

**FINANCIAL REPORTING SYSTEM & CORPORATE
DISCLOSURES PRACTICES OF COMMERCIAL BANKS IN NEPAL**

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*In partial fulfillment of requirement for the Degree of Master of Business
Studies (M.B.S.)*

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RECOMMENDATION

This is to certify that the thesis

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Entitled:

***FINANCIAL REPORTING SYSTEM & CORPORATE DISCLOSURES
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DECLARATION

I, hereby, declare that the thesis entitled '*Financial Reporting System & Corporate Disclosures Practices Of Commercial Banks In Nepal*' submitted to the Shanker Dev Campus, Faculty of Management, Tribuvan University, is my original work done in the form of partial fulfillment of the requirements of the Master's in Degree in Business Studies (MBS) under the supervision of my thesis supervisor **Asso. Prof. Ruchila Pandey** and **Ghanendra Fago** Lecturer of Shanker Dev Campus, Tribuvan University.

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ABBREVIATION

ICAN	Institute of Chartered Accountants of Nepal
NASS	Nepal Accounting Standards
IFRS	International Financing Reporting System
NRB	Nepal Rastra Bank
IFAc	International Federation of Accountants
ROC	Return on Capital
IASB	International Accounting Standard Board
RBBL	Ristriya Banijya Bank Limited
BAFIA	Banking and Financial Institution Act
SEBON	Securities Board of Nepal
BPA	Best Presented Award
Y	Yes
N	No

CHAPTER – I

INTRODUCTION

1.1. Background of the Study

Adequate and efficient disclosures in corporate reporting are of prime importance to all concerned stakeholders in this era of economic revolutions global commercialization. It is always expected that a rational investor seeks proper and sufficient disclosures in the documents and statements that are availed by the organizations and he/she has access over it. Among the data and information available to the stakeholders, a widely used information protocol is annual financial statements distributed by the organizations and apart from financial information such reports includes corporate disclosures also as additional disclosures in the financial statements required by different authorities including The Institute of Chartered Accountants of Nepal (ICAN) in Nepal through Nepal Accounting Standards (NASs) and International Financial Reporting System (IFRS) as applicable.

Economic efficiency of the use of resources' adequate disclosures would reflect and help in directing the flow of corporate into the most productive channels. It is essential that those reports should be adequate measure of economic performance. The corporate financial reporting has improved tremendously since the turn to this century. The concept of disclosure has grown and expanded considered in diverse ways in response to the corporate form of organization the mandatory and voluntary financial disclosures as to prevent fraud and manipulation and to protect shareholders and/or would be investor recognized profession. The corporate reporting and disclosure requirements have undergone a lot of changes in last one decade. The authorities in view of secondary manipulation of the stock market spreading and various similar activities taken up by company profilers and other to defraud the investors introduced the charges to safe ground the interest of shareholders, debenture holders and other concerned. The values of society in many countries, but by no means all, the primary corporate objective is to maximize the long-term return to shareholders and ultimately contribute towards wealth maximization. This objective

appears in many codes throughout the world such as United Nations Conference on Trade and Environment (UNCTAD) 2006.

No one can ignore the importance of transparency in financial reporting, because people make different decisions regarding the investments based on financial data and information presented. Every investor wishes that he should be able to get more, better and transparent information about the present affairs of the company, that is directly focused on future perspectives. In fact, it is the quality of report, which helps investors in making certain investment decision. Irony is that some companies prepare financial reports, which are the tools for giving insight to the investors, in such a way that rather than providing required information correctly they skillfully hide the facts. It is advisable to the investors that those companies who do not understand the importance of transparency in financial reporting should be avoided. Making investments in such companies is more risky and less valuable.

The financial reports and corporate reports prepared by the organization should comply with prescribed format issued by the legally authorized institutions so that it can earn public faith. From the very beginning, when the owner and the manager of the organization was same and the interest was not divided, financial reporting system was optional, but in the present context ownership and the management are separated. Interest of the owners and managers are different and therefore the reporting environment diverted towards common preparation and presentation and as a result different regulatory and mandatory bodies all over world have been established such as International Federation of Accountants (IFAC). In Nepal a regulatory body in financial reporting and corporate reporting has been established in 1997 A.D. and is named The Institute of Chartered Accountants of Nepal (ICAN). The financial reporting and corporate disclosures prescribed by above mentioned bodies are explained in NAS (by ICAN) and IFRS (by IFAC).

Let us understand the importance of transparency in financial reporting with the help of an example. Think of two companies having similar financial leverage, market capitalization and overall market risk exposure. Take for granted that the earnings, growth rate of earnings and Return on Capital (RoC) is also same. They have only one difference and that only difference is very crucial for the market analysts. First

company is running only one business and the financial reporting is easy to understand. On the contrary, second company is involved in running several types of businesses and has complex financial reporting. Now you would like to prefer making investment in which company. Chances are more that experts will favor the first company because of simplicity and transparency in financial reporting.

Companies that understand the importance of transparency in financial reporting are also well informed about the psychology of investors. A complex and opaque financial reporting gives no idea about the true risks involved and real fundamentals of the company. Here is a simple example of this: an important indicator of future growth of a company is how it has invested the money. When after going through the financial reports, you cannot find any concrete information regarding the investments made by the company because of so many holding companies, and then evaluating investments become difficult. Obscure statements also hide the level of debt, thereby also hiding if the company is on the brink of bankruptcy.

Every organization involved in financial transactions need to prepare a financial statement to disclose the financial information to their shareholders and other stakeholders concerned. Besides shareholders creditors, investors, regulators, governmental bodies, suppliers and society as a whole also are the users of the financial statements. Generally a complete set of financial statements include Balance Sheet, Income Statement, and Statement of Cash Flow, Statement of Changes in Equity, and Significant Accounting Policies and Notes to the Accounts. These formats are clearly mentioned by International Accounting Standard Board (IASB). However, most of the countries have their own accounting and reporting framework regulatory body and financial statements have been prepared and presented as prescribed. ICAN is solely responsible for development and maintenance of accounting and corporate reporting frameworks in Nepal and it has obtained full membership from IFAC and IFAC's reporting frameworks are applied on phase wise basis onwards 2012A.D. in Nepal which gradually replaces current Nepal Accounting Standards (NAS) in place.

1.1.1. Corporate Financial Reporting

General purpose financial statements have been approved by the International Financial Standard Boards as well as by Accounting Standards Board of Nepal (ASB) and a complete set of financial statements include following components.

- a. A Balance Sheet,
- b. An Income Statement,
- c. A statement of changes in equity showing either;
 1. all changes in equity, or
 2. changes in equity other than those arising from transactions with equity holders acting in their capacity as equity holders;
- d. A Statement of Cash Flow, and
- e. Notes, comprising a summary of significant accounting policies and other explanatory notes.

1.1.2. History of Nepalese Banking System

The initiation of formal banking system in Nepal commenced with the establishment of Nepal Bank Ltd. in 1937 A.D., the first Nepalese commercial bank. The country's central bank, Nepal Rastra Bank (NRB) established in 1956 A.D. under Nepal Rastra Bank Act, 1955 A.D., after nearly two decades of NBL having been in existence. A decade after the establishment of NRB, Rastriya Banijya Bank Ltd. (RBBL), a commercial bank under the ownership of GoN was established. Thereafter, GoN adopted open and liberalized policy in the mid 1980s A.D. reflected by the structural adjustment process, which included privatization, tariff adjustments, liberalization of industrial licensing, easing of terms of foreign investment and more liberal trade and foreign exchange regime was initiated.

With the adoption of liberalization policy, there has been rapid development of the domestic financial system both in terms of number of financial institutions and as ratio of financial assets to the GDP. As of July 2005, the number of commercial banks has reached 17 and their branches numbered 375. A total of 60 finance companies and other Development Banks and numerous credit cooperatives have also been established. Total financial assets in 2004/2005 reached around 54.09 percent of GDP and the M2/GDP ratio, which shows the financial sector development or financial deepening increased from 12.4 percent in 1975 A.D. to 50.9 percent in

2000 A.D. In the context of banking development, the 1980s A.D. saw a major structural change in financial sector policies, regulations and institutional developments. GoN emphasized the role of the private sector for the investment in the financial sector. The financial sector liberalization, started already in the early eighties with the liberalization of the interest rates, encompassed further deregulation of interest rates, relaxation of entry barriers for domestic and foreign banks, restructuring of public sector commercial banks and withdrawal of central bank control over their portfolio management. These policies opened the doors for foreigners to enter into banking sector under joint venture. Consequently, the third commercial bank in Nepal, or the first foreign joint venture bank, was set up as Nepal Arab Bank Ltd. (now called as Nabil Bank Ltd.) in 1984 A.D.

Thereafter, two foreign joint venture banks, Nepal Indosuez Bank Ltd. (now called as Nepal Investment Bank Ltd.) and Nepal Grindlays Bank Ltd. (now called as Standard Chartered Bank Nepal Ltd.) was established in 1986 A.D. and 1987 A.D. respectively. As on Mid-January 2011 A.D. there are 30 commercial banks in Nepal established and operating under Bank and Financial Institutions Act and Company Act. Nepalese banking system has now a wide geographic reach and institutional diversification and recently NRB has made circulation about compulsory branch opening at remote locations before starting its commercial operation which ultimately contributes towards reach of banking systems by the poor and disadvantaged Nepalese people.

Although, Nepalese financial sector is dynamic, a lot of scope for development of this sector exists. This is because the banking and non-banking sectors have not been able to capture all the potentialities of resource utilization till this time. It is evident from the Rural Credit Survey Report that the majority of rural credit is supplied by the unorganized sector at a very high cost (perhaps nearer two or three times of the formal sectors) suggesting that the financial sector is still in the path of gradual development. The elementary banking system can be traced back to 1877 with the existence of the *Tejarath Adda*. The system was initiated by the then Prime Minister Ranoddip Singh for providing credit facilities. Banks have aggravated and have been made to compete with the new trim banks with no rural operations. Also, the

commercial banks, domestic or joint venture have shown little innovation and positive attitude in identifying new areas of saving and investment opportunities.

1.1.3. Current Banking System in Nepal

During the last two and half decades the Nepalese financial transactions system and volume has grown significantly. At the beginning of 1980s, there were only two commercial banks and two development banks in the country. After the adoption of economic liberalization policy, particularly the financial sector liberalization that paved the way for establishment of new banks and non-bank financial institutions into the country. Consequently, by the end of Mid-January 2011, altogether 277 banks and non- bank financial institutions licensed by NRB are in operation. Out of them, 30 are “A” class commercial banks, 87 “B” class development banks, 79 “C” class finance companies, 21 “D” class micro-credit development banks, 15 saving and credit co-operatives and 45 NGOs.

1.1.4. Legal Provisions for Bank and Financial Institutions in Nepal

Nepal Rastra Bank Act, 2002 has given full authority to the Nepal Rastra Bank (NRB) regarding regulation, inspection and supervision of the banks and financial institutions in Nepal. Bank and Financial Institution Act (BAFIA), 2063, which is popularly known as Umbrella Act, has been enacted in unified form. Agricultural Development Bank Act, 1967, Commercial Bank Act, 1974, Finance Company Act, 1986, Nepal Industrial Development Corporation Act, 1990 and Development Bank Act, 1996 have been repealed with the promulgation of this act. The act governs the functional aspect of banks and financial institutions. Some of the important provisions in the act regarding banking sector have been analyzed in this chapter as follows.

Any person wishing to incorporate a bank or financial institution to carry on financial transactions should incorporate a bank or financial institution as a registered public limited company under the prevailing law of Nepal with prior approval of NRB by fulfilling the conditions prescribed in section 4 of the act. The individual desiring for the incorporation of such entity is required to submit an application to NRB for prior approval with the prescribed documents. The NRB is required to conduct necessary investigation and grant permission to establish a bank or financial institution with or without terms or conditions if all the criteria are met and information of disapproval

with reason is also to be given to the concerned person in case the application is denied. Similarly, any foreign bank or financial institutions wishing to establish a bank or financial institution by making joint venture investment with a corporate body incorporated in Nepal or with a Nepali citizen or as a subsidiary company with 100% share is eligible to furnish the application to establish a bank or financial institutions. However, the act is silent about the percentage of equity investment in joint ventures; such foreign corporate body can invest.

