

CHAPTER-I

INTRODUCTION

1.1 General Background of the Study

Financial institution can be considered as the catalyst to the economic growth of a country. The development process of a country involves the mobilization and deployment of resources. Development of trade, commerce and industry are the prime requisite for the attainment of the economic political and social goals. To fulfill the purpose of planning, financial functions more often dominate the other functions. There is always lack of finance in underdeveloped economy because natural resources are either under utilized or utilized in non-productive sectors. Likewise, underdeveloped countries are not efficient in mobilization of financial resources.

So in these countries for the rapid development of the economy, there should be proper mobilization of resources. Due to various difficulties or even ignorance of the people, such resources have not been properly utilized. Hoarding could be one of the reasons for this. So, financial institutions play a vital role to encourage thrift and discourage hoardings by mobilizing the resources and removing the habit of hoarding. Banks are the heart of the financial system, they pursue rapid economic growth, developing the banking habit among the people, collecting the small-scattered resources in one bulk and utilizing them in further productive purposes and rendering other valuable services to the country. Thus, this gives the individuals an opportunity to borrow funds against future income, which may improve the economic well-being of the borrower.

In a country like Nepal, banking consciousness is lacking as well as majorities of the people are economically and financially immobile. So, the country is facing great problem to get economic prosperity. Sustainable economic growth requires intermediary channels for efficient allocation of funds. Through intermediary channels such as financial institutions and financial markets, funds should be efficiently channeled from depositors and investors to borrowers in need of funding, for example, to expand their business or buy a house. By mobilizing the scattered idle resources from the savers, intermediary channels pool up the funds in a sizable volume in order to feed the fund requirement of productive sector of the

economy. The role played by financial institutions and financial markets in this process is referred to as the function of financial intermediation. Financial institutions as important financial intermediary channels need to maintain sound business operations. Financial institutions need to better satisfy various financial demands of customers and enhance profitability by continually improving the ways in which they manage risks and their business operations and to remain as the major contributing factors to the growth of the nation's economy, they themselves have to have sustainable existence and growth of themselves for which profitability is a must.

Profitability is a deviation of the term profit, which explains the ability to make the profit. Profit is primarily a measuring rod of a success of a business enterprise. Profit is essential for the survival of the business. It is the difference between revenue generated and expenses occurred over the period of time but the term profit has several different interpretations. It is a basic test of the performance of any business concern. Without profit a firm could not attract the outside capital. Moreover, the owners and creditors would become concerned about the company's future and attempt to recover their funds. Owners, creditors and management pay close attention for boosting profit due to the great importance placed on earning the market place. Profitability is a technical term, used to compare performances analysis of different trading systems or different investments within one system. This is computed for each system or investments being compared over the same period long enough to include significant "ups" and "downs". So analysis of the profitability of the business is very essential which can be used to measure the overall efficiency of the business.

Profitability of the business can be analyzed through the financial analysis which refers to the assessment of the viability and stability of the business. Profitability of a company is usually based on the income statement. A properly conducted profitability analysis provides invaluable evidence concerning the earnings potential of a company and the effectiveness of management. While analyzing profitability different profitability ratios are calculated. Profitability ratios provide a definitive evaluation of the overall effectiveness of management based on the returns generated on sales and investment. The most widely used profitability measurements are profit margin on sales, return-on-investment ratios, and earnings per share.

Banking In Nepal

In the context of Nepal, the history of modern banking system is not very lengthy. This becomes explicit when one compares Nepalese banking system with the banking system of other countries of the world but this doesn't mean that there was the complete absence of banking activities in Nepal in ancient period. The banking in the form of money lending can be traced back in the reign of Gun Kam Dev towards the end of eighth century. According to the historical evidence in 723 Gun Kam Dev, the King of Kathmandu, had borrowed money to rebuild and to rule Kathmandu.

Another historical example as to the pre-modern banking system is found when Rana Prime minister Randip Singh was administering Nepal in 1880 AD. During his regime one financial institution name by 'Tejarath Adda' was established to give loan facilities to the governmental staff and to afford loan facilities to the public in general in the term of 5% interest. 'Tejarath Adda' may be regarded as the father of modern banking institution in Nepal. During the Prime Minister ship of Juddha Shamsheer in 1994 B.S. the 'Tejarath Adda' was replaced by a commercial bank, 'Nepal Bank Ltd.' which marked the beginning of the new era in the history of modern banking in Nepal. Nepal Rastra Bank was established in 2012 B.S. to do the function of a central bank. Rastriya Banijya Bank, as a second commercial bank, was established in 2022 B.S.

After the establishment of Nepal Arab Bank Ltd. in 2041 B.S. under the commercial bank act 2031 B.S., with the allocation of 50% share of Emirates Bank Ltd., Dubai, 20% share of Nepalese financial institutions and 30% share of general public, the new phase of development of the commercial bank started. Nepal Indosuez Bank Ltd. (now Nepal Investment Bank) emerged in 2042 B.S. as the second and Nepal Grindlays Bank Ltd. (now Standard Chartered Bank Nepal Ltd.) established in 2043 B.S. as the third joint venture bank in the country.

After that, there was a gradual increase in the number of joint venture commercial banks in Nepal. Now, there are 31 commercial banks, 86 development banks, 59 finance companies, 31 micro credit development banks, 16 saving and credit cooperatives limited and 31 NGOs, 25 insurance companies in operation at present, (NRB, List of banks and non-bank financial institution as of Mid- July 2013). The open and liberal policy in the financial sector has helped in establishment of commercial and financial institutions in the country.

Commercial Banks

Commercial banks are those banks, which perform all kinds of banking functions accepting deposits, advancing loans, credit creations and agency functions. Their main objective is to earn maximum profit. In Nepal, commercial banks play vital role by providing different facilities and services. They also provide services like collection of bills and cheques, safe keeping of valuables, financial advising etc. To their customers. Thus, the main objective for the establishment of commercial bank is to help the business sector, industrial sector & agricultural sector develop. Hence, this type of bank provides loans to such sectors at a very reasonable interest rate. However, at present a bank performs numerous functions that generate income for the bank. The key success of a commercial bank lies in its ability to raise funds & use it for investing purpose, acting as an intermediary between debtors & creditors.

In order to operate the commercial banks incorporated in Nepal, various laws have been consolidated. Commercial Bank Act 2031 B.S. (1947) has also been amended quite several times in accordance to the need. After 1955 , HMG/N &NRB permitted the establishment of other Commercial Banks, Finance Companies, Gramin Bikas Banks, Co-operative Societies & NGOs.

Functions of Commercial Bank

Commercial Bank is said to be the financial wheel of an economic system. Nepal Commercial Bank Act 2063 B.S. has defined commercial bank as stated earlier and it has also emphasized on their functions. The major functions of commercial bank are as follows.

- To accept custody of the funds with or without interest and open fixed account and saving accounts in the name of depositions.
- To supply loans (short-term debt as well as long term debts whatever necessary for trade and commerce) or make investment.
- To help to issue shares and debentures of any company or any others corporate body, guarantee or underwrite such shares or debentures and undertake any agency business but not become a managing agent.
- To conduct transactions in bonds, provisionary notes or bills of exchange foreign exchange relating to commerce or corporation as are redeemable within the kingdom.
- To grant overdraft.
- To issue letter of credit, draft and traveler's cheque.

- To remit or transit fund to different place within or outside the kingdom.
- To purchase, sell or accept the securities of Government of Nepal.

Beside this, the commercial bank arranges the amount of foreign exchange required by various organization and travelers. Moreover, foreign trade transactions are facilitated through the issuance of letter of credit. Bank also provides locker facilities to the customers to keep valuable ornaments and documents. Bank also makes payments, pays and collects rent, pay insurance premium, etc. on behalf of its clients. In case of joint venture commercial bank, it issues internationally valid credit cards, ATM cards, tele banking etc. Beside, bank has many more functions and roles in the development of national economy.

Role of Commercial Bank

Commercial bank plays vital role by providing different facilities and services. The important roles of commercial bank are as follows:

- Capital formation
- Monetization of economy
- Price stability
- Control in interest rate
- Availability of credit
- Development of neglected and deprived sectors
- Promotion of saving
- Implementation of monetary policy
- Long term loan
- Transfer of funds

1.2 Brief Profile of Sample Banks

Siddhartha Bank Limited (SBL)

Siddhartha Bank Limited (SBL), established in 2002 and promoted by prominent personalities of Nepal, today stands as one of the consistently growing banks in Nepal. While the promoters come from a wide range of sectors, they possess immense business acumen and share their valuable experiences towards the betterment of the Bank.

Within a short span of time, Siddhartha Bank has been able come up with a wide range of products and services that best suits its clientele. Siddhartha Bank has been posting growth in its portfolio size and profitability consistently since the beginning of its operations. The management of the Bank has been thoroughly professional.

Siddhartha Bank has been able to gain significant trust of the customers and all other stakeholders to become one of the most promising commercial banks in the country in less than 10 years of its operation. The Bank is fully committed towards customer satisfaction. The range and scope of modern banking products and services the Bank has been providing is an example to its commitment towards customer satisfaction. It is this commitment that has helped the Bank register quantum growth every year. And the Bank is confident and hopeful that it will be able to retain this trust and move even further towards its mission of becoming one of the leading banks of the industry.

The bank is operating with its 43 branches in different parts of the country with 460 staffs. The bank is also providing branchless banking services as well.

Vision

Siddhartha Bank runs with a vision to be financially sound, operationally efficient and keep abreast with technological developments.

Mission

The Bank desires to be one of the leading banks of the industry by fulfilling the interest of the stakeholders and also aims to provide total customer satisfaction by way of offering innovative products and by developing and retaining highly motivated and committed staff. It directs all its efforts to move ahead with increased profits. The following mission statement is a guide to meet the Vision of the Bank:

- Be one of the leading banks of the industry in terms of profitability, productivity and innovation.
- Aim at total customer satisfaction by rendering efficient and diversified financial services through improved technology.
- Build a highly motivated and committed team of staff by nurturing a good work culture to achieve superior individual performance aiming to enhance organizational effectiveness.
- Be the place of pride to all its stakeholders.(www.siddharthabank.com)

Global IME Bank Limited (GIBL)

Global IME Bank Ltd. emerged after successful merger of Global Bank Ltd (an “A” class commercial bank), IME Financial Institution (a “C” class finance company) and Lord Buddha Finance Ltd. (a “C” class finance company) in 2012. Last year two development banks “Social Development Bank” and “Gulmi Bikas Bank” have been merged with this bank.

Global Bank Limited (GBL) was established in 2007 as an ‘A’ class commercial bank in Nepal which provides entire commercial banking services. The bank was established with the largest capital base at the time with a paid up capital of NPR 1.0 billion. The paid up capital of the bank has since been increased to NPR 2.78 billion. The bank's shares are publicly traded as an 'A' category company in the Nepal Stock Exchange.

At present the bank is operating with 73 branches in 13 zones of the country with 800 staffs. It has 71 ATMs in different parts of the country which has made very comfort to take banking service to the customers. The bank plays great role to develop the economic condition of country by providing different facilities and services to their customers like collection of bills and cheques, safe keeping of valuables, financial advising etc.

The bank is also providing branchless banking service being one of the leader bank in the most remote areas of the country.

Mission

To win respectable market share through customer focused quality products and services, innovative business solutions and technology driven banking thereby enhancing the growth and profitability of the bank so as to ensure the optimum benefit to all stake holders at all times.

Vision

The bank shares a common vision of “The Bank for All” amongst its Promoters, Directors, Management Team and Staff in commitment to providing the highest standard of services for customers from all regions and societies. (www.globalimebank.com)

1.3 Focus of the Study

Every country needs to give emphasis on upliftment of economic conditions. The upliftment of economic conditions of a nation needs mobilization of its own domestic resources through banking. But the financial situation of Nepalese banking sector is in a very poor condition. Apart from other measures required to improve their performance, the banking sector is expected to have better prospects with effective profit planning and control. So the main focus of this study is the financial performance and profitability analysis of commercial banks in the context of Nepal. Since profit is not only factor to analysis the financial performance, some other factors need to be considered while evaluating the profitability of Nepalese commercial banks. In this study, the profitability analysis of SBL AndGBL was made.

1.4 Statement of the Problem

Economic growth of the country is largely influenced by the activities of commercial banks not only in Nepal but also in all parts of the world. The sound financial performance in the bank itself is very crucial in order to sustain for the long run. For that every stakeholders as well as the management teams associated directly and indirectly with the banks should assist from their side. Banks with strong position can only be able to support in the sustainable economic growth of the country. As being a commercial institution, a commercial bank must make profit out of its operation 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 makes a drain on the company's resources and country's resources as well.

It is obvious that every business organizations aims to have maximum profit. The successful operation of any organization whatever the nature of it is largely depends upon the planning system that it adopts. So the planning for project is also the most important device to get success for a period. It plays a key role for the effective formulation and implementation of strategic plans. Profit planning system requires the effective coordination between various functional budgets. It is important not only for manufacturing industries but also for commercial banks. Banks generate their profit by mobilizing its deposits by providing short term and long-term loans. In the threshold of twenty first century, the role of the banks and financial institutions is becoming broader day by day as they have been making the task easier by introducing payment mechanism and fostering other related similar services to the people.

The sample banks under study, Siddhartha Bank and Global IME Bank, have been making profit since their establishment. The research tries to find the answer of the following questions with the help of especially the secondary data.

- What extent is the process of profit planning followed by Siddhartha Bank and Global IME Bank?
- Are the bank's operating profit is satisfactory?
- Have the banks adopted the policy of making plan for deposit, mobilization?
- Have the banks mobilized their investment in profitable sectors?
- What step should be taken to improve the profit planning system in these banks so that overall profitability of these banks can be increased?

1.5 Objective of the Study

The specific objectives of the study are as follows;

- To study and analyze the profit and loss trend as well as growth of SBL and GIBL over the Study period.

- To compare and analyze fund based interest income with fee based income of SBL and GIBL in light of interest earning assets.
- To evaluate the profitability and operating financial efficiency of SBL and GIBL
- To provide the suggestion and recommendation for the improvement of overall profitability of the bank.

1.6 Significance of the Study

The profitability analysis is an effective managerial evaluation of performance. It studies the effect on the shareholders' return and risk. Consequently, the effect on market value of the share can be verified with profitability analysis. A proper profit planning considerably contributes to improve the overall financial performance and leads the organization toward success. In this study, an attempt was made for drawing the overall picture of the selected commercial banks of Nepal. Data of five fiscal years were presented systematically and analyzed.

- This study will be helpful to management of the selected commercial banks of Nepal to make effective profit planning strategy for future. This also will be valuable for researcher, students who want to investigate into the profitability of the selected commercial banks of Nepal. It will also be important to the bank, investors and stakeholders concerned.
- The study will compel the management of SBL and GIBL for self assessment of what they have done in the past and provides guidance for their future plans and program.
- The study enlightens the shareholders, depositors, creditors, NRB, Tax office etc. about the financial performance of the bank.
- The financial agencies including stock exchanges and stock traders interested in the performance of the bank as well as the customer, depositor and debtors can identify the better bank to deal with in terms of profitability, safety and liquidity.
- Policy makers, the government and NRB at the macro level will be benefited regarding the formulation of further policies to facilitate economic development of the country.

1.7 Limitations of the Study

This study is not free from certain limitations. The major limitations of the study areas follows:

1. The study was concerned with SBL and GIBL only.
2. The study was only to analyze profitability aspect. It ignored other aspects like assets management, risk management and other activities like investment policy of bank.
3. The whole study was based on the data of 5 fiscal years period from the F.Y.2008/09 to 2012/13 and conclusions were confined to the above period.
4. This study was based on the financial statements like balance sheet, profit and loss account and cash flow statement which provided the quantitative information.
5. This study is mainly based on secondary data.

1.8 Organization of the Study

The study is classified into five different chapters, the first chapter dealt with introduction of the study. It includes introduction, general background, statement of the problem, objectives, significance, limitation of the study and organization of the study. The second chapter dealt with the review of literature which included review of related books, journals, articles and previous unpublished Master Level Dissertation etc.

The third chapter explained the research methodology used in the study. It included research design, population and sampling, types and source of data, data collection procedure, method of analysis and analytical tools used.

Data presentation and analysis contained in the fourth chapter dealt with presentation of the data collected through various sources and analysis of data as well as major findings of the study.

The fifth is the last chapter of the study covered the summary of the study and the main conclusion drawn from the study and some recommendations as well as suggestions on the basis of the study.

CHAPTER-II

REVIEW OF LITERATURE

This chapter is basically concerned with review of literature relevant to the topic profitability analysis. The purpose of reviewing of literature is to develop some expertise in one's area, to see what new contribution has made and to receive some ideas for developing a research design. Thus, previous studies cannot be ignored as they provide the foundation of the present study. This chapter highlights the literature that is available in concerned subject as to my knowledge, research work, and relevant study on this topic, review of journals and articles and review of thesis work performed previously.

2.1 Conceptual Framework

Conceptual framework deals with the theoretical aspects of working profit, profitability, liquidity, theory of profit, need for profit, tradeoff between profitability and liquidity, financial statement of commercial bank, profit and loss a/c, income statement etc.

2.1.1 Profit & Profitability

Generally profit is defined as the excess of revenue over cost. In other words, profit is the residual income, which is equal to sale proceeds minus costs. Profit is the resources left to the firm for future growth and expansion or reward to be distributed to the entrepreneurship in the form of dividends etc. In a simple term, profits mean the residual balance of earning expected to be available with the firm that is obtained after deducting entire expenses, costs, charges and provision from total revenue of a period of time.

It is lifeblood of each type of business. Every business organization should earn profits to survive and grow over the long period of time. Obviously, organization will have no future if it is unable to make reasonable profit from its operation. As a matter of fact, the overall efficiency of an organization is reflected in its profits. Profits to the managements are the test of efficiency and a measurement of continuity to the owners, a measure of worth of their investment; to the creditors, the margin of safety to the employees; a source of fringe benefits

to the Government, a measure of fixed paying capacity and the basis of legislative action; to customers, a hint to demand for better quality and price cuts; to a bank, less burden some source if finance existence and finally to the country, profit are index of economic progress. Thus, if an organization fails to make profit, capital invested erodes and if this situation prolongs it ultimately cease to exist.

Profit has been universally recognized and accepted as a measure of business efficiency. Thus, the larger the profits, the more efficiency and profitable the business organization is deemed to be. This criterion has the greater advantage that it provides a common standard of measuring the efficiency of different banks. Regarding this, Laxmi Narayan clearly states, "Profit is the simple, convenient and the most popular yardstick of judging the efficiency of private and public business enterprises. Profit helps in judging the overall efficiency and is easy to calculate. Even through profit maximization, unlike private enterprise, is not objective of public enterprises, yet profit services as a well accepted criterion for the judging the overall efficiency of public enterprises too." (*Narayan, 1980,260*).

The profit is the ultimate measure of effectiveness. A profitable company is likely to offer not only security of employment but also promotion prospects, job opportunities and the intense personnel motivation that comes from being associated with success. John Argent observes, "Profit is the barometer of the success of business. It is, indeed, a magic eye that mirrors all aspects of entire business organizations including the quality output." (*Argent, 1968,34*).

The term 'profitability' is composed of two words profit and ability. It reflects the capacity of a business organization to earn profit. It is also referred to as earning capacity or earning power of the concern investment. Thus, the term profitability may be taken as the ability to earn profit. According to Howard and Upton, "The word profitability may be defined as the ability of a given investment to earn return on its use."

It may be mentioned that the term 'profitability' is distinguished from the word profit. Profit refers to the absolute quantum of profit whereas profitability alludes to the ability to earn profit. The former is an absolute measure in itself while the latter is a relative one. According to W.M. Harper, the profitability is a relative measure. It indicates the most profitable alternative. The profit, on the other hand is an absolute measure. It indicates the overall amount of profit earned by transaction. As the profitability is the relative measure, it is used to judge the degree of operational efficiency of management. Furthermore, it is essentially

employed to measure the relative efficiency of different trading systems or different investments within one system. In the profitability analysis, the profit making ability of an organization is measured in terms of size of investment in it or its sales volume. Such an analysis of profitability reveals how particularly such a position stand as a result of transactions made during the year. It is particularly interesting to the suppliers of funds who can evaluate their investment and take necessary decision thereon.

The state of profitability is a variable thing like the temperature and humidity of a day. The determination of profitability by an accountant or analyst is very much similar to temperature reading and study of humidity by a meteorologist. A meteorologist records the weather on daily basis with an intention to forecast its future prospects. Likewise, an analysis records yearly profit of a bank with a view to make prediction of the future prospects.

The purpose of profitability measurement is to see whether a bank has effectively used its resources to achieve its profitability objectives. The profitability objectives refer not to the maximum profit the business can produce but to the minimum it must produce. The minimum profit is the profit at the minimum rate required for the desired type of investment in the bank. However, there mustn't be enough profit to yield the capital in the market rate of return on money, which is already sunk in business, but also to provide additional capital needed to cover the cost of staying in business.

2.1.2 Meaning of Profit

Profit, from Latin means “to make progress”. It is defined in various ways. In economics, profit is the concept of reward of the entrepreneur for risk taking and management. In business operations, it is the gain from manufacturing, merchandising and selling operations after all expenses are met. Since profit is added to net worth, it may be measured by the increase in net worth over that of the previous accounting period. The amount of concern's profit thus may be determined not only through the profit and loss statement but also by the comparison of the earned surplus or net worth in the balance sheet which, however, is the residue of profits after dividends and any other appropriations and does not reveal details of sources of income and expenses, which are found in profit and loss account. In speculative transactions, profit is the excess of the net selling price over the costs (including all charges) of the security or commodities traded in. (*Woelfel, 1999,540*).

Profit is a motivating factor behind many managerial activities. Much has been written about the role (as opposed to the method of calculation) of profit. Profit plays three roles in the capitalistic society. Profit is the financial reward of risk taking; profit is the financial reward for having monopoly power; profit is the financial reward for the efficient management. The promise of profit provides a strong incentive to owners and managers to act efficiently. "Profit is essential for every enterprise to survive in the long run as well as to maintain capital adequacy through retained earning. It is also necessary to accept market for both debts and equity to provide funds for increased assistance to the productive sectors." (*Robinson, 1951,21-22*)

Account and economics are two disciplines in which profit is viewed in different concept. Pure economic profit is the increase in wealth that an investor has from making an investment, taking into consideration all costs associated with that investment including the opportunity cost of capital. Accounting profit is the difference between retail sales price and the costs of manufacture. A key difficulty in measuring either definition of profit is in defining costs. Accounting profit may be positive even in competitive equilibrium when pure economic profits are zero.

