

Financial Performance Analysis of Commercial Banks in Nepal

(With reference to Nepal SBI Bank Ltd., Kumari Bank Ltd. & Laxmi Bank Ltd.)

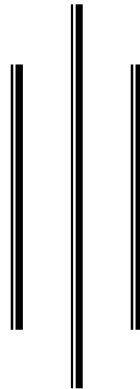
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**In partial fulfillment of the requirement for the degree of
Master of Business Studies (M.B.S)**

Kathmandu, Nepal

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DECLARATION

I hereby declare that the work reported in this thesis entitled **“Financial Performance Analysis of Commercial Banks in Nepal”** submitted to Research Department of St. Xavier College, Faculty of Management, Tribhuvan University is my original work done in partial fulfillment of the requirement for the degree of Master in Business Studies (MBS) under the supervision of **Head Of the Department** of St. Xavier College, TU.

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This thesis entitled “Financial Performance Analysis of Commercial Banks In Nepal” has been prepared in partial fulfillment for the degree of Master in Business Studies (MBS).

In the course of preparing my partial fulfillment, many more person’s help and co-operation is needed from different sectors. However, it will be matter of injustice if I forget the names of those personalities whose valuable suggestions and co-operation escorted to complete this thesis.

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I could not remain without thanking to my teachers, colleagues and lecturers, who all helped me during my study of MBS and during preparation of this thesis study. It was a novel experience of doing a thesis work, which certainly helped me to gain deep knowledge in the subject. But accomplishment of the objective was not easy.

The foremost difficulty was the scarcity of adequate data and information, which I experienced as the most difficult work during any type of research study in Nepal. Nevertheless, it was pleasant feeling to accomplish the thesis finally.

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ABBREVIATIONS

ADB/N	Agriculture Development Bank Nepal
CVP	Cost Volume and Profit
FY	Fiscal Year
GDP	Gross Domestic Product
HBL	Himalayan Bank Limited
JVB	Joint Venture Bank
NABL	Nepal Agriculture Bank Limited
NBBL	Nepal Bangladesh Bank Limited
NBL	Nepal Bank Limited
NGBL	Nepal Grindlays Bank Limited (now SCBNL)
NIBL	Nepal Investment Bank Limited
NIC Bank	Nepal Industrial and Commercial Bank Limited
NOC	Nepal Oil Corporation
NPA	Non-performing Assets
NRB	Nepal Rastra Bank
RBB	Rastriya Banijya Bank
Rs.	Rupees
SBPPNL	Sri Bhrikuti Pulp and Paper Nepal Limited
SCBNL	Standard Chartered Bank Nepal Limited
WTO	World Trade Organization

CHAPTER – 1

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Nepal is one of the least developed countries in the world. The country has one of the lowest levels of per capita income in the world. Capital accumulation plays an important role in accelerating the economic growth of a nation, which in turn is basically determined among others, by saving and investment propensities. But the capacity to save in developing countries is quite low with a relatively higher marginal propensity of consumption. As a result, such countries are badly entrapped into the vicious circle of poverty. So the basic problem for the developing countries is raising the level of saving and thus investments.

In order to collect the scattered savings and put them into productive channels, financial institutions like banks are a necessity. In the absence of such institutions, the savings will not be safely and profitably utilized within the economy, and will either be diverted abroad or use for unproductive consumption or speculative activities. Banking institutions are inevitable for the resource mobilization and all-round development of the country.

Growth of the economic development of the country needs formation of adequate capital, for that motive, commercial banks can play major role. Without capital, it is not possible to set up any type of business whether it is general store or a big business house. Every organization is started with a zero level and only come into existence when the promoters, owners or shareholders are initiative towards investing their capital on business. Every organization should have enough capital to run business.

Although the businesses are the major sources of capital, they also have to raise capital to run business. Especially banks capital plays the vital role because it has obligations to mass people, its depositors and society as a whole. Thus, the banks should hold an adequate capital to secure the interest of depositors.

BANK AS A SERVICE PROVIDER

A bank is a financial institution, which deals with money and credit. Banks collect money from the public and users. The main business of a bank is to pool the scattered idle deposits in the public and channel it for productive use. It collects deposits and invests or lends to those who stand in need for money. Bank, in other words, is a custodian of money received from depositors. Hence, its responsibility towards the general public is pretty different than those who are involved in other types of trades and services.

The business of a modern day bank is not confined in borrowing deposits and lending advances only, it performs a host of other financial activities, which has immensely contributed to achieve industrial and commercial progress of each country.

As per R.S. Sayers, “A bank is an institution whose whole debts are widely accepted in settlement of other people’s debts.”

As per Crowther, “The banker’s business is to take the debts of other people to offer his own in exchange and thereby create money.”

Historically, banks have been recognized for the great range of financial services that offers checking accounts and saving plans to loans for businesses, consumers and government.

However, bank service menus are expanding rapidly today to include investment banking (security underwriting), insurance protection, financial planning, advice for merging companies the sale of risk management services to business and consumers, and numerous other innovative services. Banks no longer limit their offerings to traditional services but have increasingly become general financial service providers.

HISTORY OF BANKING

The history of banking is very related to the history of money. As a society became more civilized, the needs for more efficient methods for barter were developed organically.

In the east, it is believed that banking was practiced at the time of “Manu” as it referred in “Manusmriti.” There is an opinion that it was practiced during Chanakya’s too, as banking has been mentioned in “Kaulitya’s Arthasastra”, which is the first book on economics.

In the west, the history of banking begins in ancient Greece, Rome and Mesopotamia. The early goldsmiths used to have large vaults, which were soundly built and heavily guarded.

Modern banks history begins from Bank of Venice established in 1137 AD, Bank of Barcelona established in 1407, Bank of Amsterdam established in 1609 and Bank of England established in 1694.

The origin of modern day banks has been attributed to the merchants, the goldsmiths and the money-lenders.

HISTORY OF BANKING IN NEPAL

It is assumed that the history of coinage in Nepal began from the Fifth Century AD.

The establishment of “Kausi Toshi Khana” as a banking agency during the time of King Prithivi Narayan Shah “Tejarath Adda” can be regarded as the initiate steps in the direction of start of banking development in Nepal.

Later, “Tejarath Adda” was replaced by the commercial bank, Nepal Bank Limited, established on 30th Kartik 1994 B.S, first commercial bank in Nepal with authorized capital of 10 million rupees.

Then Nepal Rastra Bank was established on Baishak 14, 2013 B.S. As the monetary transaction got more and more complicated, on Magh 10, 2022, Rastriya Banijya Bank was established as a fully government-owned commercial bank.

To operate all commercial banks uniformly under single act, “Commercial Bank Act 2031” was enacted. According to the Nepal Commercial Bank Act of 2031 B.S. (1974 A.D.), “Commercial banks are banks that deal with money exchange, accepting deposits, advancing loans and other commercial transactions except some special functions done by specified cooperative, agriculture and industrial banks.”

INTRODUCTION OF COMMERCIAL BANKS

A **commercial bank** is a type of financial intermediary and a type of bank. Commercial banking is also known as **business banking**. It is a bank that provides checking accounts, savings accounts, and money market accounts and that accepts time deposits. After September 11th, the U.S. Congress required that banks engage only in banking activities, whereas investment banks were limited to capital market activities. As the two no longer have to be under separate ownership under U.S. law, some use the term "commercial bank" to refer to a bank or a division of a bank primarily dealing with deposits and loans from corporations or large businesses. In some other jurisdictions, the strict separation of investment and commercial banking never applied. Commercial banking may also be seen as distinct from retail banking, which involves the provision of financial services direct to consumers. Many banks offer both commercial and retail banking services.

Commercial banks perform in the following activities:

- J Processing of payments by way of telegraphic transfer, EFTPOS, internet banking, or other means
- J Issuing bank drafts and bank cheques
- J Accepting money on term deposit
- J Lending money by overdraft, installment loan, or other means
- J Providing documentary and standby letter of credit, guarantees, performance bonds, securities underwriting commitments and other forms of off balance sheet exposures
- J Safekeeping of documents and other items in safe deposit boxes
- J Sale and similar, distribution or brokerage, with or without advice, of insurance, unit trusts financial products as a "financial supermarket"
- J Cash management and treasury services
- J Merchant banking and private equity financing
- J Traditionally, large commercial banks also underwrite bonds, and make markets in currency, interest rates, and credit-related securities, but today large commercial banks usually have an investment bank arm that is involved in the mentioned activities.

Source: Shrestha, Madhusudan "Fundamentals of Banking", 2066, pages 1-7, Dhaulagiri Publications

Commercial banks are the largest source of finance and its business is largely confined to business institutions. Hence, the name is termed as commercial banks. Though the commercial banks were established with concept of supplying short-term credit and working capital needs of the industries, they started to provide long-term loans for up to 10 years by the provision made in commercial Bank Act 1974. After the enforcement to lend in priority and deprived sector, these banks initiated to provide credit to small and cottage industries, agriculture and services, etc.

Government established fine rural development banks under the control and supervision of Nepal Rastra Bank. There are 17 commercial banks, 26 Development banks and 91 other financial institutions in the present scenario of Nepal Rastra Bank.

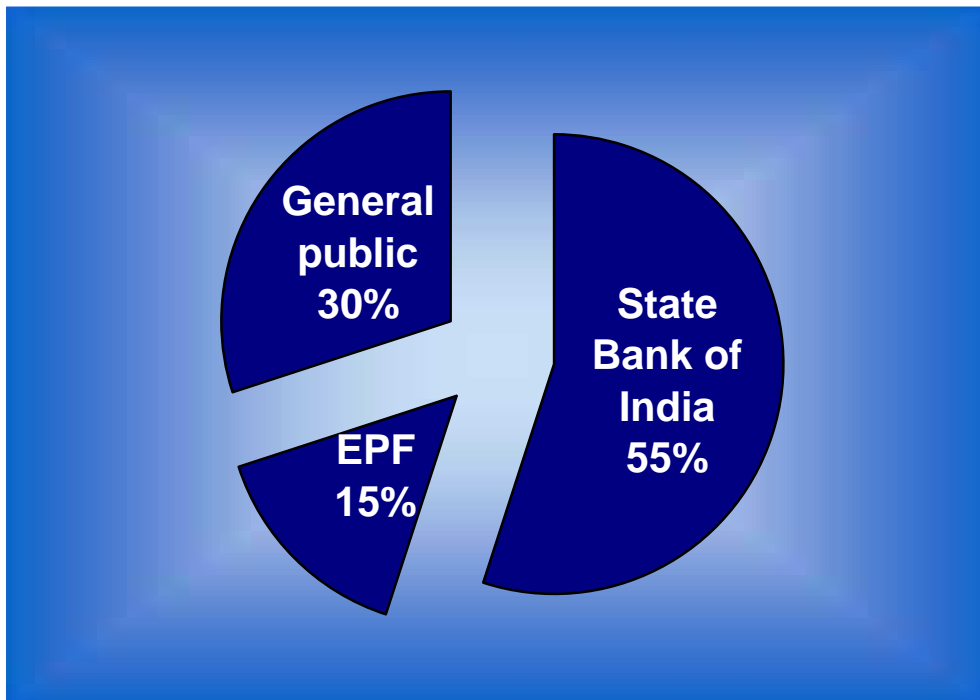
After the restoration of democracy, the government has taken liberal policy in banking sector so different private banks are getting permission to establish with the joint venture of other countries. Nepal has Nepal Arab Bank as the first joint venture bank. Similarly, two foreign commercial banks, Nepal Indosuez Bank Ltd and Nepal Grindlays Bank Ltd entered in Nepal in the form of joint venture and the trend is continuing till today as many Nepalese owned banks are also running.

Today, there are altogether 31 commercial banks in Nepal. The lists of the Bank are mentioned in attached annexure 1. Here, I have taken Nepal SBI Bank Ltd., Kumari Bank Ltd. and Laxmi bank Ltd. as sample bank for my research.

Brief History of Nepal SBI Bank:

Nepal SBI Bank Ltd. (NSBL) is the first Indo-Nepal joint venture in the financial sector sponsored by three institutional promoters, namely State Bank of India, Employees Provident Fund and Agricultural Development Bank of Nepal through a Memorandum of Understanding signed on 17th July 1992. NSBL was incorporated as a public limited company at the Office of the Company Registrar on April 28, 1993 under Regn. No. 17-049/50 with an Authorized Capital of Rs.12 Crores and was licensed by Nepal Rastra Bank on July 6, 1993 under license No. NRB/I.Pa./7/2049/50. NSBL commenced operation with effect from July 7, 1993 with one full-fledged office at Durbar Marg, Kathmandu with 18 staff members.

The staff strength has since increased to 511. Under the Banks & Financial Institutions Act, 2063, Nepal Rastra Bank granted fresh license to NSBL classifying it as an "A" class licensed institution on April 26, 2006 under license No. NRB/I.Pra.Ka.7/062/63. The Authorized, Issued and Paid-Up Capitals have been increased to Rs. 200 Crores, Rs. 186.93 Crores and Rs. 186.93 Crores, respectively. The management team and the Managing Director who is also the CEO of the Bank are deputed by SBI. SBI also provides management support as per the Technical Services Agreement. Agriculture Development Bank Ltd divested its stake in the Bank by selling its entire 5% promoter shares to SBI on 14th June, 2009. Consequently, the Bank's corporate status has undergone change from its previous status as a Joint-venture Bank to a Foreign Subsidiary Bank of SBI. Presently 55% of the total share capital of the Bank is held by the State Bank of India, 15% is held by the Employees Provident Fund (EPF) and 30% is held by the general public.



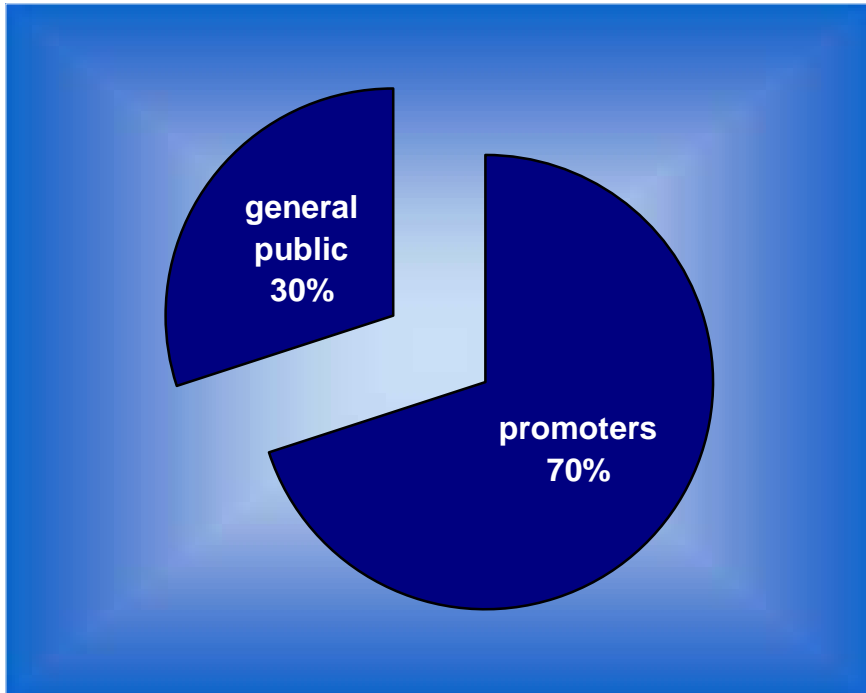
Source: www.nepalsbi.com.np

Currently SBI Bank is facilitating various types of services to its customer through total network of 51 branches including branches outside the valley.

Brief History of Kumari Bank:

Kumari Bank Limited, came into existence as the fifteenth commercial bank of Nepal by starting its banking operations from Chaitra 21, 2057 B.S. (April 03, 2001) with as objective of providing competitive and modern banking services in the Nepalese financial market. The bank has Authorized Capital and paid up capital of Rs. 160 Crores and Rs.148.5 Crores respectively, 70% paid up Capital is contributed from promoters and remaining from the general public.