The act prohibits anybody to conduct financial transaction except an established bank or financial institution and no bank or financial institution can use the proposed name for the purpose of carrying financial transaction without obtaining operating license from NRB. The bank or financial institution desiring to conduct financial transaction must submit an application for operating license to the NRB in the prescribed form including the prescribed fees, documents and description. NRB will grant license if it is satisfied with the basic physical infrastructure of the bank or financial institution; if the issuance of license for operating financial transaction will promote healthy and competitive financial intermediary and protect the interest of the depositors, the applicant is competent to operate financial transaction in accordance with the provision of this act and its regulation, directives, orders or provisions of Memorandum of Association (MoA) and Article of Association (AoA) and there are sufficient grounds to believe that the entity is competent to operate financial transaction. The NRB will classify the institutions into "A", "B", "C" and "D" groups on the basis of the minimum paid-up capital and provide the suitable license to the bank or financial institutions. The authorized, issued and paid up capital of a license holder institution will be as prescribed by NRB from time to time. The NRB can issue directives and circulars to the license holder entity to increase its authorized, issued and paid-up capital if it deems necessary. Similarly, the license holder entity must maintain a capital fund according to ratio prescribed by NRB based on the basis of its total asset or risk weighted assets, and other transactions. At the same time, the license holder entity must maintain a risk fund according to ratio prescribed by NRB based on the basis of liability relating to its total asset and the other risk to be borne from off balance sheet items. The license holder entity must maintain general reserve fund regularly every year till the amount becomes double of the paid up capital of such entity.

The bank or financial institutions can be upgraded if the authorized capital is enough for upper class, the institution has been able to make profit for last five years and the non-performing asset is within the prescribed limit. Similarly, the bank or financial institution can be degraded if it fails to meet prescribed capital within the time period, it has been making loss for last five years, it has violated the directives of NRB for time and again and it fails to maintain Risk Management Fund as prescribed. The NRB will make necessary investigation and avail opportunity to clarify before taking such decisions.

The NRB is in full power to deny issuing license for financial transaction if the conditions stipulated in BAFIA are not met and it is also authorized to impose necessary conditions taking into account such as, the existing financial position of the bank or financial institutions, the interest of depositors and healthy operation of financial transactions. Similarly, it may increase, decrease or modify the terms and conditions from time to time. The NRB can suspend the license of the license holder for a specific period of time issued for the purpose of carrying financial activities or it may order the bank or financial institution to close the operation of their office partially or fully if such a license holder acts against the provisions of the Nepal Rastra Bank Act, 2002, or the regulation made there under or fails to act in accordance with the order or directives issued by it or fails to act for the welfare and in the interest of the depositors. The NRB may cancel the license issued under this act to carry on the financial transactions of the license holder under the certain circumstances as stipulated in the BAFIA (Bank & Financial Institutions Act).

A foreign bank or financial institution desiring to open its office within the territory of Nepal must submit an application to NRB in the form as prescribed along with fees and particulars as prescribed. The NRB may issue a license to foreign bank or financial institution to carry on financial transaction by allowing them to open a office in Nepal taking into account the situation of competition existing in the banking sector, the contribution that could be rendered in the Nepalese banking sector and the reputation of such foreign bank or financial institution. The NRB may specify necessary terms and conditions in the course of granting transaction license and it shall be the duty of the foreign bank or financial institution to comply with such terms

and conditions. Section 34(4) of BAFIA reiterates that the provisions of the BAFIA are to be complied by such foreign bank or financial institutions. The foreign bank or financial institution, which has been issued license to operate financial transaction by opening its office within the Nepalese territories can't open another bank or financial institution in joint venture within Nepal. However, the provision for the contact or representative office of any foreign bank or financial institution will be as prescribed by NRB. Some of the important issues such as relationship with parent bank in case of liquidation and supervisory role of the different institutions (parent bank and parent bank's supervisory authority) have not been adequately addressed in this BAFIA. Provisions relating to capital requirement are also silent in BAFIA. However, it can be fixed by regulation. Section 47 of the act prescribes functions of the bank or financial institutions. The entities functioning under sub-section (1) only can keep their name as bank of class "A" category. The functions of such bank are incorporated in subsection (1)(A) to (AF) which are in very detail. As per Nepal's commitments, foreign bank branches are only allowed for wholesale banking functions. So all of the provisions stipulated in subsection (1) will not be relevant to the foreign bank branches. According to the BAFIA, NRB has authority to make necessary regulation in this aspect.

1.2. Statement of Problem

Sound financial reporting and corporate disclosures are vital to the functioning of a free enterprise system which depends on the actions and reactions of a large number of investors, consumers and businessmen. For this purpose there is a need of true and fair preparation and presentation of data and information in the available and rational manner. There are many aspects of the economic information needed for different purposes. The most important aspect is the financial disclosures of economic success or failure of the economic units that control and use the substantial portion of the scarce capital resources of the country.

Nepalese commercial banks are practicing good financial reporting and corporate disclosures as required by NRB and applicable financial reporting frameworks but it is not enough as the shareholders and concerned stakeholders demand is increasing by day for their different purposes. They are comparing Nepalese reporting and

disclosures practices with international organizations for proper and economic decision making. It is the time to know about the status of the reporting systems and disclosure practices of the commercial banks of Nepal and to what extent their level of reporting is complied with the prevailing international practices.

The main objective of disclosure is to provide relevant information for rational decision making by the users of information. The financial and other disclosures should be relevant, reliable, comparable and consistent with a constraint of cost benefit analysis. The importance of corporate disclosures can be of immense appreciation when one consider that the average investor needs protection not only at the time of making investment in shares and debentures but also on a continuous basis in the form of true and fair disclosures of the affairs of particular bank.

While the narrative disclosures consist of statements essentially non-quantitative to be included in the descriptive, non-accounting section of the annual reports. The footnote disclosures consist of quantities measurements on the social of the firm to be included as an additional footnote in the financial section of the annual report. The footnote disclosures may be more useful than the narrative disclosures give as it would be covered by the independent auditors' report and opinion.

The recent reforms by various regulators to improve the disclosures and transparency regulations in Nepal have been aimed to protect investors and creditors and to improve corporate accountability; these disclosures have been through annual reports, filling with stock exchange and quarterly information published. The Company Act and the listing agreement and the Accounting Standards have increased the disclosure requirements of the companies.

The aim of financial disclosure is to reflect proper economic performance of an enterprise covering certain time periods. Corporate disclosure means annual statement of financial activities, accounting for assets and liabilities, calculating profits and/or losses, and showing movement of funds. Simply, corporate disclosure is the reporting of financial activities of an organization, the net result of financial activities and the resultant financial position to the owners and the outsiders.

Financial disclosures may be regarded as an integral part of the Management Control System. It provides management with information required to prepare Company's financial plan, assess its ability to achieve profit objectives, formulate the basis for making modification in the plans, if required and make available the means of resolving the unforeseen problems that may arise. It can be specifically stated that financial reporting is required (a) to reflect operating efficiency (b) to show the financial position of an organization on a particular date and (c) to exhibit how effectively the resources have been employed in the business during that period.

Nepal is grooming tremendously, but the market is not safe from the international financial crisis. Over the 25 years period more than 27 new commercial banks are established. About Rs. 54 billion amounts have been invested in the banking sector. The capitalization is about Rs. 112 billion (SEBON, 2007/008). Capital market is mostly influenced by the performance of the bank. The performance of the bank has been depicted by the financial reports and other disclosures.

Present study will make a modest attempt to analyze the status of the existing reporting system and corporate disclosure practices of commercial banking sector in Nepal and its impact on investment decision shareholder and to find out the room for further improvement.

To explain the statement of problem more clearly the following research questions are formulated:

-) Can information disclosure on internal controls impede market competition?
-) What are the optimal levels of information about material weaknesses that should be disclosed?
-) What is the impact of mandatory information disclosure on social welfare?

1.3. Objectives of the Study

The general objectives of the present study are to find out the existing reporting practices as well as corporate disclosure practices of Nepalese commercial banks. The specific objectives of the study can be elaborated as below:

-) To examine the status of compliance of prescribed reporting formats by commercial bank in Nepal,
-) To observe the status of compliance of reporting format as specified in Basel – II by NRB,
-) To extend suggestions and recommendations on the basis of major findings.

1.4. Significance of the Study

In the third world, corporate disclosure practices are merely in practice. However, it is emerging issues in the corporate world. Research in this field may help to find out the current practices in our country. This study will be significant to analyze the legal provisions, possibilities, problems and prospects of financial reporting and corporate disclosures in Nepal. The banks which are under the study of research work also get significant information from this study.

Strong transparent disclosures regime is pivotal for monitoring companies and enhance to shareholder's ability to exercise ownership rights. It can be powerful tool for influencing companies and protecting investors and help to attract capital and maintain confidence in the markets. Weak disclosures can contribute to unethical behavior and loss of market integrity, costing not only company but economy as a whole.

Reliable and timely information increases confidence among decision makers within the company and enables them to make good business decisions directly affecting growth and profitability. Information also affects decision makers outside the entity, the shareholders, investors and lenders, who must decide where and with what risk to place their money. The information provided, show the decision makers and outside interests whether and to what extent corporations meet legal requirements. Disclosures help public understanding of a Company's activities, policies and performance with regard to environmental and ethical standards, as well as its relationship with the communities where the Company operates (relations with stakeholders). Disclosures and transparency as well as proper auditing serve as a deterrent to fraud and corruption allowing firms to compete on the basis of their best

offerings and to differentiate themselves from firms who do not practice good governance.

This study will be significant for achieving the following affairs.

-) This research will be supportive to gain the knowledge of financial reporting system and corporate disclosure practices.
-) This study will try to explore the present status of the financial reporting system and corporate disclosures in commercial banks in Nepal.
-) This study is expected to be useful for the general investors as well as to regulatory authorities to take appropriate decisions.
-) Commercial banks can be benefitted with this study to improve in their financial and corporate reporting system.

1.5. Limitation of the Study

Although there are 30 commercial banks in Nepal, study has been limited only to the 10 banks due to availability of financial statements as well as time constraints.

The data is used only up to Financial Year 2010/011 (latest financial year as per Nepalese calendar).

-) Ten commercial banks are selected for the study out of 30 commercial banks operating Nepal.
-) The study focused on the study of the annual report of the banks.
-) Long Form Audit Report (LFAR) issued by NRB and criteria prepared by the SAFA to measure the company's disclosures and financial reporting has been used to measure the disclosure performance.
-) The study is fully based on the researcher's limited financial resources within a limited time period.
-) There are still so many rooms for further study in this endeavor.

1.6. Organization of the study

The entire study has been divided into five main chapters.

Chapter one: Introduction

This study begins with an introductory course of the study. It includes background of the study, statement of problems, objectives of the study, significance of the study, limitations of the study and organization of the study.

Chapter Two: Review of Literature

This chapter aims to know what research was done in the related topic in previous days and what is to be done at present or in the future. This chapter has been divided into two main aspects (1) Conceptual framework and (2) Review of related materials i.e. review of books of the thesis, review of newspaper, magazine, journals etc.

Chapter Three: Research Methodology

This chapter includes research design, population and sampling, sources of data, procedure of data collection and tools used for analysis.

Chapter Four: Presentation and analysis of Data

This section deals with the presentation and analysis of collected data and information through statistical and mathematical techniques. The data collected from various sources will be tabulated in their sequential order and data will be described, analyzed and interpreted with the help of statistical tools as well as definite course of research methodology.

Chapter Five: Summary, Conclusions and Recommendations

This chapter discusses the summary that puts the entire thesis in a nutshell. It also comprises conclusions and recommendations that are helpful to describe the major findings of the study and present the possible and viable recommendations for further improvement. Last but not least, essential appendices and bibliography are cited therein at the end of the study.

CHAPTER – II

REVIEW OF LITERATURE

2.1 Conceptual Foundation

2.1.1 Concept of Corporate Disclosure

The term 'Corporate Disclosure' is also known as 'Financial Reporting'. 'Corporate Reporting' and 'Disclosure' have increasingly gained significance during the recent years. A lot of changes have taken place in economic environment of the country and the corporate sector in particular due to market oriented policies introduced by the Government and emergence of new multilateral trading system under the aegis of World Trade Organization (WTO). The term 'Disclosure' can be defined in different ways. Kohler's Dictionary for Accountants defines it as an explanation, or exhibits attached to a financial statements, or embodied in a report (e.g., auditors' report) containing an opinion and/or details required or helpful in the interpretation of the statements or report. It signifies the communication of material and relevant facts regarding financial position and financial performance to various users. The term 'Disclosure' refers to the fact of disclosing any information concerning a company, whether on voluntary or on statutory basis.

Disclosure is a process of providing certain financial information to a wide variety of users, relevant to their data needs, concerning the performance of an entity and the extent of information disclosure is its adequacy, relevance and reliability become primary characteristics of financial reporting practices prevalent in a country. Therefore, in a nutshell disclosure means to convey financial and non- financial information to various users that assist them in taking economic and financial decision of better quality.

Corporate disclosure is also known as financial reporting which is the communication of accounting information of an entity (firm, company, Government enterprises etc.) to users containing financial information relevant to the data need concerning the performance of specific entities. Financial disclosure is in fact an effective communication of accounting information.