In economics, a firm is said to be making an economic profit when its revenue exceeds the total (opportunity) cost of its inputs. According to Adam Smith (The father of economics), "Profit is the sum remaining after the payment of all wages (wage) in economics includes payments to officers of corporations, to proprietors, to partners and to farmers, as well as to what we today term(labor), and rent on the unimproved value of land, as the return to capital."

Profit in the accounting sense is the net figure of difference between all types of measurable revenues and all measurable costs. In accounting, profit is expressed only on explicit and measurable accounting terms and on the book value basis. However, in economics, profit is measured in the realizable terms. "Profit in the accounting sense is the excess of revenue receipts over the costs incurred in producing this revenue. This concept of profit is also known as residual concept. But, in economics, both implicit and explicit costs are deducted from total sales revenue in determining profits." (*Cauvery, 1997,122-123*)

As a matter of fact over the years there has been quite an evolution as to what particular items should be deducted from gross income to arrive at an "accounting" profit. Thus, "accounting" profit is a concept of man-made legislation, of the courts, of the Security of Exchange

Commission, of accounting organizations; a concept, which has always been in evolution. “Economic” profit on the other hand, is a concept of a natural law of economics, and like the law of gravitation has remained and will remain unchanged over the ages. However, the profit under discussion is concerned with accounting profit, which in a simple language, is the positive and fruitful difference between two revenues and to expenses over a period of time. Multiple meaning of the word "profits" have always been troublesome. Accountants have made energetic efforts in recent years to discard the word for that purpose and to refer to the conventional concept as business income a natural term that avoids any overlap with economic theory. The most important points of difference between the economists and accountants are as follows:

- The inclusiveness of costs i.e. what should be subtracted from revenue to get profit.
- Meaning of depreciation
- The treatment of capital gains and losses
- The price level basis of valuation of assets and liabilities
- Although there may be arguments in favor and against profit generating almost all firms require earning it. Their rate of earning differs from firm to firm and time to time.

2.1.3 Theories of Profit

Economists have propounded several theories of profits to explain profits of entrepreneurs. Most of the theories are centered on the controversy about the role of the entrepreneur. In the following section some of the fundamental theories of profit have reviewed in brief.

1. **Theory of Risk and Uncertainty Bearing:-** It was F.B. Hawley who first developed the theory of risk bearing and concluded that profit is a reward of the entrepreneurs for bearing risks. But, the theory was picked up by Professor F.H. Knight who divided risk into insurable risk and uncertainties. Thus according to Knight, profit is a reward to the entrepreneur for his non-transferable function of bearing non-insurable risk and uncertainties.
2. **Dynamic Theory of Profit:-** This theory was propounded by J.B. Clark. According to this theory, 'dynamic changes' in the economy are the basic causes of emergence of profits.

There is no profit in the static economy as no changes take place. In a dynamic economy there are constant changes in population, capital, methods of production and industrial set up. These changes multiply wants of consumers, which earn profits to the entrepreneur.

3. **Innovation theory of profit:-** Joseph Schumpeter singled out 'innovation' from the dynamic theory of profits and developed economy and innovation in the changing world gives rise to profits. In his views, the entrepreneur plays an important role of introducing innovation in an economy and profits are the rewards for his role as an innovator. The innovation could be changes or techniques that reduces cost of production or increases demand for the product.

2.1.4 Need For Profit

Profit is necessary for the following reasons:

1. **Measurement of Performance:-** Profit is only factor to measure the management efficiency, productivity and performance. Profit is the most widely used yardstick to see what really is to be achieved and where the firm is to go in the future.
2. **Premium to cover costs of staying in Business:-** Business environment is full of risks and uncertainties. to grasp the globally changing technologies, to stay in the market uncertainties, to replace and acquire assets and enhancing business scope etc. require a profit margin.
3. **Ensuring Supply of Future Capital:-** Profit is necessary to plough back in the investments like innovations, business expansion and self-financing. It also attracts investors for further investment.
4. **Return to the investors:-** Shareholders provide equity capital to the business because they expect the entity will provide return to their funds at least equal or above market rate of return. To maintain the shareholders expectation, it is most important that a firm should earn sufficient profit so that it can distribute dividends.

2.1.5 Profitability of Commercial Banks

Banks today are under great pressure to perform to meet the objectives of their stockholders, employees, depositors, and borrowing customers, while somehow keeping

government regulators satisfied that the bank's policies, loans, and investments are sound.” (Rose, 1991,155) The majority of the needs of the stakeholders are related with the profitability of the banks. For example, in case the bank earns profits, the investors get dividends, employees get bonus, government gets benefits in forms of taxes etc. Thus, the foremost objective of the banks is the profit maximization. As other types of business entity, commercial banks are also inspired by the profit.

The major source of funds of the bank is the public deposit. Commercial banks invest public deposits on those sectors where they can attain the maximum income or higher rate of return as the bank is liable to pay certain rate of interest to the public in their deposit. Hence the investment or granting of loan and advance by them are highly influenced by profit margin. Generally the profit of commercial bank depends upon the interest rate of the bank, volume of loan provided, time period of loan, and nature of investment in different securities. However, the bank at the same time has to ensure that their investment is safe from default.

Aspiration of profit to commercial banks seem reasonable as the bank has to cover all the expenses as interest to the depositors and other administrative costs, they should make payment in the form of dividend to the shareholders who contributed to build up the banks capital and keep aside for the provision and reserves. For this the bank calculates the cost of fund and likely return, if the spread is enough irrespective of risk involved and absorbs its liquidity obligations, it will go ahead for investment.

A successful bank is one who invests most of its funds in different earning asset standing safely from the problem of liquidity i.e. keeping cash reserve to meet day-to-day requirements of the depositors. After all the commercial bank is simply a business corporation organized for the purpose of maximizing the value of the shareholders wealth invested in the firm at an acceptable level of risk. So bank has to make crucial decision regarding a mixture of liquidity and profitability cause lower the liquidity higher the profitability and higher the liquidity lower the profitability and both are equally important, banks cannot afford to ignore any of them.

2.1.6 Liquidity

In banking, liquidity is the ability to meet obligations when they come due without incurring unacceptable losses. In other words, the capacity of bank to pay cash against any upcoming obligations is called liquidity. Managing liquidity is a daily process requiring bankers to monitor and project cash flows to ensure adequate liquidity is maintained. Maintaining a balance between short-term assets and short-term liabilities is critical as the commercial banks have liability to the deposits collected and they immediately should give it in the time when the depositors asked. Banking is the business of financial dealing whose major source of financing is the public deposit. Deposit accounts represent the primary funding in traditional commercial banks, and the loan portfolio represents the primary asset. The investment portfolio represents a smaller portion of assets, and serves as the primary source of liquidity. Investment securities can be liquidated to satisfy deposit withdrawals and increased loan demand. Banks have several additional options for generating liquidity, such as selling loans, borrowing from other banks, borrowing from a Central Bank and raising additional capital. Most banks are subject to legally-mandated reserve requirements intended to help banks avoid a liquidity crisis.

A large part of bank deposits are withdrawn on demand and hence the bank must be prepared with sufficient degree of liquidity of its assets. Once the confidence is lost in depositors' eye, they may withdraw all the deposits within the brief period when the bank is unable to generate adequate cash without incurring substantial financial losses since most of assets of the bank are attached in the loan and advances. Even the best bank can hardly survive in such a situation. Confidence depends upon the ability of bank to meet the readily demand for cash made by customers. Commercial banks maintain liquidity in all or any forms of following:

1. Cash in self vault and in other banks-specially in NRB (First Line of Defense).
2. Overnight placements, money at call or short notice or any other very short term placements (Second Line Defense).
3. Investment in marketable securities like government securities, which can be easily sold and readily convertible into cash (*Third line of Defense, D&D, 1996, 41*).

2.1.7 Trade off between Profitability and Liquidity

Profitability of commercial banks is highly dependant on the optimum utilization of available resources and invests the deposit collected in safe and profit generating assets like loan, and

advances and investments. However, banks can not ignore the necessity of maintaining a portion of the deposits in their cash vault, or in the immediate approach like in the account of central banks or in any highly liquid assets like government treasury bills, other government bonds that can be easily sellable without losing and further value.

A sound liquidity position of the bank satisfies the demand of the deposit holder, which maintains the goodwill of the banks. Since, banks are faithfully considered as the last resort for monetary needs of the public, the incapability of fulfilling their demands will lose the faith of the depositors/ public. Once any signaling effect is negatively attached in the perception of the depositors, they tend to doubt in the bank's dependability and that can be consequent in the bank run. Further, banks must maintain the certain portion of deposits in the vault and in NRB.

However, liquid assets are almost all idle. They do not generate any profits. The cash in the vault meets any upcoming obligations immediately but banks will not be able to generate any returns in such a case. Further, banks do not get any interests or other returns in the accounts maintained in the central banks, NRB in our case.

Profitability and liquidity maintain a highly negative co-relation. Since both are equally important for commercial banks, banks cannot ignore any of them. So, the crucial decision for the management of the banks is to trade-off between them. The more liquidity the less will be the profitability and vice versa.

2.1.8 Financial Statement of a Commercial Bank

The financial statement of a commercial bank includes balance sheet, profit and loss account, cash flow statement and other relevant disclosures. Merely presenting the financial statement does not satisfy the aim of the study as financial statements are just of financial information to this analysis. Thus, the focus of the study will go to the analysis of the financial statements of the bank, especially on profitability of the bank. This will make some attempts to identify the financial position of the bank and to give necessary suggestions thereto.

❖ Balance sheet

Balance sheet is not an account but it is a statement of assets and liabilities of business enterprises at the given date. It is a statement summarizing the financial position of the firm.

The balance sheet is prepared at the end of accounting period. Bank's balance sheet is composed of shareholder's fund, borrowings, debentures and other liabilities and provision on the liabilities side and cash and bank balance, stock, debtors, loan and advances, branch accounts, investment and fixed assets on the asset side. The brief explanation on accounting heads of the balance sheet is provided below:

A. Capital and Liabilities Side

1. **Share Capital:-** The amount of paid up capital of the bank should be mentioned under this head. The amount received against calls made should be credited in this share capital account.
2. **Reserves and Funds:-** This accounting head shall contain the amount of reserves appropriated from profit, as well as created through any other process and accumulated profit. Generally, this account shall be credited by debit to profit & loss appropriation account and utilization of such reserves shall be debited to the concerned reserve and fund accounts. The following account heads fall under this heading.
 - **General reserve fund:-** This is a stationary reserve. Under this head, only the amount appropriated from profit as per Commercial Banking act shall be credited. Currently, 20% of the net profit should be transferred to this account. Distribution of dividend by utilizing this fund is restricted and approval of Nepal Rastra Bank shall be obtained for the use of this fund for any other purposes. (*NRB, 2062,29*).
 - **Capital Reserve Fund:-** Profit on revaluation of assets and capital assets received in grant from other shall be accounted under this head.
 - **Share Premium:-** This represents the amount of money collected on issue of shares in excess of its face value. The outstanding amount in this account shall not be considered eligible for distribution of dividends. However, it may be used for issue of bonus shares under approval of Nepal Rastra Bank.
 - **Other Reserves:-** Funds and reserves, other than those mentioned above shall be included under this head.
 - **Accumulated Profit/Loss:-** Under this head, the balance of the accumulated profit or loss as per shown in the Profit and Loss Appropriation account shall be shown.
3. **Borrowing:-** The borrowed funds of the bank shall be disclosed under this head. Bank borrowings, placements, overnight placements, borrowing from central banks, foreign banks falls under this heading.

4. **Deposits:-** The principal liability of a commercial bank is its deposits collected from general public, business and government agencies. Deposits received from the depositors as well as the interest payable on the deposits shall be credited to the account of the depositors. The deposit liabilities accepted by the bank shall be exhibited under this head.
5. **Bills Payable:-** Under this head, the outstanding amounts pertaining to draft, telex transfer. Payment orders issued by one branch to another branch of the bank, as well as bills drawn on the bank by other local and foreign banks shall be accounted.
6. **Other Liabilities:-** Other than the capital and liabilities mentioned above, all other liabilities of whatsoever nature shall be included under this heading. Any other accounting heads that could not be exhibited elsewhere may be included under this head as required.

B. Assets Side

1. **Cash Balance:-** The most liquid assets held by any commercial bank is cash. This heading shall be used for showing the total amount of cash-in-vault, consisting of local and foreign currency. Since cash is the most liquid asset, it is used to cover deposit withdrawals, handle credit demands from customers, and to meet all regular and emergency expenses.
2. **Balance with banks:-** The balances of amounts in non-interest bearing accounts maintained by the bank with Nepal Rastra Bank as well as with other local and foreign banks shall be exhibited under this head.
3. **Money at call or short notice:-** The amount of all interest bearing placement with other banks with maturity of less than 7 days with stipulated condition for payment at call or at short notice (48 hours) shall be exhibited under this head.
4. **Investments:-** As a line of defense to meet demands for cash and serve as a quick source of funds, banks invest certain proportion of funds in the liquid assets. These typically include holding of shorter-term government bonds like treasury bills, development bonds etc. and other securities purchased in the open market and readily convertible into cash in the financial market. Other forms of investment include investment in the shares and debentures of other companies. These investments are mainly made for their ability to generate income. The investments are to be valued at market price or cost price whichever is lower.

Commercial banks invest the funds to the shares, debenture and bond of the other company. They generally do so when there is excess of funds than required and there are no alternative opportunities to make investment in the profitable sector. Now-a-days the commercial banks of Nepal have purchased share and debenture of regional development bank, NIDC and other development banks etc. these type are mainly held for their income-generating power and for other advantage like tax shelter etc. The investments are to be valued at market price or cost price whichever is lower.

5. **Loan Advances and Bill Purchased:-** This is a primary source of income and most profitable asset to a bank. The sum outstanding of all loans and advances extended to the customers as well as bills purchased and discounted bills less the amount of provisions made shall be exhibited. However, the loans extended to the staffs shall not be disclosed under this head and should be shown under other assets.
6. **Fixed Assets:-** All assets of long-term nature owned by the bank (land & buildings, machinery, vehicles, office equipments etc) shall be accounted under this head and be exhibited in the balance sheet at written down value after deducting the depreciation from the total cost.
7. **Other Assets:-** The heading shall be used for accounting of any other tangible or intangible assets, not mentioned above. Stationery stock, accrued interest on investment, accrued on loan, sundry debtors, assets in transit, non-banking assets, expenses not written off etc.

❖ **Profit & Loss Account**

The bank's profit & loss account is composed of interest, administrative expenses, provision for possible losses, bonus provision, tax provision, investment provision, etc. as expenses and interest, discount, commission, charges etc, as incomes. The summary of the heads of account in the profit and loss account in the profit and loss account of a commercial bank is given below.

A. Expenses Side

1. **Interest Expenses:-** Payment of interest on deposits accepted by the bank and on the borrowings is shown under this head. Interest is regularly expensed off for various deposits; inter bank borrowings, central bank borrowings and other external obligations.

2. **Employee expenses:-** All expenses related to the employees of the bank for the specific period shall be included under this head. Expenses included are salary, allowances, pension, gratuity, training expenses, uniform expenses etc.
3. **Office Overhead Expenses:-** All expenses related to the office overhead of the bank during the specific period shall be included under this head. Some of the expenses under this head are house rent, insurance, audit expenses, newspapers and magazines, advertisement etc.
4. **Exchange loss:-** The negative balance in exchange fluctuation gain/loss account shall be exhibited under this head.
5. **Non-Operating Expenses:-** These are the expenses that have no direct relationship with the operation of banking transaction. Some of the examples are loss on sale of investment and loss on sale of assets.
6. **Bad debts written off:-** Where the bank has written off loans on account of being unrecoverable, such written off amount to the extent not covered by loan loss provision shall be charged to profit and loss account under this head.
7. **Provision for Possible Loss:-** This is one of the most important heads of account related to the profitability of the bank. As per the directive of the Nepal Rastra Bank, the banks are required to make provision for loan losses. The provisions are to be made on the basis of the expiry dates on the principal amount of the loans and advances. As per the directive the provisions to be made is as follows.

Category	Provision required	Criteria
Pass	1%	due upto 3 months
Substandard	25%	due upto 3 - 6 months
Doubtful	50%	due for 6 months - 1 year
Loss	100%	due for more than 1 year

However, in case of bills purchased items, provision is to be provided at 1% if it stands due for 90 days and in case it remains due for more than 90 days 100% provision is required. (NRB, 2062,36)

8. **Provision Staff Bonus:-** The amount of bonus set aside for payment to staffs is disclosed under this head. As per the Nepal Rastra Bank directives the bank is entitled to make provision for the staff bonus at 10% on the profit after adjustment for loan loss provision.
9. **Provision for Income Tax:-** The amount of income tax on net taxable profit for the period shall be determined through this head. Taxable profit has to be determined considering the allowable and disallowable expenses as per the prevailing income tax act and finance bill.
10. **Net Profit:-** This figure represents the excess of total income over total expenses of the bank during the period.

B Income side

1. **Interest Income:-** This is the primary source of income of any commercial bank. Under this head the interest received from the customers on behalf of the loans and advances and on the investments of the bank is exhibited. However, Nepal Rastra Bank has established several criteria for the recognition as interest income.
 - The interest income should be recognized on cash basis.
 - The amount of interest accrued but not received, have to be credited to the interest suspense account.
 - In case of the interest accrued is realized within one month from the date of closure of fiscal year, such amount may be recognized in the income of the earlier fiscal year.
 - The interest on loans and advances should not be recovered by overdrawing the borrower's current account or where overdraft limit has been extended by overdrawing such limit.
2. **Commission and Discount:-** The total amount of commission, service charges and discount earned by the bank from the transactions during the period shall be exhibited under this head. Some examples are commission on issue of guarantees, commission on issuance of L/C etc.
3. **Exchange Gain:-** Banks deal with foreign currencies. Foreign currencies are remitted outwards and in ward. Banks involve in trade while dealing this transaction. Banks make trading gain while selling and buying foreign currency stocks for their trade as well as banks gain from revaluation the stock whenever the exchange rates are in their favor. Both the trading gain and revaluation gain are exhibited under this head.
4. **Non-Operating Income:-** Income or profit that has no direct relationship with the operation of banking transaction has to be recognized into profit and loss account under

this head. These incomes are casual source of income and are not from regular course of business but from other sources where the business entity can be involved legally as prescribed by the directives if related government authority. Nepalese commercial banks are allowed to invest in the share of another entity like other commercial banks, rural development banks, financial institution and other government institutions. The investing bank receives dividend income and other income.

5. **Other income:-** Receipts of all other income not specifically provided under the income heads as above shall be booked under this head e.g. rental income of safe deposit boxes, income from telex, service charge, renewal charges etc.
6. **Net loss:-**The figure represents the excess of total expenses over total income of the bank during the period.

2.2 Review of Journals and Articles

Bajracharya (2047 B.S.), Published an article on “*Rastriya Banijya Bank: A Comparative Performance Study*” mention that despite the growth of commercial banks is not consistent, low growth of local banks and JVBs. The mobilization of rural savings is better in case of local banks. Credit expansion is decreased in local banks than JVBs. Credit deposit ratio is better in JVBs. Non performing loan is greater in local banks and profitability is greater in JVBs. Local banks are forced to open and continue their branches at rural areas therefore the competition among the local banks and JVBs is not healthy.

Dhungana (2053 B.S.), Published an article on “*Problem encountered by the Nepalese financial system*”, mention the major weakness of the banking sector, mainly of RBB and NBL. According to the writer, the financial sector is dominated by banking sector and which in turn, is dominated by two old government owned banks. These two banks constitute the largest component of total deposit of banking system. These two banks suffer from various problems, which results the unsound health of the banking industry of Nepal. The major weaknesses of these banks are. Concentration of loan to limited borrowers. Large number of branches with limited transaction. Inefficient staff and absence of manpower development and planning. Poor supervision and follow up after credit disbursement. Insufficient records and bookkeeping. No application of modern banking equipments in bank branches. To improve

the productivity and quality of banking sector the authorities have created a new environment given rise to JVBs.

Poudel (2058 B.S.), Published an article on “*Financial statement Analysis: An Approach to Evaluate Bank’s Performance*” pointed on the importance of balance sheet and profit & loss account. The banks balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Interest received on loans and investments are the major components of income. Fees, commissions, discounts and service charges are other source of income. According to him the principle objective of analyzing financial statements are to identify liquidity, profitability and solvency of the bank. The other factors to be considered in analyzing the financial statements of banks are to assess to the capital adequacy ratio and liquidity position.

Demirgüç-K& H.H (1999)Published an article on “*Determinants of Commercial Bank Interest Margins and Profitability: Some International Evidence*”, says that differences in interest margins and bank profitability reflect a variety of determinants: bank characteristics, macro economic conditions, explicit and implicit bank taxation, deposit insurance regulation, overall financial structure, and underlying legal and institutional indicators. A larger ratio of bank assets to gross domestic product and a lower market concentration ratio lead to lower margins and profits, controlling for differences in bank activity, leverage, and the macroeconomic environment. Foreign banks have higher margins and profits than domestic banks in developing countries, while the opposite holds in industrial countries. Also, there is evidence that the corporate tax burden is fully passed onto bank customers, while higher reserverequirements are not, especially in developing countries.

In the report and recommendation of the president of Asian Development Bank to the board of directors on a Proposed loan and technical assistance grant to the Nepal for the corporate and financial governance project published in 2000 clearly discussed on the financial difficulties of State-Owned Financial Institutions. The report states that all state-owned financial intermediaries face financial difficulties, although the extent of the problems is difficult to assess in the absence of reliable financial information. The poor performance can be attributed to deficiencies in governance, lack of commercial orientation and managerial skills, as well as inadequate policies. Financial record keeping and auditing are not of international standards. Internal monitoring, evaluation, and supervision are weak, as is the system of appraisal and

follow-up on loans. The problems are most acute for the two government-controlled commercial banks, RBB and NBL, which dominate the banking system with about 70 percent of total assets. A recent international audit indicates that both banks suffer serious, critical shortfalls in all key areas, and that both are technically insolvent, with negative worth estimated at up to 7 percent of GDP. Although deposits are presumed to be implicitly guaranteed by the Government, a systemic banking or fiscal crisis could emerge if problems remain unaddressed. World Bank assistance in this area has been requested.