Kumari Bank Ltd has been providing wide range of modern banking services through 29 points of representations located in various urban and semi urban areas of the country, 20 outside and 9 inside the valley. The bank is pioneer in providing some of the latest/lucrative banking services like E-Banking and SMS Banking services in Nepal. The bank always focus on building sound technology driven internal system to cater the changing needs of the customers that enhance high comfort and value. The adoption of modern Globus Software, developed by Temenos NV, Switzerland and arrangement of centralized data base system enables customer to make highly secured transactions in any branch regardless of having account with particular branch. Similarly the bank has been providing 365 days banking facilities, extended banking hours till 7 PM in the evening, Utility Bill Payment Services, Inward and Outward Remittance Services, Online Remit Services and various other banking services.



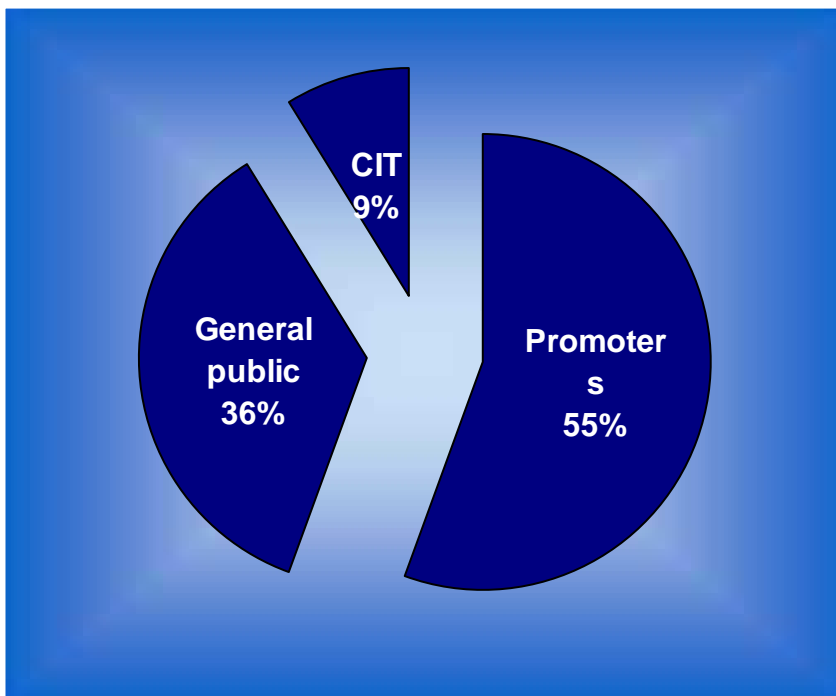
Visa Electron Debit Card, which is accessible in entire VISA lined ATMs (including 33 own ATMs) and POS (Point of Sale) terminals both in Nepal and India, has also added convenience to the customers. The bank has been able to get recognition as an innovative and fast growing institution striving to enhance customer value and total quality management as the organizational mission.

The key focus of the bank is always center on serving unfulfilled needs of all classes of customers located in various parts of the country by offering modern and competitive banking products and services in their door step. The bank always prioritizes of the valued customers.

Source: www.kumaribank.com

Brief History of Laxmi Bank:

Laxmi Bank was incorporated in April 2002 as a commercial bank. The current shareholding constitutes of promoters holding 55.42 percent, Citizen Investment Trust holding 9.02 percent and the general public holding 35.56 percent. Promoters represent Nepal's leading business families with diversified business interests. The Bank's shares are listed and actively traded in the Nepalese Stock Exchange. Laxmi Bank has grown with branches in Birgunj, Banepa, two in Pokhara, Biratnagar, Narayanghat, Pulchowk, Lalitpur, Teku, New Road, Janakpur, New Baneshwor, Damak, Bhatbhateni, Itahari, Maharajgunj and Bhairahawa. Following the merger with Hisef Finance Ltd., a decade old first generation finance company, its office in Hattisar, Kathmandu was converted to that of Laxmi Bank. This office was converted to a full branch and corporate office in October 2005.



With a view to providing safe, seamless, quick and advance banking services, the bank has been heavily investing in contemporary banking technologies. The Bank uses Flexcube as its main banking platform. Flexcube incidentally has been ranked the number one selling core banking solution globally, and has been embraced by over 500 financial institutions across over 90 countries. The Bank provides its

services through a host of delivery channels including cell phone, Internet, ATM, Point of Sales (PoS) etc., in addition to a network of physical branches. Internet banking facility comes with capabilities of online shopping in addition to regular Internet banking features. Similarly, through the bank's alliance with Smart Choice Technologies (SCT), the ATM/Debit cardholder of Laxmi Bank has access to a network of ATMs, and PoS terminals located in all major urban centers of the country. The bank is the first in South Asia to have implemented SWIFTNet, the advanced version of the SWIFT technology, which is used for speedy and secure payment and messaging services.

Under a professional management team, the bank has established itself as an emerging key player. Today the bank is recognized as an innovative and progressive bank geared to providing shareholders and customers with quality earnings and value-added services. Transparency, good governance, and sound business growth are driving forces of the bank.

1.2 Statement of the Problem:

Commercial Banks play vital role in economic growth of a country. As being a commercial institution, a commercial bank must make profit out of its operations for its survival and fulfillment of its responsibilities. The major activities of the commercial banks include mobilization of resources, which involves cost, and profitable deployment of the resources, generating income. The excess return, income over expenses, is the main source of profit to the bank. In case the bank fails to generate sufficient returns on the resources deployed, it is a drain on the company's resources and the country's resources as well.

In Nepalese economy, government owned and privately incorporated banks coexist. However, the performance of the privately incorporated banks is much better than those of the government control banks. As such, a large number of banks and finance companies beside the cooperative societies have mushroomed in the last decade. Because of the tailor-made product and services provided by the private institutions, they have been able to perform significantly well in the market.

Profit is essential for an entity to survive in the short run and to grow in the long run. Evaluation of financial performance of Nepal SBI Bank makes sense to know its ability to survive and grow in comparison to other commercial banks operating

in the same business environment. To explore the issue, it would be appropriate to carry out a benchmarking study of Nepal SBI financial performance against the commercial bank of the country.

1.3 Objectives of the Study:

The general objective is to dissect the financial performance of commercial Bank in respect of its ability to produce profits in comparison to the similar banks. Thus the major objectives of the study are:

1. To examine the trend of profit situation of the selected commercial banks over the last five years
2. To make the comparative study of profitability of Nepal SBI Bank, Laxmi Bank and Kumari Bank.
3. To study financial performance of Nepal SBI Bank, Laxmi Bank and Kumari Bank

1.4 Significance of the Study:

The mushrooming of commercial banks, development banks, finance companies and co-operatives in a short span of time has brewed new competitive scenario and has posed a new challenge to sustain and perform well in the market. Private Banks is covering a significant banking market, and among the private banks joint venture banks are the prime players.

-) It will help to know the position of Management Accounting currently practiced by selected banks.
-) It will help to find out problems and solve the problems pertaining to use of Management Accounting tools.
-) It will provide information about application of Management Accounting tools and promote the use of the Financial Management Accounting tools.

1.5 Limitations of the Study:

Social science research is a complex process. From conceptualization of the research area to research design, collecting data, analyzing the data as well as drawing the conclusion, all stage have some kinds of limitations. So, this study is also not an exception. Although, the effort has been made to minimize the limitations to the best possible extent, yet it suffers from the following limitations:

-) The research is mostly based on the secondary data published and processed by the respective banks. Information other than provided in the secondary data has been collected from the banks through personal contact and from the Banking Regulation Department, Nepal Rastra Bank.
-) 2. The scope of research is only commercial banks. The banks in this research are Nepal SBI Bank, Laxmi Bank and Kumari Bank. The profitability condition of the banking industry computed here therefore may not represent the whole commercial banking industry of the country composed of 25 commercial banks.
-) 3. Findings will be based only on the five fiscal years' data (2006 to 2010) of sample banks.

1.6 Organization of the Study:

Chapter I – Introduction:

This chapter included Current picture of the Nepalese economy, background of the study, statement of problem, objective of study, significance of study, limitations of the study and profile of Nepal SBI Bank, Laxmi Bank and Kumari Bank.

Chapter II –Review of Literature:

This chapter included the concept of commercial banks, conceptual framework of relevant terminologies, the summary of the financial statements of the commercial banks and review of the previous works and publications.

Chapter III - Research Methodology:

This chapter included the research design, data collection procedures and the tools and techniques to be employed for the analysis of the data.

Chapter IV - Data Presentation and Analysis:

This part of the study included presentation and analysis of financial figures of various banks. The financial figures of the individual institutions were dissected and analyzed in detail to arrive at the conclusion. The analysis was made on the basis of various tools and techniques like ratio analysis, comparisons and trend analysis. This portion also contained the list of major findings derived from the analysis.

Chapter V - Summary, Conclusion and Recommendations:

Summary of the study was outlined in this chapter. Conclusion on the comparative position of the Nepal SBI Bank, Laxmi Bank and Kumari Bank were presented in this section. Recommendations to resolve the foreseen problems were also reported which could be helpful for better performance in the forthcoming years.

CHAPTER - 2

REVIEW OF LITERATURE

2.1.1 Overview of Commercial Banks

After the restoration of multiparty democracy, several commercial banks made headway to business in Nepal. At present, commercial bank holds a large share of economic activities of the country. Stock market has been dominated by commercial banks since a decade. Everyday, trading of large amount of stock transactions of commercial banks can be seen. Not only in the stock market, but commercial banks have also been major contributors to the revenue of the country. They have been paying a large amount of tax every year. Banking sector has become a mainstay of the economy of the country.

Establishment of commercial banks are governed by Bank and Financial Institutions Act and Company Act. However, Nepal Rastra Bank (NRB), as a regulatory body for banks and financial institutions, has right to specify the capital requirements, and other requirements. Being the central bank of Nepal, NRB has the responsibility to give special attention to the interest of depositors. Such a big amount of money should have to be secured and NRB has the major responsibility to protect it.

To reflect this dynamic environment, the functions and objectives of the bank is governed by the new Act enacted and established in 2002, the preamble of which lays down the primary functions to be performed by the Bank:

-) To formulate necessary monetary and foreign exchange policies to maintain the stability in price and consolidate the balance of payments for sustainable development of the economy of the Kingdom of Nepal;
-) To develop a secure, healthy and efficient system in order to maintain its stability and foster its healthy development;
-) Mobilizing Capital and managing public debts, issue of Nepali Currency Note and Coins and
-) To further enhance the public confidence in Nepal's entire banking and financial system.

Source: Thapa, Kiran and Neupane, Dipendra Kumar, “Banking and Finance”, 2065, page 7-10, Buddha Publications

The Bank is eminently aware that, for the achievement of the above objectives in the present dynamic environment, sustained progress and continued reform of the financial sector is of utmost importance.

To improve the financial sector legislative framework, some new acts have already come out and there have been amendments to some existing acts. Enactments of the draft legislations on bank and financial institutions, secured transactions, insolvency, Assets Management and anti-money laundering are expected to be soon materialized, all with the goal of strengthening the financial sector through building on its healthy development and improved stability.

These activities which are performed by the Bank are concerned with the present and future challenges of the financial system more competently. This dynamic and proactive approach to the financial system, especially with its increasing openness and competitive process in the context of growing global financial environment, should ensure a sustained progress and stability of the financial system under NRB’s guidance and leadership, for contributing substantially to the sustained development of the economy of Nepal.

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

2.1.2 Overview: Financial Performance Analysis

According to I.M. Pandey, “Financial Analysis is the process of identifying the financial strength and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss account.”

Financial Performance Analysis standards are thus a vital tool to reducing systematic risk. They also play a central role in how regulators supervise financial institutions.

Conceptual Review of Financial Analysis

Financial analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account. The focus of the financial analysis is on key figures contained in the financial statements and the significant relationships that exist between them. It is undertaken by various interest groups of a firm and the nature of analysis differs depending on the purpose of the analyst. Management of the firm is generally interested in every aspect of the financial analysis because they have overall responsibility of maintaining efficient and effective utilization of resources and sound financial position of the firm.

Financial analysis may be of two types via vertical analysis and horizontal analysis. When financial statements like a balance sheet or a profit and loss account, of a certain period only are analyzed, the analysis is called vertical analysis. In horizontal analysis, a series of statements relating to a number of years are reviewed and analyzed. It is also known as a dynamic analysis because it measures the change of position or trend of the business over a number of years. This study is based on horizontal analysis. There are three steps in financial analysis:

-) Selection of relevant information from the total information.
-) Arrangement of the selected information in a way to highlight significant relationship.
-) Interpretation and drawing of inferences and conclusions.

A powerful and the most widely used tool of financial analysis is ratio analysis. Ratio analysis is the systematical use of ratio to interpret the financial statements so that the strengths and weaknesses of a firm as well as its historical performance and current financial condition can be determined. A comparative study can be made between different statistics concerning varied facets of a business unit with the help of ratio analysis.

2.3 Review of The Previous Thesis

Profit planning and control is important subject matter of management accounting. Without profit planning and control management accounting is not sufficient. So, profit planning and control is backbone of management accounting. Researches in the area of profit planning and control practices were made many in Nepalese context. An attempt is made here to review some of the researches, which have been submitted in profit planning and control as well management accounting practices in the context of Nepal are following one by one respectively.

Mr. Dinesh Raj Shakya (1995) conducted a thesis on “Financial Analysis of Joint Venture Banks in Nepal, with Special reference to Nepal Arab Bank Limited (NABL) currently known as NABIL Bank and Nepal Grindlays Bank Limited.” currently known as Standard Chartered Bank Ltd. The thesis was submitted to Shanker Dev Campus, Faculty of Management, T.U.

The main objectives of the study were:

1. To evaluate the trend of deposits and loans and advances of NABIL and NGBL.
2. To evaluate the liquidity, profitability, capital structure, activity ratio and capital adequacy positions of NABIL and NGBL.
3. To suggest and recommend measures on the basis of comparative financial performance evaluation and findings, for the improvement of financial performance of NABIL and NGBL in the future.

Mr. Shakya came up with following conclusions:

- 1) NGBL's liquidity position is higher than those of NABIL however NGBL's liquidity ratio is more deteriorating year by year than the same of NABIL. Thus NGBL is comparatively better in liquidity position than NABIL.

-) NABIL's deposit utilization rate is higher than that of in all the fiscal years which implies NABIL is more active in creating investment opportunities and enhancing business activities than NABIL's.
-) NABIL is more successful in investing more amounts of deposits as loans and advances, the highest income generating assets than NGBL.
-) NABIL and NGBL are following different strategies of financing. In aggregate; NGBL's capital structure position is more risky than that of NABIL. But in other side, it implies that NGBL is utilizing more outside funds for the benefit of its shareholders.
-) Average return on risky assets ratio and average return on total assets ratio of NGBL are higher than those of NABIL that implies NGBL is more profitable than NABIL. Comparatively, NGBL's profitability position is better than the same of NABIL.

Mr. Ramji Poudel(1997) conducted a thesis on "A comparative analysis of financial performance between Nepal Bank Limited and Nepal Grindlays Bank Limited." The thesis was submitted to Shanker Dev Campus, Faculty of Management, T.U.

The main objectives of the study were:

-) To provide comparative highlights and study of VBL AND NGBL, in terms of functions growth and development.
-) To analyze the comparative financial performance of NBL AND NGBL in terms of Liquidity ratio, profitability ratio, turnover ratio, structure ratio, credit ratio and other rations such as EPS, DPS, MVPS.
-) Based on the findings of the study it aims at providing appropriate suggestions and recommendations.