Disclosure literally means the giving out of information which might commonly be kept secret usually voluntary or to be in compliance with legal regulations or work placed rules. It is the issue that is highly regulated under the laws of many nations. Disclosure is the key mechanism for achieving transparency and enabling informed decisions which are the hallmarks of Corporate Governance.

Voluntary disclosure goes beyond the legal regulations or works place rules, however voluntary disclosures mover towards the basic legal standards of dual and fair disclosure, fiduciary duty to shareholders and materiality. Whether and how transactions need to be disclosed will depend on the context, judgment and fiduciary duty of the Board of Directors (BoD) and management of the corporate. This is market improved oversight in different areas like sources and application of funds, trading in market including speculative, derivatives and non-exchange trended contracts and related party relationships and transactions. Even if existing loopholes are closed by together laws, rule based compliance will still fall short of voluntary disclosure and expose companies alone and ultimately this will lead to insensitivity to shareholders' value and to what animates their jobs, even if they are dutiful in the execution of what they believe to be their responsibilities.

Voluntary disclosures underscore recent pronouncements by regulations on the failures of rule-based compliance. Even a technically accurate application of generally accepted accounting principles may nonetheless fail to communicate important information if it is not accompanied by appropriate and clear analytical disclosures to facilities and investors' understanding of the company's financial status.

Generally accepted accounting principles will always be subordinate to the essential legal principles of full and fair disclosure of all material events so that the shareholders are not misled. A review of the existing literature is undertaken to enhance the understanding and identifying the factors that influence reporting decisions such as firm characteristics, market response to the disclosures and the firm specific incentives for disclosures and also to understand the method used for measuring disclosures. Prior studies on disclosures have been broadly classified as

those on disclosure indices, event studies and specific disclosure analysis. Studies have used the method of computing disclosure index for determining the level of disclosures. The method adopted for constructing the disclosure index can be of two types viz. (a) use of the published disclosure index or (b) to have a self constructed disclosure index.

2.1.2 Financial Reporting of Banking and Financial Institutions

Financial accounting information is the product of corporate accounting and external reporting systems that measure and routinely discloses audited quantitative data concerning the financial position and performance of publicly held organizations. Audited financial statements comprising of Balance Sheet, Income Statement, Statement of Cash Flows, and Statement of Changes in Equity along with additional disclosures form the foundation of the organization specific information set available to investors and regulators. Developing and maintaining a sophisticated financial disclosure regime is not cheap. Countries with highly developed securities markets devote substantial resources to producing and regulating the use of extensive accounting and disclosure rules that publicly traded firms must follow. Resources expended are not only financial, but also include opportunity costs associated with deployment of highly educated human capital, including accountants, lawyers, academicians, and politicians.

Nepal Rastra Bank instructed to the commercial banks since 2007 to mention the detailed information in their financial statements as per the Basel II capital accord. Information to include in financial statements is more comprehensive and informative so that investors and regulators will be ensured in the financial position of the bank. There are seven major headings and numbers of sub headings information disclosure requirements (see annex – 7) to be furnished by external/statutory auditor in course of attestation function of the concerned bank. Auditor can play effective role to make good corporate disclosure of the firm. Nepal Rastra Bank has been issued a format of Long Form Audit Report called LFAR (see annex – 5) which is to be furnished by external/statutory auditor. Report is concerned with audit approach, risk management systems, internal control systems, compliance with applicable rules and regulations, others, conclusion and list of loan files verified.

South Asian Federation of Accountants (SAFA), an apex body of SAARC, concerned with development and harmonization of accounting profession in South Asian Region has developed a list of criteria to measure the financial reporting system and corporate governance practices. On the basis of these criteria, financial statements and annual report of companies have been scoring and first ranking company has been awarded as a “Best Presented Accounts Award” in National level. Competition has been made among the national winner within the South Asian region. Since last nine years, the practice is continued. The participation of the company is increasing each year. It is observed in the Nepal that the quality of annual reports in term of contents and the paper used for that is being more standard than previous years.

Apparently, the levels of corporate transparency depend on the levels of information disclosure exhibited by the organization. As a result, corporate disclosures and transparency are the twin cornerstones to protect shareholders’ rights (S.L. Cheung, S.Y.L; Connelly J. T. and Zhou, L. 2008). Shareholders should be treated equally, should be able to participate in the decisions affecting the firm, and should be able to elect directors to represent them.

2.1.3 NRB Directives for Financial Reporting & Corporate Disclosures

The BFIs in Nepal are required to make disclosures (financial as well as corporate) in a format as prescribed in Nepal Rastra Bank Directives – 2068, irrespective of class of BIFs. There are in total 35 (apart from sub-schedules) schedules including Balance Sheet, Profit & Loss Account, Profit & Loss Appropriation Account, Statement of Cash Flow and Statement of Changes in Equity. The core formats of financial statements have been detailed below.

Format of Financial Statements of BFIS in Nepal

Format of Balance Sheet

..... **Bank Ltd.**

Balances Sheet

As of

Capital & Liabilities		Sch.	This Year	Previous Year
1.	Share Capital	4.1	-	-
2.	Reserves & Funds	4.2	-	-
3.	Debentures & Bonds	4.3	-	-
4.	Loans & Borrowings	4.4	-	-
5.	Deposit Liabilities	4.5	-	-
6.	Bills Payable	4.6	-	-
7.	Proposed Dividend		-	-
8.	Income Tax Liability		-	-
9.	Other Liabilities	4.7	-	-
Total Liabilities			-	-
Assets		Sch.	This Year	Previous Year
1.	Cash Balances	4.8	-	-
2.	Balance with Nepal Rastra Bank	4.9	-	-
3.	Balance with Banks/Financial Institutions	4.10	-	-
4.	Money at Calls & Short Notice	4.11	-	-
5.	Investments	4.12	-	-
6.	Loans, Advances & Bills Payables	4.13	-	-
7.	Fixed Assets	4.14	-	-
8.	Non-Banking Assets	4.15	-	-
9.	Other Assets	4.16	-	-
Total Assets			-	-

Contingent Liabilities	Schedule - 17
Declarations of Directors	Schedule – 29
Capital Adequacy Table	Schedule – 30 (Ka1)
Statement of Credit Risk	Schedule – 30 (Kha)
Statement of Eligible Credit Risk Mitigations	Schedule – 30 (Ga)
Statement of Operational Risk	Schedule – 30 (Gha)
Statement of Market Risk	Schedule – 30 (Nga)
Key Indicators	Schedule – 31
Significant Accounting Policies	Schedule – 32
Notes to Accounts	Schedule – 33
Statement of Loan availed by Promoter Shareholders from Other BFs by pledging their Shares	Schedule – 34
Comparison of Unaudited & Audited Financial Statements	Schedule – 35

Schedules 4.1 to 4.17 are integral part of this Balance Sheet.

(Source: www.nrb.org.np)

Format of Profit and Loss Account

..... Bank Ltd.

Profit & Loss Account

For the period ending on

Particulars		Sch.	This Year	Previous Year
1.	Interest Income	4.18	-	-
2.	Interest Expenses	4.19	-	-
Net Interest Income			-	-
3.	Commission & Discount	4.20	-	-
4.	Other Operating Incomes	4.21	-	-
5.	Exchange Fluctuation Income	4.22	-	-
Total Operating Income			-	-
6.	Staff Expenses	4.23	-	-
7.	Other Operating Expenses	4.24	-	-
8.	Exchange Fluctuation Loss	4.22	-	-
Operating profit before provision for possible losses			-	-

9.	Provision for possible losses	4.25	-	-
Operating Profit			-	-
10.	Non-Operating Income/(Loss)	4.26	-	-
11.	Provision for Possible Loss Written Back	4.27	-	-
Profit from Ordinary Activities			-	-
12.	Income/(Expenses) from Extraordinary Activities	4.28	-	-
Net Profit after considering all Activities			-	-
13.	Provision for Staff Bonus		-	-
14.	Provision for Income Taxes		-	-
	Current Year's Tax Provisions		-	-
	Up to Previous Year's Tax Provision		-	-
	Deferred Tax Income/(Expenses)		-	-
Net Profit/Loss				-

Contingent Liabilities	Schedule - 17
Declarations of Directors	Schedule – 29
Capital Adequacy Table	Schedule – 30 (Ka1)
Statement of Credit Risk	Schedule – 30 (Kha)
Statement of Eligible Credit Risk Mitigations	Schedule – 30 (Ga)
Statement of Operational Risk	Schedule – 30 (Gha)
Statement of Market Risk	Schedule – 30 (Nga)
Key Indicators	Schedule – 31
Significant Accounting Policies	Schedule – 32
Notes to Accounts	Schedule – 33
Statement of Loan availed by Promoter Shareholders from Other BFIs by pledging their Shares	Schedule – 34
Comparison of Unaudited & Audited Financial Statements	Schedule – 35

Schedules 4.18 to 4.28 are integral part of this Balance Sheet.

(Source: www.nrb.org.np)

Format of Profit and Loss Appropriation Account

..... Bank Ltd.

Profit & Loss Appropriation Account

For the period ending on

Particulars		Sch.	This Year	Previous Year
Income				
1.	Accumulated Profit up to Previous Year		-	-
2.	This Year's Profit		-	-
3.	Exchange Fluctuation Fund		-	-
Total			-	-
Expenses				
1.	Accumulated Los up to Previous Year		-	-
2.	This Year's Loss		-	-
3.	General Reserve Fund		-	-
4.	Contingent Reserves		-	-
5.	Institutional Development Fund		-	-
6.	Dividend Equalization Fund		-	-
7.	Employees Related Reserves		-	-
8.	Proposed Dividend		-	-
9.	Proposed Issue of Bonus Shares		-	-
10.	Special Reserve Fund		-	-
11.	Exchange Fluctuation Fund		-	-
12.	Capital Redemption Reserve Fund		-	-
13.	Capital Adjustment Fund		-	-
14.	Deferred Tax Reserves		-	-
15.	Investment Adjustment Fund		-	-
Total			-	-
Accumulated Profit/(Loss)			-	-

(Source: www.nrb.org.np)

Format of Statement of Cash Flow

..... Bank Ltd.

Statement of Cash Flow

For the period ending on

Particulars		Sch.	This Year	Previous Year
A. Cash Flow from Operating Activities				
1.	<i>Cash Receipts</i>		-	-
1.1	Interest Income		-	-
1.2	Commission & Discount Income		-	-
1.3	Income from Foreign Exchange Transaction		-	-
1.4	Recover if Bad Loan		-	-
1.5	Other Income		-	-
2.	<i>Cash Payments</i>		-	-
2.1	Interest Expenses		-	-
2.2	Staff Expenses		-	-
2.3	Office Operating Expenses		-	-
2.4	Income Tax Payment		-	-
2.5	Other Expenses		-	-
Cash Flow before Changes in Working Capital			-	-
Decrease/(Increase) in Current Assets			-	-
1.	Decrease/(Increase) in Money at Calls & Short Notice		-	-
2.	Decrease/(Increase) in Short Term Investments		-	-
3.	Decrease/(Increase) in Loan & Bills Purchases		-	-
4.	Decrease/(Increase) Other Assets		-	-
Increase/(Decrease) in Current Liabilities			-	-
1.	Increase/(Decrease) in Deposits		-	-
2.	Increase/(Decrease) in Certificate of Deposits		-	-
3.	Increase/(Decrease) in Short Term Borrowings		-	-
4.	Increase/(Decrease) in Other Liabilities		-	-
B. Cash Flow from Investing Activities				
1.	(Increase)/Decrease in Investments		-	-
2.	(Increase)/Decrease in Fixed Assts		-	-
3.	Interest Income on Long Term Investment		-	-

4.	Dividend Income		-	-
5.	Others		-	-
C. Cash Flow from Financing Activities				-
1.	Increase/(Decrease) in Long Term Borrowing		-	-
2.	Increase/(Decrease) in Share Capital		-	-
3.	Increase/(Decrease) in Other Liability		-	-
4.	Increase/(Decrease) in Refinance/Facilities from NRB		-	-
D. Income/Expenses from Change in Exchange Rate			-	-
E. Current Year's cash flow from all activities			-	-
F. Opening Cash & Bank Balance			-	-
G. Closing Cash & Bank Balance			-	-

(Source: www.nrb.org.n)

Statement of Changes in Equity

..... **Bank Ltd.**

Statement of Changes in Equity

As of

Particulars	Share Capital	Accumul ated Profit	General Reserve s	Capital Reserve Fund	Share Premium	Exchange Fluctuati on Fund	Deferred Tax Reserve	Other Reserves and Fund	Total
Opening balance	-	-	-	-	-	-	-	-	-
<i>Adjustments</i>	-	-	-	-	-	-	-	-	-
Restated Balance	-	-	-	-	-	-	-	-	-
<i>Changes during the year</i>	-	-	-	-	-	-	-	-	-
.....	-	-	-	-	-	-	-	-	-
.....	-	-	-	-	-	-	-	-	-
.....	-	-	-	-	-	-	-	-	-
.....	-	-	-	-	-	-	-	-	-
Closing Balance	-	-	-	-	-	-	-	-	-