Dhungana (2009), Published an article on “Financial sector reform program (FSRP) in Nepal” concluded that Nepalese financial sector is being strengthened under the financial reform program. The expediting of the liberalization and privatization processes within the financial reform programs has succeeded to place the private sector rather than the government in charge of determining who gets credit and at what price. The FSRP has also been able to establish the system of prudential regulation and supervision design to restrain the private actors so that we can reasonably sure that their decisions will also be broadly in the general social interest. Many Acts are being promulgated to obtain and maintain a strong legal environment required for the system. It is also equally and important that the enforcement aspect in all respects plays a vital role, which is continuously improving. Within this reform program the two largest commercial banks NBL and RBB are being restructured, institutional building program are being lunched, greater autonomy and responsibility have been provided to the central bank, entry and exit norms are being prepared, laws are being prepared, laws are being prepared for the banking sector. These all are positive aspects to boost up the system. It has been widely recognized that less government involvement in the financial sector, a strong central bank, a strong banking environment, adequate banking services to the poor, adequate legal frame work and enforcement of law are six basic pillars for the development of the healthy financial architecture. The government has launched this program to eliminate financial problems. Except some aspects, the progress made within the FSRP seems are satisfactory.

Panthi (2009), Published an article on “*The importance of human resource management*”, highlights that the human resources management always plays key role in a commercial bank like RBB where the banking services are only made by human skills. If the size of the employees is suitable and skillful, the optimum objectives of the bank will be nearer to

achievement. The objectives of the profitability and the liquidity of the bank may be fulfilled if and only if its human resources are perfect in and suitable in quality. So, the selecting process of human resources should go through the straight way of identifying workforce requirement, Recruiting-Selecting-Placement-Promotion-Appraising-Training and Retirement.

An article published in **Kantipur Daily, July 06, 2007**, "*Results of FSR are Encouraging: NRB Governor*" the governor of Nepal Rastra Bank (NRB) Bijaynath Bhattarai has said that the achievements of financial sector reform programs till now are encouraging. He informed that reforms in Rastriya Banijya Bank (RBB) and Nepal Bank Limited (NBL) have resulted in profits there. Till the end of 2006, NBL has earned operating profit of Rs 3.84 billion while RBB has earned operating profit of Rs 5.3 billion. Government had invited foreign management to look after these financially bankrupt state-owned banks. They were running in loss before the foreign management took over. Bhattarai said data will help better understand the importance of reforms. On Wednesday, senior political leaders had said the reforms were unsuccessful and said the foreign management should not be renewed. In the four year period, Rs 824.3 million and Rs 480 million have been spent on foreign management group in NBL and RBB, respectively.

An article published in **New Business Age, August 2008**, "*Banks & Profit*", highlights about the increase in reserve and surplus of all the banks with the exception of Nepal SBI, Global and NB Bank. Overall deposits in the banking sector have increased by 25 percent with increase in deposits of all the banks except Lumbini. Government banks such as RBB, NBL and ADB have the highest deposits followed by Nepal Investment Bank Ltd. (NIBL), Himalayan Bank Ltd. (HBL), Nabil Bank and SCBN. NIBL has surpassed the deposit of ADB in the current fiscal year 2007-08. Deposits in Laxmi, Siddhartha, Global and Citizens Banks have substantially increased by 43 percent, 55 percent, 142 percent and 295 percent respectively. There has been an increase in overall interest income because of overall increase in loans and advances. ADB, RBB, NBL, Nabil, NIBL, and HBL have the highest interest income. Among these banks, NBL has lowest loans and advances but have highest interest income. NBL, RBB, and NB Bank have negative capital adequacy ratio (CAR) but it has improved compared to last year in NBL and RBB while it deteriorated in NB Bank. NPL to total loan ratio of all these banks has reduced. Laxmi, Siddhartha, Everest, Nabil, NIC, and SCBN have the lowest NPL to total loan ratio while NB Bank, RBB, NCC Bank and Lumbini Bank have the highest ratio.

An article published in **New Business Age, September 2009** entitled “*All Banks in Profit*”, focused that in general all banks for the fiscal year 2003-2004 are bullish in their performance. During the year all the banks were in profit but in the previous year two commercial banks, NBL and RBB were in a loss of 202 million and 3246 million respectively. NBL, RBB, Siddhartha Bank, Laxmi Bank, Kumari Bank and Machapuchhre Bank have increased their operating profit in substantial amount. Also the old banks with huge losses in the previous years NBL and RBB have succeeded to improve their performance.

An article published in **The Banker August, 2013**, “*Commercial Banks Increase Their Profit*”

Commercial banks seem to have recovered from shadows of bad loans made in the past, as they registered a whopping rise in net profit last fiscal year.

The net profit of class ‘A’ financial institutions increased by 40 per cent in the last quarter of fiscal year 2012-13, according to their recently published unaudited financial reports. The 31 commercial banks have earned a net profit worth Rs 20.1 billion, which stood at Rs 14.3 billion in the corresponding period of the previous fiscal year. Only Kist Bank registered a loss.

Among 31 banks, profit of two banks — Agriculture Development Bank (ADBL) and Nabil Bank — crossed Rs two billion as they earned Rs 2.25 billion and Rs 2.23 billion as net profit, respectively. Likewise, five more banks — Everest Bank, Himalayan Bank, Nepal Investment Bank, Rastriya Banijya Bank (RBB) and Standard Chartered Bank Nepal — earned more than Rs one billion as net profit last fiscal.

The growing income of the banks can be attributed to lowering non-performing assets (NPA) since quite some time. Bad loans as measured by NPA declined to 2.5 per cent at the end of the fourth quarter that stood at three per cent by the end of the third quarter.

Less toxic assets means less provisioning, thus the profit of banks increases. Even Less toxic assets means less provisioning, thus the profit of banks increases. Even borrowers who have not been able to pay the principal amount have been paying the interests regularly; hence, banks have been able to increase their net profit.

“Recovery of real estate loans, though still a concern, is on track so banks can be little less worried about that,” said CEO of Commertz and Trust Bank Nepal Anal Raj Bhattarai. “Profit is growing because the service sector as a whole in the country is doing well, and short-term trading loans have become a major source of income for banks at present,” he added.

The state run banks — ADBL, RBB and Nepal Bank Ltd (NBL) — continued to show profits thanks to the write back of loans worth Rs 2.3 billion. ADBL — a profit making bank — got loans worth Rs 1.2 billion written back from the amount provisioned earlier against bad loans. Moreover, these banks have become successful in bringing down their NPA as well.

“The progress in terms of loan recovery has increased the income of the banks and has also pulled down bad loans,” said CEO of RBB Krishna Prasad Sharma. RBB’s NPA is down to 5.31 per cent now from 7.27 per cent. Likewise, NBL has reduced its bad loans to 4.53 per cent from 5.58 per cent and ADBL’s NPA is at 5.72 per cent from 8.98 per cent in mid-July 2012.

An article published in **Karobar Daily, February, 12, 2014** entitled “*Profit Of 30 Commercial Banks rise by 17%*”,

The 30 commercial banks in the country have earned net profit of Rs 9.11 billion in the second quarter of the current fiscal year. It is 17.18 percent more than Rs 7.78 billion earned in the corresponding period last year. Stating that the 17 percent growth in profit of banks is relatively good, former president of the Nepal Bankers Association Sashin Joshi says, “This profit is good considering the prevailing situation of the overall economy. We must consider this profit earned even when the banks have not been able to expand loans satisfactorily.” The spread rate of banks is 6.73 percent, according to the data of Nepal Rastra Bank (NRB) for five months. The banks have succeeded in earning more than other sectors even though their operating cost has not been reduced and the interest rate is falling due to excess liquidity.

2.3 Review of Thesis

Shrestha (2009), conducted the study on “*Investment Policy Analysis of NABIL Bank Ltd.*” and submitted to Shanker Dev Campus in partial fulfillment of the requirement of Degree of Master in Business Studies. The main objectives of the study are: To study the resource

mobilization and investment policy of NABIL Bank. To find out the relationship between deposit and investment trends of the bank. To evaluate profitability, risk, liquidity and assets management of the bank. To find out the current and future investing strategy of NABIL Bank. To provide suggestions to improve investment policy and performance of NABIL Bank based on the findings of the study. The study concluded that, The current ratio of the bank over five years is 0.90 times on an average during the study period. Although the current ratio 2:1 is considered as standard, acceptability of the value depends upon the industry. For the banks, a current ratio of 1:1 or above would be considered acceptable. Therefore the liquidity position of NABIL bank is below the normal level. The return on assets ratios has a fluctuating trend with mean ratio of 2.02% on an average. The C.V. of 32.67% shows that the ratio seems inconsistent and variable during the study period. The return on loan and advances ratios is in increasing trend with the mean value of 4.34% in an average. The ratio seems to be less variable and consistent. The interest earned to total assets ratios is in decreasing with mean of 6.47% in an average. The ratio during the study period seems to be consistent and less variable. The interest earned to total outside assets ratio of found to be 8.37% in an average during the study period. The C.V. of 23.17% indicates that the ratios are consistent. The analysis shows that the NABIL Bank has average 8.37% income margin from outside assets. If the margin is higher than cost of fund, the bank will be on profit. The interest paid to working fund ratios is in decreasing trend with 2.54% in an average during the study period. The ratio seems to be consistent and less variable. The study recommends that: Current ratio shows the bank's ability to meet the current obligations. Generally 2:1 is considered as the standard current ratio but for the banks and financial institutions, 1:1 is considered as the standard current ratio. The current ratio of NABIL Bank seems to be less than 1, so it is suggested to increase the bank's current ratio as soon as possible as it could impose bad impact on depositors. Once the depositors' confidence is lost, it hard to bring it back. The mean credit deposits ratio of NABIL Bank during the study period is 54.72% which seems to be lesser than the standard ratio. The 70% of CD ratio is considered as standard ratio, so it suggestion than NABIL should increase the CD ratio. The mean of loan and advances to working fund ratio is only 46.41% which shows that NABIL Bank is not efficient using its working funds. So it is suggested to lend more in the productive sectors to get income from the working fund. The bank has very nominal investment on shares and debentures of other companies. The mean investment is 0.12% during the study period. Banks may invest in shares and securities of any one organized institution not exceeding 10% of the paid up capital of such organized

institution. Any amount of investment made in excess of this limit, for the purpose of calculation of the capital fund, shall be deducted from the core capital fund. So NABIL Bank is suggested to invest more amount in shares and debentures of other companies so it can get either dividend from the existing shares and capital gain after selling those shares and debentures in capital market after holding for some time. The growth rate of the deposits is very low, so it is suggested to attract depositors through variety of deposit schemes and facilities like cumulative deposit scheme, prize bonds scheme, gift cheques scheme, recurring deposit scheme, monthly interest scheme etc. The trend of investment of NABIL Bank is increasing in satisfactory level. NABIL Bank is recommended to keep wide vision in investment while utilizing their resources and invest in different areas.

Sapkota (2009), completed the study "*Profitability Benchmarking of NB Bank*" and submitted to Shanker Dev Campus in partial fulfillment of the requirement of Degree of Master in Business Studies. The main objectives of the study are, To examine the profitability situation of the JV bank industry as a whole and sample banks. To analyze the profitability trend of NB Bank and the JV bank industry over the last five years. To ascertain the comparative position of profitability of NB Bank with respect to other JV Banks. The study concludes that, It is identified from the analysis that NB Bank is performing not well below of the industry standard but also has least performance among all players in the JV Bank industry in Nepal. In conclusion, NB Bank's past and present earning generating potential is assessed as low in many parameters of profitability in comparison to the industry as well as other joint venture banks in the country. The study recommends that: A serious effort has to be made towards the NPA management. The assets quality is the most serious issue in the organization and the sincere effort of the management is to be concentrated in the matter if the bank is to sustain and performs well in the forthcoming days. The increasing NPA indicates that the bank seems to be lacking in the conduct of detailed and proper credit appraisal and monitoring process. The bank before extending the facilities needs to make detailed analysis about various aspects like feasibility of the party, credit worthiness of the client, collateral offered and previous performances. The risk inherent in the loans and advances is high. So, the complete dependence on the interest income is not an appropriate strategy. The contribution of interest income to total income in year 2062/63 is 78.59% while the rest contribute only 21.4%. So, the bank should look to increase the fee-based income as it

provides safe and good returns. NB Bank Ltd. has always been at the top in cost of deposits. The high cost of deposits not only incurs additional interest expenses but have other indirect effects. The banks in order to make a return have to set interest rate on loans and advances at a higher level than the market. So, the risk of potential NPAs at a future date is high. Interest payout ratio refers the proportion of interest expenses to the interest income. Higher the ratio, lower is the profitability. The interest payout ratio of NB Bank is at 68.34%, the highest of the lot. Therefore the bank should look to minimize this ratio preferably by obtaining low cost funds. The credit deposit ratio of the bank stands at 75% in the year 2062/63. Although this is good from the profitability aspect, there could be potential problems of liquidity. So, the bank should look to lower this ratio either by increasing deposits or lowering credits. The net profit of the NB Bank had registered significant growth in the early years posting increases upto 8.6% in the first two years. However, in the previous three years, it decreases sharply. All other banks have followed slow and steady growth pattern, which seems to have paid off. So, rather than looking to achieve rapid growth it would be feasible to look to achieve and sustain steady rates of growth, thereby minimizing the risk of volatile environment.

Poudel (2011) has conducted thesis entitled “*Investment & Liquidity Management of Insurance Companies*”. and submitted to Shanker Dev Campus Kathmandu in partial fulfillment of Master’s degree Thesis. The *main objective of the research is to analyze* the investment pattern, liquidity management, trend of profit of the insurance companies'. He has found that most of the insurance companies are found investing in government securities & debenture, share of other companies' securities, bank & finance companies' fixed deposit a/c; they are found not investing in real estate and mutual fund. So, he suggests insurance companies to search for new area of profitable investment like in real estate and mutual fund, which are other profitable sectors. He further states that all insurance companies seem to be risk avoiding while making their investment. Therefore they are making secured investment with lower rate of return. Thus they are suggested to change their investment policy. Finally, he recommends the insurance companies to introduce the portfolio management system to increase their earning from investment without increasing the degree of risk but through the diversification of risk.

Maharjan (2011), completed the study “*Liquidity Management of Commercial Bank of Nepal (A comparative study with reference to NIBL, HBL and NABIL)*” and submitted to Shanker

Dev Campus in partial fulfillment of the requirement of Degree of Master in Business Studies. The main objectives of the study are, To analyze financial ratios, liquidity trend and Correlation of HBL and NABIL, To analyze Liquidity profile of HBL and NABIL. To analyze the problem of liquidity management in Nepalese commercial banks, To identify factors affecting the liquidity position and its management in Nepalese commercial banks. To examine the effectiveness of liquidity management in Nepalese commercial banks, To provide suggestions and recommendations about liquidity management in commercial banks. From the analysis of cash and bank balance to current deposit ratio, it is seen that the liquidity position of NIBL is very strong and almost triple than HBL and NABIL. From the analysis of liquidity fund to total deposit ratio, it is found that HBL and NIBL have strong capacity to meet the short term obligations. NABIL has moderate with high variation over study period. HBL has utilized 18.41% of its deposit in short term investment. NIBL and NABIL have utilized their fund lower than HBL. Almost half of the investment by NIBL has made in short term investment. So, NIBL can convert its short term investment into cash i.e. liquid fund to meet the requirement of payment. Thus, it is the most efficient to manage liquidity among other banks. HBL are moderate and NABIL is poor to do it. HBL has invested significant portion of deposit to total investment and followed up by NABIL and NIBL respectively. All the sampled banks have invest the total deposit to loans and advances efficiently. NIBL and HBL have adequate balance with NRB but NABIL has not sufficient. From this study, it is seen that NIBL and HBL have ready cash for maintain liquidity. As per the standard prescribed by NRB, the CRR should be 5.5%. During the study, it is found that all banks have maintained the CRR above 5.5%. So, based on the CRR, all banks are in strong liquidity position. From the analysis of balance with NRB and cash in Vault to current deposit ratio, it is found that NIBL has adequate reserve in NRB and maintained cash balances to meet the obligation of current deposit but NABIL and HBL are in moderate. From the analysis Current Ratio, it is found that all the sampled banks has maintained considerably sufficient to meet the obligation of current liabilities which is just below than 2:1 Ratio. But in FY 2064/65, it is rapidly decreased. From the trend analysis, it is found that total deposit, investments and loans and advances of all banks are in increasing trend. It implies that all the banks are increasing their effectiveness in deposit collecting and investing them by maintaining the liquidity position. Current ratio is in decreasing trend. In FY 2064/65 it is almost half than in FY 2060/61. The coefficient of Correlation shows the relationship between Investment and deposit, loans & advance to Deposit and Current Assets to Current Liability is significant. Commercial banks

have been adopted a banking tool called liquidity profile from 2002. From the analysis of liquidity profile, it is found that NIBL is in strong liquidity position having surplus asset over liability over the period matching properly. HBL is improving the liquidity mismatch problems over the period above one year. NABIL is also matching its net assets over the long period. The following points are recommended to NIBL: Cash and bank balance to current deposit ratio should be reduced. Liquid fund should be increased to 20%. Short term investment to total investment is high and should be decreased. Total investment to total deposit ratio should be increased. Reserve with NRB to total deposit ratio should be decreased in comparison to other banks CRR should be reduced upto 5.5%. Since positive liquidity profile, it is recommended to reduce short term assets and improve matching between assets and liabilities.

The deposits, investments and loans & advances are in increasing trend, but care must be given to safe investment and profitability, not only to liquidity position. There should be trade off between profitability and liquidity. The following points are recommended to HBL: Short term investment to total investment should be slightly decreased. The portion of investment to total deposit should be decreased in order to increase in loans and advances. Cash in vault to total deposit ratio should be increased upto 3%. CRR should be increased up to 5.5%, since in FY 2064/65, it is below than NRB's requirement. Cash in vault to current deposit should be increased; otherwise, it may suffer from liquidity crisis.

Negative difference in liquidity profile should be improved by reducing short term liabilities or by increasing short term assets by analyzing liquidity profile. The following points are recommended to NABIL: Short term investment to total investment ratio should be increased. Reserve with NRB to total deposit ratio should be increased. Cash in vault to total deposit ratio should be increased upto 3%. Balance with NRB to current deposit should be increased. Maturity mismatch problem should be improved by using liquidity profile analysis properly. The ratios are found to be highest variation during the study period which may be risky and recommend making effort for managing effectively. Based on the findings of the research, following points are suggested to all commercial banks. Liquidity profile analysis and GAP analysis with IRC should be prepared quarterly basis and send to NRB within stipulated time period. An effort should be made on human resource development on the risk analysis management and liquidity management. An effort should be made on the development of market for the liquidity generating assets like; T-bills, Options and Bank CDs

etc. Satisfied employees are the backbone of the bank. So, necessary steps should be step forwarded to develop satisfied and obedient employees, which may reduce the problems of bank defaulters and corruptions. Rules and regulations are the guidelines of things to do or not to do. So, its effects can be seen after the implementations. In order to manage the liquidity effectively the existing regulation should be effectively put in practice.

Karki (2010), completed the study “*Liquidity Management of Commercial Bank of Nepal (A comparative study with reference to NIBL, HBL and NABIL)*” and submitted to Shanker Dev Campus in partial fulfillment of the requirement of Degree of Master in Business Studies. The main objective of the study is to examine the liquidity and profitability position of the commercial banks of Nepal. The other specific objectives of the study are; To analyze the trend of liquid assets maintained by the bank and the trend of net profit achieved. To evaluate the cash reserve ratio maintained by the selected banks. To analyze the profitability ratios, including return on shareholders' equity, total assets and deposit, of the selected banks. To examine the relationship between net profit and cash and bank balance, and between net profit and total liquid assets. The major findings of this study are, The liquid asset of SCBNL (Rs. 16974.13 millions) was highest, and the liquid asset maintained by EBL (Rs. 5681.11 millions) was lowest in comparison with that maintained by NABIL (Rs. 10002.22 millions), HBL (Rs. 14019.13 millions) and NIBL (Rs. 7753.20 millions), The average current ratio maintained by SCBNL was 1.08 times, NABIL was 1.09 times, HBL was 1.07 times, EBL was 1.07 times and NIBL was 08 times. Thus, the liquidity position of NABIL was strongest in terms of current ratio. The representation of cash and bank balance in total deposit was highest in EBL and lowest in NABIL. The average ratio was 7.19% in SCBNL, 5.67% in NABIL, 6.82% in HBL, 10.75% in EBL and 10.65% in NIBL. In terms of CRR, the liquidity position of NIBL was most satisfactory, and the liquidity position of EBL was worst. Except in NABIL and EBL, the CRR in all the remaining banks CRR was more than that directed by NRB in each fiscal year. The average fixed deposit to total deposit ratio of SCBNL was 9.48% (lowest), NABIL was 19.65%, HBL was 23.49%, EBL was 31.64% (highest) and NIBL was 24.96%. Similarly, the current deposit to total deposit ratio of SCBNL was 22.10% (highest), NABIL was 16.88%, HBL was 18.35%, EBL was 9.40% (lowest) and NIBL was 10.23%. Both of these ratios demanded highest liquidity in SCBNL and lowest liquidity in EBL. The average net profit made by SCBNL was Rs. 648.68 millions (highest), NABIL was Rs.