Mr. Poudel came up with the following findings:

-) In some cases liquidity ratios of NBL are higher than NGBL and in some cases the ratios of NGBL are higher than NBL. On the whole current assets of these banks are adequate to meet the current liabilities.
-) NBL has the better utilization of resources in income generating activity than NGBL. Though loans and advances to fixed deposit ratio of NGBL is better than NBL.
-) The overall profitability of NGBL is better than the same of NBL. Such as net profit to working fund ratio, net profit to total deposits, net profit to net worth ratio etc.
-) NBL is highly leveraged than NGBL in terms of long-term debt to net worth ratio and total debt to net worth ratio.

Mr. Tulsi Prasad Shrestha (1998) had conducted a research on a topic “Profit Planning in Sri Bhrikuti Pulp and Paper Nepal Limited.” The thesis was submitted to Shanker Dev Campus, Faculty of Management, T.U.

Mr. Shrestha had mainly focused on the practice and effectiveness of profit planning system in SBPP. The time period covered by the research was five year from FY 2051/52 to FY 2055/56. Necessary data and other information were collected from both the secondary and primary sources of data. In his research, Mr. Shrestha had pointed out various objective and findings. The major objectives of his study were follows:

-) To understand theoretical concept of profit planning.
-) To examine and analyze the practice and effectiveness of profit planning in SBPPNL.
-) To analyze the various between planned and actual of the company.
-) To provide recommendation and suggestion.

Some of the major findings were as follow:

-) SBPPNL's objectives aren't much clear, different specific financial goals aren't prepared and strategies policies and programmed aren't adequate to develop the company.
-) SBPPNL don't consider CVP analysis while pricing the product.
-) Inadequate forecasting system.
-) Unnecessary centralization of power so that decision making is only from top-level

Mr. Mahendra Mandal (1998) on "Comparative Financial Performance Appraisal of Joint Venture Banks" The objective of the study was: The thesis was submitted to Shanker Dev Campus, Faculty of Management, T.U.

-) To highlight conceptual framework of Joint Venture Banks
-) To analyze and interpret the financial data of Joint Venture Banks
-) To provide suggestions and recommendations on the basis of findings
-) Analysis to improve the financial weaknesses of Joint Venture Banks.

Mr Mandal came up with the following conclusions:

The liquidity position of JVB's ar not very poor although the rule of thumb the standard ratio should be 2:1 couldn't be followed by JVBs. But it cannot be said that the JVBs are not able to pay their short-term obligations.

NIBL has earned more profit in terms of net profit to total assets, total deposits and return on net worth than NABL are relatively high with respect to net profit, earning per share NGBL has registered more amount than NABL and to its shareholders.

The growth rate of NABL are relatively high with respect to net profit, earning per share and dividend per share whereas other two banks NGBL and NIBL have registered very low growth rates in comparison of NABIL. It has achieved better position having higher growth rates that signifies NBL has declared more dividends.

In the case of NGBL, it has higher mean value of net profit than other two banks over the last five years, so it can be concluded that NGBL has earned more profit but earnings rate of change is higher in the case of NABL, which seems that NABL is growing in rate of change in earning that concludes NABL has successfully mobilized all the resources for creating more incomes in proper way.

Mr. Madhu Sudan Bhattarai (1999) had conducted a research on topic” Profit Planning of Non-Manufacturing Public Enterprise in Nepal. A case study of Nepal Oil Corporation Limited.” The thesis was submitted to Shanker Dev Campus, Faculty of Management, T.U.

Mr Bhattarai had mainly focused on appraisal of the performance of NOC. The time period covered by the study was five years from FY 049/50 to FY 03/54. The necessary data and other information had been collected from secondary ads well primary sources of data. In his research, Mr. Bhattarai pointed out various objectives and findings. The major objectives of his study were follows:

-) To study the various accounting system of NOC.
-) To examining the procurement and distribution channel system petroleum oil and lubricant products
-) To analyze the profit planning of NOC
-) To provide recommend and the provided suitable suggestions to the corporation.

Some major findings are as follows:

-) Goals and objectives aren't clear
-) No clear policy in purchasing sales and investor.

-) Unable to define duties and responsibilities of the employees.
-) No classification of costing.
-) Red-Tapism in implementation phase of profit plan.
-) Decision making power has been controlled.

Mr. Madan Bahadur Babu (1999) had conducted a research study on “Profit Planning in Dairy Development Corporation.” The thesis was submitted to Shanker Dev Campus, Faculty of Management, T.U.

Mr. Babu has centralized his study in current practice of profit planning in DDC. The time periods covered by the research was five years from FY 2049/50 to FY 2053/54. The data and other necessary information were collected from secondary and primary sources of data. In his research, Mr. Babu pointed out various findings. The major objectives of his study were follows:

-) No proper work of segregation of cost into fixed and variable.
-) No maintenance of periodic performance report systematically.
-) Plan is prepared on ad-hoc basis.
-) Inadequate authority and responsibility to planning department.
-) No proper analysis of environmental variables.

Mr. Rajendra Lamsal (1999) had conducted a research study on “A comparative financial statement analysis of Himalayan Bank Limited and Nepal Grindlays Bank Limited.” The thesis was submitted to Shanker Dev Campus, Faculty of Management, T.U.

The main objective of the study were:

-) To study the present position of the two joint venture banks under study covered.
-) To provide a package of suggestions and possible guidelines to improve banking business based on the findings of the study.

Mr. Lamsal came up the the following conclusions:

-) Liquidity ratio shows that the liquidity position of HBL is better than that of NGBL. HBL has sufficient cash and bank balance to meet its current deposit and proportion of fixed deposit is relatively higher than that of NGBL.
-) HBL has better turnover than NGBL in terms of loans and advances to total deposit. But in terms of investment to total deposit ratio, NGBL has better turnover than HBL. Where as the total income generating assets to total assets ratio of both the banks are about to equal.
-) The overall profitability of NGBL is better than that of HBL. Total interest earned to total outside ratio, return on shareholder's fund ratio, return on total assets ratio, are higher for NGBL than HBL.
-) The average ratio of long-term debt to shareholder's ratio, total debt to shareholder's ratio, total debt to total assets ratio, are slightly higher for HBL than NGBL.
-) Capital adequacy ratio has clearly showed that shareholder's fund with respect to total deposit and total assets are slightly higher for NGBL than HBL.
-) NGBL seems to be paying relatively more dividend that HBL.
-) The percentage earning per share of NGBL in all the five years is greater than that of HBL. But the rate of increment as found vry higher in HBL than that of NGBL.
-) HBL's deposit utilization rate is higher than that of NGBL in all the fiscal years during the study period that implies. HBL is more active in financing its deposits.

Mr. Narayan Prasad Bhattarai (2000) had conducted a research on the topic "Profit Planning in Central Zoo." The thesis was submitted to Shanker Dev Campus, Faculty of Management, T.U.

The main focus of his research was the application of profit planning and control and its effectiveness in central zoo. The time period covered by the research was five years from FY 2051/52 to FY 2055/56. Necessary data and other information were collected from secondary as well as primary sources of data. In his research, Mr. Bhattarai had pointed out various findings and recommendations. Some major findings were as follows:

-) Goals and objectives of the central zoo aren't clearly communicated to the lower level and there is lack of responsibility accounting system.
-) Participation of lower level in planning and decision making is nil and there is still shortage of management by objectives techniques.
-) The public participation approach, which helps for the entire wildlife conservation and environment protection.

Mr. Laxmi Prasad Prasai (2000) had conducted research study on "Profit Planning in Ilam Tea Estate." The thesis was submitted to Shanker Dev Campus, Faculty of Management, T.U.

Mr. Prasai's main focus of the study was the current practices and effectiveness of profit planning. The time period covered by the research was five years from FY 2050/51 to FY 2054/55. The necessary data and other information were collected from secondary and primary sources of data. In his research, Mr. Prasai had pointed out various findings. The major objectives of his study were follows:

-) Specific goals and financial targets aren't defined clearly to achieve the basic objectives.
-) There is lack of defined authority and responsible departments
-) Inadequate profit planning due to lack of planning experts planer.
-) Unnecessary centralization of power so the decision making is only from top-level.
-) Inadequate forecasting system.

-) Failure to maintain periodic performance and so system of reward and punishment.

Mr. Surendra Deoja (2001) had conducted research study on “A Comparative Study of the Financial Performance of Nepal SBI Bank Limited and Nepal Bangladesh Bank Limited”. The thesis was submitted to Shanker Dev Campus, Faculty of Management, T.U.

The main objectives of his study were as follows:

1. To evaluate the trend of deposits and loans and advances of NSBI and NBBL.
2. To evaluate the liquidity, profitability, capital structure, turnover and capital adequacy positions of NSBI and NBBL.
3. To provide a package of suggestion and possible guidelines to improve the future financial performance of these two banks based on the findings of the study.

Mr. Deoja came up with the following findings and conclusions.

-) Follow liberal lending policy for both banks.
-) Both banks should develop a special investment promotion unit for seeking new profitable investment opportunities and identifying promising small entrepreneurs lacking any contact and approach.
-) They should be liberal in granting loans to industrious NBC trainee (Trained by Small Business Promotion Project) and trained from other institutions.
-) Grant midterm loans also for more deposits utilization

Ms. Abha Subedi (2001) had conducted a research study on “Profit Planning in Commercial Bank; A Case Study of Rastriya Banijya Bank.” The thesis was submitted to Shanker Dev Campus, Faculty of Management, T.U.

Ms. Subedi had focused her study in the investment policy of Rastriya Banijya Bank with the current practice of effectiveness of profit planning in the Bank. The time period covered by the research was five years from FY 1993/94. The necessary data and other information were collected from secondary and primary sources of data. In her research, Ms. Subedi had pointed out various findings. The major objectives of his study were follows:

-) Investment pattern of RBB is mainly towards the security of land, gold and silver.
-) There is no proper management planning. This is causing problem of over staffing and extra cost burden.
-) No systematic application of budgeting.
-) Activities of the bank are centered to urban areas only.
-) No. of branches have been increasing each year.

Mr. Sagar Sharma (2002) had conducted a research on the topic “Management Accounting Practices in Listed Companies of Nepal.” The thesis was submitted to Shanker Dev Campus, Faculty of Management, T.U.

He had focused his study to examine the practice of Management Accounting tools in the listed companies of Nepal. Mr. Sharma’s research study was based on only primary sources of data. Stratified random sampling with proportionate allocation of percentage was followed to draw the sample. In his research, he had pointed out various objectives and findings, among those some remarkable objectives are as follows:

-) To study and examine the present practice of management accounting tools in the listed companies in Nepal.
-) To identify the areas where management accounting tools can be applied to strength the companies.

-) To make recommendations to overcome the difficulties in applying management accounting tools in Nepalese companies.

Some major findings were as follows:

-) Different types of management accounting tools, which are taught in the colleges, are not found applied by the listed companies of Nepal.
-) Management Accounting is help to managers in overall managerial activities by providing information and helping in planning, controlling decision making.
-) Nepalese listed companies are infant stage in practicing of management account tools such as capital budgeting, annual budgeting, cash flow, ratio analysis, zero based budgeting, activity based costing, target costing, and value engineering.
-) As Nepal is proceeding toward globalization and has got the membership of WTO, companies are recommended to apply management accounting tools of fit with the global environment.

Mr. U.P. Sapkota, (2004), had studied “Fund mobilizing policy of Standard Chartered Bank Nepal Ltd.”. The thesis was submitted to Shanker Dev Campus, Faculty of Management, T.U.

-) He has found that liquidity position of SCBNL was not satisfactory.
-) Loans and advances, cash and bank balance ration seemed too weak than that of NBBL and HBL.
-) Investment on share and debenture and interest earning power on total working fund also seemed weak in condition than NBBL and HBL.
-) The relation of investment and loans and advances with deposits seemed positive and the relation of net profit with outside assets (investment and loans and advances) seemed positive.

) At last, Sapkota concluded that in overall condition SCBNL seemed in satisfactory position in comparison to NBBL and HBL, since SCBNL used ton provide less loans and advances in comparison to its total deposits, Sapkota has strongly recommended for following:

-) A liberal lending policy so that more percentage of deposits can be invested in different profitable sectors as well as towards loans and advances as a significant factor this affects the net profit of the bank.
-) Subsequently, a skilful administration is the must for these assets because negligence may become a reason for liquidity crisis and bankruptcy.

Mr., R.P. Karmacharya (2005) has expressed that “the financial soundness as well as its strength of the company depends upon the large extent on the composition of the capital structure and assets.” The thesis was submitted to Shanker Dev Campus, Faculty of Managem.

The major findings of the study were:

-) Capital structure of the company presents its resource capacity and ability of its present worthiness.
-) In the study, he has found that all the banks in his study follow the requirements of NRB Directives regarding capital adequacy.
-) The capital structure of studied banks is highly leveraged.

Thus, Mr. Kamacharya has recommended as follows:

-) The proportion of debt and equity capital should be decided keeping in mind that effort of tax advantages and financial distress.
-) The banks are required to maintain improved capital structure by increasing equity base i.e., issuing more equity capital expanding general reserve and retaining more earnings. With this improvement, it will compromise among the conflicting factors of cost and risk.

-) As mandated by NRB, for the operation in overall Nepal, a commercial bank should have capital base of Rs.500 million. Hence, the banks should raise its paid-up capital to Rs.500 million as soon as possible.

Mr. Bhoj Raj Adhikari, (2006) had conducted a research study on “Comparative Study of the Profitability of Nepal SBI Bank & Nepal Bangladesh Bank” The thesis was submitted to Shanker Dev Campus, Faculty of Management, T.U.

He has the following major findings:

-) The mean ratio of return on equity of NB Bank is nearly too five times of SBI Bank. The variability of return on overall equity of NB Bank is very higher than that of SBI Bank. It shows the inconsistency in return on equity.
-) The mean ratio of return on total assets NB Bank is less than SBI Bank. It shows the inconsistency in return on assets.
-) The C.V of SBI Bank is higher than that of Nepal Bangladesh Bank.
-) It can be concluded that the profitability position of NB Bank is comparatively worse than that of SBI. The bank must maintain its high profit margin for the well being in future.
-) Average cash and bank balance to total deposit ratio of SBI Bank remained greater than that of NB Bank. It indicates the better liquidity position of SBI Bank.

Further Mr. Adhikari has recommended that:

-) Both the banks should be established after proper diagnosis of the root causes of unsatisfactory liquidity. In this regard, NB Bank should be more serious than SBI Bank.
-) Both banks should attract more non interest bearing amount deposit for increase profit margin. The share of fixed deposit on its total deposit is very high. So it is recommended to reduce its fixed deposit.

-) Both banks must formulate the strategy to control unnecessary expenses using modern technology, computer networks and experts, and well trained personnel which also increase the operating efficiency of the bank.
-) The earning per share and dividend per share attract the investors. So higher cash dividend strategy should be adapted for the better growth of shareholders worth.
-) Need to invest on small entrepreneurs development programs.
-) NB Bank and SBI Bank are suggested to make modern banking technologies accessible to there all kinds of depositors as far as possible.
-) An emphasis should be given on planning, research and development for the proper planning and controlling purpose. Proper and regular internal audit system can help the management in regards the cost control strategy and avoid unnecessary leakage in the expenses.

In the like manner, somehow related thesis to profitability was presented by Mr. Shambhu Tandukar, (2007), entitled “**Dividend Policy: A Comparative Study of Joint Ventures Banks (Listed) of Nepal**”. The thesis was submitted to Shanker Dev Campus, Faculty of Management, T.U.

From the analysis, the major findings help to conclude that among the sample banks, except one or two banks have satisfactory earning per share and has paid satisfactory dividend per share according to the earnings. Although the banks have made earning every year, some banks have not paid dividend every year. It can be said that there is no consistency in dividend payment of the sample banks except NABIL and SCBL, which pays average dividend of 48 and 104 each year. It can be found that dividend payout ratio is most stable than the dividend per share paid, as there is significant difference in dividend payout and earning per share, while there is no significance difference in the dividend payout ratio of sample banks.