(Source: www.nrb.org.np)

Format of accounting policies:

The BFI shall disclose minimum policies regarding following headings:

1. General Information,
2. Summary of Accounting Policies
 - 2.1. Statement of Compliance
 - 2.2. Basis of Preparation of Financial Statements
 - 2.3. Recognition of Interest Income
 - 2.4. Reorganization of Commission Income
 - 2.5. Reorganization of Dividend Income
 - 2.6. Reorganization of Foreign Exchange Transactions
 - 2.7. Reorganization of Interest Expenses
 - 2.8. Reorganization of Loans & Advances
 - 2.9. Reorganization of Staff Loans & Advances
 - 2.10. Provision for Possible Losses on Loans & Advances
 - 2.11. Provision Regarding Loans & Advances Write Offs
 - 2.12. Accounting of Investments
 - 2.13. Accounting for Fixed Assets and Depreciation thereto
 - 2.14. Accounting Intangible Assets and Amortization
 - 2.15. Reorganization of Lease Rentals
 - 2.16. Reorganization of Retirement Benefits
 - 2.17. Reorganization of Income Taxes
 - 2.18. Stock Consumption Policy
 - 2.19. Policy of Reorganization of Non-Banking Assets and Provision for Possible Losses
 - 2.20. Policy of Reorganization of Provisions, Contingent Assets and Contingent Liabilities
3. Rounding off and Comparative Figures

(Source: www.nrb.org.np)

Format of notes to the accounts:

The BFI shall disclose minimum notes regarding following heading:

1. Provision for Staff Bonus;
2. Staff Housing Fund;
3. Tax Settlement Outstanding;
4. Provision for Gratuity;
5. Performance Bonus to Staffs and Executives;
6. Dividend and Bonus Shares;
7. Unpaid Dividend;
8. Paid-up Share Capital Structures;
9. Deferred Tax Calculation;
10. Related Party Transactions;
11. Operating Lease Commitment;
12. Branch Reconciliation Status;
13. Summary of Loans and Advances Disbursed and Recovered;
14. Summary of Changes in Deposit Liabilities;
15. Calculation of Spread Interest Rate;
16. Summary of Amortized Expenses;
17. Summary of Concentration Exposures;
18. Classification of Assets and Liabilities based on Maturity Period;
19. Borrowing of the BFI against the collateral of own assets.

(Source: www.nrb.org.np)

The mentioned formats of financial statements are equally applicable to all BFIs irrespective of classification and volume of transactions. The NRB has full power to regulate, supervise and control transactions of all BFIs and Nepal Rastra Bank Act – 2002 (Amended) has also vested power to NRB to prescribe reporting and disclosures criteria from time to time.

The latest development in this case is refinement in Format of Financial Statements and application of Basel – II for all Commercial Banks and the process of application of Basel III is under review along with Basel – II to for Development Banks in Nepal. All

the BFIs including commercial banks of Nepal has prepared and presented their financial statements and corporate disclosures as prescribed by Nepal Rastra Bank Directives as such these disclosures are primarily assessed by the NRB prior to issuing the mentioned financial statements. Therefore, all the commercial banks have disclosed the matters as detailed above.

2.2 Review of Previous Study

Generally accepted accounting principles will always be subordinate to the essential legal principles of full and fair disclosure of all material events so that the shareholders are not misled. A review of the existing literature is undertaken to enhance the understanding and identifying the factors that influence reporting decisions such as firm characteristics, market response to the disclosures and the firm specific incentives for disclosures and also to understand the method used for measuring disclosures. Prior studies on disclosures have been broadly classified as those on disclosure indices, event studies and specific disclosure analysis. Studies have used the method of computing disclosure index for determining the level of disclosures. The method adopted for constructing the disclosure index can be of two types viz. (a) use of the published disclosure index or (b) to have a self constructed disclosure index.

The earliest studies conducted for measuring the disclosure through an index are by Cerf (1961), Singhvi and Desai (1971), Buzby (1974) and Choi (1973). These studies found that organizational size, asset size, profitability and entry into European capital markets were positively associated with disclosure levels.

In the comparative studies, Barrett (1975) studied the annual reports of 103 firms, located in France, Germany, Japan, Sweden, the Netherlands, the UK and the United States. The study found that the overall extent and quality of American annual report disclosures is not better than those of the British firms. There were differences in specific disclosure areas among countries. The study also proved that the quality of disclosures and the degree of efficiency of national markets are positively related.

McNally, Eng, and Hasseldine (1982) studied the annual reports of companies listed on the New Zealand Stock Exchange. The results found that stockbrokers and financial auditors perceived the voluntary disclosure of a wide variety of items of information to be important. There was deviation between actual disclosure and the degree of disclosure perceived to be desirable by the external users. The study also found that the size of a firm was positively related to voluntary disclosure.

Cooke (1989) analyzed disclosure in Swedish firms. Regression analysis was performed and the results indicated that listing status and size were major explanatory variables for voluntary disclosures. In addition, firms categorized as 'trading' disclosed less voluntary information than other industries.

Meek (1995) studied the voluntary disclosures from the international perspective. Their study examined the factors influencing the voluntary disclosures of three types of information viz. strategic, non-financial and financial information contained in the annual report. The sample of the study consisted of 64 UK, 116 US, 16 firms from France, 12 firms from Germany and 18 firms from Netherlands (together referred in the paper as Continental European Countries). Their study revealed that, company size; country or region and the listing status were very important factors in explaining the voluntary disclosures. The industry groupings were influencing only to a certain extent. Disclosures of strategic information reflected the international listing status. The study also concluded that Continental European Countries made more voluntary disclosures than the American and British companies to overcome the conservative practices in these countries and any disadvantage they may have because of this.

The study by Nasser and Nuseibah (2003) examined the voluntary disclosures, mandatory disclosures and voluntary related to mandatory disclosures of firms listed in Saudi Arabia. They concluded that the level of voluntary disclosures was low, although firms reported more than that required by law.

Chau and Gray (2002) examined the voluntary disclosures of firms in Singapore and Hong Kong using the disclosure index constructed by Meek and Roberts and tested the

association of ownership structure on the voluntary disclosures. Hong Kong and Singapore listed companies are usually controlled by family firms and hence have no motivation for voluntary disclosures. They hypothesized that there was a positive association between the wider ownership structure and the extent of voluntary disclosures.

Prior studies in India have also used the disclosure indices. Lal (1982) examined the relation between the earning margin, nature of industry, business groups, asset size and the level of disclosures of the Indian companies. The study found that Indian companies did not disclose many items voluntarily. However, over a period the non statutory disclosures did increase.

A study by B. Rathinam (1989) found that disclosures in the annual report of Indian firms were positively related to the profitability, turnover, asset size and collaborations.

ICAI Research Committee Report (1985) found that the public sector firms disclosed more information than private sector companies. However, there was no uniformity in the presentation of various types of information.

There is no any formal research made in Nepal regarding corporate disclosures of Nepalese companies/firms/organizations. The apex body for developing and maintaining good financial reporting system is ICAN and it is progressively working towards uniform practices among the Nepalese firms/companies and/or organizations in line International System and in this case the regulatory body for BFIs in Nepal (Nepal Rastra Bank) and for insurance (Beema Samiti) are also active participants to improve existing financial reporting system of Nepalese BFIs and Insurance Companies respectively.

2.3 Research Gap

Most of the previous studies focused on analysis of profit planning, comparative financial performance, management system etc. only and these studies focused on data that have been reported in the financial statements. However, no studies were carried out in relation

to the financial statements and corporate disclosures practices that generated data and information for studies.

This study shall be a new study in this field as no study has been made so far in the corporate and financial disclosure system of commercial banks of Nepal. This study has tried to indicate primary areas of corporate disclosures, financial disclosures and the prospective areas of additional disclosures. The information extracted from different sources have been processed and analyzed through mathematical and statistical tools for betterment in extracting conclusion and recommendation. Finally it concludes the various findings of research and recommendations commercial banking sector of Nepal.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Research Design

A research design is the arrangement of conditions for collection and analysis of data that aims to combine relevance to the research purpose with economy in procedure. "Research design is the plan, structure and strategy of investigations conceived so as to obtain answer to research questions and to control variations," 'Wolff and Pant.' The research design has been followed for the study is descriptive as well as analytical. Descriptive research design has also been used in this study. It is helpful to describe the facts of the entire observed and perceived commercial banking sector through the annual reports, their thinking and relation with consumers and opinions of consumers about commercial banks. Analytical research design has been used to analyze the past annual report of the commercial banks. At present, it is necessary to analyze the past activities and its impact on the growth of banking sector.

3.2 Population and Sample

The basis of analysis of the annual financial reports and corporate disclosures has been based on the criteria developed by the SAFA. The criteria are used in order to award "Best Presented Accounts" Awards to the companies. Timely published annual reports are prerequisites of the analysis. Population is considered to those commercial banks published their annual reports since last five years (i.e. F.Y. 2006/07). Only twenty banks have five years annual reports. The population for this study comprises twenty commercial banks. Ten commercial banks are selected for the study based on their participation on BPA Awards and quality of financial and corporate disclosures.

It is assumed that the selected sample of the respective settlements sufficiently represents the whole bank they are all inclusively taken into the consideration of the study.

Table: 3.1
Selected Commercial Banks of Nepal

S.N.	Name of Commercial Banks	Operation Date (A.D.)	Head Office
1.	Laxmi Bank Ltd. (LXBL)	April 2002	Kathmandu
2.	Nabil Bank Ltd. (NABIL)	July 1984	Kathmandu
3.	Nepal Investment Bank Ltd. (NIBL)	February 1986	Kathmandu
4.	Standard Chartered Bank Nepal Ltd. (SCBNL)	January 1987	Kathmandu
5.	Himalayan Bank Ltd. (HBL)	January 1993	Kathmandu
6.	Nepal SBI Bank Ltd. (NSBI)	July 1993	Kathmandu
7.	Everest Bank Ltd. (EBL)	October 1994	Kathmandu
8.	Bank of Kathmandu Ltd. (BOK)	March 1995	Kathmandu
9.	Lumbini Bank Ltd. (LBL)	July 1998	Narayangadh
10.	Nepal Industrial and Commercial Bank Ltd. (NIC)	July 1998	Biratnagar

3.3 Nature and Source of Data

This study is mostly based on secondary data. However, primary data and information have been obtained through informal discussions with the personnel of commercial banks, Nepal Rastra Bank, The Institute of Chartered Accountants of Nepal, experts etc. Secondary data have been collected from the annual published financial statements of the commercial banks. Similarly other necessary data have collected from website, newspapers and related publications.

3.4 Data Gathering Procedures

Different types of data from several sources are necessary for this study. Annual reports of commercial banks are the secondary sources of data and annual reports from F.Y. 2006/07 to F.Y. 2010/11 are available in the respective banks either in hard copy or soft

copy. Semi structured and unstructured questionnaires also to be used to collect primary data. Besides, internet was another data collection device used to research of Nepalese commercial banks.

Before the collection of secondary data, first of all researcher surveyed the opinions of executives, experts, professional and academicians in the area of Banking and Financial Institutions industry in Nepal.

3.5 Research Variables

The research variables in this study are the minimum disclosures as per NRB, apparent disclosures as per national and international standards and other additional information to be disclosed by the concerned companies.

3.6 Method of Data Analysis

The collected data through various instruments and sources have been edited, coded, processed, analyzed and tabulated using simple mathematical, financial and statistical methods like average, percentage, ratio analysis, figures, charts and tables whenever necessary.

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

This chapter acquaints with the presentation, analysis and interpretation of the available data and information in regard to financial reporting system and corporate disclosure practices of commercial banks in Nepal, in varied circumstances. Basically, this chapter observes financial statements prepared in order to publish to the public and shareholders and the disclosers of basic information within financial report.

4.1 Financial Reporting of Commercial Banks

The status of timely submission of annual financial statements have been summarized in the following tables to describe whether the selected commercial banks have submitted the financial statements to Nepal Rastra Bank and Securities Exchange Board of Nepal as required.