606.22 millions, HBL was Rs. 431.30 millions, EBL was Rs.259.34 millions (lowest) and NIBL was Rs. 386.70 millions. Similarly, the average net profit margin of SCBNL, NABIL, HBL, EBL and NIBL was 34.90%, 32.68%, 34.90%, 21.24% and 22.27% respectively. In terms of net profit achieved and net profit margin, SCBNL was most efficient. However, HBL was more efficient to optimally mobilize the loan and advances, since the interest income on loan and advances was highest in HBL (10.08%). The mobilization of shareholders' equity by SCBNL was most effective than that of others. Since the average ROSE of SCBNL (34.59%) was highest in comparison with that of NABIL (31.88%), HBL (22.80%), EBL (22.82%) and NIBL (23.60%). NABIL was most successful to optimally mobilize the total assets, since the average ROA of NABIL was highest. The average ROA of SCBNL, NABIL, HBL, EBL and NIBL was 2.43%, 2.81%, 1.39%, 1.50% and 1.54% respectively. Further, the return on total deposit was highest in NABIL (3.06%) and lowest in HBL (1.56%). Since the average interest paid to interest income ratio was lowest in SCBNL (26.97%), SCBNL was more successful in controlling interest cost. The ratio was highest in EBL (44.05%). Except in HBL, the cash and bank balance had positive relation with the net profit. The correlation coefficient between cash and bank balance and net profit in HBL was -0.9797. However, the liquid assets had positive relation with the net profit in all the banks. The correlation between net profit and liquid assets was highest in NIBL (0.9722) and lowest in HBL (0.7877). Similarly, the multiple correlation indicated that the relation of NPAT with loan and advances and investment was perfectly positive in all the banks. The correlation coefficient was highest in NIBL (0.9991) and lowest in NABIL (0.9551). The following recommendations have been given for the enhancement of the liquidity and profitability position of the sampled banks; The liquid assets maintained by EBL was comparatively lowest than that of other banks. Thus, it would be better if EBL increases the liquid assets considering the short-term liabilities requirement. The current ratio of all the banks was lower than the benchmark of 2:1. Although, such benchmark is not most necessary in the banking sector, it would be better if all the sampled banks keep such ratio to ensure the sound liquidity position. The cash reserve ratio maintained by NABIL and EBL did not meet the CRR directed by NRB in most of the years. Thus, NABIL and EBL should be careful enough while maintaining CRR, and thus should not jeopardize the credibility of the bank. It would be better if all the banks focus on collecting the deposit through fixed deposit, which requires less liquidity in the bank and the bank can invest such money in productive sector. The net profit earned and the net profit margin of EBL were lowest. It would be better if EBL reengineers

the portfolio of its investment to achieve higher profit. Although SCBNL earned highest profit within these five years period, the interest income to loan and advances of SCBNL was lowest. Thus, SCBNL should seek the high interest earning grant. To retain the existing shareholder and fascinate the potential investor, HBL need to generate more return on shareholders' equity. Similarly, EBL needs effective mobilization of total assets to generate more income and effective control of interest expenses.

Dhakal(2012), completed the study “*A comparative study on profitability of Nepal SBI bank limited and Nepal Bangladesh bank limited*” and submitted to Shanker Dev Campus in partial fulfillment of the requirement of Degree of Master in Business Studies.

The main objective of the study is to appraise the profitability of the Nepal SBI Bank Ltd. With comparison to Nepal Bangladesh Bank Ltd. The other specific objectives of the study are; To appraise the profitability of Nepal SBI Bank Ltd. with comparison to Nepal Bangladesh Bank Ltd. To evaluate the profitability and financial position. To evaluate the impact of deposit on profit. To evaluate the impact of loan and advance on profitability. Return on Equity signifies how management has employed the equity of shareholders in generating profit. The mean ratio of return on equity of NBBL is nearly 4.17 times of NSBL. It has failed to maintain the higher ratio as NSBL. The variability of return on overall equity of NBBL is very higher than that of NSBL. It shows the inconsistency in return on equity. The mean ratio of return on total assets of NBBL is less than NSBL. It is due to negative profit in first two years. But in current three years NBBL improves to utilize its total assets and its ratio also higher than NSBL. According to mean ratio, it has failed to maintain the higher ratio as NSBL. The variability of return on overall assets of NSBL is comparatively higher than that of NBBL. It shows the inconsistency in return on Assets. The ratio of net profit margin of NBBL is remarkably highly compared to NSBL (25.86 VS 19.75). It is due to unavailability of net profit in the beginning two years. According to its mean, NSBL is able to produce only 19.75 net profits. Negative profit margin is the reason of not able to control operating expenses and other leakage. The net profit margin of NSBL, at its highest, was 26.95 % in the year 063/64 which has fallen to a low of 14.63 in the 062/63. In simple terms it means that out of revenue of Rs 100, NSBL is only able to convert to a net profit of 26.95 in the fiscal year 063/64. In the other hand NBBL net profit margin has going to continue increasing trend with

plus figure. The mean ratios of the both banks show that NSBL has lower mean ratio of net profit margin 19.75 than that of NBBL 25.86. The earning per share of Nepal NSBL rose to a 39.35 during the year 063/64. In fiscal year 062/63 has 18.27 and it is going to increase smoothly. In other hand, NBBL rose to a maximum of 116.01 in the year 065/66 and its falls the earning per share up to -249.60 in 062/63. The reason for the massive decline of NBBL Ltd is increase in the number of shares on the hand while the net profit has significantly declined rather than the NSBL. As the negative profit in the beginning two years the mean ratio of Nepal Bangladesh Bank is too much low than NSBL i.e. -29.16 and 29.18 respectively. It shows the effective unused of NBBL owner's equity than NSBL in the first two years. The ratio of NBBL is faster increasing trend but ratio of NSBL is fluctuating trend so that the future of NBBL is may be bright. The C.V of NSBL (0.267) is higher than that of Nepal Bangladesh Bank. (-4.91). The earning spread is a main measurement of way of earning from operation in commercial banking. It is the difference between weighted average revenue from earning and weighted average cost for all cost. However the ratio in the year 065/66 and 066/67 of NBBL is more than 5% i.e. 8.01 and 5.56 respectively. NSBL and NBB both have maintained nearly the same level of earning spread in average, however, the both banks have been able to maintain a stable ratio. ($5\% > 3.01, 4.92$). Interest payout ratio of NSBL is comparatively higher than NBBL in an average. In fiscal year 066/67, interest payout ratio of NSBL is 63.47. It indicates that out of total interest income, only 63.61% have been paid as interest on deposit. In other hand, NBBL ratio is 46.37, which is lower than NSBL. It means NBBL had followed unattractive marketing policy for deposit collection to the potential customer. Average cash and bank balance to total deposit of NSBL remained greater than that of NBBL, i.e. cash balance, balance in NRB and balance in other financial institution is Rs.81,56,79,624, Rs.1,84,28,02,239 and Rs. 78,27,79,614 respectively in the fiscal year 066/67. In other hand NBBL has Rs.42,20,08,026, Rs. 1,42,32,57,127 and Rs.21,30,33,642 respectively. It indicates the better liquidity position of NSBL. The main important sector for the decline of Net profit of NSBL in the year 2062/63 is because of not proper investment. In that year its credit to deposit ratio is just 69.32%. NBBL has negative net income in the fiscal year 062/63 and 063/64. During that period the executive management Mr. Indira Prasad Raj Bhandari was replaced by Amrit Nath Regmi. This frequent change might have hampered the performance of the organization. In that year NBBL was also under controlled by Nepal Rastra Bank act 2058 dafa 86(GA) (1) so the negative signaling effective in the market may cause of decreasing profit. The NBBL had been unable to provide sufficient additional services

like ATM, ABBS, credit card services, e-banking etc. like provided by the competitors i.e. NSBL. NSBL has 43 branches, 6 extension counters with 50 ATM networks. In other hands NBBL has just 18 branches with 12 ATM networks. From the above result it can be concluded that the profitability position of NBBL is comparatively worse than that of NSBL. And the market valuation of its share also about 4.28 times low than NSBL. The bank must maintain its high profit margin for the well-being in future. However, from the above analysis, it can be concluded that higher portion of interest earning assets with consistency and lower portion of interest paying liabilities with inconsistency in case of NBBL shows that it has more chances of increasing interest income by decreasing costs attached with it.

Karki (2013), completed the study “*A comparative study on profitability of Siddhartha bank limited and standard charter Nepal bank limited*” and submitted to Shanker Dev Campus in partial fulfillment of the requirement of Degree of Master in Business Studies.

The main of the study is to appraise the profitability of *Siddhartha bank limited and standard charter Nepal bank limited*. The other specific objectives of the study are; To examine the income and expenditure, cost and profit trend of the standard charter Nepal bank limited as joint venture bank and Siddhartha bank limited as commercial bank. To ascertain the comparative position of profitability and financial position of Siddhartha bank limited and standard charter bank Nepal limited. To highlight the major weakness of the banking sector, mainly of the standard charter Nepal bank limited and Siddhartha bank limited. To study profile plan of the banks and to provide suggestion and recommendation for the improvements of the overall profitability of the selected bank. The bank is liable to provide good return on the wealth of the shareholders. The ROE of the SCBNL and SBL were positive throughout the seven fiscal years period. The study show that, SCBNL was more consistent than that if SBL because C.V. ratio of SCBNL was less than that of SBL I.E $14.98\% < 60.18\%$. Comparatively we can say that the market value of SCBNL was higher than that of SBL .Means SCBNL is providing good returns as bonus to shareholders than of SBL. ROTA indicates how efficiently a bank is utilizing and the mobilizing its assets to generate profit. ROTA of SBL was in fluctuating trend but if SCBNL is quite consistent. The study shows that, SCBNL was more consistent than SBL because its C.V. ratio is less than that of SBL i.e. $3.86\% < 44.69\%$. Means SCBNL was effectively utilizing and mobilizing its assets to generate maximum profit than SBL. EPS is used to measure the earning capacity of a firm. The study shows that, EPS of SBL in the FY 61/62 and 62/63 were negative but it gradually started to rise .whereas

the EPS of SCBNL were positive throughout the seven fiscal years period. SCBNL was more consistent than SBL because its C.V ratio is less than that of SBL i.e. $15.12\% < 102.07\%$. Comparatively, we can say that SCBNL has more earning capacity than that of SBL. For stakeholder's investment in SCBNL share may led to gain maximum profit than that of SBL. Net profit margin measure the effectiveness of the management. the study shows that net profit margin of both bank were in increasing trend throughout the seven fiscal year period expect in the FY 61/62 of SBL i.e. Net profit margin was negative in this year (-4.26%). SCBNL is more consistent than SBL because its C.V ratio is less than SBL .this shows that the management teams of SCBNL were able to control its operational cost and maintain efficiency than that of SBL. Means SCBNL was able to manage its expenses and cost control. The commercial banks earn income through trading gain and revaluation gain. The study shows that, through exchange, SCBNL gain more income than that of SBL. By providing various services, commercial banks charged various types of fees and commission which are nonrefundable and treated as income of the bank. the study shows that SCBNL collects more fees and commissions as income than that of SBL but still the ratio shows that SBL is more consistent in collecting fees and commissions than SCBNL because its C.V ratio is less than that of SBL i.e. $19.07\% < 59.24\%$ Greater loans loss provisions are required to allow in income statements if high loss is expected. this leads to low profit .The study shows that the ratio of loans loss provision to total income of SBL were more than that of SCBNL throughout the 7 years period . Means SBL earn low profit than SCBNL when both were compared together. SCBNL was consistent that SBL because its CV ratio is less than that of SCBNL. Operating expense to total income of SBL were in fluctuating trend where SCBNL were in decreasing trend. The CV ration of SCBNL is less than that of SBL i.e. SCBNL was more consistent than SBL. Interest expense to total expense ratio of SBL ranged from 20.83% in the FY 61/62 to 40.98% in the FY 67/68. Similarly, the ratio of SCBNL ranged from 36.59% in the FY 61/62 to 50.67% in the FY 67/68. The ratio of SBL were in fluctuating trend whereas of SCBNL were in increasing trend. This shows that SCBNL is more consistent than SBL. SCBNL has higher staff expenses per employee than SBL. The study shows that SCBNL spend more on motivating and satisfying their staff wants as salary, allowance ,pension etc. the credit to deposit ratio of SCBNL was more consistence that SBL because C.V ratio is less than that of SBL that is $14.94\% < 22.99\%$. The cash and bank balance to total deposit ratio ranged from 16.58% in the FY 61/62 to 9.74% in the FY 67/68 of SBL whereas it ranged from 1.06% in the FY 61/62 to 8.75% in the FY 67/68 .mean ratio was 7.47% of SBL

and 5.29% of SCBNL C.V ratio of SCBNL was less than that of SBL which showed that SCBNL is more consistent than SBL i.e. 59.97 % < 61.54 %. The fixed deposit to total deposit ratio ranged from 63.94 % in the FY 61/62 to 49.95% in the FY 67/68 of SBL whereas it ranged from 10.38% in the FY 61/62 to 19.79% in the FY 67/68. Mean Fixed Deposit to total deposit ratio was 8.85% of SBL and 11.08% of SCBNL. C.V ratio of SCBNL was less than that of SBL which showed that SCBNL is less consistent than SBL i.e. 15.21% < 39.72%. Mean saving SCBNL has higher staff expense per employee than SBL. The study shows that SCBNL spend more on motivating and satisfying their staff wants as salary, allowance, pension etc. the credit to deposit ratio of SCBNL was more consistent than SBL because C.V ratio is less than that of SBL that is 14.94% < 22.99%. The cash and bank balance to total deposit ratio ranged from 16.58 in the FY 61/62 to 9.74% in the FY 67/68 of SBL whereas it ranged from 1.06% in the FY 61/62 to 8.75% in the FY 67/68. Mean ratio was 7.47% of SBL and 5.29% of SCBNL. C.V ratio of SCBNL was less than that of SBL which showed that SCBNL is more consistent than SBL i.e. 59.97 % < 61.54%. The Fixed deposit to total deposit ratio ranged from 63.94% in the FY 61/62 to 45.95% in the FY 67/68 of SBL whereas it ranged from 10.38% in the FY 61/62 to 19.79% in the FY 67/68. Mean fixed deposit to total ratio was 8.85% of SBL and 11.08% of SCBNL. C.V ratio of SCBNL was less than that of SBL which showed that SCBNL is less consistent than SBL i.e. 15.21 % < 39.72% . Mean saving deposit to total deposit ratio of SCBNL is 60.43% and SBL is 21.73% i.e. ratio SCBNL was higher than that of SBL. If SBL and SCBNL were compared then it can be said that saving deposit to total deposit ratio of SCBNL was more consistent than that of SBL because C.V. Ratio of SCBL is far more less than SBL i.e. 7.39 % < 26.78%.

Research Gap

Most of study has been conducted to analyze the profitability position of the commercial banks. But the main theme of this research is to a comparative study on profit ability of Siddhartha bank limited and global IME bank limited. Recent data and information of both the banks have been used in this study. This research covers the five years period of the banks operation after the implementation of the FSRP and clarifies the progress operating under FSRP.

This study differs it self from others research by specially focusing on the profitability of SBL and GIBL and covers the period of F.Y. 2008/09 to 2012/13. This research therefore will facilitate readers to identify the profitability position and operating financial efficiency of SBL and GIBL. which will help to evaluate past and present performance of both the banks as well as it will help to project future prospect of both the banks.

CHAPTER-III

RESEARCH METHODOLOGY

A systematic study needs to follow a proper methodology to achieve pre determine objective. Research methodology may be defined as a systematic process that is adopted by the researcher in studying problem with certain objective and view. In other word, research methodology describes the methods and process applied in the entire aspect of the study focus of data, data gathering instrument and procedure, data tabulating and processing and methods of analysis. It is really a method of critical thinking by defined and redefining the problems, formulating hypothesis or suggested solution and collecting and organizing and evaluating data, making deduction and making conclusions.

Research methodology is a path from which we can solve research dilemma systematically to accomplish the basic objective of the study. It consists of a brief explanation of research design, nature and sources of data, method of data collection and methods of tools used for analyzing data.

3.1 Research Design

A research design is the arrangement of conditions for collection and analysis of data that aim to combine relevance to the research purpose with economy in procedure. Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to objective of this study. To achieve the objective of this study, descriptive and analytical research design has been used.

It is the process which gives us an appropriate way to reach research goal. It includes definite procedures and techniques which guide in sufficient way for analyzing and evaluating the study. This study is carried out by using both quantitative and qualitative analysis methods. Mostly, secondary data has been used for analysis, but the discussion and personal interview with the concerned employees of the selected bank is also used for qualitative analysis. Hence, research design of this study is based on descriptive and analytical method.

3.2 Nature and Source of Data

This study was conducted on the basis of secondary data. The data required for the analysis were directly obtained from the balance sheet and profit and loss account of the concerned bank's annual reports. Likewise newspapers, journals, periodicals, magazines, reports and unpublished thesis were taken as other sources of data during the study.

According to the need and objective, all the secondary data were compiled, processed and tabulate in the time series in order to judge the reliability of data provided by the banks and other sources. Formal and informal talks to the concern head of department of the banks were also conducted to obtain the additional information of the related problem.

3.2.1 Population and Sample

Population

There are altogether 31 commercial banks functioning all over Nepal which is the total population of the study and out of which SBL and GIBL have been taken as the samples for the study.

Sample

A sample is portion of the population which is examined with a view to estimate the characteristics. There are 31 Commercial Banks licensed by NRB which can be regarded as the size of population of this study. Because of various limitations, analysis of whole population is not possible. Thus, following Commercial Banks are selected as the sample for research purpose:

- Global IME Bank Limited
- Siddhartha Bank Ltd.

3.4 Method of Data Collection

It indicates the sources of data and how they collected. In this study data are collected through published sources. They were collected from the correspondent offices and their respective websites. The annual reports of SBL, GIBL publications, the data regarding the profile of SBL & GIBL and other related documents were collected from internet websites. Unpublished

master's thesis, books, research papers, articles, journals have been collected mainly from Centre Library of Tribhuvan university, library of Shanker Dev Campus and NRB Magazines and newspapers were from concerned authorities.

After collecting data, as necessarily required, they were separated and analyzed presentation and analysis of the collected data is the main theme of the research work. Collected data were first presented in systematic manner in tabular forms and then analyzed by applying different financial and statistical tools to achieve the research objectives. Besides these, some graph, charts and tables have been presented to analyze and interpret the finding of the study.

3.5 Method of Data Presentation and Analysis

The data presentation and analysis were focal part of the study. Ranges of financial and statistical tools were used to analyze the collected data and to achieve the objective of the study. The analysis of the data were done according to the pattern of data available. Because of limited time and resources, simple analytical statistical tools such as graphs and technique of least square were adopted in this study. In the same way, some strong financial tools, ratio analysis and trend analysis, were used in the study. The data extracted from annual report, financial statement and other available information were processed and tabulated in various tables and charts under different headings according to the nature.

3.5.1 Financial Tools

Financial analysis is the process of identifying the financial strengths and weaknesses of the organization by properly establishing relationships between the items of the balance sheet and the profit and loss account.

Ratio analysis is a powerful tool of financial analysis. A ratio is designed as the indicated quotient of two mathematical expressions and as the relationship between two or more variables. In financial analysis, ratio is used as a benchmark for evaluating the financial position and performance of a firm.

1. Return on Equity:

"Return on Equity means a measure of how well a company used reinvested earnings to generate additional earnings. Equal to fiscal years after tax income (after preferred stock

dividends but before common stock dividends) divided by book value, expressed as a percentage. It is used as a general indication of the of the company's efficiency; in other words, how much profit it is able to generate given the recourses provided by its stockholders. Investors usually look for companies with return on equity that are high and growing."(Investorswords.com). the shareholders are true owner of the bank and thus the profit belongs to them. This ratio display the returns earned on the shareholder's equity. The shareholder's equity involves share capital and all other reserves including the retained earnings.

$$\text{Returned on Equity} = \frac{\text{Net Profit}}{\text{Shareholder's Equity}} \times 100$$

Where, shareholder's equity = Share Capital + Reserve + Retained Earning

2. Earnings Per Share:

The definition of EPS is "The portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serve as an indicator of a company's profitability. It is calculated as:

$$\text{Earnings per Share} = \frac{\text{Net Income} - \text{Dividends on Preferred Stock}}{\text{Average Outstanding Shares}} \times 100$$

When calculating, it is more accurate to use a weighted average number of shares outstanding over the reporting term, because the number of shares outstanding can change over time. However, data sources sometimes simplify the calculation by using the number by using the number of shares outstanding at the end of the period". (investopedia.com). the performance and achievement of the bank can be identified with the earning power of the bank. The higher ratio displays the more profit of the bank. This ratio displays the earning made by each share of the bank. It is one of the major tools used by investor to access the performance of their investment.

$$\text{Earning per Share} = \frac{\text{Net Profit}}{\text{No. of Share}} \times 100$$

3. Net Profit margin:

"Net profit divided by net revenues, often expressed as a percentage. This number is an indication of how effective a company is at cost control. The higher the net profit margin is the more effective a company is at converting revenue into actual profit. The net profit margin is a good way of comparing companies in the same industry, since such companies are generally subject to similar business conditions, however, the net profit margins are also a good way to compare companies in different industries in order to gauge which industries are relatively more profitable is also called net margin."(investorwords.com). the income generated by the bank, are put to various expenses of the bank to be dealt with. So, surplus comes into picture if the income of the bank exceeds the expenses, which is called a profit. The net profit margin displays the proportion of net profit over the income of the bank.

$$\text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Total Income}} \times 100$$

Income Expense ratios

a. Components of income:

The income of the banks comprises of interest income, commission income and other income.

Where,

Interest income = It includes income from loans and advances, investment, agency balance, money at call and interbank lending.

Commission Income = It includes Income from Bills Purchase, L/C, remittance income, collection of shares etc.

Other income = It includes exchange income, income from sale of assets, other Miscellaneous income like safe locker rentals, credit cards, service charges etc.

b. Components of expenses

Unlike income, the expenses of the bank can be broadly categorized into interest expenses, staff expenses, operating expense and other expenses.

Where,

Interest Expense = it includes the Interest expense on deposit and borrowings

Staff Expense = it includes salary, allowance, bonus, pension and gratuity, provident fund etc.

Operating Expense =it includes rent, water, electricity, power, telephone charges, repair and maintenance, depreciation on fixed assets, legal charges, advertisement expenses, newspaper and periodicals etc.

Other Expenses =it includes loss on sale of assets, write off of bad debts, additional loan loss provision etc.

4. Loan Loss Provision to Total Income

"A non-cash expense for banks to account for future losses on loan defaults. Banks assume that a certain percentage of loans will default or become slow-playing. Banks enter a percentage as an expense when calculating their pre-tax incomes. This guarantees a bank's solvency and capitalization if and when the defaults occur. The loan loss provision allocated each year increase with the riskiness of the loans given bank makes. A bank making a small number of risky loans will have a low loan loss provision compared to a bank taking higher risks."(Free online dictionary). The risk allocated with the lending cannot be completely eradicated. However, it can be minimized though creating a buffer in case of losses. Thus, NRB directive requires the banks to create a certain level of position for loan loss. The requirement depends on the quality of the assets of the bank with provision rate ranging from 1% to 100%. Thus this comparison provides an impact of the loan loss provision on the income of the bank.

$$\text{Loan Loss Provision to Income} = \frac{\text{Additional Loan loss Provision}}{\text{Total Income}} \times 100$$

Where,

Additional loan loss Provision=Additional provision created in the period

Total Income=Total sum of the credit side of profit and loss account

5. Operating expenses to total income

"The operating expense ratio also known as the OER is the ratio between the total operating expenses and the effective gross income for an income producing property. Operating expenses are costs associated with the operation and maintenance of income producing properties. They include such items as property taxes, property management fees, accounting fees, insurance, wages, utilities, repairs and maintenance, supplies, advertising, attorney fees, trash removal, pest control, etc. the following are not operating expenses; loan payments, personal property, and capital improvements.