On the basis of the study considering the target objective, following recommendations are given,

- It is recommended that the banks should develop proper dividend payout ratio policy and strategy and should follow the optimal, long-term dividend policy to satisfy stockholders and to create good image in market.
- Among seven banks more than half banks coefficient of variation (C.V) shows high fluctuations in DPS, DPR DY and PER. So it should be necessary to decrease the fluctuation rate to become more consistent.
- The stock or capital market should be efficient and perfect enough in order to attract the shareholders.
- The banks should forward their step to decrease the high fluctuation in their EPS and DPS. EPS has always been a major factor in determining the dividend and increase in EPS increases DPS has always been an accepted fact. It seems that DPS does not affected by EPS or the dividend amount is not declared on the basis of earnings. It is important for the banks to consider their earning rather than neglecting it while making dividend decisions.

Mr. Binod Maaju (Shrestha) (2009) had conducted a research on the topic “A Comparative Study of Financial Performance of Nepal Arab Bank Ltd. and Nepal SBI Bank Ltd.” The thesis was submitted to Shanker Dev Campus, Faculty of Management, T.U.

He had focused his study on financial performances of NABIL AND NSBIBL.

Some major findings were as follows:

-) There is significant correlation between the deposit and investment of NABIL where as in NSBIBL it has low degree of correlation in NSBIBL.
-) There is no significant difference between two banks in relation of total deposit and loan and advances.
-) There is significant correlation between the deposit and net profit in NABIL where as a negative correlation in NSBIBL.

Mr. Madhav Narayan Kachhipati, (2010) had conducted a research on the topic “Right Shares Issue and Its Impact in Nepalese Capital Market.” The thesis was submitted to Shanker Dev Campus, Faculty of Management, T.U.

He had focused his study on rights shares issue practices in Nepalese capital market and its impact on market price of share. The investigation covers two interrelated aspects. First one, the characteristics/features of rights offering by the listed company and secondly, the share price movement associated with rights offering.

Some major findings were as follows:

-) There is significance difference between the share price of banking group and finance company group i.e. banking group’s share price is higher than that of financial group.
-) Most of the finance companies don’t show the significant change in the price before and after right share issue. This means that the market doesn’t show the greater interest in the Finance companies.
-) Right is appeared as an obligation imposed on shareholders, otherwise she/he would suffer a loss in the form of decline in price her/his holding.
-) Nepalese investor’s preferred the banking sector’s rights hare rather than other sectors because the performance of banking sector was better than others.

Mr Santosh Pandit, (2010), came with the conclusion in his study on “The directives of NRB in maintaining capital adequacy ratio and its impact” that commercial banks of Nepal are bound by the NRB Directives and are currently bound by Unified Directives issued for all financial institutions. The thesis was submitted to Shanker Dev Campus, Faculty of Management, T.U.

The directive no. 1 has set norms on capital adequacy for commercial banks. Every commercial bank has to meet the requirement of capital adequacy as sated by the directive.

The bank under study, NIC Bank is found to be successful to comply with requirement of capital adequacy norms.

Mr. Pandit recommended that NRB should consult to the various bank officials before setting or resetting standards on such capital adequacy norms. The complaints and criticisms of bank officials should be considered accordingly. Consequently, an optimal standard will be ensured which will satisfy almost everyone.

2.4 Research Gap

Financial performance is one of the major instruments for raising fund. However, there is still no specific research done yet on the three sample banks. The purpose of this research is to provide clear picture on financial performance.

Most of the research study concentrated on the NRB directives relating to its purpose and impact to the financial institution. Few of them have gone specific about ratios norms but non of them were written over the net profit ratio analysis norms taking Nepal SBI Bank, Laxmi Bank and Kumari Bank in specific. So, this study is conducted to make a specific review of profit norms with a specific case of Nepal SBI Bank, Laxmi Bank and Kumari Bank. The banks are not very old, so, many studies regarding these banks were not made compared to other elder commercial banks.

Many researchers done causes' impact on profit movement, such as Financial Performance, Bonus Share, Dividend Psicy and Right Offering Announcement. Their study was based on financial performance as well as dividend policy on common stock, pricing. Mr. Binod Maaju (Shrestha)'s study was based on financial performance considering only two samples, which were not sufficient sample size. This study is based on secondary market. Moreover, the earlier studies on financial performance have become old and need to be updated and validated, because of the rapid changes that have taken place in Nepalese Banking sector. This study is tried to find the impact of profit on operations and cost of sampled organization.

Besides impact of profit movement, the objectives are completely new and the previous researchers have ignored it. Without it, the research on financial performance would not be completed (justified).

Unified Directives for Financial Institutions has been issued as applicable from the FY 2062/63, so, it can be said that this study would be a new in incorporating the norms of such new directives. The study certainly gave clear picture of the compliance of the financial performance norms by these three banks and its impact by conducting an analytical study of Capita Fund, Deposit and Credit.

Finally, this study would prove an important effort to inform the promoters and shareholders to protect and improve their money and wealth.

CHAPTER - 3

RESEARCH METHODOLOGY

Research Design

The study was designed to as to give clear picture of the Bank's financial estate. For this, various parameters on performance were used. Thus the financial statements and other available data were used to investigate into financial performance of the bank followed by some useful suggestions and recommendation.

The study is mainly based of Descriptive research design as it collects data based on historical data and on Analytical research as the study analyzes financial income statement and balance sheet of the banks.

Data gathering procedure

Mainly primary and secondary sources of data were used to evaluate the performance of the bank. Data were collected from various sources like annual reports and financial statements of the bank, official records, and monthly bulletins of Nepal Rastra Bank, various Banks' websites, and chairman's speeches to different AGMs, various published and unpublished periodicals, magazines and all available reports and materials of Nepal SBI Bank, Laxmi Bank, Kumari Bank and Nepal Rastra Bank on commercial Banks.

Besides, bank officials of various departments were directly been approached to understand their real grievances and dissensions.

The data collected from different sources were analyzed. Mainly Net Profit Margin ratio and other financial tools are used to compare financial performance of three commercial banks.

Population and Sample

Sixteen commercial banks both domestic and foreign collaborated, operating in Nepal, is the population of this study. Laxmi Bank, Nepal SBI Bank and Kumari Bank were selected as sample for evaluation. Similarly, financial statement of five years (beginning from 2005 to 2006) were selected as sample for the purpose of the same.

TOOLS OF ANALYSIS

In order to ascertain actual financial position of any firm, various analytical tools can be used. It is true and suitable or appropriate tools, according to the nature of statement and data, make the analysis more effective and significant for achieving this objective. Basically two sorts of tools used: financial and statistical in this research study.

Financial Tools

As this study is related to financial performance analysis, financial tools are more useful.

However, the utmost effort to use as many ratios as possible to reach the point of true financial position of the banks has employed.

- Liquidity Ratios
- Activity Ratios
- Capital Adequacy Ratios
- Leverage (Capital Structure) Ratios and
- Profitability Ratios

Ratio Analysis

A ratio is of relationship of one financial figure with other financial figure.

Ratio Analysis is the best tool for financial analysis which is the expression of relationships between two financial figure or group of financial figure and therefore may be calculated in any number and ways so that meaningful co-relationship can be obtained. It is the calculation and comparison of ratios which are derived from the company's financial statements. According to I.M. Pandey, "Financial Analysis is the process of identifying the financial strength and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss account."

In general, the Ratio Analysis is used as a benchmark for evaluating the financial position and performance of a firm.

Types of Financial Ratios

There are various types of ratios that are used by/for different parties for different purposes. It can be calculated from the information given in the financial statements. Generally, ratios are calculated from the financial statements by the parties' such as creditors, investors, financial institutions and management of the firm to know their field of interest.

Several ratios calculated from the accounting data can be grouped into various classes according to financial activities or function to be evaluated. For the purpose of ratio analyses following two types of tools are used:

- a) **Trend Analysis**
It is comparison of present ratio with the past ratio of the company.
- b) **Comparison**
Comparison refers o tallying the ratio of firm with those of similar firms or with industry average at the same period in time.

The objectives of ratios analysis are as follows:

1. The main objective of ratio analysis is to analyze the firm's relative strength and weakness.
2. It evaluates the financial condition and performance of the firm.
3. It paves way for useful interpretation of financial statements.
4. It helps in suggesting corrective measures for the betterment of the firm.

Advantages of the Ratio Analysis

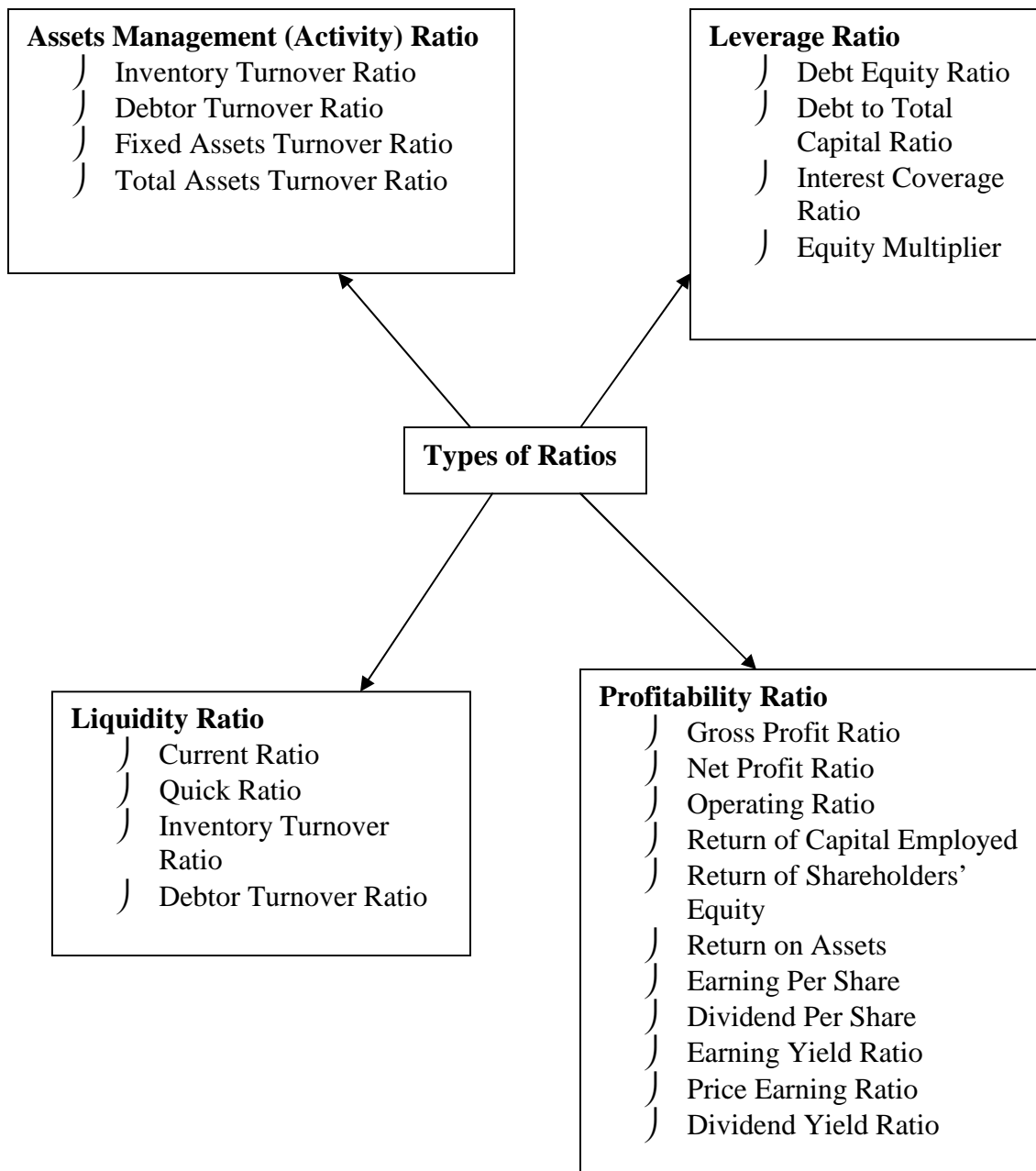
The importance of ratio analysis is the facts on a comparative basis.

The following are some of the advantages of ratio analysis:

1. Ratio analysis provides an integrated view of the overall profitability of the firm, which the management constantly concerned.
2. It enables to analyze the ability of the firm to meet its short term as well as long term obligations.
3. Helps in planning, forecasting the performance of the firm over a period of time. When the ratios are compared, it indicates success or failure in future.
4. Facilitates for inter-firm comparison. An inter firm comparison would demonstrate the firm's position vis-à-vis its competitors. If the results are at variance either with the industry standard or with those of the competitors, the firm can seek to identify the probable reasons or in that light, take remedial measures.
5. Facilitates trend analysis. The advantages of trend analysis of ratios, lies in the fact the analyst can know the direction of movement that is whether the movement is favorable, or unfavorable, when compared over the years.

6. Another dimension of the usefulness of ratio analysis is from the view point of the management. It imparts light on the degree of efficiency in the management and utilization of its assets. The various activity ratios measure this kind of operational efficiency.
7. Facilitates trend analysis. The advantages of trend analysis of ratios, lies in the fact the analyst can know the direction of movement that is whether the movement is favorable, or unfavorable, when compared over the years.
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Source: Dangol, Mr. Ratna Man, "Financial Accounting and Business Management", 1998, Taleju Publications, Page No. 487-491.



Source: Dangol, Mr. Ratna Man, "Financial Accounting and Business Management", 1998, Taleju Publications.

Limitations of Ratio Analysis

It is already mention that the ratio analysis is a widely used tool of financial analysis, however it suffers from various limitation. Some of them are as follow:

a) Difficulty in comparison

One serious limitation of ratio analysis arises out of difficulty associated with their comparisons to draw inferences. This may be due to following:

- i) Difference in the basis of inventory valuation.
- ii) Different depreciation method
- iii) Estimated working life of Assets, particularly of plant and equipments.
- iv) Treatment of extraordinary of income and expenditure and so on.

b) Impact of inflation

The second major limitation of the ratio analysis as a tool of financial analysis is associated with the price level change. This, in fact, is a weakness of the traditional financial statements, which are based on historical cost.

c) Conceptual Diversity

The differences in the definitions of items in the balance sheet and profit and loss statements make the interpretation of the ratios difficult.

d) Short-term changes

The ratios calculated at a point of time are less informative and defective as it suffers from short-term changes.

Following ratios are used in banks to analyze the data:

Liquidity Ratios

Liquidity Ratios measure the firm's ability to fulfill its short-term commitments. These ratios focus on current assets and current liabilities and are used to ascertain the short-term solvency position of a firm.

In this context, liquidity is measured by the speed with a bank's assets that can be converted into cash to meet deposit withdraws and other current obligations. A bank is subject to a minimum cash reserve requirement (CRR) imposed by Central Bank to ensure a minimum amount of total assets to meet unexpected withdrawals. The following ratios have been applied to find out liquidity position of the banks.

- Current Ratio
- Cash and Bank Balance to Total Deposit Ratio

(a) Current Ratio

A current ratio is the quantitative relationship between current assets and current liabilities. So, this ratio is calculated by dividing current assets by current liabilities.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Here, current assets are those items, which can normally be converted into cash within an accounting cycle. These normally include cash, stock, debtor, bank balance, prepaid expense, marketable securities, etc. On the other hand, current liabilities refer to those obligations which must be paid within an accounting cycle. These normally include creditors, bank overdrafts, bills payable, outstanding, etc. Although there is no hard and fast rule, conventionally, a current ratio of 2:1 (current assets twice of current liabilities) is considered satisfactory.