Table: 4.1
Disclosures to NRB

Bank/FY	2006/07	2007/08	2008/09	2009/10	2010/11
Laxmi Bank Ltd.	Y	Y	Y	Y	Y
Nabil Bank Ltd.	Y	Y	Y	Y	Y
Nepal Investment Bank Ltd.	Y	Y	Y	Y	Y
Standard Chartered Bank Nepal Ltd.	Y	Y	Y	Y	Y
Himalayan Bank Ltd.	Y	Y	Y	Y	Y
Nepal SBI Bank Ltd.	Y	Y	Y	Y	Y
Everest Bank Ltd.	Y	Y	Y	Y	Y
Bank of Kathmandu Ltd.	Y	Y	Y	Y	Y
Lumbini Bank Ltd.	Y	Y	Y	Y	Y
Nepal Industrial and Commercial Bank Ltd.	Y	Y	Y	Y	Y

Table: 4.2
Disclosures to SEBON

Bank/FY	2006/07	2007/08	2008/09	2009/10	2010/11
Laxmi Bank Ltd.	Y	Y	Y	Y	Y
Nabil Bank Ltd.	Y	Y	Y	Y	Y
Nepal Investment Bank Ltd.	Y	Y	Y	Y	Y
Standard Chartered Bank Nepal Ltd.	Y	Y	Y	Y	Y
Himalayan Bank Ltd.	Y	Y	Y	Y	Y
Nepal SBI Bank Ltd.	Y	Y	Y	Y	Y
Everest Bank Ltd.	Y	Y	Y	Y	Y
Bank of Kathmandu Ltd.	Y	Y	Y	Y	Y
Lumbini Bank Ltd.	Y	Y	Y	Y	Y
Nepal Industrial and Commercial Bank Ltd.	Y	Y	Y	Y	Y

(Y = Yes, N = No)

The selected commercial banks have submitted annual financial statements to the NRB and SEBoN and they are not penalized yet just because of non-submission of annual financial statements. Therefore, the performance of all selected commercial banks seems good in this respect.

4.2 Corporate Disclosure of Commercial Banks

4.2.1 Timeliness in issuing annual accounts and holding Annual General Meetings (AGM)

The criterion is focused on time factor for issuing annual accounts i.e. financial statements and holding annual general meeting of particular company. To obtain the full marks, company's Board of Directors should approve the annual accounts within 2 months. If company conduct AGM within 3 months are considered reasonable for full marks. For each months delay after the initial 3 months, deduction of 2 marks is to be

made. If the period is over five months the companies obtain no marks under this criterion.

Normally all the commercial banks under study have issued their annual books of accounts after the expiry of three months from the date of closure of financial year and earliest issue of financial statements is noted by BoK on Shrawan 26, 2068 for the financial year 2010/011.

4.2.2 Analysis of Objectives and Values

In the annual report of companies they have to mention clearly the objectives and values of the firm so that public can understand about the company. It includes vision, mission, overall strategic objectives and core values and code of conduct or ethical principles. But the companies had mentioned very few words in this topic and some have not disclosed this matter at all.

4.2.3 Directors' Report/Chairman's/CEO's Review

To make the annual report more informative and useful, top level management should highlight various information in detail. As per the SAFA criteria following criteria should be included in annual report.

A general review of the performance of the company including how future cash flows and future uncertainties are going to be addressed, description of the products/segments of the company and its group companies products/segments of the products/segments of the company and its group companies company and its group companies performance of the various activities, products/segments of the company and its group companies during the period under review. It is also suggested by the SAFA criteria that these information should present in pictorial/graphical/tabular formats to obtained full marks. Similarly, the topic covers a brief summary of the business risks facing the organization and steps taken to effectively manage such risks. A general review of the future prospects/outlook, social responsibilities, environmental issues and how these have been met, information on how the company contributed to its responsibilities towards the staff (including health and

safety), information on company's contribution to the national exchequer and to the economy.

In this topic the commercial banks have incorporated most of the information in brief and the disclosures of SCBNL, LXBL, NIBL and NABIL seems better as compared to rest of the selected banks and a very few information has been disclosed by BOK.

4.2.4 Disclosures in accordance with National and International Accounting Standards

Financial performance may be varying due to the different accounting policies that are followed by the company. Appropriate accounting policies as well as accounting standards are the backbone of the financial statements. In this topics following item area included. Marks have been given considering the following item.

All policies disclosed in one place, all policies relevant for treatment of assets and liabilities are disclosed, treatment of profit and loss account is disclosed, and policies followed are in line with Best Presented Accounting Practices and the IAS (or relevant local standards if available,) provided they are more stringent than the IAS and adequately/properly worded accounting policies.

Significant departure from applicable accounting standards should be adequately explained and quantified, unless it is impracticable to do so (i) availability of information regarding different segments and units of the entity, if any (ii) Non Segmental Entities (iii) Segmental review of operations with description of the performance and future prospects of each segment, Segment analysis of turnover, Operating Profit, Net Assets, Financial Sector entities can give a commentary on the financial, products/instruments marketed by them and disclose the market, value of instruments that are actively traded, Banks, Segmental analysis gross income, profit and before tax, sectoral analysis of deposits and advances, geographical analysis, Capital adequacy of Banks, Maturity Analysis of Assets and Liabilities, Disclosure of Concentration of Assets, liabilities and Off Balance Sheet Items, Disclosure of Non Performing Loans, Insurance, Analysis between life and general business, Classes of business analysis, Valuation of Life Fund

liabilities, Financial Statements, Presentation format of Income Statement, Presentation format of Balance Sheet. Presentation format of Cash Flow/Source and Application of funds, presentation format of Changes in Equity, Notes on the Financial Statements, extent of compliance with the core IAS/IFRS (Applicable and Adopted by each country for financial year concerned) or equivalent National Standards.

The selected commercial banks have disclosed required information and complies the minimum requirements and all the commercial banks have disclosed the extraordinary and healing matters of emphasis on notes to the accounts such as the banks have disclosed their extraordinary income/expenses additionally. However, there is deviation of one accounting policy is recognition of interest income from loan and advances in accounting standards following accrual basis of accounting has been barred by the Nepal Rastra Bank directives. But this matter has been addressed in the notes by the all concerned commercial banks under analysis.

4.2.5 Information regarding Corporate Governance

Corporate governance is measured by this criterion. It covers board structure and its committees, number of board meetings held, number of independent board members, chairperson of the board independent of the CEO, directors report/statement on internal control, directors statement of responsibilities including preparation of financial statements and for internal controls on key risks faced by the company and the risk management policies, composition of the audit committee (members of the committee should be non-executive directors and officer level employees), salient features of the audit committee charter, existence of effective internal audit function, with head of internal audit direct access to audit committee, number of audit committee's meetings held, separate report of the audit committee on its performance.

The commercial banks under sampling have disclosed very few information regarding this matter and few of the commercial banks have not disclosed about number of meeting held with regard to Audit Committee, its major functions and recommendations along with corrective actions taken by the management. Which are material information regarding control mechanism and good corporate governance.

4.2.6 Stakeholder's Additional Information

Information relevant for shareholders and other users, especially financial performance and financial status falls in this category. It is focused on shareholder information such as: distribution of shareholders, shares held by directors/executives, graphical/pictorial data on earning per share (EPS), net assets per share/market price per share, shareholders funds/return on shareholders' funds, last five year's summary, trading results, turnover, operating profit, profit before income taxes, profit after tax etc. and in case of balance sheet item the details like: shareholders funds, property plant and equipment, net current assets, long-term liabilities, profitability, dividends are disclosed. Other financial performance showing information like performance and liquidity ratios, net assets per share, effective dividend rate, market price per share, price earnings ratio, debt equity ratio, current ratio, value added statement including its distribution, government as taxes, shareholders as dividend, retained within the business, employees as remuneration, market share information of the company product and services.

No commercial banks under sampling have disclosed the Statement of Value Addition at all and this practice is yet to be practiced by the organizations in Nepal and even there is no provision of disclosing about environment and human resource accounting. Though this is the scenario, the all commercial banks under sample have disclosed EPS, deposit and loan ratio, interest speed etc. via annex -31 of annual financial statements.

4.3 Analysis of Corporate Disclosures using Best Presented Accounting (BPA) Awards

The following additional criteria are followed to analyze corporate and financial disclosures of the any companies.

4.3.1 Report Presentation

This topic is focused on the external qualities of the report which includes production quality of the report, cover and printing including the theme on the cover, effectiveness of

photographs and their relevance, effectiveness of charts and graphs, layouts of contents clarity, implicitly and lucidity in presentation of accounts.

4.3.2 Criteria wise marks analysis

According to the SAFA criteria, it is found that banks are very aware to disclose the appropriateness of accounting policies and disclosure in accordance with National and International Accounting Standards in the best way, though few national standards in voluntary in compliance.

Disclosure of stakeholder information stood in rank second and report presentation ranked in third. It is found the disclosure of timeliness in issuing annual accounts and holding AGMs ranked fifth. Directors' Report/Chairman's/CEO's review found less clearly mentioned. After all company's objectives and values of the company was least clearly mentioned.

Out of the four questionnaires three of them are structured close ended and one is open ended. Total 25 question sets were answered from 28 respondents. Answers have been summarized in five categories. Mostly repeated suggestion is coordination between regulators to be required. Supervision of NRB to be strong falls in second most repeated answer. 24% respondents suggested coordination between regulators is required, 20% suggested supervision of NRB to be strong, 16% suggested that the format should be improved time by time, 20% suggested for the compliance of rules and regulation strictly and 20% suggested accounts preparer should be qualified.

4.3.3 Satisfaction on the reporting practices of Commercial Bank in Nepal

A question was asked - are you satisfied with reporting practices of commercial bank of Nepal? The answers were received in such a manner that 72% respondent said some modification is required and 28% said more changes are required. No one give answer on existing structure is enough, most of the part should be changed and total change is required.

4.3.4 Coincide between the reporting format issued by Nepal Accounting Standards and Nepal Rastra Bank

A question was asked - Do you think the reporting framework of the commercial bank of Nepal prescribed by Nepal Accounting Standards and Nepal Rastra Bank are coincided? The answers received was based on professional judgement and has been marked satisfactory as such 64% respondent said there is not so difference, 24% said there is minor difference and 12% said there is major difference between the reporting format of two institutions.

4.4 Major Findings of the Study

Major findings of this study have been summarized below:

-) The vision, mission, goal, objectives and values of the banks had not been clearly described in their annual report. They didn't emphasize corporate objectives to publish in the report. It can be also assumed that there was serious lack crafting their vision and mission. Unless the mission is cleared and objectives are formulated banks couldn't achieve the goal effectively.
-) Review of company's activities is essential information to the shareholders but nominal information has been published in annual reports and most essentials information was not included in the report. However, this has been classified on satisfactory level.
-) The financial data and information have been clearly mentioned in the annual report. Accounting policies followed by the banks and other relevant information related to accounting information are very important things to be disclosed. In this category the commercial banks have disclosed majority matters that have been prescribed in the NRB Directives and credit goes to sound supervision of Nepal Rastra Bank for the better presentation.
-) Corporate governance is another crucial factor. All the banks had been forming Audit Committee comprising of independent directors. In most of the annual reports it was not mentioned that how many meetings were held and what were its major findings. Information was stated regarding the governance of the company. It is found satisfactory in the current scenario.

-) It is found that information relevant for shareholders and other users had been clearly mentioned in the annual report. It is a good practice to state this information in detail.
-) It is found that external qualities of the annual report, quality of papers, designing and presentation of subject matters are nice. Some banks produced report in two languages viz. Nepali and English in the same book and other had produced in different books. The quality and outlook, presentation of various charts and graphics are more attractive in English version rather than in Nepali version. Few banks had participated in Best Presented Accounts Awards organized by The Institute of Chartered Accountants of Nepal.
-) Most of the banks organized their AGM later than 3 months. It is also found that the approval of the accounts by Company's Board of Directors also found delay. Considering the timeliness of the AGM and approval of the accounts from BoD, it satisfactory but not good in practice. Most of the banks organized their AGM after 3 months.
-) From the analysis it is seen that the commercial banks are improving the reporting of financial as well as corporate disclosures. Over the five years period analysis it could be seen a gradual improvement as such five years back, the quality of report was quit poor, which is improving each year. The marks are increasing each year. It can be hoped that the annual report presentation and disclosure practice is improving each year.
-) In the view of professionals, bank practitioners and regulators suggest for some modification on the prescribed reporting formats. 72% respondent said some modification is required and 28% said more change is required. No one satisfied on the existing reporting structure.
-) It is found that reporting formats of commercial banks prescribed by Nepal Accounting Standards and Nepal Rastra Bank are coincided. But, some put their different views that some difference is exist.
-) It is known that there is some lack on reporting system as well as disclosure practices of commercial banks of Nepal. To make the effective reporting system various action to be taken. There are different regulators for different purpose. Office of the Company Registrar, Nepal Rastra Bank, Security Board of Nepal.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Commercial banks are major financial institutions, which occupy quite an important place in the framework of every economy because they provide capital for the development of industry trade and business and other resources deflect sectors investing the saving collected as deposit commercial banks , by playing active role have changed the economic structure of the world. Commercial banks have its own role and contribution in the economic development; it maintains economic confidence of various segments and extends credit to people. The banking sector has to play developmental role to boost the economy by adopting the growth oriented investment policy and building up the financial structure for future economic development formulation of sound investment policies and planned effort pushed forward the force of economic growth.