The effective gross income for a property is the actual yearly income from all sources. It is equal to the yearly gross rents possible plus other income such as laundry receipts, vending machines, parking fees, etc. less the yearly vacancy amount.

The operating expense ratio shows the percentage of a property's income that is being used to pay maintenance and operational expenses. Let's take a look at an example. An income producing property has potential rents of \$78,000 plus \$2,000 of other income for a total of \$80,000. The property has \$4,000 of lost income due to vacancies. The yearly operating expense is \$30,400. The effective gross income for a property is \$80,000-\$4,000 or \$76,000. The operating expense ratio is calculated like this;

$$\text{Operating Expense Ratio} = \frac{\text{Operating Expenses}}{\text{Effective Gross Income}} \times 100$$

$$\frac{30,400}{76,000} \times 100$$

=40%

The operating expense ratio for the property indicates that 40% of the property's income is being spent on maintenance and operational expenses. To establish a benchmark OER, you would calculate the operating expenses ratio of similar income properties."(Google search/innovative real estate software solutions).

The bank during its operation has to incur various expenses. Some of the expenses are rent, insurance, depreciation, and postage, telephone, electricity, advertisement etc. this ratio shows the proportion of operating expenses on the total revenue of the year.

$$\textbf{Operating Expenses to Total Income} = \frac{\textbf{Operating Expenses}}{\textbf{Total Income}} \times 100$$

Where,

Operating expenses = Expenses on rent, water, electricity, power, telephone charges, repair and maintenance, depreciation on fixed assets, legal charges, advertisement expenses, newspaper and periodicals, board meeting expenses etc.

Total Income = Total sum of the credit side of profit and loss account.

5. Staff Expenses per Employee

In a service industry, the importance of the human element cannot be ignored. The service organizations have to keep their employees satisfied. Although cost minimization is one way to maximize the profits, the minimum level of staff expense can work other way round. Unmotivated and unsatisfied workforce shall be highly inefficient and unproductive in their work there by affecting the profitability of the organization. Thus, the perks and benefits should be designed at an appropriate level keeping both the organization and staff unaffected. This ratio provides the average spending of the bank on its employee during the year including the bonus payments.

$$\textbf{Staff Expenses per Employee} = \frac{\textbf{Total Staff Expenses}}{\textbf{No. of Staff}}$$

Where,

Staff expenses = Expense on salary, allowances, bonus, medical expenses, provident fund, pension and gratuity, training expense etc.

No. of staff= Total number of staff on a payroll or the end of the fiscal year.

6. Credit to Deposit ratio

According to "word web online.com", the proportion of loans generated by banks from the deposits received is known as credit-deposit ratio. The bank cannot invest all the resources. It has to apportion to certain amount of resources for the liquidity purposes. So, the banks normally do not invest all their deposits.

$$\text{Credit to Deposit Ratio} = \frac{\text{Total Credit}}{\text{NO. of Deposit}} \times 100$$

Where,

Credit = loans and advances + bills purchased

Total Deposit = Sum of all forms of deposits in the bank.

7. NPA to Credit

In order to identify lending, the NRB has designed certain criteria for the classification of loans with respect to the risks involves. There are four classifications pass, substandard, doubtful and loss. The loans and advances falling under other categories except pass are called NPA. The NPA can be a result of many factors like poor credit appraisals, poor credit management or the economic slowdown. The probability of default will be high as the credit move into the next category except pass category. This ratio provides the proportions of good loans and advances in the total portfolio.

$$\text{NPA to Total Credit} = \frac{\text{NPA}}{\text{Total Credit}} \times 100$$

NPA = Loans and advances + Bills purchased

8. Loan loss Provision to NPA

In order to protect the banks from financial difficulty in case of default, the banks are required to create loan loss provisions according to the quality of their lending. The NPA refer to the part of the credit, which has likelihood of default. The NPA of the banks are identified as per the criteria laid down by the NRB directive. The NPA are also of three types substandard, doubtful and bad. The rate of provision required is higher as the loans degrade from one classification to another. This ratio helps to ascertain the amount of cover available to the

banks to absorb the financial impact in case all the NPA are immediately defaulted. It also shows the quality of lending portfolios.

$$\text{Loan Loss Provision to NPA} = \frac{\text{Loan Loss Provision}}{\text{NPA}} \times 100$$

Where,

Loan Loss Provision = Sum of loan loss provision after the current year adjustments

NPA Loans and advances, which due for more than 3 months and 90 days in case of bills purchased.

9. Interest Spread

“The interest rate spread is used to compensate for risks associated with future unknowns. As uncertainties about the future increase, investors and financial institutions expect more interest as compensation. Long-term loans involve a greater time-span into the future, with corresponding greater uncertainties and greater risks than short-term loans. This is why long-term loans have higher interest rates” (eHow.com).

The banks pay interest to its depositors and collect interest on the loans and advances. The banks collect at higher interest rate than at what they provide. This margin is the profit of the banks. The interest spread is the difference in rates between the loans/advances and deposits. So, higher the margin, greater is the likelihood of larger profit. The comparisons of spread of different banks provide an analysis of the different contribution margins. Spread is calculated as follows.

Interest spread= Interest income- Interest expense

Where,

$$\% \text{ of interest income} = \frac{\text{Interest Income}}{\text{Credit} + \text{Money at call} + \text{Lending} + \text{Investment}} \times 100$$

$$\% \text{ of Interest Expenses} = \frac{\text{Interest Expense}}{\text{Deposits} + \text{Borrowings}} \times 100$$

10. Net Profit of Commercial Banks

A comparison of the net profit of joint venture banks over the years helps to evaluate comparative profit. The comparison of profit of various banks over the years is useful to understand and evaluate the performance of the bank.

3.5.2 Statistical Tools

Statistical tools are used to analyze the relationship between two or more variables and to find how these variables are related. Trend analysis is one of the statistical tools used for forecasts. Among various methods of trend analysis, a very popular least square method has been used in this study which has been used to analyze the trend of net profit and interest income of SBL and GBL and make the forecast for the next five years period.

1. Standard Deviation (σ) and Coefficient of Variation (C.V):

Standard Deviation refers to the difference of the performance from the average mean. Likewise the coefficient of variation provides the relative measurement of consistency of the series. The series which higher homogeneity has lower C.V. As such, the standard deviation and coefficient of variation of the net profits are calculated to identify their respective degree of deviation of profitability from their average.

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{1}{N} \Sigma x^2}$$

Where,

N= No. of observations

Σ =sign of summation

$$x = (X - \bar{X})^2$$

X = actual value

\bar{X} = arithmetic mean of the observation

$$\text{Coefficient of Variation (C.V):} = \frac{\sigma}{\bar{X}} \times 100$$

Where,

σ = standard deviation of the observation

\bar{X} = arithmetic mean of the observation

1. Correlation of Net Profit

Correlation explains the relationship between two series, whether they are related or not and if yes, in what manner? So, the relationship between the profitability of NBBL with the industry average will be calculated. For this purpose the Karl Pearson's Coefficient of Correlation.

$$\text{Correlation coefficient } (\rho) = \frac{\Sigma XY}{N \sigma_x \sigma_y}$$

Where,

ρ = correlation between x and y

Σ = sign of summation

N = Numbers of variables

X = Variable of X

Y = Variable of Y

σ = standard deviation of the observation

2. Regression

Regression analysis is used to estimate the likely value of one variable from the known value of the other variable. It is an average irreversible functional relationship between two variables. In other words regression analysis is a mathematical measure of the average relationship between two or more variables in terms of original units of data. Regression analysis clearly indicates the cause and effect relationship than by correlation analysis. In the regression analysis there are two types of variables these are dependent variable and independent variable. In simple regression, mathematical regression equation is developed to describe the functional relationship that exists between the two variables.

Regression equation of Y on X is given by $Y = a + bx \dots\dots\dots(i)$

Where,

Y = Dependent variable

X = Independent variable

a = Intercept of the line of regression $(\frac{\Sigma Y}{N})$

b = Slope of the line of regression/regression coefficient of Y on X $(\frac{\Sigma Y}{\Sigma Y^2})$

The ability to predict the future with accuracy would be extremely valuable. So, the trend analysis is used to detect patterns of changes in the values of variable over regular periods of time. These patterns are then used to estimate for the future. Thus, estimation for the future of the banks with reference to their respective past performances will be made. Out of the various methods available, the analysis is based on the least squares method.

As per the least squares method, the straight line of trend is given by;

$Y = a + bX$ and, X = No. of years from the average (mid-year)

CHAPTER – FOUR

DATA PRESENTATION & ANALYSIS

The main functions of commercial bank are collection of deposits and efficient utilization of the deposits so collected. Deposit collection shows a bank's efficiency in performance and efficient utilization indicates its success and profitability. Banks have to pay interest on deposits and pay dividends to their shareholders. Therefore, earning interest through deposit utilization is very crucial task of every bank.

This chapter comprises detail data of two Banks, listed in NEPSE, over different time frames. The data are arranged into tables, diagrams, graphs and figures as per its nature. The arranged data are scrupulously analyzed and interpreted to serve the purpose of study using the various statistical and non-statistical tools and techniques. In order to analyze, various tools like ratio analysis, comparisons and trend analysis have been used.

4.1 Financial Ratio Analysis

4.1.1 Return on Equity

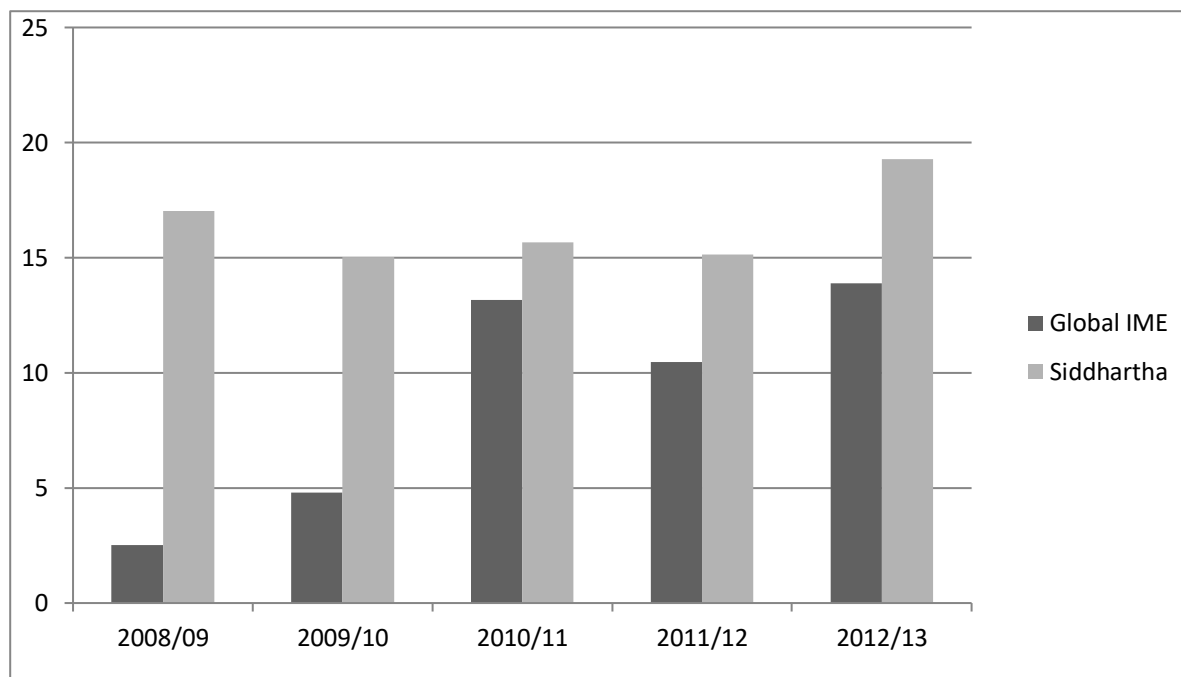
The equity is the wealth of shareholders. The bank is liable to provide a good return on the wealth of the shareholders. Return on shareholder's equity basically measures the company's return on the investment made by owner of the company. This ratio helps us to judge whether the firm has earned satisfactory return for its equity holders or not. The return on equity of the banks over a period of 5 years is given below:

Table No: 4.1 Return on Equity Ratio (%)

	Global IME Bank	Siddhartha Bank
Year	ROE	ROE
2008/09	2.51	17.04
2009/10	4.80	15.02
2010/11	13.17	15.66
2011/12	10.46	15.14
2012/13	13.90	19.29
MEAN	8.97	16.43
SD	4.54	1.60
CV	50.67	9.74

(Source: Annex-1)

Figure No: 4.1 Return on Equity



The ROE of Global IME is in fluctuating trend as it was 2.51% in FY 2008/09 and gradually increased to 13.17% in FY 2010/11. However, the ROE of the bank declined to 10.46% in the next fiscal year. Again the ratio has increased to the highest level at 13.90%.

The ROE of Siddhartha bank is also in fluctuating trend as it was initially at 17.04% and remained constant at around 15% during the FY 2009/10 to 2011/12. However, it has been increased to 19.29% in the FY 2012/13.

The coefficient of variation of return on shareholder equity of the Global IME bank is higher than the Siddhartha bank i.e., 50.67% > 9.74%. Less the C.V, more will be the uniformity; consistency and more the C.V less will be the uniformity. Higher is an indication of future of utilizing the shareholders' fund. The company's returns on shareholders fund reflect that the future investment is sound and prospective investors will get attracted. Return on shareholders fund also reflects the market value of share.

4.1.2 Return on total Assets (ROTA)

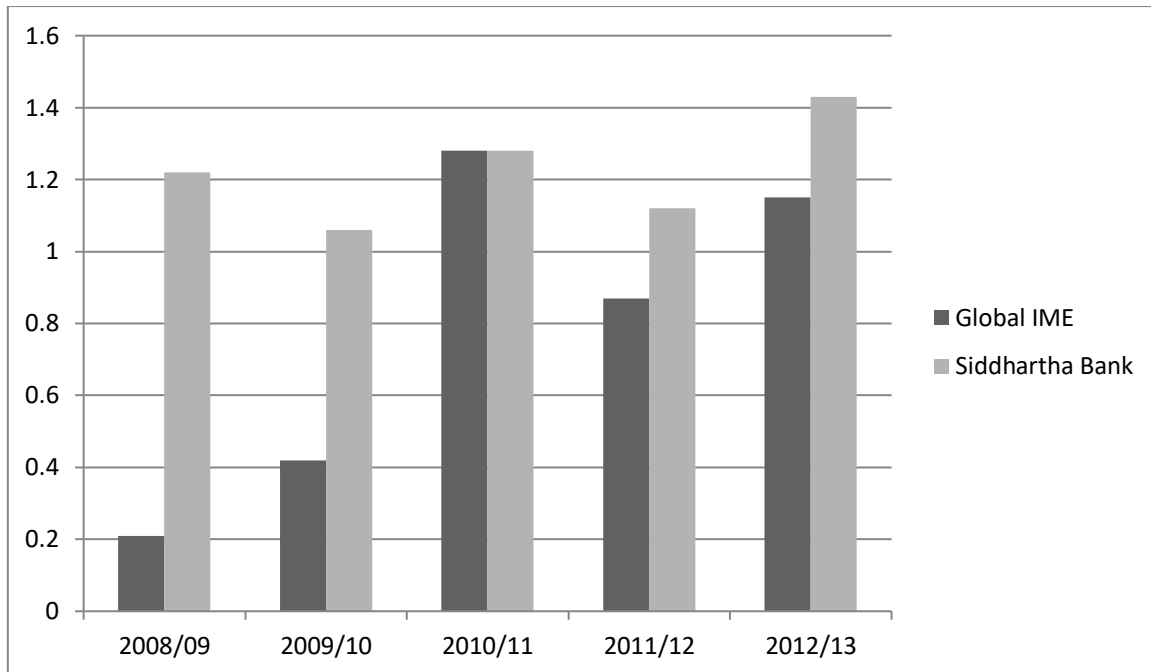
This ratio is a primary indicator of managerial efficiency. It indicates how effectively all the assets have been utilized by the management. The ratio measures how far the management has utilized all the assets of the bank for profit generation. Returns on total Assets (ROTA) indicated efficiency of the utilization of the total assets and vice versa.

Table No: 4.2 Return on Total Assets (%)

	Global IME Bank	Siddhartha Bank
Year	ROTA	ROTA
2008/09	0.21	1.22
2009/10	0.42	1.06
2010/11	1.28	1.28
2011/12	0.87	1.12
2012/13	1.15	1.43
MEAN	0.79	1.22
SD	0.66	0.13
CV	0.84	0.11

(Source: Annex-2)

Figure No: 4.2 Return on Total Assets



The table shows that the ratio appeared 0.21%, 0.42%, 1.28%, 0.87%, 1.15% in GIBL and 1.22%, 1.06%, 1.28%, 1.12% and in fiscal year 012 /013 it is 1.43% of Siddhartha Bank. The ratio showed highly fluctuating trend in GIBL than SBL. GIBL was better position in the fiscal year 010/11, I.e. 1.28%. The mean ratio of SBL is higher than that of GIBL I.e. 1.225 and 0.79 respectively. The C.V of the both banks show that the earning on total assets utilized is more consistent in case of SBL 0.11 than that of NBBL 0.84 Although both banks do not seem to be utilizing their assets more efficiently, SBL is more capable than GIBL.

4.1.3 Earning Per Share (EPS)

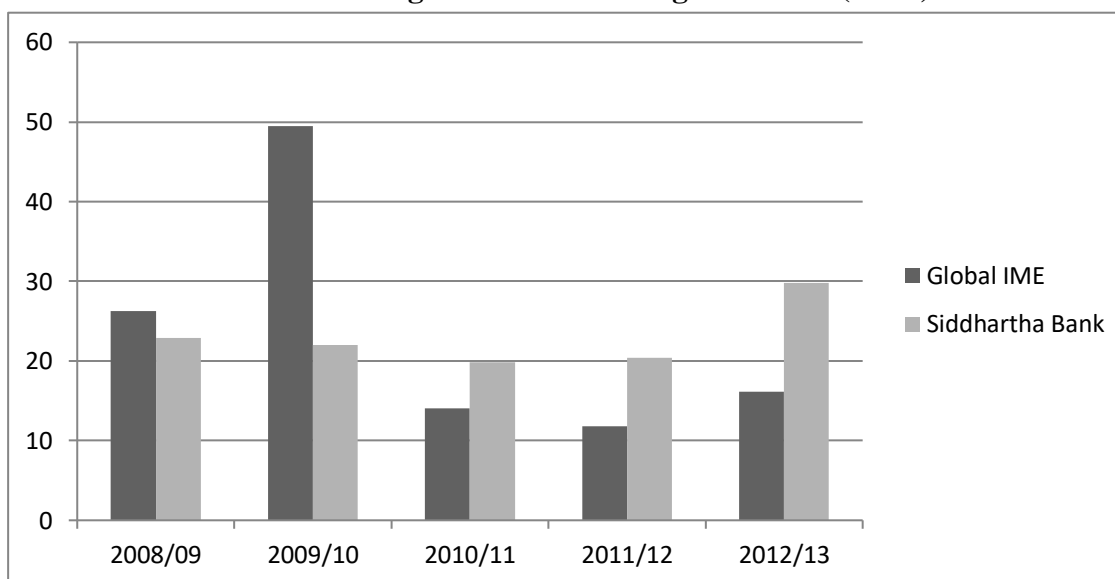
The performance and achievement of a bank can be identified with the earning power of the bank. In general case, higher earning implies the strength of the bank. Earnings per share (EPS) is the widely quoted statistics in every investor's world. Every shareholder is much interested in the return on the share. A company is investing when the capital invested can earn adequate return per share. The ratio of earning available to the common shareholders to their outstanding share capital is expressed.

Table No: 4.3 Earning Per Share (in Rs)

Fiscal Year	Global IME Bank	Siddhartha Bank
2008/09	26.30	22.89
2009/10	49.50	21.99
2010/11	14.06	19.82
2011/12	11.79	20.41
2012/13	16.15	29.80
Mean	23.56	22.98
SD	13.89	20.89
CV	0.59	0.91

(Source: Annex-3)

Figure No: 4.3 Earning Per Share (in Rs)



The earning per share of GIBL was 26.30 during the year 2008/09. The trend of EPS of GIBL is like as sea wave or trade cycle because it is increased in the year 2009/10 and reached to 49.50. Again the EPS of the bank had decreased to 14.06 in 2010/11. The EPS had further decreased to 11.79 in the year 2011/12 and in the last study year 2012/13 the EPS has again increased to 16.15.

The EPS of SBL was 22.89 in the fiscal year 2008/09 and the EBS of the bank was gradually decreased to 21.99 and 19.82 in the FY 2009/10 and 2010/11 respectively. Then after the EPS of the bank had increased to 20.41 and 29.80 in the FY 2011/12 and 2012/13 respectively. It is due to the negative figure of net profit. Whatever the financial report shows that unavailability of EPS in those years, EPS have been calculated with the help of its negative net profit. The maximum EPS of GIBL is in the year 2009/10 i.e. 49.50. The EPS of both the bank is in fluctuating trend. The mean ratio of GIBL is 23.56 whereas in case of SBL it is 22.98. The C.V of GIBL is 0.59 while that of SBL is 0.91 as EPS of SBL is somehow higher than of GIBL.

4.1.4 Net profit margin

The profit is the universal measurement tools of the performance of any institution. Likewise, it also serves as an important yardstick to measure the performance of the banks. Profit is important to various parties like management, employees, customer and the government for their own reason. Management may use it to measure their performance; employees may use it to validate their claim for better remunerations; customer may use it to invest their fund and the government to receive taxes.