(b) Cash and Bank Balance to Total Deposit Ratio (CBBTDR)

This ratio is calculated by dividing cash and bank balance by total deposits:

$$\text{CBBTDR} = \frac{\text{Cash \& Bank Balance}}{\text{Total Deposit}}$$

This ratio shows the proportion of total deposits held as compared to the most liquid assets. High ratio shows the strong liquidity position of the bank but very high ratio is not favorable for the bank because it does not produce appropriate profit to bear the high interest.

Activity Ratios

Activity ratios are also known as asset management ratios. These ratios look at the amount of various types of assets and attempt to determine if they are high or too low with regard to current operating levels. Mostly, activity ratio is used to evaluate managerial efficiency and proper utilization of assets.

The following ratios have been used while analyzing activity position of the banks.

- ❖ Investment to total deposit ratio
- ❖ Loans and advances to total deposit ratio
- ❖ Loans and advances to total assets

(a) Investment to Total Deposit Ratio (ITDR)

This ratio is computed by dividing investment by total deposits. This can be stated as Investment

$$ITDR = \frac{\textit{Investment}}{\textit{Total Deposit}}$$

The numerator includes His Majesty's Government treasury bills, development bonds, company share and other investments. This ratio presents how efficiently the resources of the banks have been mobilized High ratio shows managerial efficiency regarding the utilization of deposits and vice-versa.

(b) Loans and Advances to Total deposits Ratio (LATDR)

This ratio is calculated by using following formula

$$LATDR = \frac{\textit{Loan and Advance}}{\textit{Total Deposit}}$$

Loans and advances consist of loans, advances, cash credit, overdrafts, local and foreign bills purchased and discounted. It indicates the proportion of total deposits invested in loans and advances. High ratio indicated greater use of deposits in loans and advances but low ratio may be the cause of ideal cash or use of fund in less productive sector. Very high ratio shows the poor liquidity position.

(c) Loans and Advances to Total Assets Ratio (LATAR)

This ratio is calculated by using following formula

$$LATAR = \frac{\textit{Loan and Advance}}{\textit{Total Assets}}$$

Total assets include total assets of balance sheet items. This ratio indicates what proportion of total assets has been used in loans and advances. Higher ratio means effective of total assets in loans and advances.

Capital Adequacy Ratio

Capital adequacy ratio deals about financial strength and weaknesses and its solvency. It helps to decide weather the existing capital is adequate or there is not need to reform.

The following ratios are used under capital adequacy ratios:

- ✓ Net worth to total assets ratio
- ✓ Net worth to total deposit ratio

(a) Net worth to Total Assets Ratio (NWTAR)

This ratio is computed by dividing net worth by total assets:

$$NWTAR = \frac{\textit{Net Worth}}{\textit{Total Assets}}$$

This ratio measures the percentage of net worth in relation to the total deposits collected in the bank, is the yard stick to measure the position.

(b) Net Worth to Total Deposit Ratio (NWTDR)

This ratio is calculated by using following formula:

$$NWTDR = \frac{\textit{Net Worth}}{\textit{Total Deposit}}$$

It indicates the percentage of net worth in relation to the total deposits collected in the bank. The direction of Nepal Rastra Bank has maintained is the yard stick to measure the position.

Leverage (Capital Structure) Ratio

Capital structure ratios, also known as leverage ratios, are the measures of long term solvency of a bank. Capital structure generally refers to the composition of debt and equity component of overall capital of a firm. These ratios are calculated to judge the long-term financial position of the banks.

Specifically, structural ratio and coverage ratio have been calculated and interpreted under capital structure ratio. The first ratio deals with the composition of debt and equity capital where as to second show the relationship between shareholders' fund and total assets of the banks. Theses two categories of ratios, particularly, include the following:

- Debt to equity ratio
- Total debt to total assets ratio

(a) Debt to Equity Ratio (DER)

The ratio can be calculated as follows:

$$DER = \frac{\textit{Total Debt}}{\textit{Shareholder's equity}}$$

This ratio shows the relationship between debt capital and equity capital. High debt-equity ratio indicates greater financing by debt holders than those of equity holders. From the creditor's view point, high debt-equity ratio of the bank is more risky to them. It means the bank may fail to satisfy creditors.

(b) Total Debt to Total Assets Ratio (TDTAR)

This ratio can be obtained by using following formula:

$$TDTAR = \frac{\textit{Total Debt}}{\textit{Total Assets}}$$

This ratio denotes the relationship between total debt and total assets of the banks. The higher ratio indicates the greater portion of the outsiders' fund investment in term of the banks' assets.

Profitability Ratio

Profitability is a measure of operating efficiency that can be measured by profitability ratio. Profitability ratios, which indicate degrees of success in achieving, desired profit levels measure management's overall effectiveness as shown by the returns generated on sales and investment.

A bank should be able to produce adequate profit on each rupee of investment. In the bank is unable to earn satisfactory return of investment, its survival is threatened.

Under this group following ratios has been obtained:

- Return on total assets ratio
- Net profit margin

Return on Total Assets Ratio (ROA)

This ratio can be calculated by using the following formula:

$$ROA = \frac{\text{Net Profit After Tax (NPAT)}}{\text{Total Assets}}$$

NPAT indicates the profit after deduction of interest and tax. Total assets mean the assets that appear in asset side of balance sheet. Higher the ratio, the bank shows well managed overall operations.

Net Profit Margin

Net Profit Margin is the foremost tool to analyze the competency of a commercial bank to maintain the positive financial performance as per the norms of Nepal Rastra Bank. Actually, the fundamental objective of this study is to examine Financial Analysis of the three commercial banks. Thus, Net Profit Margin is an important tool in measuring financial performance of banks.

The Net Profit Margin Ratio is derived by the following formula:

$$\text{Net Profit Margin (NPM) Ratio}$$

$$= \frac{\text{Net Profit}}{\text{Total Deposits}} * 100\%$$

3.2 Statistical Tools

The following statistical tool is used to analyze the data:

a) **Karl Pearson Correlation Analysis:**

The relation between two variables is correlated by Karl Pearsos's Correlation Co-efficient. The following is the formula proposed by Karl Pearson for calculation of correlation coefficient.

$$r = \frac{N \sum XY - (\sum X)(\sum Y)}{[\sum X^2 - (\sum X)^2 / N] [\sum Y^2 - (\sum Y)^2 / N]}$$

Where,

N= Number of pairs in observation

X = Product of the first variable

Y = Product of the second variable

To ease the calculation, a shortcut formula has been proposed which has been used to calculate correlation coefficients in this thesis report. The shortcut formula is as follows:

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \cdot \sqrt{\sum y^2}}$$

3.2.1 Least Square Linear Trend

The straight line trend implies that irrespective of the seasonal and cyclical swings and irregular functions, the values increase or decrease by absolute amount per unit of time. The linear trend values form a series in arithmetic progression. It combines by following notations.

$$Y = a + bx$$

Where,

Y = the value of dependent variable

a = intercept of trend line

b = slope of trend line

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

where they are put in normal equation, these equations can be developed

$$Y = Na + b \sum X$$

$$\sum XY = a \sum X + b \sum X^2$$

Since $\sum X = 0$,

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

The constant 'a' is simply equal to the mean of y value and constant 'b' given the rate of change. This is a mathematical method, which is widely used in practice. It is applied for finding out a trend line for those series, which change periodically in absolute amount.

Where,

$$x = (X - \bar{X})$$

$$y = (Y - \bar{Y})$$

$$\bar{X} = \frac{\sum X}{N}$$

$$\bar{Y} = \frac{\sum Y}{N}$$

CHAPTER - 4

DATA PRESENTATION AND ANALYSIS

Liquidity Ratio Analysis

Liquidity ratio was used to evaluate the ability to pay debt as well as the financial position of the banks. This includes current ratio and cash and bank balance to total deposit ratio.

The current ratios for different years are presented in Table 1

Table 1 : Current Ratio

Amount in Rs. Thousand

<u>BANK YEAR</u>	Kumari Bank		
	Current Assets	Current Liabilities	Ratio
2006	238288	517585	0.46
2007	374112	377466	0.99
2008	637796	335263	1.90
2009	969021	491210	1.97
2010	959366	802685	1.19

Here, the current ratio is higher in the year 2009. as its ratio is 1.97%.

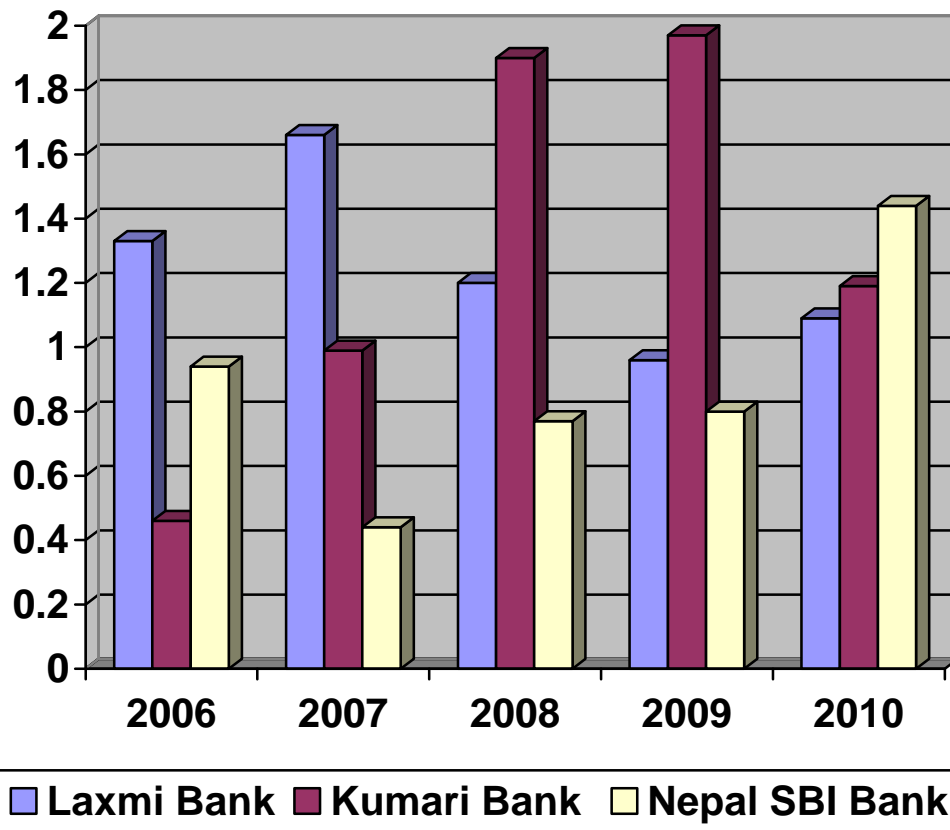
<u>BANK YEAR</u>	Nepal SBI Bank		
	Current Assets	Current Liabilities	Ratio
2006	1092622	993292	0.94
2007	851422	829778	0.44
2008	531956	845070	0.77
2009	684888	851422	0.80
2010	766564	531956	1.44

Here, the current ratio is higher in the year 2010, as its ratio is 1.44%.

BANK YEAR	Laxmi Bank		
	Current Assets	Current Liabilities	Ratio
2006	167357	125440	1.33
2007	136602	81805	1.66
2008	132465	106642	1.20
2009	598405	621414	0.96
2010	696156	637844	1.09

Here, the current ratio is higher in the year 2007, as its ratio is 1.66%.

Bar Diagram of current ratios for different years



Among the three Commercial Banks, Kumari Bank has the highest current ratio, i.e., 1.19%. But again, Kumari Bank has the best current ratio that is 1.97 in the year 2009, which is very close to the standard current ratio i.e. 2:1.

Activity Ratios

Activity ratios were used to evaluate managerial efficiency in proper utilization of assets.

a) Loans and Advances to Total Assets Ratio (LATAR)

$$LATAR = \frac{\text{Loan and Advance}}{\text{Total Assets}}$$

Table 2: Loans and Advances to Total Assets Ratio

Amount in Rs. Thousand

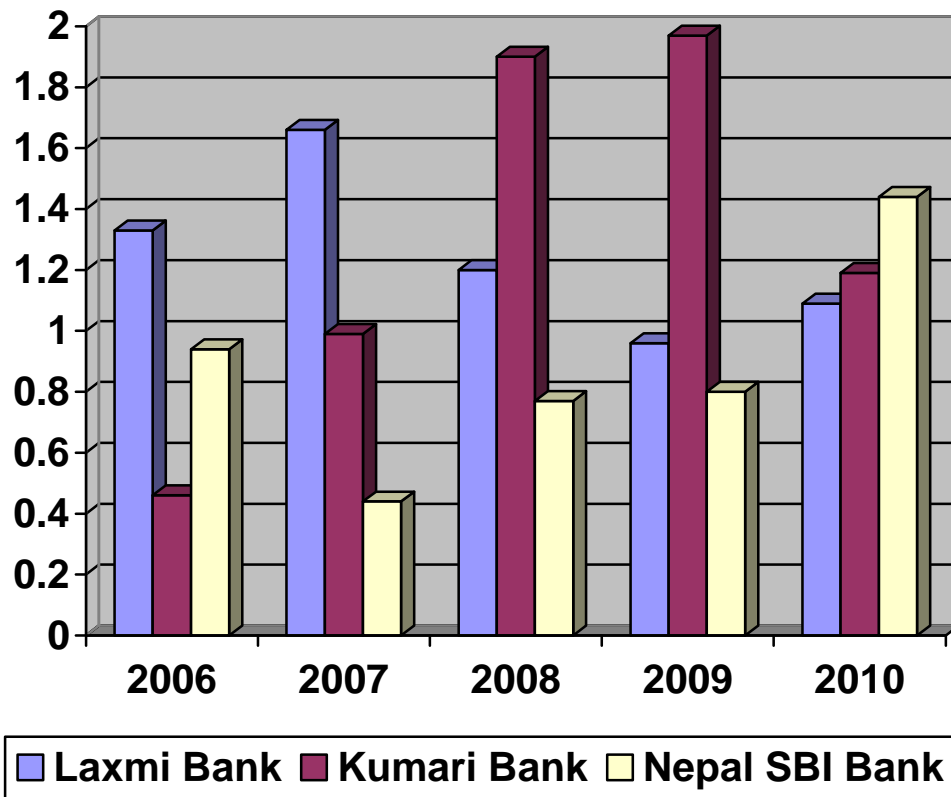
<u>BANK YEAR</u>	Laxmi Bank		
	Loan and Advance	Total Assets	Ratio
2006	2657958	3820768	0.69
2007	4202362	5205190	0.80
2008	6437449	8582689	0.75
2009	9680949	12695022	0.76
2010	13315604	18386413	0.72

<u>BANK YEAR</u>	Nepal SBI Bank		
	Loan and Advance	Total Assets	Ratio
2006	6213878	10345373	0.60
2007	7626736	13035839	0.58
2008	9460450	13901200	0.68
2009	12113698	17187446	0.70
2010	15131747	30916681	0.48

BANK YEAR	Kumari Bank		
	Loan and Advance	Total Assets	Ratio
2006	5584637	7428303	0.75
2007	6891855	9010276	0.76
2008	8929013	11918311	0.74
2009	11335087	15036249	0.75
2010	14593346	18538565	0.78

The Loan and Advance to Total Assets Ratio is better in Kumari Bank. That is, lower the ratio means better the company management.

Bar Diagram of Loan and Advance to Total Assets Ratio



The Loan and Advance to Total Assets Ratio is better in Kumari Bank. That is, lower the ratio means better the company management.

Capital Adequacy Ratio

Capital adequacy ratio was used to measure especially the financial strength and weakness as well as solvency position of the banks.