The activities of any bank are depicted by the financial and corporate disclosures practices of the concerned institutions and in the process of fair financial and corporate disclosures the regulatory authorities have prescribed different requirements to be fulfilled compulsorily by all concerned. In this era of global commercialization, the financial and corporate disclosures are to be made to tie up requirement of global environment. This study has focused on different areas to explain more clearly whether information disclosure on internal controls impede market competition, optimal levels of information about material weaknesses that should be disclosed and what type of impacts of mandatory information disclosure on social welfare.

The main objective of this study is to find out the existing reporting status of the financial reporting system and disclosure practices of commercial banking sector in Nepal. Various books, articles, reports, and journals related to the study have been reviewed to sharpen the concepts, tools and techniques of the research.

Descriptive and analytical research design employed to gather process and present the findings. Ten commercial banks are selected as sample among more than this figure of commercial banks. Both qualitative and quantitative data collected through various techniques. The collected data through various instruments and sources are edited, coded, processed, analyzed and tabulated using simple mathematical, financial and statistical methods, so far as the qualitative data are concerned, they will be ordered, analyzed and descriptively presented.

5.2 Conclusions

Nepalese commercial banks are growing in numbers and volume. Billions of investment is employed in the banking sector. Investors are very aware on the corporate governance issue. Protection of investors' rights is the major concern of the management as well as government and the other regulators and stakeholders. Corporate disclosures as well as good financial reporting are the pillar of the good governance so that it can't be undermined.

Auditors are also not far from this responsibility. They can advise the management to make the reporting more elaborative as well as informative. From the all authorities and professionals common efforts on corporate disclosure should be initiated. Market price of the common stock of the listed companies should reflect the real book value on the basis of the financial reporting and disclosures rather than rumor and anecdote.

On an overall, the commercial banks have not emphasized over disclosures of vision, mission, goal, objectives and values of the organizations followed by review of company's major activities and corporate governance. The financial and corporate disclosures have been published on dual languages viz. Nepali and English but the presentation and disclosures in Nepali version report is too much minimal and quality of the report is satisfactory and again the banks distribute Nepali version's financial statements and corporate disclosures to the stakeholders concerned and English version is available to limited persons only. The management has approved financial statements delayed and ultimately AGMs have been held on a later period than prescribed one. In addition to that, it is found that there is some lack on reporting system as well as

disclosure practices of commercial banks of Nepal and for the effectiveness of reporting system various action are yet to be taken and there should be sound coordination among the regulators for the sound reporting system of the commercial bank such as Office of the Company Registrar, Nepal Rastra Bank, Security Board of Nepal, and ICAN.

Even though, there are more deficiencies in the financial and corporate disclosures the banks are being able to meet the requirement of NRB Directives to the some extent to disclose the financial matters and the process of improvement has given positive sign to the further improvements. In the present scenario, the disclosure of accounting policy and notes to the accounts are more comprehensive from disclosure perspective, though there rests compliance to NAS – 06 on Property, Plant and Equipment and NAS – 14 on Employees Benefits.

5.3 Recommendations

On the basis of the findings of the study, following recommendations can be drawn:

-) To make the good reporting system and disclosure practices of commercial banks, first of all NRB should provide technical assistance and the guidance to the commercial banks regularly.
-) Regulators should coordinate each other so that instructions to the banks carry uniformity, clarity and effectiveness.
-) Shareholders should be aware on the report of the companies whether the report can disclose all the necessary information required for the investors.
-) Auditors should give proper advice to the management to prepare the financial statements with necessary financial information otherwise issuing audit opinion after fulfilling necessary actions.
-) Securities Exchange Board (SEBON) and Nepal Stock Exchange Ltd. (NEPSE) also be strong to establish transparent the corporate culture so that scandal like Enron and Worldcom would not occur again.
-) Respective governmental authorities should be professionally managed and decision should be taken by the government regarding corporate governance of the financial institutions.

-) Financial statement of the company should be prepared in accordance with the Nepal Accounting Standards and Generally Accepted Accounting Principles rather than the company's own guidelines.
-) Investors' interest should be in first priority in the company. Investor's interest can be protected by the good governance through disclosures of the relevant information.
-) Commercial banks are operating their business in risk. Risk can be minimized through investors' faith. Banker themselves should practice the corporate governance. Since, Nepalese capital market is bank dominated its effects could be spread out to the other sector in the economy.

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ADDRESSED ISSUES OF GOOD GOVERNANCE BY DIFFERENT REGULATIONS AND PROTECTION OF SHAREHOLDERS RIGHTS

1. Banks and Financial Institutions Act – 2063 (BAFIA, 2063)

1.1 Conflict of interest and matter of transparency

Section 48 of BAIFA spells as follows regarding transaction with directors and investment in any other BFIs to maintain conflict of interest and matter of transparency,

- a.** Section 48(1c): supplying credit or facility to any promoters, directors, persons who have subscribed one per cent or more of its shares, chief executive or any family member of such persons or to any firms, companies or institutions which are entitled to nominate or appoint directors.
- b.** Section 48(1)(d): Supplying any type of credit or facility to any promoters, directors, persons who have subscribed one per cent or more of its shares, chief executive or any family member of such persons or managing agent or any firms, companies or institutions which are entitled to nominate or appoint directors or any firms, companies or institutions in which the institution has a financial interest.
- c.** Section 48(1)(f): Supplying any type of credit to any person, firm, company or institution against the guarantee given by the promoters, directors or chief executive.
- d.** Section 48(1)(g): Making investment in the securities of those licensed institutions which have obtained permission from the Rastra Bank to carry on the financial transactions of Classes “A”, “B” and “C”.
- e.** Section 48(1)(h): Making investment of an amount exceeding the limit prescribed by the Rastra Bank in the share capital of any other institution.
- f.** Section 48(1)(i): Indulging with other licensed institutions to mutually create any type of monopoly or any other type of controlled practice in the financial transactions.

g. Section 48(1)(j): Doing any kind of act which is capable of creating an artificial obstruction in the competitive environment of the financial sector, with the intention of deriving undue advantage.

Section 11 of BAIFA spells as follows regarding transaction on shares by those persons having knowledge of the BFIs and/or control over it,

Section 11(1): No director, chief executive, auditor or secretary of a bank or financial institution, or any person directly involved in the management and accounting functions of a bank or financial institution shall sell, purchase or pledge, gift or exchange, or cause to be purchased, pledged, gifted or exchanged, the securities of the concerned bank or financial institution or those of its subsidiary company under his or her own name or in the name of his or her family or in the name of any firm, company or body controlled by him or her or by his or her family control while he or she holds such office or until at least one year from the date of his or her retirement from that office.

Section 22 of BAIFA requires following disclosures by directors:

- a.** Section 22(1)(a): If he or she or any of his or her family members has entered into or going to enter into any kind of contract with the concerned bank or financial institution, details thereof.
- b.** Section 22(1)(b): If he or she has any kind of interest in the appointment of the chief executive, managing director, secretary, auditor and general manager, details thereof.
- c.** Section 22(1)(c): Particulars of such shares or debentures in the concerned bank or financial institution or in its holding or subsidiary company as subscribed by him or her or by his or her family.
- d.** Section 22(1)(d): If he or she is a director of any company, details thereof.
- e.** Section 22(1)(e): If any member of his or her family is working as an officer of the bank or financial institution, details thereof.
- f.** Section 22(1)(f): Such other details prescribed by the Rastra Bank as required to be disclosed by the director to the Board.

Section 24 of BAIFA requires following duties and responsibilities of directors towards BFI

- a.** Section 24(1): No director shall do anything to derive personal benefit through the bank or financial institution or in the course of performing the functions of the bank or financial institution.
- b.** Section 24(2): If any person who is appointed as a director has any personal or financial interest in the business of the bank or financial institution or in an agreement or involvement with the bank or financial institution, such person shall, prior to assuming the duties of his or her office, disclose such matter to the Board.
- c.** Section 24(3): If any director is found to have derived a personal benefit in the course of business of the bank or financial institution, the bank or financial institution shall recover that amount from such director.
- d.** Section 24(4): The bank or financial institution shall not be responsible for any action taken or function performed by any person working as its director by acting beyond his or her jurisdiction.
- e.** Section 24(5): If any person carries on any transaction with any director or representative even while knowing or having reasons to believe that the director or representative is carrying on the transaction to serve his or her personal interests or to cause any loss or damage to the bank or financial institution, such person shall not be entitled to make any claim against the bank or financial institution in relation to such transaction.
- f.** Section 24(5): No director shall interfere with the routine business relating to the management of the bank or financial institution.
- g.** Section 24(5): Every director of the bank or financial institution shall comply with such directives issued by the Rastra Bank from time to time as required to be complied with by the directors of the bank or financial institution.

Section 61 of BAIFA has following provisions regarding disqualification of an auditor of BFI

- a.** Section 61(a): A director of the licensed institution or his or her family member.

- b.** Section 61(b): An employee of the licensed institution.
- c.** Section 61(c): A person working as a partner of any director or employee of the licensed institution.
- d.** Section 61(d): A debtor of the licensed institution.
- e.** Section 61(e): A person who has been punished in an offense relating to audit, and a period of five years has not lapsed after he or she has served the punishment.
- f.** Section 61(f): A person who is insolvent.
- g.** Section 61(g): A person, firm, company or institution having subscribed one percent or more of the shares in the licensed institution.
- h.** Section 61(h): A person who has been punished by the court for a criminal offense involving moral turpitude, and a period of five years has not lapsed after he or she has served the punishment.
- i.** Section 61(i): A person who has been punished by a court for an offense relating to corruption or cheating.
- j.** Section 61(j): A person who is not included in the list of auditors approved by the Rastra Bank

In addition to that an auditor has duties, powers and responsibilities during the audit of the BFI as prescribed in laws in force of the professional services and shall issue an independent opinion on the financial statements of the Bank and Financial Institutions. Therefore, an auditor should have attentions regarding disclosures by the BFI for the particular financial year under audit of financial statements.

Section 21 of BAIFA requires following for determination of remuneration and facilities to the directors by BFIs

- a.** Section 21(1): The meeting allowance to be receivable by the directors for attending a meeting, their remuneration and remuneration and other facilities to be paid to them while carrying on the transactions of the bank or financial institution shall be as specified in the articles of association.
- b.** Section 21(2): If any director is found to have obtained any facility other than that mentioned in Sub-section (1), that director shall be deemed to have

committed an offense under this Act, and the amount obtained by him or her in consideration of such facility shall be recovered from him or her.

Section 26 of BAIFA has made following provisions regarding appointment and conditions of service of chief executives,

- a. Section 26(1): The Board shall appoint the chief executive of the bank or financial institution, subject to this Act and the memorandum of association and articles of association.
- b. Section 26(2): While making appointment of the chief executive, a qualified person shall be appointed from amongst the persons who have done at least bachelor's degree in any subject and have gained at least five years of experience of the office of director or of the executive level in banking, financial or corporate sector.
- c. Section 26(3): The chief executive shall be the chief administrator of the bank or financial institution.
- d. Section 26(4): The tenure of office of the chief executive shall be a maximum of four years; and he or she may be re-appointed.
- e. Section 26(5): The remuneration and other conditions of service of the chief executive shall be as prescribed by the Board.

Section 12(2) of BAIFA has made compulsory provision for appointment of professional director and provision states as follows:

- a. Section 26(1): There shall be appointed to the Board a professional director from the list of professional experts maintained by the Rastra Bank. The Director to be so appointed shall not be required to have subscribed any share of the concerned bank or financial institution.

2. It is obvious that Bank and Financial Institutions Act – 2063 is apex governing act in BFI sector of Nepal. Apart from that BAFIA, there are other regulations also and few important regulations regarding corporate disclosures and good governance are Nepal Rastra Bank Directives – 2068 and The Companies Act – 2063 of Nepal. In this point gist of NRB Directives – 2068 and The Companies Act – 2063 have been pointed out in brief.

2.1 NRB Directives – 2068

NRB Directives number 6 has made following provisions for code of conduct for directors.

- a. Directors should not interfere in day-to-day operation of the financial institution.
- b. If there is a conflict, director needs to inform the board before assuming office.
- c. Directors should not involve in any activity which is against the interest of the company (conflict of interest).
- d. Chief executive should work fulltime.
- e. Directors of one deposit taking institution cannot act as director of other BFI.
- f. Director cannot act as custodian or trustee of any of the customer.
- g. Director shall not misuse its position and should deal fairly.
- h. Director should keep up to date and accurate record of accounts and reports.
- i. Director should not use or misuse information received from clients for person benefit.
- j. Outlines the duties and responsibilities of the directors.
- k. Provides additional disqualification for the appointment of chief executive directors.
- l. Provides for code of conduct to be followed by the chief executive and other employees.