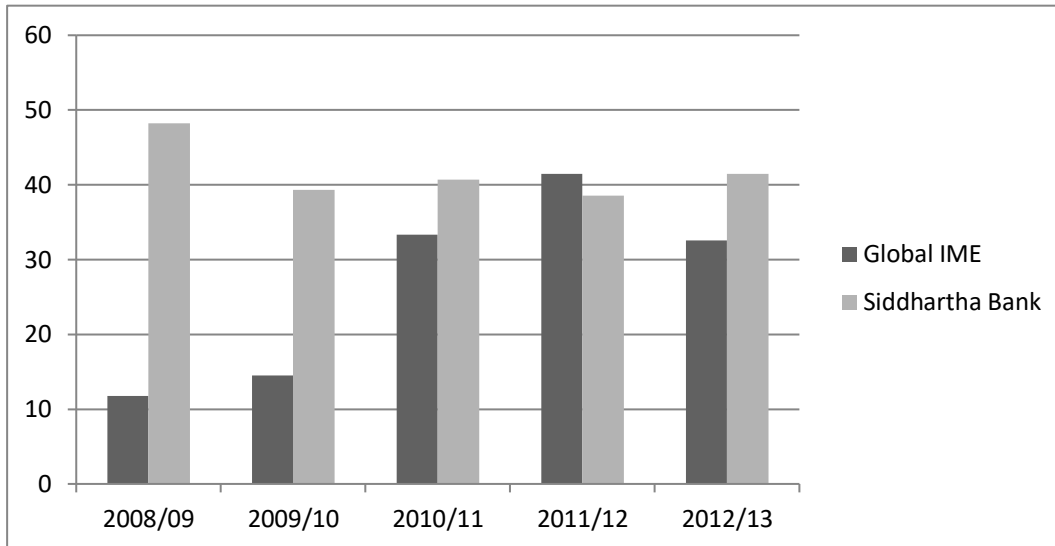
The ratio signifies the effectiveness of expenses management and cost control and gives the direction to management for service pricing policies. It means how much of total revenue has been declared as net profit after all the charges are covered up. The higher ratio means the management has been able to control its operational costs and maintain efficiency.

Table No: 4.4 Net Profit Margin (in %)

Fiscal Year	Global IME Bank	Siddhartha Bank
2008/09	11.73	48.21
2009/10	14.51	39.36
2010/11	33.3	40.71
2011/12	41.47	38.55
2012/13	32.55	41.49
Mean	26.71	41.66
SD	11.56	3.43

(Source: Annex-4)

Figure No: 4.4 Net Profit Margin (in %)



The net profit margin of GIBL was 11.73 in FY 2008/09 and it was continuously increased to 14.51, 33.30 and 41.47. Finally, coming in the year 2012/13 the N.P. Margin has decreased to 32.55. Likewise the net profit margin of SBL was 48.21 in the beginning of the study period i.e., in 2008/09 which was highest among other years. It means out of Rs.100 revenue, SBL can convert it to just 48.21 to net profit. The N.P margin was 39.36, 40.71, 38.55 and 41.49 in the FY 2009/10, 2010/11 and 2011/12 and 2012/13 respectively clearly reflecting the fluctuating trend. Mean of N.P margin of SBL is greater than GIBL i.e. $41.66 > 26.71$. On the other hand the CV of GIBL is greater than SBL i.e. $43.29 > 8.23$. As the average N.P margin of SBL is greater than GIBL, the overall performance of SBL is said to be better than GIBL.

4.2 Income Expenses Analysis

4.2.1 Components of Income

The revenue of the bank results from various sources like interest, commissions etc. Here we look at the mix of various sources of income namely interest, commission, other and exchange gain. The table and pie chart below provides the components of income up to the last fiscal year i.e., 2012/13.

Table No: 4.5 Components of Income (%)

Banks	Interest	Commission	Other	Exchange Gain	Total
GIBL	87.44	4.69	5.88	1.99	100
SBL	86.51	3.37	5.44	4.68	100

(Source: Annex-18, 19)

Figure No: 4.5 Components of income (%)

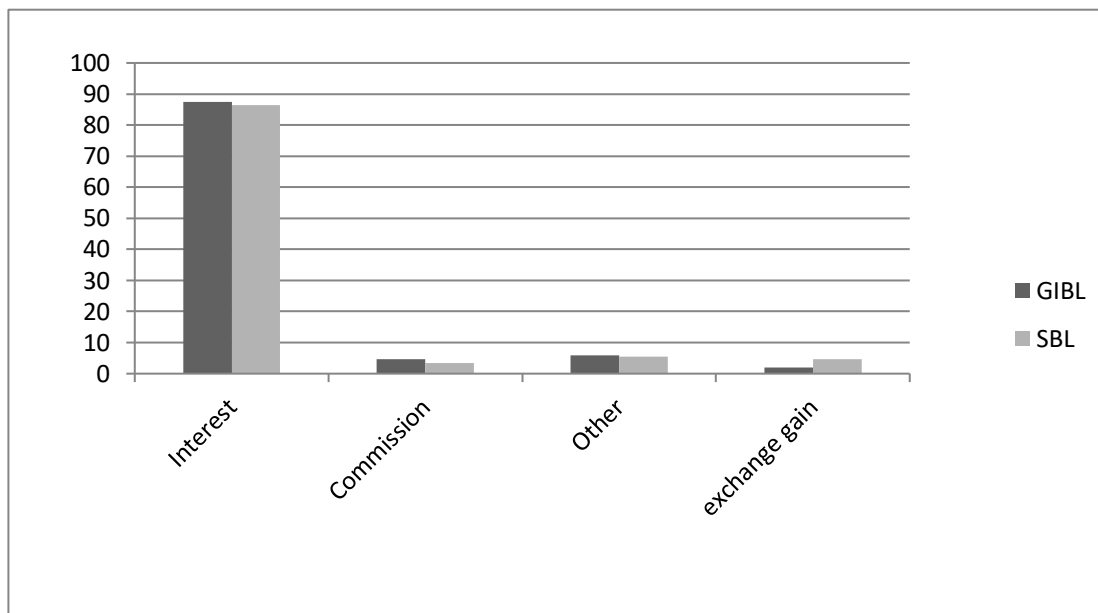


Figure No: 4.6 Components of Income of GIBL (%)

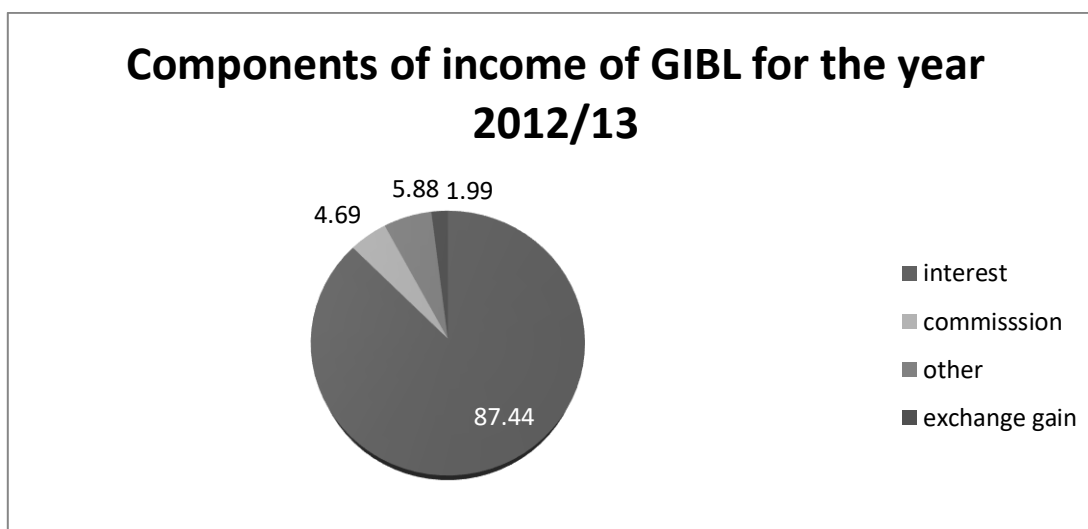
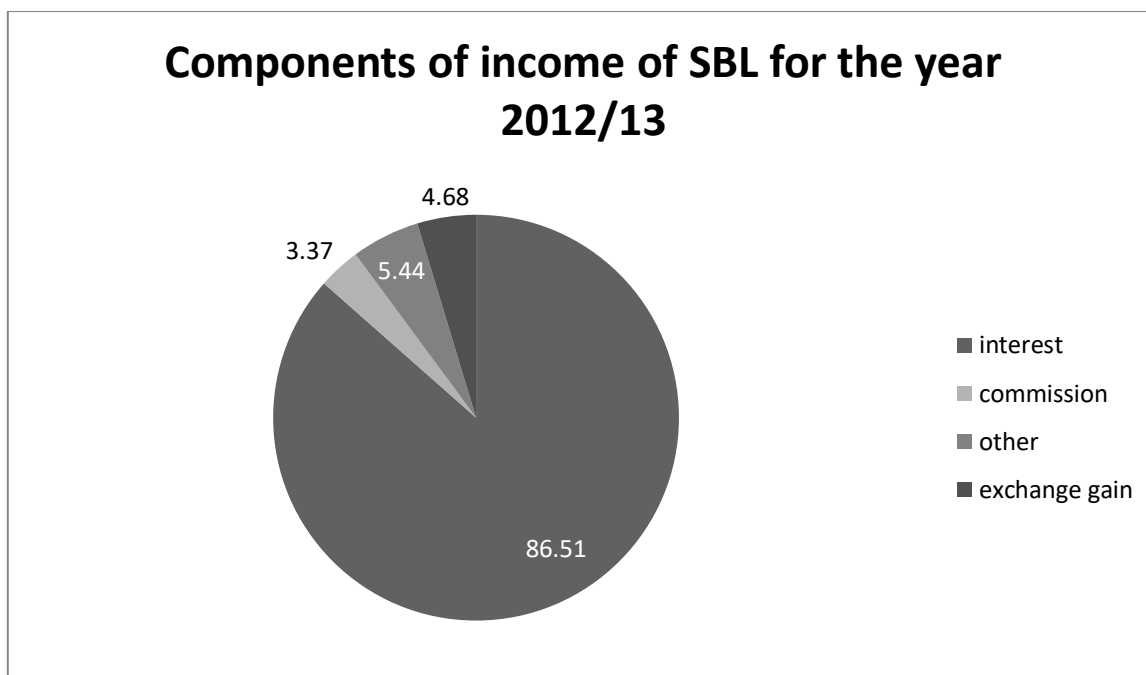


Figure No: 4.7 Components of Income of SBL (%)



The major sources of income of banks are interest, commission, exchange gain and rest is from other sources. The ratio of 87.44 of GIBL and 86.51 of SBL shows that both bank fully dependent on interest income to generate total income. Other Income of both bank is quite similar but Exchange gain income of SBL is more than two times of GIBL. But the commission and discount income of GIBL is higher than the SBL.

4.2.2 Component of Expenses

Like the sources of income, the expense of the bank can be broadly categorized into interest expense, staff expense, operating expense and other expenses. The components of expenses of the year 2012/13 of the banks are tabulated as:

Table No: 4.6 Components of Expenses (%)

Banks	Interest	Staff	Operating	Others	Total
GIBL	70.22	11.14	12.21	6.43	100
SBL	74.60	9.27	12.03	4.10	100

(Source: Annex-20, 21)

Figure No: 4.8 Components of Expenses (%)

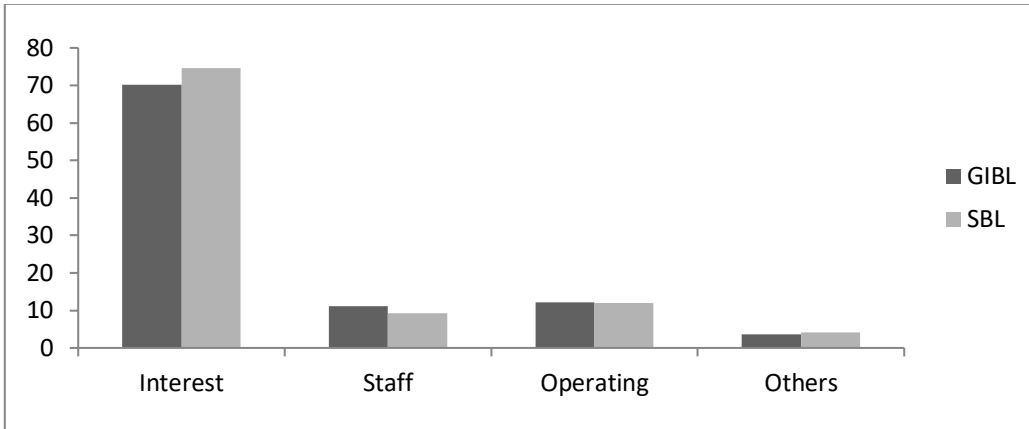


Figure No: 4.9 Components of Expenses of SBL (%)

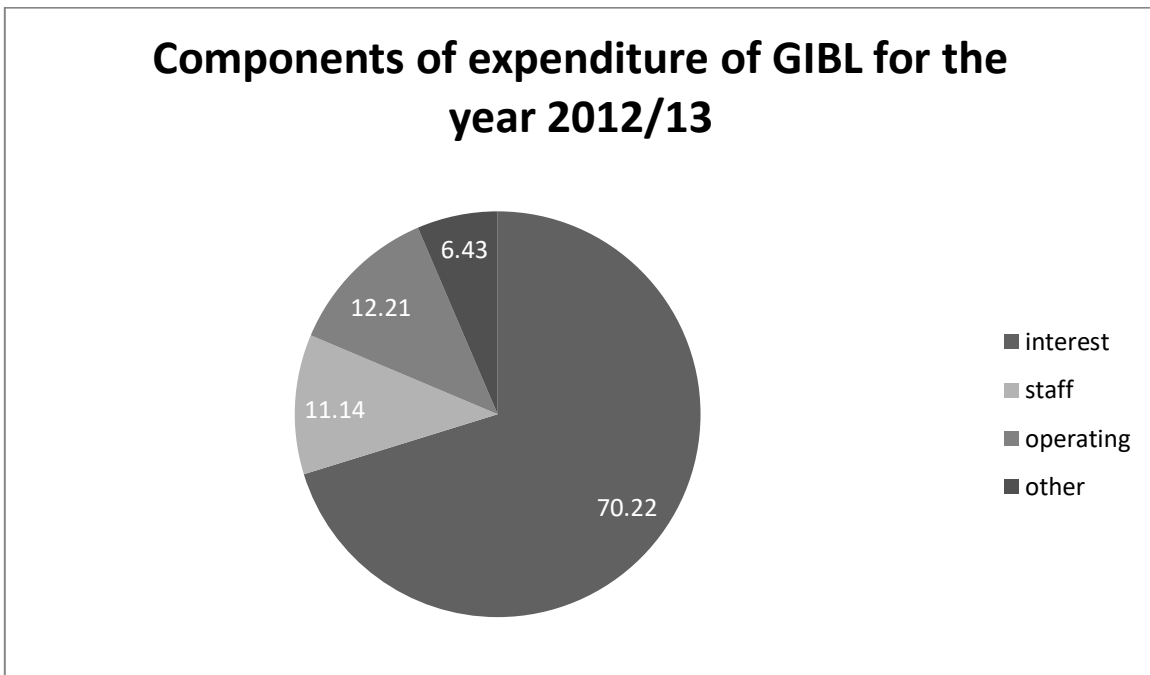
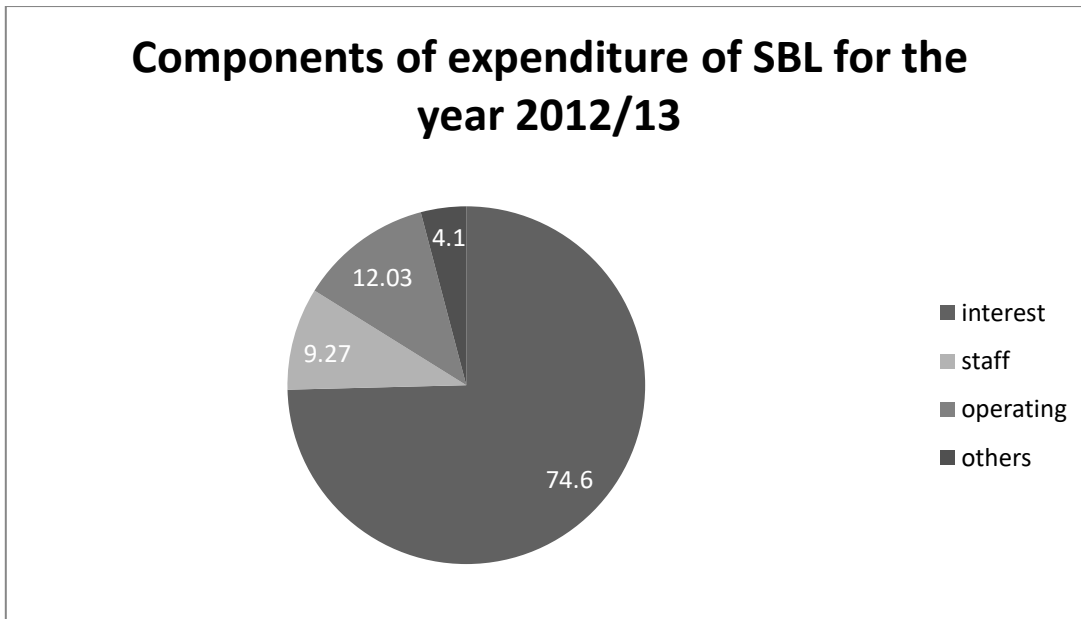


Figure No: 4.10 Components of Expenses of SBL (%)



The comparison of GIBL with SBL Bank reveals that the banks have slightly balanced composition of operating expenses (about 12 %) while interest expenses of SBL bank is high with 74.60% of total income. May be the low interest rate on deposit product of GIBL rather than SBL, its expenses on interest is less than SBL i.e. 70.22 and 74.60 respectively. However the no. of staff of SBL is less than GIBL for the year 2012/13 i.e. 383 and 838 respectively, The Staff expenses of GIBL is greater (due to larger number of staff) than SBL i.e. 11.14 and 9.27 respectively. Similarly other expenses of GIBL is greater than SBL i.e. 6.43 > 4.10

4.2.3 Loan Loss provision to Total Income

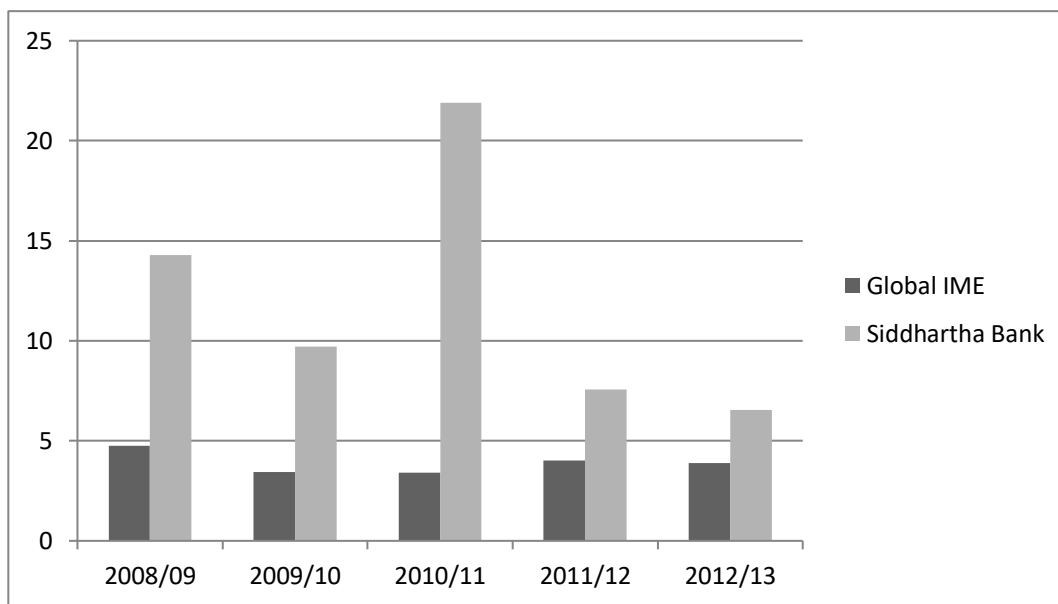
The ratio provides an insight of the proportion of revenue that has to be siphoned off as the provision of loan loss as per the directive of NRB. The ratio of the banks is tabulated below. Loan loss ratio describes the preparation of provision for loss to the total income. Greater loan loss provisions are required to allow in income statement if high loss is expected. This leads to low profit and possible losses that produce low increase or decrease in the capital.

Table No: 4.7 Loan Loss Provision to Total Income (%)

Fiscal Year	Global IME Bank	Siddhartha Bank
2008/09	4.76	14.30
2009/10	3.43	9.72
2010/11	3.40	21.91
2011/12	4.01	7.56
2012/13	3.88	6.55
Mean	3.90	12.01
SD	48.99	5.62
CV	9.79	46.79

(Source: Annex-5)

Figure No: 4.10 Loan Loss Provision To Total Income (%)



The study shows that LLP to total income ratio of both GIBL and SBL are in fluctuating trend. The ratio in case of GIBL ranges from 3.40 to 4.76 whereas ratio in case of SBL ranges from 6.55 to 21.91. The mean ratio of GIBL is 3.90 while in case of SBL it is 12.01. The CV

of SBL is 46.79 % which is comparatively higher than GIBL (9.79%). It indicates that the loan loss provision to total income of the SBL is less consistent.