(a) Net Worth to Total Assets Ratio (NWTAR)

This ratio is computed by dividing net worth by total assets:

$$NWTAR = \frac{\text{Net Worth}}{\text{Total Assets}}$$

Table 3: Net Worth to Total Assets Ratio

Amount in Rs. Thousand

<u>BANK YEAR</u>	Laxmi Bank		
	Net Worth	Loan and Advance	Ratio (%)
2006	643570	3820768	0.16
2007	679033	5205190	0.13
2008	864393	8582689	0.10
2009	1156376	12695022	0.09
2010	1347265	18386413	0.07

Laxmi Bank has less loan and advance ratio in the year 2010 i.e. 0.07%.

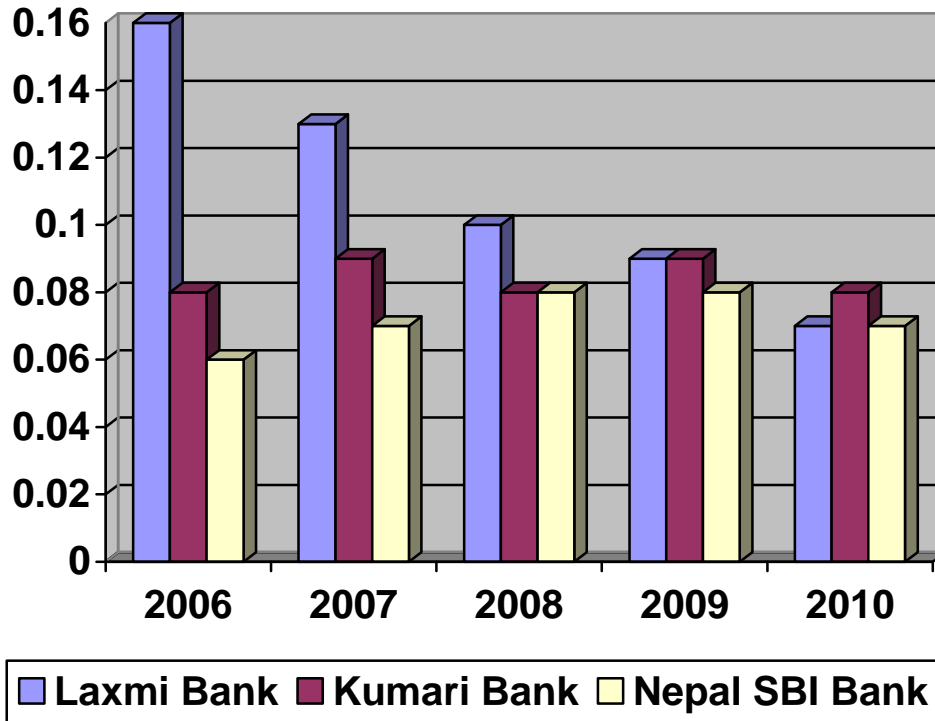
<u>BANK YEAR</u>	Nepal SBIBank		
	Net Worth	Net Worth	Ratio (%)
2006	689012	10345373	0.06
2007	982373	13035839	0.07
2008	1163290	13901200	0.08
2009	1414643	17187446	0.08
2010	1712606	3091681	0.55

Nepal SBI Bank has less loan and advance ratio in the year 2006 i.e. 0.06%.

<u>BANK YEAR</u>	Kumari IBank		
	Net Worth	Net Worth	Ratio (%)
2006	641762	7428303	0.08
2007	863850	9010276	0.09
2008	1025630	11918311	0.08
2009	18648851	15036249	0.09
2010	1624952	18538565	0.08

Here, Kumari Bank is better due to its low fluctuation trend.

Bar Diagram of Net Worth to Total Assets Ratio



Here, Kumari Bank is better due to its low fluctuation trend among the three Commercial Banks chosen.

Leverage (Capital Structure) Ratio

Capital structure ratios were used concluded to know the long term solvency of the sampled banks. This included debt to equity ratio, debt to total capital ratio, debt to total assets ratio, and interest ratio.

(a) Debt to Equity Ratio (DER)

The ratio can be calculated as follows:

$$DER = \frac{\text{Total Debt}}{\text{Shareholder's equity}}$$

Table 4: Debt Equity Ratio

Amount in Rs. thousand

YEAR	Laxmi Bank		
	Total Debt	Shareholder's Equity	Ratio
2006	3177199	643570	4.9
2007	4526156	679033	6.66
2008	7718295	864393	8.9
2009	11367232	1156376	9.8
2010	16689147	1347265	12.38

Here, the highest ratio is 12.38% in the year 2010.

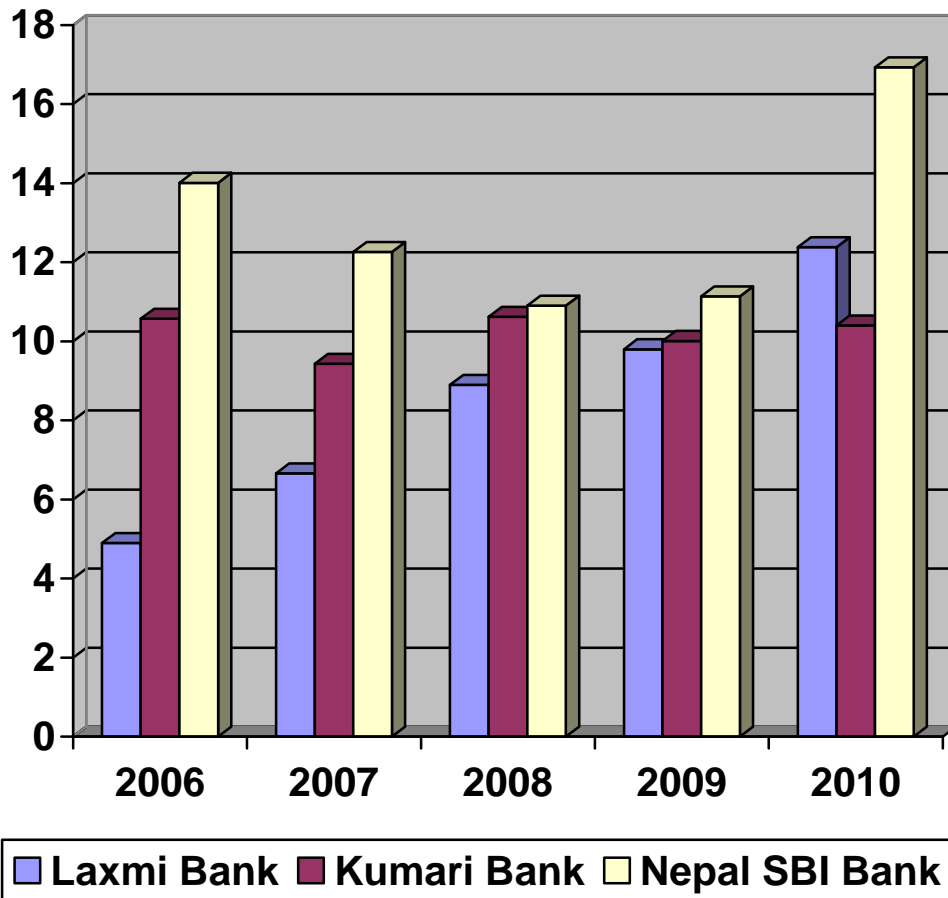
YEAR	Kumari Bank		
	Total Debt	Shareholder's Equity	Ratio
2006	6786539	641762	10.57
2007	8146423	8638509	9.43
2008	10892679	1025630	10.62
2009	13671363	1364885	10.01
2010	16913580	1624952	10.40

Here, the highest ratio is 10.62% in the year 2008.

YEAR	Nepal SBI Bank		
	Total Debt	Shareholder's Equity	Ratio
2006	9656358	689012	14.01
2007	12053462	982373	12.26
2008	12737908	1163290	10.9
2009	15772798	1414643	11.14
2010	29004072	1712606	16.93

Here, the highest ratio is 16.93% in the year 2010.

Bar Diagram of Debt to Equity Ratio



Among the sampled three Commercial Banks Kumari Bank is the best. Here, the lowest ratio is 10.62% in the year 2010 as the debt equity ratio is lower the better.

Profitability Ratio

Return on Total Assets Ratio (ROA)

$$ROA = \frac{\text{Net Profit After Tax (NPAT)}}{\text{Total Assets}}$$

Table 5: Return on Total Assets Ratio

Amount in Rs. Thousand

<u>BANK YEAR</u>	Laxmi Bank		
	NPAT	Total Assets	Ratio
2006	188999	18386413	0.01
2007	120031	12695022	0.009
2008	65579	8582689	0.007
2009	35385	5205190	0.006
2010	26465	3820768	0.006

Here, the ratio is highest in the year 2006 (0.01%).

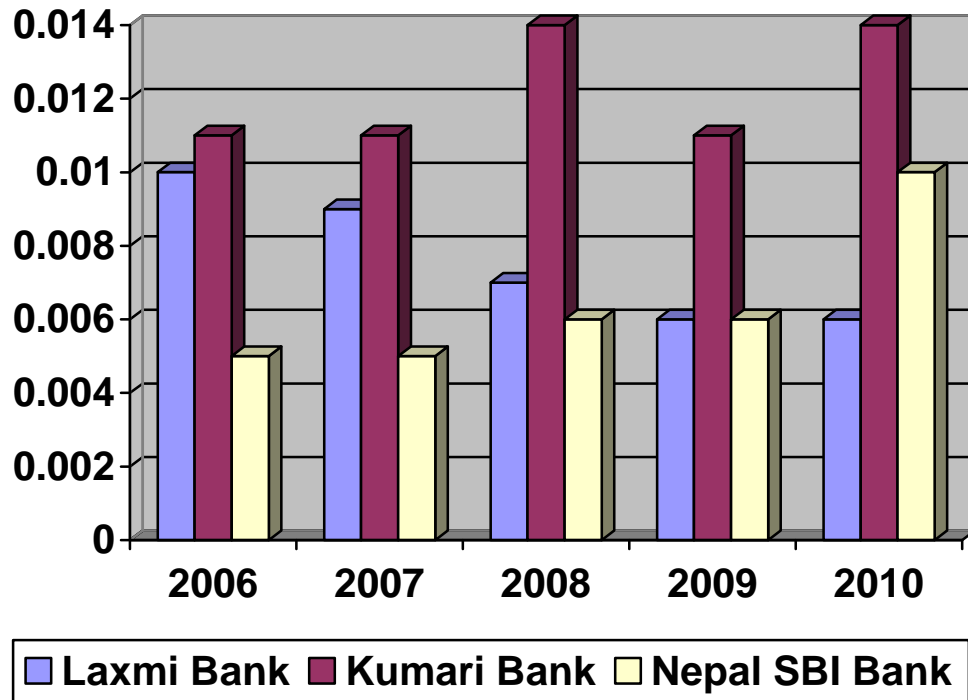
<u>BANK YEAR</u>	Nepal SBI Bank		
	NPAT	Total Assets	Ratio
2006	57386	10345373	0.005
2007	66120	13035839	0.005
2008	86704	13901200	0.006
2009	105745	17187446	0.006
2010	316373	30916681	0.01

Here, the highest ratio is (0.01%). in the year 2010.

<u>BANK YEAR</u>	Kumari Bank		
	NPAT	Total Assets	Ratio
2006	84201	7428303	0.011
2007	103666	9010276	0.011
2008	170262	11918311	0.014
2009	174930	15036249	0.011
2010	261442	18538565	0.014

Here, the highest ratio is (0.014%). in the year 2008 and 2010. The ratio remains constant in the both years.

Bar Diagram of Return on Total Assets Ratio



Nepal SBI Bank is better among the three Commercial Banks. Here, the highest ratio is (0.014%), in the year 2008 and 2010. The ratio remains constant in the both years, as the profitability ratio is higher the better.

Correlation of Nepal SBI Bank between Income and Net Profit

<u>Year</u>	<u>Income (X) in million</u>	<u>Net Profit (Y) in million</u>
2006	320	139
2007	374	220
2008	419	379
2009	515	383
2010	636	487
	(X)=2264	Y=1608
	$\bar{X} = 453$	$\bar{Y} = 322$

Year	x	x ²	y	y ²	xy
2006	-133	17689	-183	33489	24339
2007	-79	6241	-102	10404	8058
2008	-34	1156	57	3249	-1938
2009	62	3844	61	3721	3782
2010	183	33489	165	27225	30195
		x ² =62419		y ² =78088	xy=64436

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}}$$

$$= \frac{64436}{\sqrt{62419 \times 78088}}$$

$$= \frac{64436}{249.8 \times 279}$$

$$= 0.9245$$

Here, the value of r is 0.9245. Thus the correlation between Income and Net profit is positively correlated of Nepal SBI Bank.

Correlation of Kumari Bank between Income and Net Profit

<u>Year</u>	<u>Income (X) in million</u>	<u>Net Profit (Y) in million</u>
2006	260	139
2007	268	162
2008	394	273
2009	459	283
2010	559	44
	(X)=1940	Y=1261
	$\bar{X} = 388$	$\bar{Y} = 252$

Year	X	X ²	y	y ²	xy
2006	-128	16384	-113	12769	14464
2007	-120	14400	-90	8100	10800
2008	6	36	21	441	126
2009	71	5041	31	961	2201
2010	171	29241	152	23104	25992
		x ² =65102		y ² =45375	xy=53583

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}}$$

$$= \frac{53583}{\sqrt{65102 \times 45375}}$$

$$= \frac{53583}{54315}$$

$$= 0.9865$$

Here, the value of r is 0.9865. Thus the correlation between Income and Net profit of Kumari Bank is highly positively correlated.

Correlation of Laxmi Bank between Income and Net Profit

<u>Year</u>	<u>Income (X) in million</u>	<u>Net Profit (Y) in million</u>
2006	95	40
2007	128	56
2008	190	105
2009	289	194
2010	386	292
	(X)=1088	Y=687
	$\bar{X} = 218$	$\bar{Y} = 137$

Year	x	x ²	y	y ²	xy
2006	-123	15129	-97	9409	11931
2007	-90	8100	-81	6561	7290
2008	-28	784	-32	1024	896
2009	71	5041	57	3249	4047
2010	168	28224	155	24025	26040
		x ² =57278		y ² =44268	xy=50204

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}}$$

$$= \frac{50204}{\sqrt{57278 \times 44268}}$$

$$= \frac{50204}{239.3 \times 210.39}$$

$$= 0.9971$$

Here the value of r is 0.9971. Thus the correlation between Income and Net profit is of Laxmi Bank highly positively correlated.

Correlation between Operating Cost and Net Profit of Kumari Bank

<u>Year</u>	<u>Operating Cost (X) in million</u>	<u>Net Profit (Y) in million</u>
2006	114	139
2007	148	162
2008	178	273
2009	238	283
2010	302	404
	(X)=980	Y=1261
	$\bar{X} = 196$	$\bar{Y} = 252$

Year	x	x ²	y	y ²	xy
2006	-82	6724	-113	12769	9266
2007	-48	2304	-90	8100	4320
2008	-18	324	21	441	-378
2009	42	1764	31	961	1302
2010	106	11236	152	23104	16112
		x ² =22352		y ² =45375	xy=30622

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}}$$

$$= \frac{30622}{\sqrt{22352 \times 45375}}$$

$$= \frac{30622}{149.5 \times 213}$$

$$= 0.9616$$

Here the value of r is 0.9616. Thus the correlation between Operating Cost and Net profit of Kumari Bank is positively correlated.

