch in the banking system continued to remain the major challenges during this fiscal year. Liquidity crunch was mainly attributed to the slowdown in remittances, funds getting locked up in non productive sectors and weakening of confidence of people has resulted in lower deposit mobilization of banking industry.

The overall growth of the banking system is satisfactory taking in note the number of problem faced by the industry this fiscal year. However, the number of step taken by the NRB to address the problem faced by commercial bank is a positive sign and this will result good performance in future.

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