4.2.4 Operating Expenses to Total Income

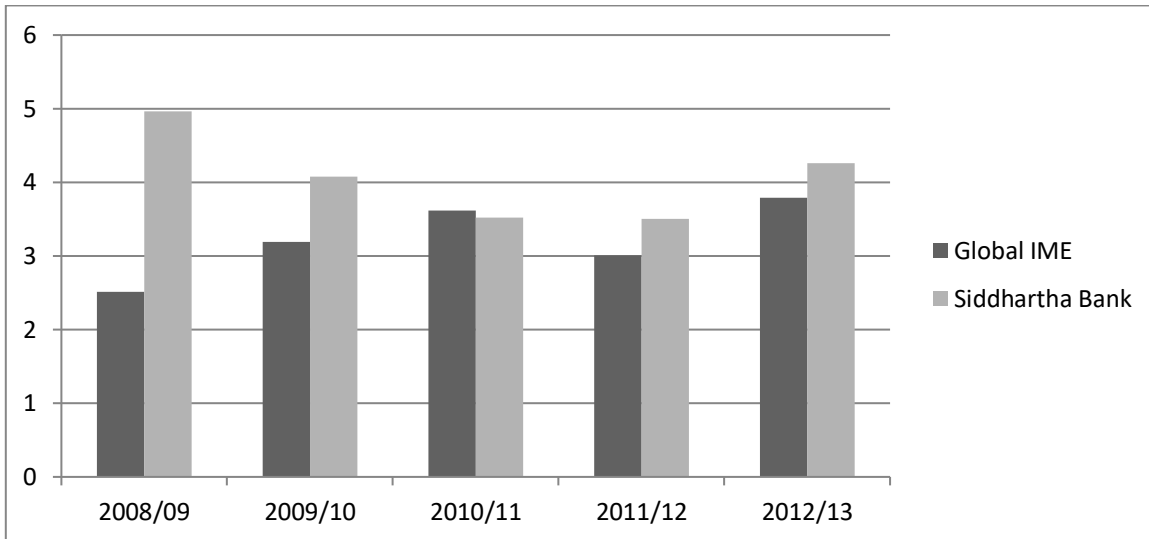
The bank to carry out its normal activity has to undergo various costs. There are called operating costs. Some of the examples are electricity, insurance, telephone, water etc. These kinds of expenses use for daily operation for to maximize profit. These expenses dilute a significant amount of the revenue. The proportion of such expenses in total income is tabulated below:

Table No: 4.8 Operating Expenses To Total Income (%)

Fiscal Year	Global IME Bank	Siddhartha Bank
2008/09	2.51	4.96
2009/10	3.19	4.08
2010/11	3.62	3.52
2011/12	3.01	3.50
2012/13	3.79	4.26
Mean	3.23	4.06
SD	0.45	0.54
CV	14.05	13.36

(Source: Annex-6)

Figure No: 4.11 Operating Expenses to Total Income (%)



The operating expense of SBL has greater mean 4.06 than of GIBL 3.23. Both the banks Percentage of operating expenses data is fluctuate. But the ratio of GIBL is in same range in the line of 3 except in the year 2008/09 which is 2.51 in that year. The CV of ratios of SBL is 13.36 that is slightly lower than GIBL 14.05. It indicates the operating expenses to total income ratio of the GIBL is less consistent.

4.2.5 Staff Expenses per Employee

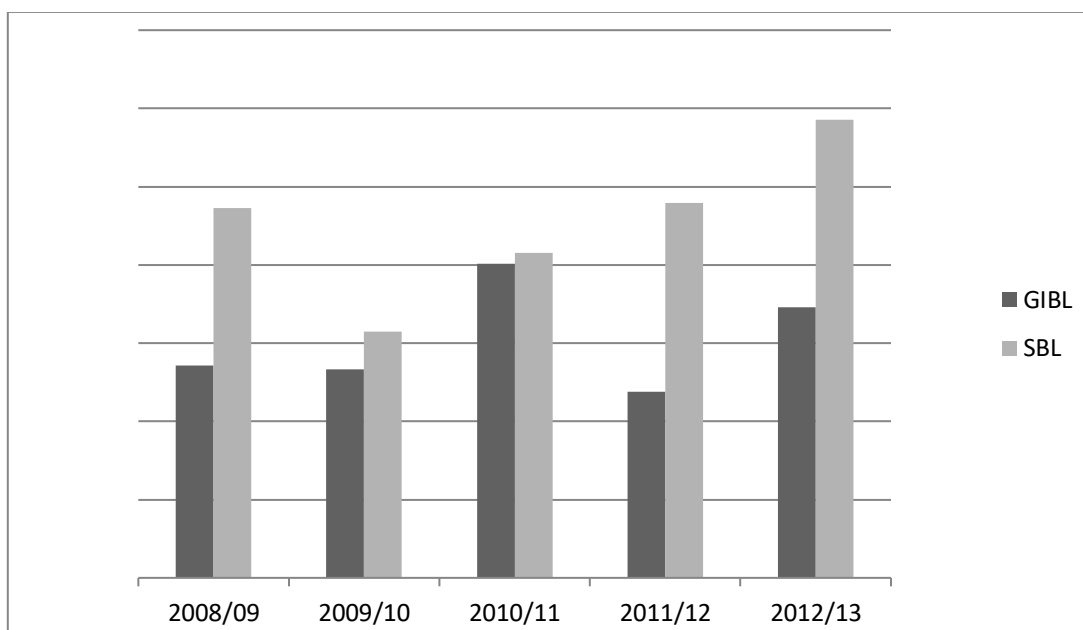
The human resource of any organization is a very important aspect. The organization needs to keep its human element satisfied and motivated. Organization should spend on salary, allowance, additional provident fund, training expenses, medical expenses, insurance, pension etc. for the motivation and satisfaction of the staff. The spending of the banks on its human resources is as follows:

Table No: 4.9 Staff Expenses Per Employee (Rs in '000)

Fiscal Year	Global IME Bank	Siddhartha Bank
2008/09	271.20	472.53
2009/10	266.64	315.14
2010/11	401.56	415.47
2011/12	238.23	479.02
2012/13	345.89	585.18
Mean	305.48	453.47
SD	59.67	88.25
CV	0.19	0.19

(Source: Annex-7)

Figure No: 4.12 Staff Expenses Per Employee (Rs in '000)



The above table demonstrates that the GIBL has follow the cost minimize method to per employee. Although this is good from the cost aspect, other influences like staff motivation cannot be ignored. The reason of higher ratio in expenses may be attributed to the total

number of employees employed in the banks. In GIBL, there is 838 staff at the end of 2012/13. But in SBL there are 370. Due to more number of the staff in GIBL the data shows the less expenditure in per employee although GIBL spends more amounts in staff expenses. The mean ratios from the above table are observed, it is found that GIBL has a lower ratio of 305.48 that of SBL 453.47. The CV of ratios of both banks is exactly equal. It indicates the total staff expense to per employee ratio of the both banks is consistent.

4.3 Other Ratios

4.3.1 Credit to Deposit Ratio

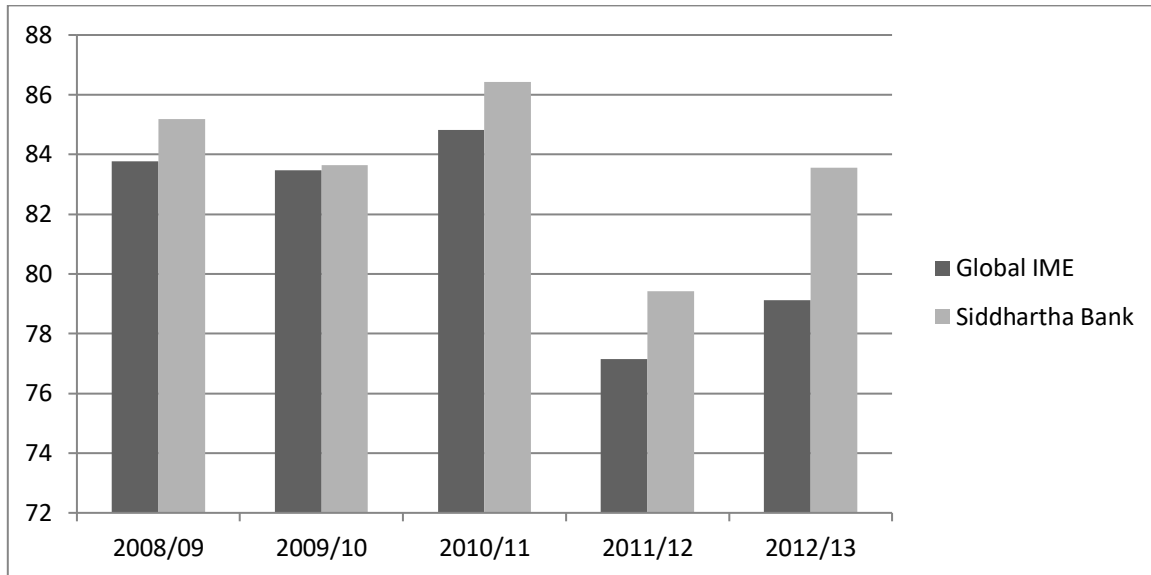
The major source of resource of a bank is deposit and the major outlet of resource is the credit. So, this ratio provides the ratio of efficiency with which the resources are mobilized. Credit always depends upon deposit. Higher the deposit higher will be the credit and vice versa. Following table displays the deposit collected by the banks and their subsequent mobilization as at the end of corresponding fiscal year.

Table No: 4.10 Credit Deposit Ratio

Fiscal Year	Global IME Bank	Siddhartha Bank
2008/09	83.78	85.18
2009/10	83.48	83.65
2010/11	84.82	86.43
2011/12	77.15	79.42
2012/13	79.13	83.55
Mean	81.67	83.65
SD	2.98	2.36
CV	0.04	0.47

(Source: Annex-8)

Figure No: 4.13 Credit Deposit Ratio



The Credit to Deposit ratio of GIBL was 84.82 in the FY 2010/11 which is the highest ratio among other fiscal years of study period. It indicates that GIBL had lent highest volume of credit in that year. Investing in such manner may create the liquidity problem. The CD ratios of the bank in the remaining FYs are 83.78, 83.48, 77.15 and 79.13 in the fiscal years 2008/09, 2009/10, 2011/12 and 2012/13 respectively. On the other hand, CD ratio of SBL in the FY 2010/11 was 86.43 which was the highest ratio among the other fiscal years of study period. The CV ratio of SBL is 0.47% which is comparatively higher than GIBL (0.04%), i.e. SBL is less consistent than GIBL. Thus the banks should look after so as to lower the ratio either by decreasing the credit volume or increasing the deposit base of the banks.

4.3.2 Interest Spread

The spread is the difference between the buying and selling rates of the fund. The major source of income in a bank is from the interest on loans and advances. Thus, the rate of interest spread is of significant importance in the aspects of profitability. The spread can be increased either by acquiring funds of lower costs or lending at higher rates of interest. Both these choices have drawbacks as acquiring funds at low cost is difficult to achieve while lending at high rates means taking higher risk of default. However, spread should be within 5% as per Nepal Rastra Bank. As per NRB, interest spread is expressed as:

Rate of return on total earning assets- int. cost on average deposit

Where,

$$\text{Rate of Return on Total Earning Assets} = \frac{\text{Total Interest Income}}{\text{Average LAO, Investments, Call Money Placements Total Deposits}}$$

And,

$$\text{Cost on Average Deposits} = \frac{\text{Total Interest Expenses}}{\text{Average Deposits}}$$

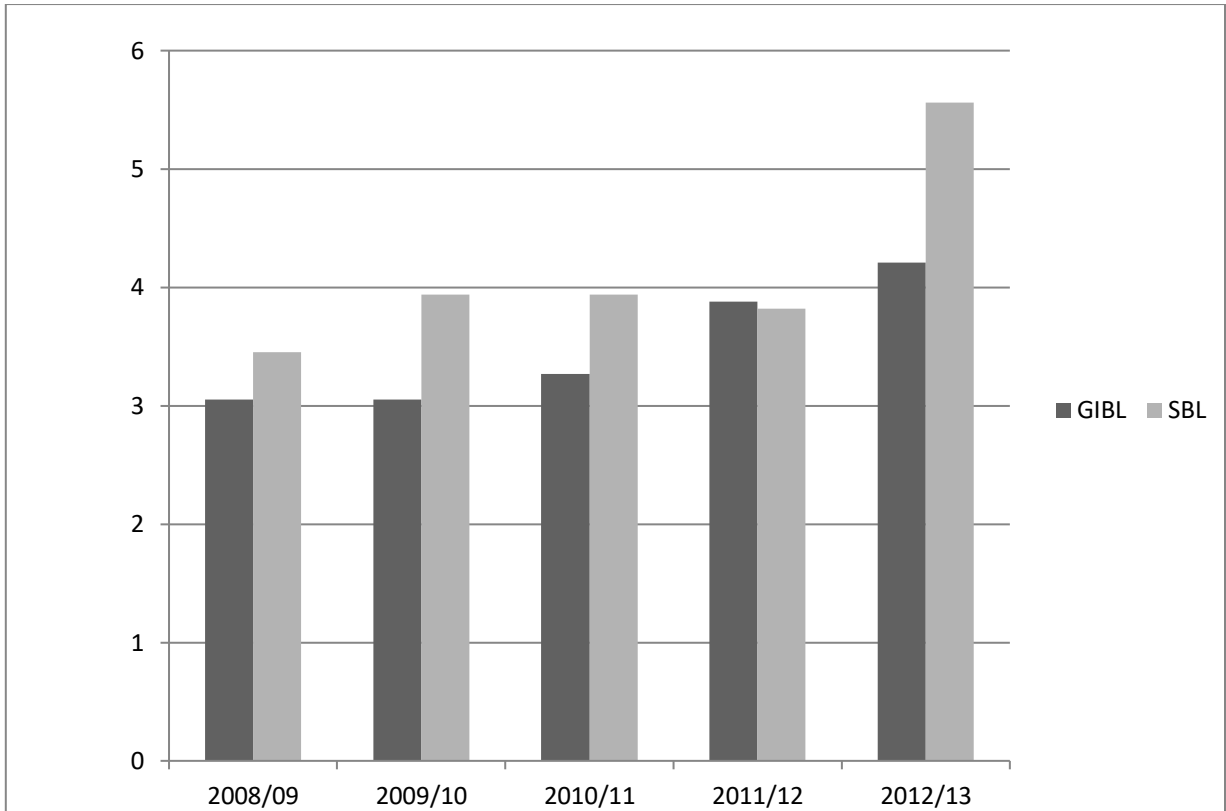
The interest spread of banks for the last five years is tabulated below.

Table No: 4.11 Interest Spread

Fiscal Year	Global IME Bank	Siddhartha Bank
2008/09	3.05	3.45
2009/10	3.05	3.94
2010/11	3.27	3.94
2011/12	3.88	3.82
2012/13	4.21	4.39
Mean	3.49	4.92
SD	0.47	0.30
CV	0.13	0.08

(Source: Annex-9)

Figure No: 4.14 Interest spread



The table 4.11 shows that the ratio of both has ranged below the 5.00. The mean ratio of SBL is higher than that of GIBL. Both the ratio of GIBL and SBL in four year is in line of 3 but in the year of 2012/13 its value rise to 4.21 and 4.39 respectively. The average interest spread for five years of GIBL and SBL banks are 3.49 and 4.92 respectively. The C.V of SBL is less than GIBL which indicates that it is more consistent rather than GIBL.

4.3.3 NPA to Credit

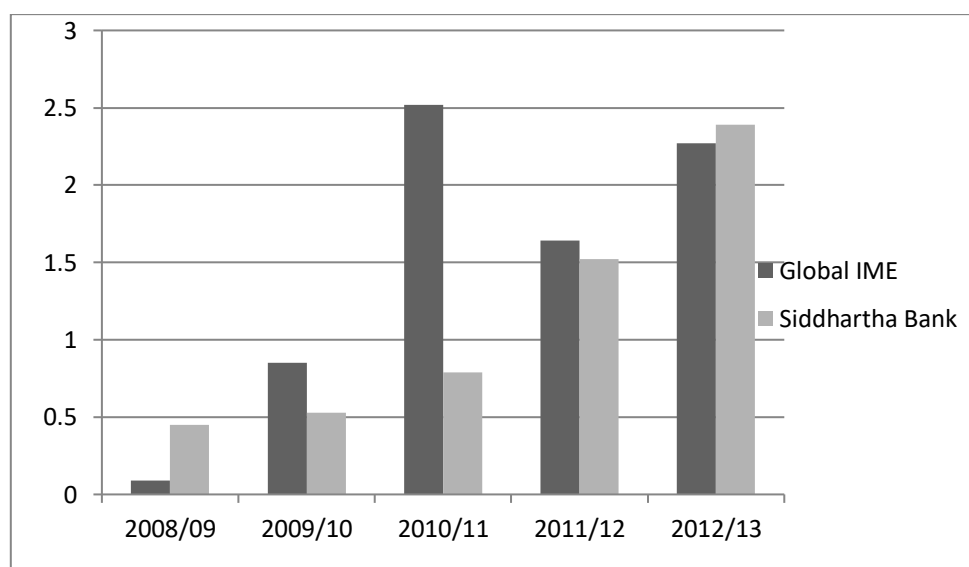
The loans and advances classified as NPAs have high potential for default. This ratio thus provides the proportion of such lending in the credit portfolio of the bank.

Table No: 4.12 NPA to Credit (%)

Fiscal Year	Global IME Bank	Siddhartha Bank
2008/09	0.09	0.45
2009/10	0.85	0.53
2010/11	2.52	0.79
2011/12	1.64	1.52
2012/13	2.27	2.39
Mean	1.47	1.14
SD	0.81	1.37
CV	0.61	1.20

(Source: Annex-10)

Figure No: 4.15 NPA to Credit



The financial report shows that GIBL has the ratio 0.09, 0.85, 2.52, 1.64 and 2.27 for the FY 2008/09, 2009/10, 2010/11 and 2011/12 and 2012/13 respectively. In other hand, SBL has the ratio of 0.45, 0.53, 0.79, 1.52 and 2.39 for the last five year. However, in average GIBL has greater NPA to Credit ratio than SBL. Furthermore ratio of GIBL is in fluctuating trend during the study period whereas in case of SBL it is in increasing trend. Higher the ratio higher will be the reason for low profit and vice versa. The mean ratio of GIBL and SBB is 1.47 and 1.14

respectively. The CV of SBL is comparatively higher than GIBL. It indicates that NPA to credit ratios of the SBL is less consistent.

4.3.4 Loan loss Provision to NPA

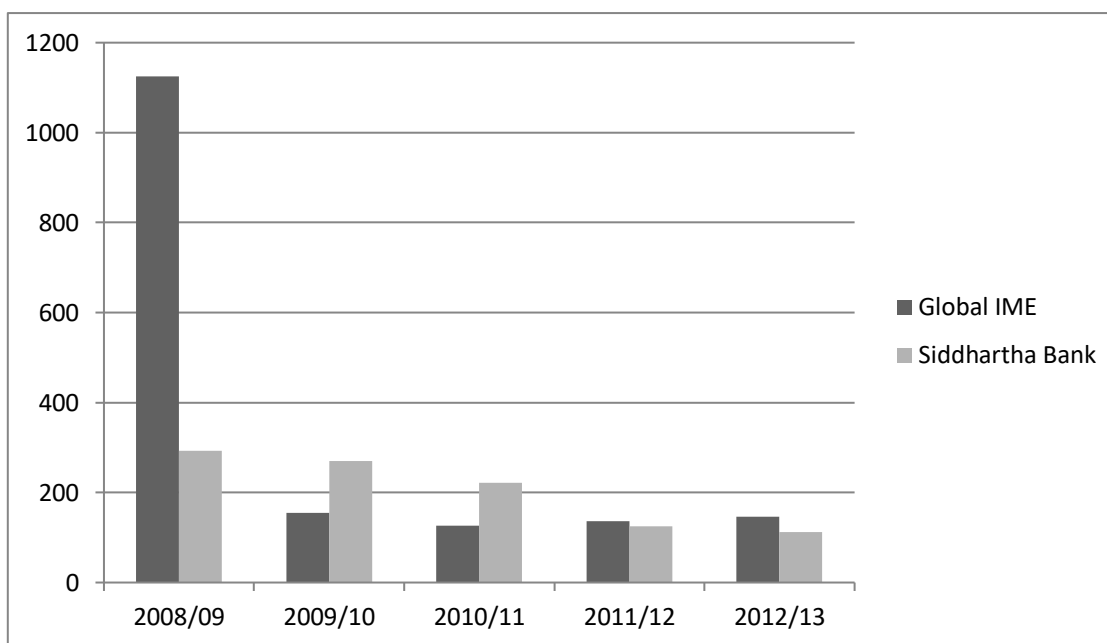
Loan loss provision includes five things, pass, restructured, sub-standard, loss and doubtful. In other hands NPA includes substandard, doubtful and loss. In order to protect banks from financial difficulty, they are required to create a buffer to absorb the financial impact of credit default. The provision varies according to the quality of lending. This ratio shows the proportion of cover available to the banks.

Table No: 4.13 Loans loss provision to NPA (%)

Fiscal Year	Global IME Bank	Siddhartha Bank
2008/09	1125.15	292.15
2009/10	154.79	270.57
2010/11	126.40	221.18
2011/12	136.63	124.55
2012/13	146.96	111.66
Mean	337.99	204.02
SD	393.69	73.94
CV	1.16	0.36

(Source: Annex-11)

Figure No: 4.16 Loans loss provision to NPA (%)



The loan loss provision to NPA of GIBL is fluctuating trend as it was 1125.15 in FY 2008/09 and came to the lowest at 126.40 in FY 2010/11 and finally reached to 146.96 in the last fiscal year of the study period. In other hand loan loss provision to NPA of SBL is in decreasing trend ranging from 111.66 to 292.15 in the FY 2012/13 and 2008/09 respectively. Mean ratio of GIBL is higher than SBL. Higher the loan loss provision higher will be the ratio and higher the ratio higher will be the negative signaling effect to its financial report and to its own organization as well. CV of SBL is lower than GIBL which illustrates that the SBL is more consistent.