Correlation between Operating Cost and Net Profit of Laxmi Bank

<u>Year</u>	<u>Operating Cost (X) in million</u>	<u>Net Profit (Y) in million</u>
2006	67	40
2007	88	56
2008	112	105
2009	148	194
2010	199	292
	(X)=614	Y=687
	$\bar{X} = 123$	$\bar{Y} = 137$

Year	x	x ²	y	y ²	xy
2006	-56	3136	-97	9409	5432
2007	-35	1225	-81	6561	2835
2008	-11	121	-32	1024	352
2009	25	625	57	3249	1425
2010	76	5776	155	24025	11780
		x ² =10883		y ² =44268	xy=21824

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}}$$

$$= \frac{21824}{\sqrt{10883 \times 44268}}$$

$$= \frac{21824}{104.3 \times 210.39}$$

$$= 0.9943$$

Here the value of r is 0.9943. Thus the correlation between Operating Cost and Net profit of Laxmi Bank is positively correlated.

Correlation Between Operating Cost and Net Profit of Nepal SBI Bank

<u>Year</u>	<u>Operating Cost (X) in million</u>	<u>Net Profit (Y) in million</u>
2006	128	139
2007	150	220
2008	173	379
2009	227	383
2010	346	487
	(X)= 1024	Y= 1608
	$\bar{X} = 205$	$\bar{Y} = 322$

Year	x	x ²	y	y ²	xy
2006	-77	5929	-183	33489	14091
2007	-55	3025	-102	10404	5610
2008	-32	1024	57	3249	-1824
2009	22	484	61	3721	1342
2010	141	19881	165	27225	23265
		x ² =30343		y ² = 67684	xy=42484

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}}$$

$$= \frac{42484}{\sqrt{30343 \times 67684}}$$

$$= \frac{42484}{174 \times 260}$$

$$= 0.9380$$

Here the value of r is 0.9380. Thus the correlation between Operating Cost and Net profit of Nepal SBI Bank is positively correlated.

Correlation of Net Profit between Kumari Bank and Laxmi Bank

<u>Year</u>	<u>Operating Cost (X) in million</u>	<u>Net Profit (Y) in million</u>
2006	139	40
2007	162	56
2008	273	105
2009	283	194
2010	404	292
	(X)= 1261	Y= 687
	$\bar{X} = 252$	$\bar{Y} = 137$

Year	x	x ²	y	y ²	xy
2006	-113	12769	-97	9409	10961
2007	-90	8100	-81	6561	7290
2008	21	441	-32	1024	-672
2009	31	961	57	3249	1767
2010	152	23104	155	24025	23560
		x ² =45375		y ² = 44268	xy=42906

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}}$$

$$= \frac{42906}{\sqrt{45375 \times 44268}}$$

$$= \frac{42906}{213 \times 210}$$

$$= 0.9592$$

Here the value of r is 0.9592. Thus, the Net profit between Laxmi Bank and Kumari Bank is positively correlated.

Correlation of Net Profit between Laxmi Bank and Nepal SBI Bank

<u>Year</u>	<u>Operating Cost (X) in million</u>	<u>Net Profit (Y) in million</u>
2006	40	139
2007	56	220
2008	105	379
2009	194	383
2010	292	487
	(X)= 687	Y= 1608
	$\bar{X} = 137$	$\bar{Y} = 322$

Year	x	x ²	y	y ²	xy
2006	-97	9409	-183	33489	17751
2007	-81	6561	-102	10404	8262
2008	-32	1024	57	3249	-1824
2009	57	3249	61	3721	3477
2010	155	24025	165	27225	25575
		x ² =44268		y ² = 67684	xy= 53241

$$r = \frac{xy}{x^2 y^2}$$

$$= \frac{53241}{44268 \quad 67684}$$

$$= \frac{53241}{210.39 \times 260}$$

$$= 0.9733$$

Here the value of r is 0.9733. Thus the Net profit between Laxmi Bank and Nepal SBI Bank is positively correlated.

Correlation of Net Profit between Kumari Bank and Nepal SBI Bank

<u>Year</u>	<u>Operating Cost (X) in million</u>	<u>Net Profit (Y) in million</u>
2006	139	139
2007	162	220
2008	273	379
2009	283	383
2010	404	487
	(X)= 1261	Y= 1608
	$\bar{X} = 252$	$\bar{Y} = 322$

Year	x	x ²	y	y ²	xy
2006	-113	12769	-183	33489	20679
2007	-90	8100	-102	10404	9180
2008	21	441	57	3249	1197
2009	31	961	61	3721	1891
2010	152	23104	165	27225	25080
		x ² = 45375		y ² = 78088	xy= 58027

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}}$$

$$= \frac{58027}{\sqrt{45375 \times 78088}}$$

$$= \frac{58027}{213*279}$$

$$= 0.9764$$

Here the value of r is 0.9764. Thus, the Net profit between Kumari Bank and Nepal SBI Bank is positively correlated.

Correlation of Operating Cost between Kumari Bank and Laxmi Bank

<u>Year</u>	<u>Operating Cost (X) in million</u>	<u>Net Profit (Y) in million</u>
2006	114	67
2007	148	88
2008	178	112
2009	238	148
2010	302	199
	(X)= 980	Y= 614
	$\bar{X} = 196$	$\bar{Y} = 123$

Year	x	x ²	y	y ²	xy
2006	-82	6724	-97	9409	7954
2007	-48	2304	-81	6561	3888
2008	-18	324	-32	1024	576
2009	42	1764	57	3249	2394
2010	106	11236	155	24025	16430
		x ² = 22352		y ² = 44268	xy= 31242

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}}$$

$$= \frac{31242}{\sqrt{22352 \times 44268}}$$

$$= \frac{31242}{149.5 \times 210}$$

$$= 0.9932$$

Here the value of r is 0.9932. Thus the Operating Cost between Kumari Bank and Laxmi Bank is positively correlated.

Correlation of Operating Cost between Nepal SBI Bank and Kumari Bank

<u>Year</u>	<u>Operating Cost (X) in million</u>	<u>Net Profit (Y) in million</u>
2006	128	114
2007	150	148
2008	173	178
2009	227	238
2010	346	302
	(X)= 1024	Y= 980
	$\bar{X} = 205$	$\bar{Y} = 196$

Year	x	x ²	y	y ²	xy
2006	-77	5929	-82	6724	6314
2007	-55	3025	-48	2304	2640
2008	-32	1024	-18	324	576
2009	22	484	42	1764	924
2010	141	19881	106	11236	14946
		x ² = 30343		y ² = 22352	xy= 25400

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}}$$

$$= \frac{25400}{\sqrt{30343 \times 22352}}$$

$$= \frac{25400}{174 \times 149.5}$$

$$= 0.9764$$

Here the value of r is 0.9764. Thus the Operating Cost between Kumari Bank and Nepal SBI Bank is positively correlated.

Correlation of Operating Cost between Nepal SBI Bank and Laxmi Bank

<u>Year</u>	<u>Operating Cost (X) in million</u>	<u>Net Profit (Y) in million</u>
2006	128	67
2007	150	88
2008	173	112
2009	227	148
2010	346	199
	(X)= 1024	Y= 614
	$\bar{X} = 205$	$\bar{Y} = 123$

Year	x	x ²	y	y ²	xy
2006	-77	5929	-56	3136	4312
2007	-55	3025	-35	1225	1925
2008	-32	1024	-11	121	352
2009	22	484	25	625	550
2010	141	19881	76	5776	10716
		x ² = 30343		y ² = 10883	xy= 17855

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}}$$

$$= \frac{17855}{\sqrt{30343 \times 10883}}$$

$$= \frac{17855}{174*104}$$

$$= 0.9866$$

Here the value of r is 0.9866. Thus the Operating Cost between Laxmi Bank and Nepal SBI Bank is positively correlated.

Net Profit Margin for Laxmi Bank

$$(NP) = \frac{\text{Net Profit}}{\text{Total Deposit}} * 100 \%$$

Year 2006

$$\begin{aligned}(\text{NP}) &= \frac{\text{Net Profit}}{\text{Total Deposit}} * 100 \% \\ &= \frac{40457}{3051759} * 100\% \\ &= 1.32\%\end{aligned}$$

Year 2007

$$\begin{aligned}(\text{NP}) &= \frac{\text{Net Profit}}{\text{Total Deposit}} * 100 \% \\ &= \frac{55699}{4444351} * 100\% \\ &= 1.25\%\end{aligned}$$

Year 2008

$$\begin{aligned}(\text{NP}) &= \frac{\text{Net Profit}}{\text{Total Deposit}} * 100 \% \\ &= \frac{105195}{7611653} * 100\% \\ &= 1.38\%\end{aligned}$$

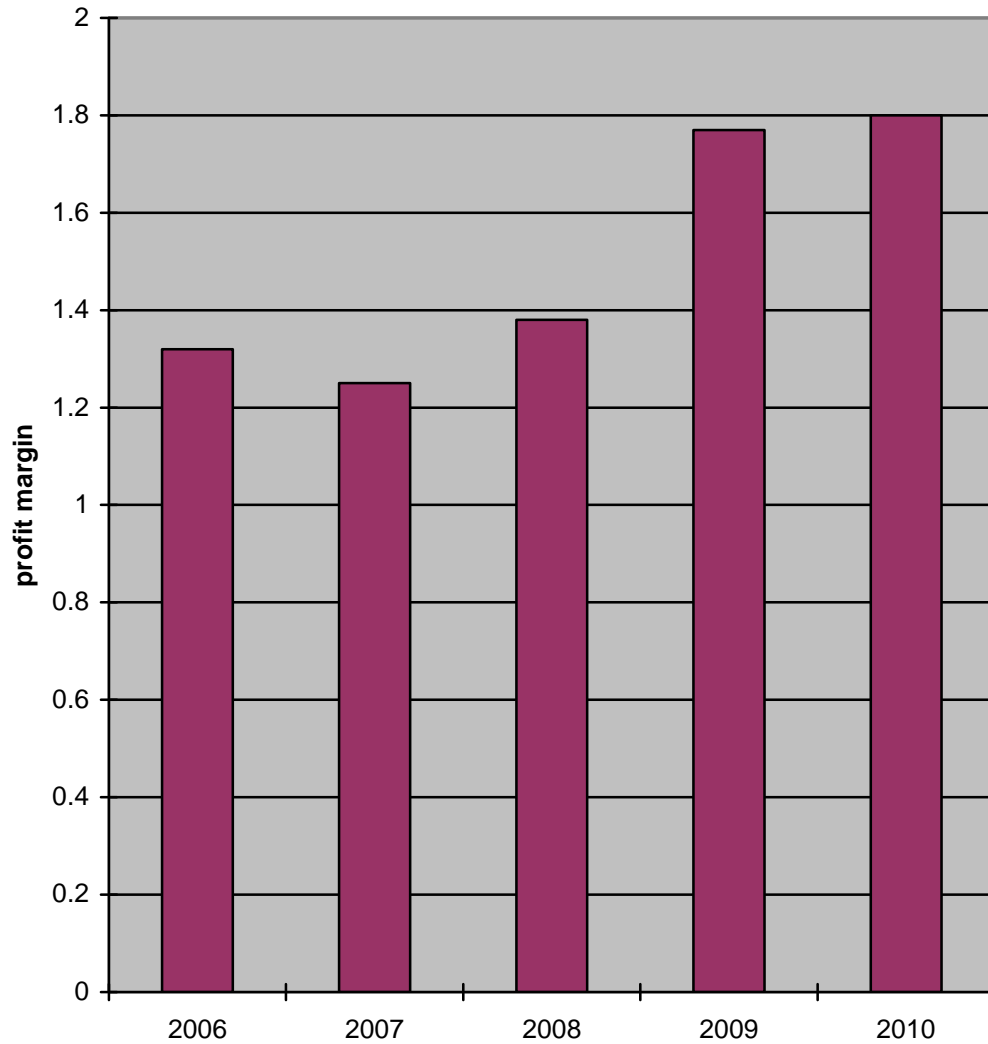
Year 2009

$$\begin{aligned}(\text{NP}) &= \frac{\text{Net Profit}}{\text{Total Deposit}} * 100 \% \\ &= \frac{194123}{10917232} * 100\% \\ &= 1.77\%\end{aligned}$$

Year 2010

$$\begin{aligned}(\text{NP}) &= \frac{\text{Net Profit}}{\text{Total Deposit}} * 100 \% \\ &= \frac{292551}{16051303} * 100\% \\ &= 1.8\%\end{aligned}$$

Net Profit Margin of Laxmi Bank



Findings: The net profit margin of Laxmi Bank was slightly decreased in year 2007 and starts to increase from year 2008 till 2010. In 2010, net profit was maximum among the 5-year study i.e. 1.8%.

Net Profit Margin for Nepal SBI Bank

$$(\text{NP}) = \frac{\text{Net Profit}}{\text{Total Deposit}} * 100 \%$$

Year 2006

$$\begin{aligned}(\text{NP}) &= \frac{\text{Net Profit}}{\text{Total Deposit}} * 100 \% \\ &= \frac{60851673}{8654774214} * 100\% \\ &= 0.70 \%\end{aligned}$$

Year 2007

$$\begin{aligned}(\text{NP}) &= \frac{\text{Net Profit}}{\text{Total Deposit}} * 100 \% \\ &= \frac{57386634}{11002040633} * 100\% \\ &= 0.52 \%\end{aligned}$$

Year 2008

$$\begin{aligned}(\text{NP}) &= \frac{\text{Net Profit}}{\text{Total Deposit}} * 100 \% \\ &= \frac{379048841}{11445286030} * 100\% \\ &= 3.31 \%\end{aligned}$$

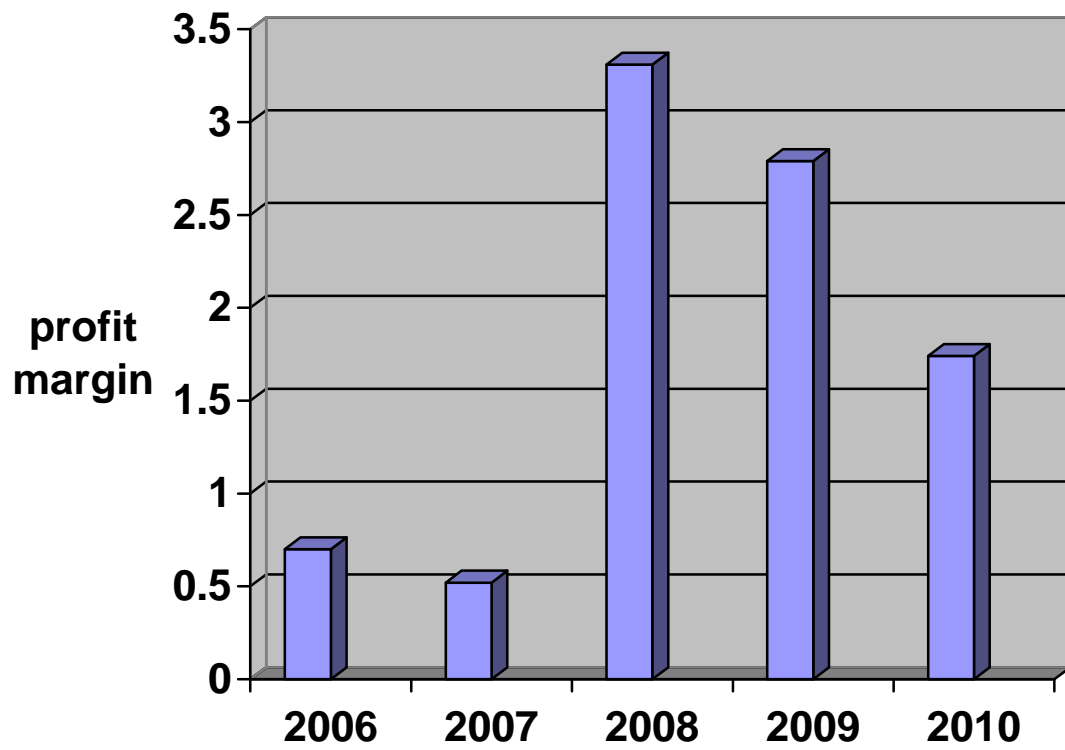
Year 2009

$$\begin{aligned}(\text{NP}) &= \frac{\text{Net Profit}}{\text{Total Deposit}} * 100 \% \\ &= \frac{382836886}{13715394960} * 100\% \\ &= 2.79 \%\end{aligned}$$