2.2 Companies Act – 2063

The Companies Act – 2063 is also applicable to BFIs in Nepal as such BFIs are to be incorporated as public limited liability company in Nepal and the provisions of Companies Act are equally applicable to all the companies unless BFIA supersedes the existing provisions of the Companies Act. The following are milestone provisions in the Companies Act – 2063 towards maintenance of good governance status and are important for this study also.

- a. Requirement to give beneficial interest on the shares (Section - 47),
- b. Information required to be given on becoming substantial shareholder (Section - 50),
- c. Shareholders having conflict are not qualified to vote in general meetings(Section 70),
- d. Director required to give information about transaction between company and him/her or close relatives (Section 92),
- e. Approval of general meeting required to enter transaction between company and director/its close relatives (Section 93),
- f. Restriction on power of board to enter certain transaction (Section 105),
- g. Restriction to give loans to directors and officers (Section 101),
- h. Financial disclosures to the shareholders (Section 109),
- i. Directors are made personally liable for any breach of the Act or the works done by the directors are ultra virus to the directors and/or ultra virus to the company,
- j. Directors have fiduciary duty to act in the best interest of the company (Section 99),
- k. Directors are specific duty not to exceed their powers (Section 103),
- l. Requirement to appoint independent directors by public companies (Section 86),
- m. Directors who breach reporting requirement under the Act are disqualified to become director (Section 89).

2.3 Provision regarding Audit Committee

The Companies Act – 2063 has made following provisions regarding audit committee of the company to maintain good governance status.

- a. Listed companies having paid up capital of more than Rs. 3 crores need to have audit committee.
- b. An auditor is disqualified to be appointed for three consecutive years (111),
- c. A person working full time, or his/her partners are disqualified to be appointed as auditor (112)

2.4 Provision regarding shareholders protection

The Companies Act – 2064 has made following provisions regarding protection of shareholders' right.

- a. Shareholder have right to inspect books of the company,
- b. Shareholders can sue on behalf of the company (Section 140),
- c. Shareholders can request to appoint investigation officer (Section 121),
- d. Can prevent directors from exceeding their powers (Section 138).

SAFA BPA CRITERIA

Descriptions

1. Objectives and values

Clarity and presentation of:

- > Vision
- > Mission
- > Overall strategic objectives
- > Core values and code of conduct or ethical principles

2. Directors' report/Chairman's/CEO's Review

- > A general review of the performance of the company including how future Cash Flows and future uncertainties are going to be addressed.
 - > Description of the performance of the various activities /products /segments of the company and its group companies during the period under review. (Weight age to be given for pictorial/graphical / tabular presentations used for this purpose)
 - > A brief summary of the Business Risks facing the organization and steps taken to effectively manage such risks
 - > A general review of the future prospects/outlook.
 - > Social responsibilities, environmental issues and how these have been met
 - > Information on how the company contributed to its responsibilities towards the staff (including health and safety)
 - > Information on company's contribution to the national exchequer and to the economy

Appropriateness of accounting policies and disclosure in accordance with National and International Accounting

3. Standards

Disclosure of Accounting policies

- > All policies disclosed in one place
- > All policies relevant for treatment of assets and liabilities are disclosed.
- > Treatment of profits and losses account are disclosed
- > Policies in line with Best Presented Accounting Practices and the IAS (or relevant local standards if available, Provided they are more stringent than the IAS)
- > Adequately / properly worded accounting policies
- > Significant departure from standards should be adequately explained and quantified unless it is impracticable to do so
- (i) Availability of information regarding different segments and units of the entity, if any
- (ii) Non Segmental Entities
- (iii) * Segmental review of operations with description of the performance and future prospects of each segment
- * Segment analysis of
 - * Turnover
 - * Operating Profit
 - * Net Assets
 - * Financial Sector entities can give a commentary on the financial products / instruments marketed by them and disclose the market

value of instruments that are actively traded

- * Banks
- * Segmental analysis gross income, profit and before tax
- * Sectoral analysis of deposits and advances
- * Geographical analysis
- * Capital adequacy of Banks

- * Maturity Analysis of Assets and Liabilities
- * Disclosure of Concentration of Assets, Liabilities and Off Balance Sheet Items
- * Disclosure of Non Performing Loans
- * Insurance
- * Analysis between life and general business
- * Classes of business analysis
- * **Valuation of Life Fund Liabilities**

*** Financial Statements**

- * Presentation format of PandL
- * Presentation format of Balance Sheet
- * Presentation format of Cash Flow / Source and Application of funds

*** Presentation format of Changes in Equity**

- * Notes on the Financial Statements
- Extent of compliance with the core IAS / IFRS (Applicable and Adopted by each country for financial year concerned) or equivalent National Standards

4. Information on how the company is governed

- > The Board structure and its committees
- > Number of board meetings held
- > Number of independent board members
- > Chairman of the Board independent of the CEO
- > Directors report / statement on internal control
- > Directors statement of responsibilities including preparation of financial statements and for internal controls on key risks faced by the company and the risk management policies
- > Composition of the audit committee (majority of members should be non-executive directors)
- > Salient features of the Audit Committee Charter

- > Existence of effective internal audit function, with head of internal audit direct access to audit committee
- > Number of audit committee meetings held
- > Separate report of the audit committee on its performance

5. Stakeholder Information*

Information relevant for shareholders and other users of financial statements.

- > Shareholder information
 - > Distribution of shareholders
 - > Shares held by Directors / Executives
- > Graphical / pictorial data on
 - > Earning per share
 - > Net assets per share / Market price per share
 - > Shareholders funds / Return on shareholders funds
- > Five year summary

Trading Results	-	Turnover
	-	Operating Profit
	-	Profit Before Tax
	-	Profit After Tax
Balance Sheet	-	Shareholders funds
	-	Property Plant and Equipment
	-	Net current assets
	-	Long term liabilities

Profitability, dividends, performance and liquidity ratios

 - > Net Assets per share
 - > Effective dividend rate

- > Market Price per share
 - > Price Earning Ratio
 - > Debt Equity Ratio
 - > Current Ratio
- statement of value added and how distributed.
- > Government as taxes
 - > Shareholders as dividends
 - > Retained within the Business
 - > Employees as remuneration
- market share information of the company product and services

6. Report Presentation

Production quality of the Report

- > Cover and printing including the theme (on the cover)
- > Effectiveness of photographs and their relevance
- > Effectiveness of charts and graphs
- > Layout of contents
- > Clarity, simplicity and lucidity in presentation of accounts

7. Timeliness in issuing Accounts and holding AGMs

- > Board of Directors approval of Accounts within 2 months
- > A three months time period to produce the annual report and hold the Annual General Meetings are considered reasonable for full marks
- > For each months delay after the initial 3 months deduction of 2 marks is to be made.
- > If the period is over five months - no marks.

LIST OF COMMERCIAL BANKS IN NEPAL AS ON MID JANUARY 2012

S. No.	Name of Bank	Date of Operation	Registered Office
1	Nepal Bank Ltd.	11/15/1937	Dharmapath, Kathmandu
2	Rastriya Banijya Bank Ltd.	1/23/1966	Singhdarbarplaza, Kathmandu
3	Nabil Bank Limited	1/2/1968	Kantipath, Kathmandu
4	Nepal Investment Bank Ltd.	7/16/1984	Durbar Marg, Kathmandu
5	Standard Chartered Bank Nepal Ltd.	2/27/1986	Naya Baneshwar, Kathmandu
6	Himalayan Bank Ltd.	1/30/1987	Thamel, Kathmandu
7	Nepal SBI Bank Ltd.	1/18/1993	Hattisar, Kathmandu
8	Nepal Bangladesh Bank Ltd.	7/7/1993	Naya Baneshwar, Kathmandu
9	Everest Bank Ltd.	6/5/1994	Lazimpat, Kathmandu
10	Bank of Kathmandu Ltd.	10/18/1994	Kamaladi, Kathmandu
11	Nepal Credit and Commerce Bank Ltd.	3/12/1995	Siddharthanagar, Rupandehi
12	Lumbini Bank Ltd.	10/14/1996	Narayangadh, Chitawan
13	Nepal Industrial and Commercial Bank Ltd.	7/17/1998	Biaratnagar, Morang
14	Machhapuchhre Bank Ltd.	7/21/1998	Prithvichowk, Pokhara
15	Kumari Bank Ltd.	10/3/2000	Durbarmarg, Kathmandu
16	Laxmi Bank Ltd.	4/3/2001	Hattisar, Kathmandu
17	Siddhartha Bank Ltd.	4/3/2002	Hattisar, Kathmandu
18	Agriculture Dev. Bank Ltd.	12/24/2002	Ramshahapath, Kathmandu
19	Global Bank Ltd.	1/2/2007	Birgunj, Parsa
20	Citizens Bank International Ltd.	6/21/2007	Kamaladi, Kathmandu
21	Prime Commercial Bank Ltd.	9/24/2007	New Road, Kathmandu
22	Sunrise Bank Ltd.	10/12/2007	Gairidhara Crossing, Kathmandu
23	Bank of Asia Nepal Ltd.	10/12/2007	Tripureswor, Kathmandu

24	Development Credit Bank Ltd.	5/25/2008	Kamaladi, Kathmandu
25	NMB Bank Ltd.	6/5/2008	Babarmahal, Kathmandu
26	Kist Bank Ltd.	5/7/2009	Anam Nagar, Kathmandu
27	Janata Bank Nepal Ltd.	4/5/2010	New Baneshwor, Kathmandu
28	Mega Bank Nepal Ltd.	7/23/2010	Kantipath, Kathmandu
29	Commerz and Trust Bank Nepal	9/20/2010	Kamaladi, Kathmandu
30	Civil Bank Nepal Ltd.	11/26/2010	Kamaladi, Kathmandu

(Source: nrb.org.np)

Annex – 5

PRESCRIBED FORMAT OF LONG FORM AUDIT REPORT (LFAR) BY NEPAL RASTRA BANK TO BE SENT BY EXTERNAL AUDITOR OF THE BFIS

1. AUDIT APPROACH

- 1.1. Brief description of the Audit plan with focus on the following areas, at minimum:
 - Declaration of Independence of Audit Firm and Members
 - Standards followed
 - Composition of the audit team
 - Audit schedule
- 1.2. Brief description of the Audit process and procedures
 - Audit areas' Risk Assessment
 - Audit procedures adapted to mitigate identified Audit Risks
 - Quality control mechanism
- 1.3. Brief description of the Sampling Procedure and sample size
 - Sampling methodology
 - Sample size
 - Use of system based approaches
- 1.4. Remarks on the execution of audit plan
 - Execution of audit and the audit plan
 - Problems encountered during the audit, if any
 - Limitations of scope of Audit, if any.

2. RISK MANAGEMENT SYSTEMS

Opinion on the following:

- 2.1. Credit Risk Management Systems
 - 2.1.1. Brief description and comment on the adequacy of credit appraisal systems,
 - 2.1.2. Brief description and comment on the adequacy of credit monitoring systems,
 - 2.1.3. Brief description and comment on the adequacy of the credit recovery systems,
 - 2.1.4. Adequacy of Policies and procedure for Write off of Loans,
 - 2.1.5. Adequacy of Policies, guidelines and Controls over Off Balance Sheet Items.
 - 2.1.6. Comment on the concentrations in the credit and investment portfolio,
 - 2.1.7. Risk Management Committees and their effectiveness,
 - 2.1.8. Overall audit opinion on Credit risk management.
- 2.2. Market Risk (Interest Rate, Liquidity and Foreign Exchange) Management Systems
 - 2.2.1. Adequacy of policies, procedures and guidelines for the market risk management.
 - 2.2.2. Adequacy of the system for measuring, monitoring and mitigation of Market risk.
 - 2.2.3. Risk Management Committees and their effectiveness
 - 2.2.4. Overall audit opinion on Market and liquidity risk management.
- 2.3. Operational Risk Management System
 - 2.3.1. Adequacy of policies, procedures and guidelines for the Operational risk management.
 - 2.3.2. Adequacy of the system for measuring, monitoring and mitigation of Operational Risk.
 - 2.3.3. Risk Management Committees and their effectiveness
 - 2.3.4. Overall audit opinion on Operational risk management.