Year 2010

$$\begin{aligned}(\text{NP}) &= \frac{\text{Net Profit}}{\text{Total Deposit}} * 100 \% \\ &= \frac{487334750}{27957220794} * 100\% \\ &= 1.74 \%\end{aligned}$$

Net Profit Margin of Nepal SBI Bank



Findings: The net profit margin of Nepal SBI Bank was slightly decreased in year 2007 and starts to increase in year 2008 in higher rated then decreases in 2009 & 2010. In 2008, net profit was maximum among the 5-year study i.e. 3.31 %

Net Profit Margin for Kumari Bank

$$(\text{NP}) = \frac{\text{Net Profit}}{\text{Total Deposit}} * 100 \%$$

Year 2006

$$\begin{aligned}(\text{NP}) &= \frac{\text{Net Profit}}{\text{Total Deposit}} * 100 \% \\ &= \frac{138867145}{6268954481} * 100\% \\ &= 2.21 \%\end{aligned}$$

Year 2007

$$\begin{aligned}(\text{NP}) &= \frac{\text{Net Profit}}{\text{Total Deposit}} * 100 \% \\ &= \frac{161833080}{7768957276} * 100\% \\ &= 2.08 \%\end{aligned}$$

Year 2008

$$\begin{aligned}(\text{NP}) &= \frac{\text{Net Profit}}{\text{Total Deposit}} * 100 \% \\ &= \frac{273414891}{10557416461} * 100\% \\ &= 2.59 \%\end{aligned}$$

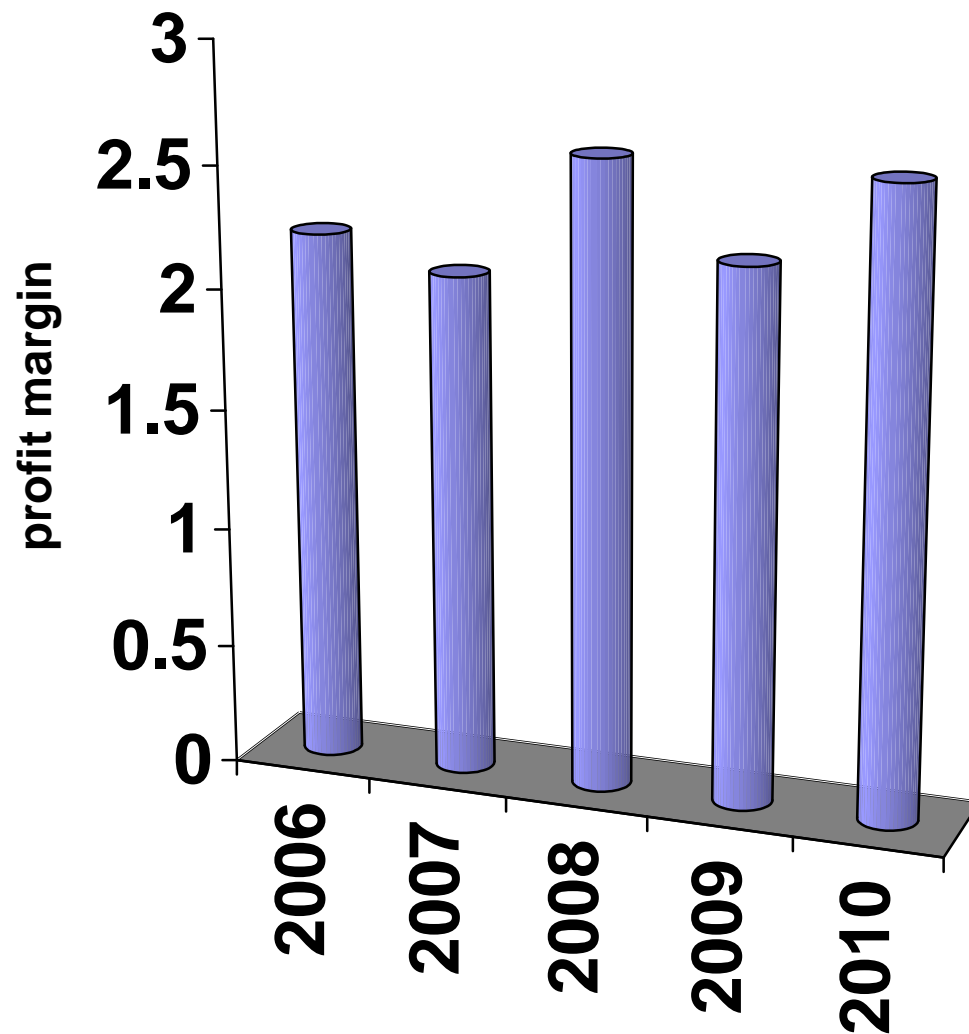
Year 2009

$$\begin{aligned}(\text{NP}) &= \frac{\text{Net Profit}}{\text{Total Deposit}} * 100 \% \\ &= \frac{283179887}{12774281014} * 100\% \\ &= 2.21 \%\end{aligned}$$

Year 2010

$$\begin{aligned}&= \frac{403739043}{15710925263} * 100\% \\ &= 2.57 \%\end{aligned}$$

Net Profit Margin of Kumari Bank



Findings: The net profit margin of Kumari Bank was slightly decreased in year 2007 and starts to increase in year 2008 to the maximum i.e. 2.59 %, then decreases in 2009. In 2010, net profit slightly increases.

Least Square of Linear Trend of Net Profit of Laxmi Bank

Least Square of Linear Trend of Net Profit

In Million

Fiscal Year X	Net Profit y	x = X - 2008	x ²	xy
2006	40	-2	4	-80
2007	56	-1	1	-56
2008	105	0	0	0
2009	194	1	1	194
2010	292	2	4	584
N=5	687	0	10	XY=642

Since,

$$\phi x = 0$$

$$a = \frac{y}{5}$$

$$= \frac{687}{5}$$

$$= 137.4 \text{ million}$$

$$b = \frac{xy}{x^2}$$

$$= \frac{642}{10}$$

$$= 64.2 \text{ million}$$

Substituting these values in the following formula,

$$\begin{aligned}
 Y &= a + bx \\
 &= 137.4 + 64.2 \times 3 \\
 &= 330 \text{ million}
 \end{aligned}$$

Hence, estimated Net profit of Laxmi Bank for the year 2011 would be 330 million.

Least Square of Linear Trend of Net Profit of Nepal SBI Bank

Least Square of Linear Trend of Net Profit

In Million

Fiscal Year X	Net Profit y	x = X - 2008	x ²	xy
2006	139	-2	4	-278
2007	220	-1	1	-220
2008	379	0	0	0
2009	383	1	1	383
2010	487	2	4	974
N=5	1608	0	10	XY=859

Since,

$$\phi x = 0$$

$$a = \frac{y}{5}$$

$$= \frac{1608}{5}$$

$$= 321.6 \text{ million}$$

$$b = \frac{xy}{x^2}$$

$$= \frac{859}{10}$$

$$= 85.9 \text{ million}$$

Substituting these values in the following formula,

$$Y = a + bx$$

$$= 321.6 + 85.9 X 3$$

$$= 579.3 \text{ million}$$

Hence, estimated Net profit of Nepal SBI Bank for the year 2011 would be 579.3 million.

Least Square of Linear Trend of Net Profit of Kumari Bank

Least Square of Linear Trend of Net Profit

In Million

Fiscal Year X	Net Profit y	x = X - 2008	x ²	xy
2006	139	-2	4	-278
2007	162	-1	1	-162
2008	273	0	0	0
2009	283	1	1	283
2010	44	2	4	88
N=5	901	0	10	XY=-69

Since,

$$\phi x = 0$$

$$a = \frac{y}{5}$$

$$= \frac{901}{5}$$

$$= 180.2 \text{ million}$$

$$b = \frac{xy}{x^2}$$

$$= \frac{-69}{10}$$

$$= -6.9 \text{ million}$$

Substituting these values in the following formula,

$$Y = a + bx$$

$$= 180.2 - 6.9 \times 3$$

$$= 159.5 \text{ million}$$

Hence, estimated Net profit of Kumari Bank for the year 2011 would be 159.5 million.

Major Findings of the Study

The major findings of the study from the analysis are as follows.

1. The correlation between Income and Net profit is positively correlated of Nepal SBI Bank.
2. The correlation between Income and Net profit is highly positively correlated of Kumari Bank.
3. The correlation between Income and Net profit is highly positively correlated of Laxmi Bank.
4. The correlation between Operating Cost and Net profit is positively correlated of Laxmi Bank.
5. The correlation between Operating Cost and Net profit is positively correlated of Nepal SBI Bank.
6. The correlation between Operating Cost and Net profit is positively correlated of Kumari Bank
7. The Operating Cost is positively correlated between Kumari Bank and Laxmi Bank
8. The Operating Cost is positively correlated between Kumari Bank and Nepal SBI Bank
9. The Operating Cost is positively correlated between Laxmi Bank and Nepal SBI Bank
10. The net profit margin of Laxmi Bank was slightly decreased in year 2007 and starts to increase from year 2008 till 2010. In 2010, net profit was maximum among the 5-year study i.e. 1.8%.
11. The net profit margin of Nepal SBI Bank was slightly decreased in year 2007 and starts to increase in year 2008 in higher rated then decreases in 2009. In 2008, net profit was maximum among the 5-year study i.e. 3.31 %

12. The net profit margin of Kumari Bank was slightly decreased in year 2007 and starts to increase in year 2008 to the maximum i.e. 2.59 %, then decreases in 2009. In 2010, net profit slightly increases.
13. Net profit of Nepal SBI Bank is expected to be higher in the year 2011 in comparison to other two sample bank.

CHAPTER – 5

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

SUMMARY

Nepalese capital market is not developed enough in comparison with the market of other countries such as India, China and United States. In Nepal, very few investment and financial tools are in use.

This study is divided in five chapters. In introductory chapter, a brief introduction and background of the study on financial performance are presented. While, overall view of financial performance is reviewed in second chapter. Research methodology is mentioned in third chapter and presentation and analysis of data is made in fourth chapter. So this chapter is all about summarization and conclusion of findings.

A comparative study of financial performance of the selected commercial banks, namely Nepal SBI Bank Ltd, Laxmi Bank Ltd, and Kumari Bank Ltd. Were made to provide valuable insights regarding how they are performing financially. A detailed about the growth of commercial banks in general and gave a brief profile of three commercial banks considered under study. Relevant studies on the topic were carefully made to grasp of what others have said. Suitable research methodologies were used by using financial tools. The available data were analyzed according the need to portray the overall financial performance of commercial banks. Certain issues and findings were drawn from analysis of data. Now suggestion and recommendation were made for further improvements of operations of banks.

CONCLUSIONS

The correlation between income and Net Profit is higher in Laxmi Bank than other two banks of the study. Similarly, the correlation between operating cost and Net Profit is higher in Laxmi Bank than that of Kumari Bank and Nepal SBI Bank. Consequently, from the income among the three banks, the correlation between Kumari Bank and Lamxi Bank are highly correlated. Similarly, from the operating cost among the three commercial banks in this study, here also Kumari Bank and

Laxmi Bank and highly correlated than Kumari Bank and Nepal SBI Bank and Laxmi Bank and Nepal SBI Bank.

The Net Profit Margin of Laxmi Bank is slightly decreased in the Yr. 2007 from Yr. 2006. Then it starts to increase till year 2010. In 2010, net profit was maximum among the 5-year study i.e. 1.8%.

The net profit margin of Nepal SBI Bank was slightly decreased in year 2007 and starts to increase in year 2008 in higher rated then decreases in 2009. In 2008, net profit was maximum among the 5-year study.

The net profit margin of Kumari Bank was slightly decreased in year 2007 and starts to increase in year 2008 to the maximum i.e. 2.59 %, then decreases in 2009. In 2010, net profit slightly increases.

We can observe ha the loan and advance ratio of Kumari Bank is better among the selected commercial banks

We can also observe that the Net worth ratio is better in Kumari Bank as higher the ratio better for the bank investment and assets.

RECOMMENDATIONS

1. Being the part of the society, it has a great responsibility in the social development, therefore it is recommended that Bank to participate in social events such as in education, health program, environment protection etc. They should also sponsor social programs, contests etc. for maintaining favorable public image.
2. They should carefully examine safety of principal as well as source of repayment, capital structure, requirement and credit worthiness of a borrower for providing credits. In other words, credit manager should evaluate credit risk by considering, well-known five C's credit viz., capacity, collateral, capital, character and condition.

3. In today's competitive banking environment, protection of employees is one of the most important factors to be considered by the management. Job security, promotion and career development should go side by side to motivate employees towards better work performance. Proper training of both old and new employees is necessary for generating efficiency. They should be trained in keeping with the international banking system.
4. It is recommended that the Laxmi Bank and Kumari Bank have to increase their Loan and Advance Ratio through lowering taking the borrowings and their loans, they should open various branches to combat this problem also through better operation and management.
5. Laxmi Bank and Kumari Bank are also recommended to mobilize their capital adequacy to maintain and achieve better positions among the commercial Banks
6. Nepal SBI Bank can mobilize its optimum utilization of assets to get better Net Worth in future.

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ANNEXURE 1

List of Commercial Banks in Nepal

S.No.	Commercial Bank	Established Date (AD)
1	Nepal Bank Ltd.	11/15/1937
2	Rastriya Banijya Bank	1/23/1966
3	Nepal Arab Bank Ltd. Nabil Bank	7/16/1984
4	Nepal Indosuez Bank Ltd{Now Nepal Investment Bank Ltd.}	1/30/1986
5	Nepal Grindlays Bank Ltd. (Now Nepal Standard Chartered Bank Ltd.)	1/30/1987
6	Himalayan Bank Ltd.	1/18/1993
7	Nepal SBI Bank Ltd.	06/05/1993
8	Nepal Bangladesh Bank Ltd.	10/18/1994
9	Everest Bank Ltd.	03/12/1995
10	Bank of Kathmandu Ltd.	10/14/1996

11	Nepal Bank of Ceylon Limited (Now Nepal Credit & Commerce Bank Ltd.)	07/17/1998
12	Lumbini Bank Ltd.	07/21/1998
13	Nepal Industrial & Commercial Bank Ltd.	10/03/2000
14	Machhapuchhre Bank Ltd.	10/03/2001
15	Kumari Bank Ltd.	12/24/2002
16	Laxmi Bank Ltd.	03/16/2006
17	Siddhartha Bank Ltd.	01/02/2007
18	Agriculture Develop Bank Ltd.	04/20/2007
19	Global Bank Ltd.	09/08/2007
20	Citizen Bank International Ltd.	10/12/2007
21	Prime Bank Ltd.	09/08/2007
22	Sunrise Bank Ltd.	10/12/2007
23	Bank of Asia Nepal Ltd.	10/12/2007
24	Development Credit Bank Limited	01/23/2001*
25	Nepal Merchant Bank Limited	11/26/1996*
26	Kist Bank Limited	21/02/2003*
27	Janata Bank Nepal Limited	05/04/2010
28	Mega Bank Limited	23/07/2010
29	Commerz & Trust Bank Limited	20/09/2010
30	Civil Bank Limited	26/11/2010
31	Century Commercial Bank Limited	10/03/2011

Source: www.nrb.org.np

*Development Credit Bank Limited Nepal Merchant Bank Limited and Kist Bank Limited upgraded as commercial bank from 2008/05/25, 2008/06/02 and 2009/05/07 respectively. Development Credit Bank upgraded in commercial bank (Class A) from development bank (Class B) and Nepal Merchant Bank Limited and Kist Bank Limited upgraded in commercial bank (Class A) from finance company (Class C).