3. INTERNAL CONTROL SYSTEMS

Opinion on the following areas:

- 3.1. Effectiveness of the Audit committee
- 3.2. Effectiveness of the Internal Audit Function
- 3.3. Rectification of the deficiencies identified in the previous internal and external audit reports
- 3.4. Adequacy of the controls in Credit operations
- 3.5. Adequacy of the controls in Treasury operations
- 3.6. Adequacy of the controls in Branch operations
- 3.7. Adequacy of control over Nostro Bank Operations
- 3.8. Adequacy of the controls in procedures related to expenditure
- 3.9. Adequacy of the control over fixed assets.
- 3.10. Adequacy of the Management Information System (MIS)
- 3.11. Adequacy of controls over e-banking and Card Operations
- 3.12. Adequacy of controls in Information Technology and related support functions.
- 3.13. Effectiveness of the Inter-branch and agency Reconciliation function
- 3.14. Adequacy of controls to prevent and/or minimize Fraud and forgeries
- 3.15. Instances of Fraud and Forgery in the review period
- 3.16. Other Control Issues, if any
- 3.17. Auditors overall assessment of the internal control system

4. COMPLIANCE WITH APPLICABLE RULES AND REGULATIONS

Prevailing Statute, Act, Directive and Regulation, at minimum, in the following areas

- 4.1. Nepal Rastra Bank Act 2058 (State whether the conditions as stipulated in Section 86 of Nepal Rastra Bank Act 2058 prevails, if yes please specify.)
- 4.2. Bank and Financial Institution Act 2063
 - 4.2.1. Whether fees and benefits of Chairman and board members are as specified in AOA/MOA
 - 4.2.2. Appointment, qualification and benefits of the chief executive
 - 4.2.3. Profit Appropriation to General Reserve

- 4.2.4. Appropriation to Exchange Fluctuation Reserve
- 4.2.5. Distribution of Dividend
- 4.2.6. Whether the activities are within the scope as defined by BAFIA?
- 4.2.7. Whether prohibited activities are being pursued?
- 4.2.8. Control and notification of dormant deposit accounts and unclaimed dividend
- 4.3. Foreign Exchange Rules and Regulations
 - 4.3.1. Whether payments of goods imported and service import are made as per circulars.
 - 4.3.2. Whether deposit accounts of foreign currency are opened and operated as per circulars.
 - 4.3.3. Whether card transactions are done as per circulars.
 - 4.3.4. Whether foreign exchange transactions are properly recorded and reported in a timely manner.
 - 4.3.5. Whether investment in foreign currency are made as per standard approved by the Board of Directors.
 - 4.3.6. Whether payments of exports are received and reported timely as per circulars.
 - 4.3.7. Whether transactions of Indian currency are made as per circulars.
- 4.4. Minimum Capital fund (Directive No. 1)
 - 4.4.1. Computation of Core Capital, Supplementary Capital and Capital Fund
 - 4.4.2. Computation of Risk Weighted Assets
 - 4.4.3. Comment on the Capital Plan
 - 4.4.4. Overall opinion on capital adequacy
- 4.5. Loan Classification and Loan Loss Provisioning (Directive No.2)
 - 4.5.1. Comment on the Assets Quality and Classification
 - 4.5.2. Adequacy of Loan Loss Provisions
 - 4.5.3. Whether the rescheduling/restructuring comply with the provisions of the directive
 - 4.5.4. Loan Loss Provisions in case of restructuring and rescheduling of loans
 - 4.5.5. Loan Classification and loan loss provision in respect of force loans

- 4.5.6. Loan Classification and loan loss provision in respect of loan against personal/corporate guarantees
- 4.5.7. Whether the adjustment and Write back of loan loss provision comply with the provisions of the directive
- 4.5.8. Overall opinion on Loan classification and provisioning
- 4.6. Single Obligor Limit and Sectoral Credit Limit (Directive No.3)
 - 4.6.1. Bank's procedures to identify a group of related borrowers
 - 4.6.2. Comment on the Facilities in excess of Single Obligor Limits, if any
 - 4.6.3. Loan Loss Provision in case of borrowers availing facilities in excess of the SOL
 - 4.6.4. Review and ratification mechanisms for excessive exposures in respect of sectoral credit.
 - 4.6.5. Comments on any exceptions on loan to real estate sector.
- 4.7. Accounting Policy and Format of the Financial Statement (Directive No.4)
 - 4.7.1. Comment on the Consistency of the Accounting Policies and financial reporting framework.
 - 4.7.2. Recognition of interest income from loans and advances
 - 4.7.3. Reconciliation of Interest Receivable and Interest Suspense
 - 4.7.4. Recognition of other interest, fees and commission and expenses.
 - 4.7.5. Publication of annual accounts and periodical highlights
 - 4.7.6. Non-compliance/deviations in accounting policies followed as compared to prescribed accounting policies by NRB/Nepal Accounting Standard
- 4.8. Risk Minimization (Directive No 5)
 - 4.8.1. Mechanisms to minimize liquidity risk
 - 4.8.2. Use of GAP Analysis and other mechanisms to measure and manage interest rate risk
 - 4.8.3. Mechanisms to minimize foreign exchange risk
- 4.9. Corporate Governance (Directive No.6)
 - 4.9.1. Formulation and implementation of required plans, policies and guidelines
 - 4.9.2. Code of conduct of Directors, Chief Executive and Employees
 - 4.9.3. Cases of conflict of interest of Directors, Chief Executive and Employees

- 4.9.4. Mechanism to identify related parties promoters, directors or senior management.
- 4.9.5. Lending to directors, chief executive, employees (except as per employee rules) and their related parties, if any
- 4.9.6. Level of Corporate governance and compliance of directives related to corporate governance.
- 4.10. Implementation of Supervisory Findings (Directive No.7)
Auditor's finding on the status of compliance of directions given by NRB based on its onsite inspections and offsite supervision.
- 4.11. Investments (Directive No.8)
 - 4.11.1. Investments in unlisted companies
 - 4.11.2. Investment in companies with financial interest
 - 4.11.3. Investment in shares of other bank/FIs
 - 4.11.4. Investments arising out of Underwriting Commitments
 - 4.11.5. Investment in shares and debentures exceeding the limits
 - 4.11.6. Review of the investment portfolio
 - 4.11.7. Adequacy of provisioning requirements
 - 4.11.8. Adequacy of investment adjustment fund requirements
- 4.12. Reporting Requirements (directive No.9)
Comment upon the reliability of mechanism used for NRB reporting and the accuracy of such returns
- 4.13. Sale or Transfer of Promoters Share (Directive No. 10)
 - 4.13.1. Sale or transfer against the statutory requirements
 - 4.13.2. Sale or pledge of promoter shares, during the lock-in period
 - 4.13.3. Where the promoter of the Bank is an entity, unauthorized transfer of ownership of such entity.
 - 4.13.4. Where the promoter of the Bank is an entity, the availability of audited financial statement of such entity for verification.
- 4.14. Consortium Financing (Directive No.11)
 - 4.14.1. Formation and dissolution of consortium
 - 4.14.2. Fulfillment of the specified duties of lead bank/member bank, where applicable.

- 4.14.3. Frequency of consortium meetings where it is lead bank/FI
- 4.14.4. Adherence to the spirits of consortium
- 4.15. Credit Information and Blacklisting (Directive No.12)
 - 4.15.1. Periodic Submission of information to CIC
 - 4.15.2. Mechanism to obtain required information from borrowers
 - 4.15.3. Credit Information at the time of sanction/renewal/restructuring/rescheduling of facilities
 - 4.15.4. Recommending defaulted borrower to the CIC for blacklisting
 - 4.15.5. Lending to individual/firm/company included in the blacklist
- 4.16. Cash Reserve/Statutory Liquidity Requirement (Directive No. 13)
 - 4.16.1. Comment on any exceptions on the maintenance of CRR as stipulated by the directive
 - 4.16.2. Comment on any exceptions on the maintenance of SLR as stipulated by the directive
- 4.17. New Branch/Office Operation (Directive No. 14)
 - 4.17.1. Unauthorized branches/offices/extension counters/remittance counters
 - 4.17.2. Unauthorized transactions
- 4.18. Interest Rates (Directive No. 15)
 - 4.18.1. Interest rate determination procedures
 - 4.18.2. Mechanism to determine cost of fund, yield on earning assets and interest spread
 - 4.18.3. Publication of interest rates
- 4.19. Mobilization of Financial Resources (Directive No. 16)
 - 4.19.1. Concentration of deposits
 - 4.19.2. Resource mobilization beyond the limit
 - 4.19.3. Issuance of debenture and other debt instruments
- 4.20. Deprived Sector Lending (Directive No.17)
 - 4.20.1. Comment on the exceptions observed in the deprived sector lending
 - 4.20.2. Whether the loans classified as deprived sector lending meet the stipulated pre-requisite conditions
 - 4.20.3. Monitoring mechanism for utilization of deprived sector lending on a half yearly basis

- 4.21. Merger, Acquisition and Upgradation (Directive No.18)
 - 4.21.1. Fulfillment of the specified requirements for upgradation by the financial institution, where applicable.
 - 4.21.2. Whether the minimum capital, capital structure meet the stipulated pre-requisite conditions for merger and/or acquisition, where applicable.
 - 4.21.3. Trading status of stocks in the stock exchange.
 - 4.21.4. Compliance of regulatory provisions on the Merger, Acquisition and Upgradation including Fit and Proper Test mentioned in BAFIA, 2063 NRB Act, 2058 and Unified Directives.
 - 4.21.5. Overall opinion on Merger, Acquisition and Upgradation.
- 4.22. Know Your Customer, KYC (Directive No.19)
 - 4.22.1. KYC norms formulated and followed.
 - 4.22.2. Adequacy of mechanism, procedures and documents for knowing the customer.
 - 4.22.3. Adequacy of filing and reporting of the suspected cases to the internal management and concerned supervisory authorities.
 - 4.22.4. Protection of information and documents, including electronic data, of the customer till the period stipulated in the Act and regulations.
 - 4.22.5. Cases of reporting of money laundering and suspected financing to terrorism to Financial Information Unit, FIU.
- 4.23. Subsidiary Company (Directive No.20)
 - 4.23.1. Compliance of directives of Investment in shares and other securities of subsidiary (ies).
 - 4.23.2. Adequacy of consolidation of transactions with the subsidiary(ies).
 - 4.23.3. Harmonized implementation of policies, procedures and systems of holding company in the subsidiary(ies).
 - 4.23.4. Transactions not based on competitive market price or unauthorized transactions or transactions not based on Arm's Length relation.
 - 4.23.5. Overall level of disclosure of Related Party Transactions in the periodic financial returns.
- 4.24. Miscellaneous Directives (Directive No.21)
 - 4.24.1. Whether insurance agency service offered to its clients.

- 4.24.2. Authenticity of computer software used.
- 4.24.3. Preparation of documents in the devnagari script of Nepali language as stipulated in the directives.
- 4.24.4. Adequacy of security maintained in the e-banking, e-payment and SWIFT.
- 4.24.5. Compliance of taxation, including TDS, and mandatory provisions made by fiscal policy of Government of Nepal.
- 4.24.6. Safe Deposit Vault, Locker Service availed.
- 4.24.7. Compliance of regulations and laws with respect to Auction.
- 4.24.8. Technical Service Agreement, TSA reached, where applicable.
- 4.24.9. Adequacy of policies, procedures and mechanism of transactions on derivative products, where applicable.
- 4.24.10. Use of Refinancing Facilities availed by the NRB made as per the agreement.
- 4.24.11. Transparency and level of economy in the capital and operating expenditures.
- 4.25. Compliance with internal rules, regulations and guidelines Comment on the overall state of compliance with the internal rules, regulations and guidelines.
- 4.26. Overall compliance of laws, regulations, circulars, directives and guidelines. Comment on the overall state of compliance with the laws, regulations, circulars, directives and guidelines.

5. OTHERS

- 5.1. Whether guarantees, all other contingent liabilities and off balance sheet exposures are properly recorded and disclosed
- 5.2. Whether banks have entered into any contracts with related parties including the promoters, directors, shareholders holding more than 1% and their undivided family
- 5.3. Compliance of pre-requisite conditions for Purchase of fixed assets
- 5.4. Any comments or issues, which the auditor feels appropriate to be communicated to the supervisor and is not covered by the above.

6. CONCLUSION

- 6.1. Type of Audit opinion expressed in the final audit Report
 - 6.1.1. Unqualified
 - 6.1.2. Qualified
 - 6.1.3. Adverse
 - 6.1.4. Disclaimer
- 6.2. Main reason for the qualified, adverse or disclaimer opinion on the financial statement produced, where applicable.
- 6.3. Areas of operation where it is exposed to excessive risk
- 6.4. The risk areas where bank/FI has not been able to properly address these risks
- 6.5. Comment on the Major Problems faced by the Bank/FI
- 6.6. Overall opinion of the auditor on the operation and financial standing of the Bank/FI.