4.4 Statistical analysis

4.4.1 Trend analysis of Net profit

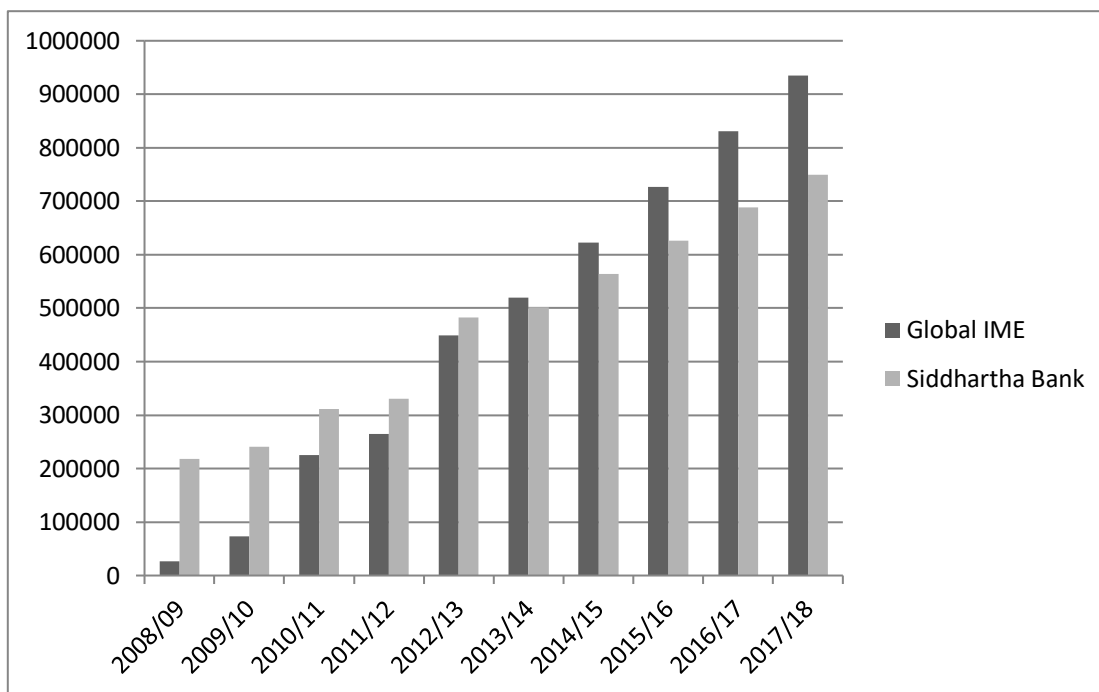
This statistical tool is very important in the planning process as it helps to estimate a considerably reliable future with the help of past performances. Here we look to estimate the profitability of the banks for the next 5 years. The analysis is based on the least squares method. According to the calculations, the profitability of the GIBL and SBL will be as follows:

Table No: 4.14 Trend of Net Profits of GIBL and SBL (Rs in 10000)

Years	Net profit of GIBL	Net profit of SBL
2008/09	26304	217916
2009/10	73003	240848
2010/11	224978	311415
2011/12	265316	330456
2012/13	449218	482556
2013/14	519206.1	502304.6
2014/15	623020.2	564193.4
2015/16	726834.3	626082.2
2016/17	830648.4	687971
2017/18	934462.5	749859.8

(Source: Annex-12)

Figure No: 4.17 Trend of Net Profit Analysis



From the trend analysis, it is clearly seen that the net profit of both banks will be in increasing trend for the next coming five fiscal year from FY 2012/13. If other things remaining the same, the total net profit of the GIBL will be Rs 519.21 million, 623.02 million, 726.83 million, 830.65 million and 934.46 million respectively for coming five years. In other hands the net profit of SBL will also be in increasing trend for the next coming year's from 2012/13. If other things remaining the same, the total net profit of SBL will be Rs , 502.30 million, 564.19 million, 626.08 million, 687.97 million and 749.86 million respectively for the coming five years.

4.5 Major Findings

The major findings of the studies are summarized below:

1. Return on Equity signifies how management has employed the equity of shareholders in generating profit. The mean ratio of return on equity of GIBL is 8.97 which nearly half of the ratio of SBL (16.43). The coefficient of variation of return on shareholder equity of the Global IME bank is higher than the Siddhartha bank i.e., 50.67% > 9.74%. The variability of return on overall equity of GIBL is very higher than that of SBL. It shows that GIBL is less consistent than SBL in case of return on equity. (Table No 4.1)
2. The mean ratio of return on total assets of GIBL is less than SBL. The ratio shows that ratio of GIBL is in highly fluctuating trend than SBL. The ratio of GIBL was in better position in the fiscal year 010/11, i.e. 1.28% than SBL. The mean ratio of SBL is higher than that of GIBL i.e. 1.225 and 0.79 respectively. The C.V of the both banks shows that the earning on total assets utilized is more consistent in case of SBL 0.11 than that of GIBL 0.84 Although both banks do not seem to be utilizing their assets more efficiently, SBL is more capable than GIBL. (Table No 4.2)
3. The net profit margin of GIBL was 11.73 in FY 2008/09 and it was continuously increased to 14.51, 33.30 and 41.47 finally, coming in the year 2012/13 the N.P. Margin has decreased to 32.55. Likewise the net profit margin of SBL was 48.21 in the beginning of the study period i.e., in 2008/09 which was highest among other years. It means out of Rs.100 revenue, SBL can convert it to just 48.21 to net profit. The N.P margin was 39.36, 40.71, 38.55 and 41 .49 in the FY 2009/10, 2010/11 and 2011/12 and 2012/13 respectively

clearly reflecting the fluctuating trend. Mean of N.P margin of SBL is greater than GIBL i.e. $41.66 > 26.71$. On the other hand the CV of GIBL is greater than SBL i.e. $43.29 > 8.23$. As the average N.P margin of SBL is greater than GIBL, the overall performance of SBL is said to be better than GIBL. (Table No 4.4)

4. The earning per share of GIBL was 26.30 during the year 2008/09. The trend of EPS of GIBL is like as sea wave or trade cycle because it is increased in the year 2009/10 and reached to 49.50. Again the EPS of the bank had decreased to 14.06 in 2010/11. The EPS had further decreased to 11.79 in the year 2011/12 and in the last study year 2012/13 the EPS has again increased to 16.15.

The EPS of SBL was 22.89 in the fiscal year 2008/09 and the EBS of the bank was gradually decreased to 21.99 and 19.82 in the FY 2009/10 and 2010/11 respectively. Then after the EPS of the bank had increased to 20.41 and 29.80 in the FY 2011/12 and 2012/13 respectively. The EPS of both the bank is in fluctuating trend. The mean ratio of GIBL is 23.56 whereas in case of SBL it is 22.98. The C.V of GIBL is 0.59 while that of SBL is 0.91 as EPS of SBL is somehow higher than of GIBL. (Table No 4.3)

5. The major sources of income of banks are interest, commission, exchange gain and rest is from other sources. The ratio of 87.44 of GIBL and 86.51 of SBL shows that both bank fully dependent on interest income to generate total income. Other Income of both bank is quite similar but Exchange gain income of SBL is more than two times of GIBL. But the commission and discount income of GIBL is higher than the SBL.(Table No 4.5)
6. The comparison of GIBL with SBL Bank reveals that the banks have slightly balanced composition of operating expenses (about 12 %) while interest expenses of SBL bank is high with 74.60 % of total income. May be the low interest rate on deposit product of GIBL rather than SBL, its expenses on interest is less than SBL i.e. 70.22 and 74.60 respectively. However the no. of staff of SBL is less than GIBL for the year 2012/13 i.e. 383 and 838 respectively, The Staff expenses of GIBL is greater (due to larger number of staff) than SBL i.e. 11.14 and 9.27 respectively. Similarly other expenses of GIBL is greater than SBL i.e. $6.43 > 4.10$.(Table No 4.6)
7. The study shows that LLP to total income ratio of both GIBL and SBL are in fluctuating trend. The ratio in case of GIBL ranges from 3.40 to 4.76 whereas ratio in case of SBL ranges from 6.55 to 21.91. The mean ratio of GIBL is 3.90 while in case of SBL it is

- 12.01. The CV of SBL is 46.79 % which is comparatively higher than GIBL (9.79 %). It indicates that the loan loss provision to total income of the SBL is less consistent.(Table No 4.7)
8. The study demonstrates that the GIBL has follow the cost minimize method to per employee. Although this is good from the cost aspect, other influences like staff motivation cannot be ignored. The reason of higher ratio in expenses may be attributed to the total number of employees employed in the banks. In GIBL, there is 838 staff at the end of 2012/13. But in SBL there are 370. Due to more number of the staff in GIBL the data shows the less expenditure in per employee although GIBL spends more amounts in staff expenses. The mean ratios from the above table are observed, it is found that GIBL has a lower ratio of 305.48 that of SBL 453.47. The CV of ratios of both banks is exactly equal. It indicates the total staff expense to per employee ratio of the both banks is consistent.(Table No 4.9)
 9. The Credit to Deposit ratio of GIBL was 84.82 in the FY 2010/11 which is the highest ratio among other fiscal years of study period. It indicates that GIBL had lent highest volume of credit in that year. Investing in such manner may create the liquidity problem. The CD ratios of the bank in the remaining FYs are 83.78, 83.48, 77.15 and 79.13 in the fiscal years 2008/09, 2009/10, 2011/12 and 2012/13 respectively. On the other hand, CD ratio of SBL in the FY 2010/11 was 86.43 which was the highest ratio among the other fiscal years of study period. The CV ratio of SBL is 0.47% which is comparatively higher than GIBL (0.04%), i.e. SBL is less consistent than GIBL. Thus the banks should look after so as to lower the ratio either by decreasing the credit volume or increasing the deposit base of the banks.(Table No 4.10)
 10. The table 4.11 shows that the ratio of both has ranged below the 5.00. The mean ratio of SBL is higher than that of GIBL. Both the ratio of GIBL and SBL in four year is in line of 3 but in the year of 2012/13 its value rise to 4.21 and 4.39 respectively. The average interest spread for five years of GIBL and SBL banks are 3.49 and 4.92 respectively. The C.V of SBL is less than GIBL which indicates that it is more consistent rather than GIBL.. (Table No 4.11)
 11. The financial report shows that GIBL has the ratio NPA 0.09, 0.85, 2.52, 1.64 and 2.27 for the FY 2008/09, 2009/10, 2010/11 and 2011/12 and 2012/13 respectively. In other

hand, SBL has the ratio of 0.45, 0.53, 0.79, 1.52 and 2.39 for the last five year. However, in average GIBL has greater NPA to Credit ratio than SBL. Furthermore ratio of GIBL is in fluctuating trend during the study period whereas in case of SBL it is in increasing trend. Higher the ratio higher will be the reason for low profit and vice versa. The mean ratio of GIBL and SBB is 1.47 and 1.14 respectively. The CV of SBL is comparatively higher than GIBL. It indicates that NPA to credit ratios of the SBL is less consistent.. (Table No 4.12)

12. The loan loss provision to NPA of GIBL is fluctuating trend as it was 1125.15 in FY 2008/09 and came to the lowest at 126.40 in FY 2010/11 and finally reached to 146.96 in the last fiscal year of the study period. In other hand loan loss provision to NPA of SBL is in decreasing trend ranging from 111.66 to 292.15 in the FY 2012/13 and 2008/09 respectively. Mean ratio of GIBL is higher than SBL. Higher the loan loss provision higher will be the ratio and higher the ratio higher will be the negative signaling effect to its financial report and to its own organization as well. CV of SBL is lower than GIBL which illustrates that the SBL is more consistent.. (Table No 4.13)
13. From the trend analysis, it is clearly seen that the net profit of both banks will be in increasing trend for the next coming five fiscal year from FY 2012/13. If other things remaining the same, the total net profit of the GIBL will be Rs 519.21 million, 623.02 million, 726.83 million, 830.65 million and 934.46 million respectively for coming five years. In other hands the net profit of SBL will also be in increasing trend for the next coming year's from 2012/13. If other things remaining the same, the total net profit of SBL will be Rs , 502.30 million, 564.19 million, 626.08 million, 687.97 million and 749.86 million respectively for the coming five years.. (Table No 4.14)

CHAPTER - FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The prosperity of every developing country can be ensured by its economic growth. The role of commercial banks in the economic growth can be fairly estimated to be very prominent. By mobilizing the scattered idle resources from the savers, commercial banks pool up the fund in a sizable volume in order to feed the fund requirement of productive sector of the economy.

To remain as the major contributing factor to the growth of the nation's economy, they themselves have to have sustainable existence and growth of themselves for which profitability is a must.

Therefore the profit for commercial organization has been defined as the lifeblood for the organization. A commercial Bank also, being a commercial institution has to plan for the reasonable profit earnings. Thus this study is conducted to examine the profitability position of the Global IME Bank Limited and Siddhartha Bank limited. The review of one specific institution can only say so much as compared to the conclusion that can be drawn from the comparisons with the competitors and the industry. Thus, the study makes use of comparison with other similar foreign joint venture banks and their average in order to gauge (measure) the performance of the bank.

Commercial banks are those banks, which perform all kinds of banking functions accepting deposits, advancing loans, credit creations and agency functions. Their main objective is to earn maximum profit. In Nepal, commercial banks play vital role by providing different facilities and services. They also provide services like collection of bills and cheques, safe keeping of valuables, financial advising etc. To their customers. Thus, the main objective for the establishment of commercial bank is to help the business sector, industrial sector & agricultural sector develop. Hence, this type of bank provides loans to such sectors at a very reasonable interest rate. However, at present a bank performs numerous functions that generate income for the bank. The key success of a commercial bank lies in its ability to raise funds & use it for investing purpose, acting as an intermediary between debtors & creditors.

Siddhartha Bank Limited (SBL), established in 2002 and promoted by prominent personalities of Nepal, today stands as one of the consistently growing banks in Nepal. While the promoters

come from a wide range of sectors, they possess immense business acumen and share their valuable experiences towards the betterment of the Bank. The bank is operating with its 43 branches in different parts of the country with 460 staffs. The bank is also providing branchless banking services as well.

Global Bank Limited (GBL) was established in 2007 as an 'A' class commercial bank in Nepal which provides entire commercial banking services. Global IME Bank Ltd. emerged after successful merger of Global Bank Ltd (an "A" class commercial bank), IME Financial Institution (a "C" class finance company) and Lord Buddha Finance Ltd. (a "C" class finance company) in 2012. In this year two development banks "Social Development Bank" and "Gulmi Bikas Bank" are also merged with this bank.

The main focus of this study is the financial performance and profitability analysis of commercial banks in the context of Nepal. Since profit is not only factor to analysis the financial performance, some other factors need to be considered while evaluating the profitability of Nepalese commercial banks. In this study, the profitability analysis of SBL and GIBL was made. The specific objectives of the study are to analyze the profit and loss trend and growth of the bank over the period, to evaluate the profitability and operating financial efficiency of SBL and GIBL, to compare and analyze fund based interest income with fee based income of SBL and GIBL in light of interest earning asset and to provide suggestions and recommendations for the improvements of the overall profitability of the banks as well as to provide the information to investor, creditors and stakeholders.

The first chapter contained details about the growth of commercial banks in general and gave a brief profile of two commercial banks considered under study. In 2nd chapter, relevant studies nature have been carefully made to have a grasp of what others have said made on the topic. In 3rd chapter suitable research methodology has been used covering use financial tools. The available data have been analyzed according the need to portray the overall financial performance of commercial banks. Certain issues and findings have been materialized from analysis of data followed by a package of suggestion and recommendation.

5.2 Conclusion

The effectiveness of intermediation role-played by the banking sector ultimately contributes to the economic development of a country. No doubt, the monetary and regulatory measure adopted by central banks to regulate and supervise the banks and financial institutions

determine the extent of banking sector development. The trend thus far has been towards a more open and liberal policies that help the banking sector to grow and flourish. Results visualized are increased competition, internationalization of banking business, economic cooperation and innovation in financial instruments.

From the studies it has been concluded that return on equity signifies how management has employed the equity of shareholders in generating profit. The mean ratio of return on equity of GIBL is 8.97 which nearly half of the ratio of SBL (16.43). The coefficient of variation of return on shareholder equity of the Global IME bank is higher than the Siddhartha bank i.e., $50.67\% > 9.74\%$. The variability of return on overall equity of GIBL is very higher than that of SBL. It shows that GIBL is less consistent than SBL in case of return on equity.

The mean ratio of return on total assets of GIBL is less than SBL. The ratio shows that ratio of GIBL is in highly fluctuating trend than SBL. The ratio of GIBL was in better position in the fiscal year 010/11, i.e. 1.28% than SBL. The mean ratio of SBL is higher than that of GIBL i.e. 1.225 and 0.79 respectively. The C.V of the both banks shows that the earning on total assets utilized is more consistent in case of SBL 0.11 than that of GIBL 0.84 Although both banks do not seem to be utilizing their assets more efficiently, SBL is more capable than GIBL.

The net profit margin of GIBL was seen to be in fluctuating trend as it is 32.55 in the FY 2012/13. Likewise the net profit margin of SBL was 48.21 in the beginning of the study period i.e., in 2008/09 which was highest among other years. It means out of Rs.100 revenue, SBL can convert it to just 48.21 to net profit. Mean of N.P margin of SBL is greater than GIBL i.e. $41.66 > 26.71$. On the other hand the CV of GIBL is greater than SBL i.e. $43.29 > 8.23$. As the average N.P margin of SBL is greater than GIBL, the overall performance of SBL is said to be better than GIBL.

The trend of EPS of GIBL is like as sea wave or trade cycle and reached to maximum 49.50 in the year 2009/10. The EPS of SBL was ranges from 19.82 to 29.80 in the FY 2010/11 and 2011/12 respectively. The EPS of both the bank is in fluctuating trend. The mean ratio of GIBL is 23.56 whereas in case of SBL it is 22.98. The C.V of GIBL is 0.59 while that of SBL is 0.91 as EPS of SBL is somehow higher than of GIBL. The major sources of income of banks are interest, commission, exchange gain and rest is from other sources. The ratio of 87.44 of GIBL and 86.51 of SBL shows that both bank fully dependent on interest income to generate

total income. Other Income of both bank is quite similar but Exchange gain income of SBL is more than two times of GIBL. But the commission and discount income of GIBL is higher than the SBL.

The study shows that LLP to total income ratio of both GIBL and SBL are in fluctuating trend. The ratio in case of GIBL ranges from 3.40 to 4.76 whereas ratio in case of SBL ranges from 6.55 to 21.91. The mean ratio of GIBL is 3.90 while in case of SBL it is 12.01. The CV of SBL is 46.79 % which is comparatively higher than GIBL (9.79 %). It indicates that the loan loss provision to total income of the SBL is less consistent.

The study demonstrates that the GIBL has follow the cost minimize method to per employee. Although this is good from the cost aspect, other influences like staff motivation cannot be ignored. The reason of higher ratio in expenses may be attributed to the total number of employees employed in the banks. In GIBL, there is 838 staff at the end of 2012/13. But in SBL there are 370. Due to more number of the staff in GIBL the data shows the less expenditure in per employee although GIBL spends more amounts in staff expenses. The mean ratios from the above table are observed, it is found that GIBL has a lower ratio of 305.48 that of SBL 453.47. The CV of ratios of both banks is exactly equal. It indicates the total staff expense to per employee ratio of the both banks is consistent.

The CV ratio of SBL is 0.47% which is comparatively higher than GIBL (0.04%), i.e. SBL is less consistent than GIBL. Thus the banks should look after so as to lower the ratio either by decreasing the credit volume or increasing the deposit base of the banks.

The study shows that the ratio of both has ranged below the 5.00. The mean ratio of SBL is higher than that of GIBL. Both the ratio of GIBL and SBL in four year is in line of 3 but in the year of 2012/13 its value rise to 4.21 and 4.39 respectively. The average interest spread for five years of GIBL and SBL banks are 3.49 and 4.92 respectively. The C.V of SBL is less than GIBL which indicates that it is more consistent rather than GIBL.

The financial report shows that in average GIBL has greater NPA to Credit ratio than SBL. Furthermore, the ratio of GIBL is in fluctuating trend during the study period whereas in case of SBL it is in increasing trend. Higher the ratio higher will be the reason for low profit and vice versa. The mean ratio of GIBL and SBB is 1.47 and 1.14 respectively. The CV of SBL is comparatively higher than GIBL. It indicates that NPA to credit ratios of the SBL is less consistent.

The loan loss provision to NPA of GIBL is fluctuating trend. In other hand loan loss provision to NPA of SBL is in decreasing trend ranging from 111.66 to 292.15 in the FY 2012/13 and 2008/09 respectively. Mean ratio of GIBL is higher than SBL. Higher the loan loss provision higher will be the ratio and higher the ratio higher will be the negative signaling effect to its financial report and to its own organization as well. CV of SBL is lower than GIBL which illustrates that SBL is more consistent.

From the trend analysis, it is clearly seen that the net profit of both banks will be in increasing trend for the next coming five fiscal year from FY 2012/13.

5.3 Recommendations

On the basis of analysis, findings, issues and gaps following suggestion can be made:

- **Liquidity:** Liquidity position of both the banks under study is seemed to be good as both the banks have maintained CD ratio near to 80%. Therefore, both the banks should be more serious to maintain the ratio in coming future too so as to be free from liquidity problem.(Finding No. 9)
- **Profit margin:** Both banks should attract more non –interest bearing deposit for increase profit margin. Higher the current account with adequate amount higher will be the opportunity of generating more profit. Moreover, proper investment should be made in order to earn more and more interest income.

The net profit margin of GIBL as well as SBL is in fluctuating trend. Hence, both the banks are recommended to maintain the Profit Margin ratio on its highest position in future..(Finding No. 3)

- **Loan and advances:** Out of total deposit Rs. 34,111,465,761, GIBL has credited Rs. 26,212,297,173 in the year 012/13, which is 79.13% of total deposit. So, it is recommended to GIBL to maintain this position and try to reduce provision for possible losses which is happening due to excessive loan and advances in order to prevent form the threat of insolvency. The CV ratio of SBL is 0.47% which is comparatively higher than GIBL (0.04%), i.e. SBL is less consistent than GIBL. Thus

the banks should look after so as to lower the ratio either by decreasing the credit volume or increasing the deposit base of the banks..(Finding No. 9)

- **Control expenses:** Both banks have to control in its unnecessary expenses as well as the expenses which are burden for the bank. When we observed the mean ratios, it is found that GIBL has a lower per employee ratio (305.48) than that of SBL (453.47). Both banks must formulate the strategy to control such expenses using modern technology, computer networks, and experts and well trained personal which also increase the operating efficiency of the bank..(Finding No. 6)
- **Earnings per share:** The earning per share and dividend per share attract the investors to invest their parts of account. So increasing the profit generating activities or decreasing the no. of share will increase earnings per share. The bank is also not generating sufficient return for the equity. So higher cash dividend strategy should be adopted for the better growth of shareholders worth. .(Finding No. 4)
- **Need to invest on small entrepreneurs development programs:** Both GIBL and SBL are at present concentrating its business with corporate clients like groups under trade and industry, manufacturers, exporters of garments and carpets, service related to tourism industry, subsidiaries of multinational companies operating in Nepal. Although GIBL has already initiated some such products like SME loan but not invested in remarkable level. The minimum level of balance should be invested for the small entrepreneurs and others. So, both the bank should come forward to increase the no of clients, develop entrepreneurship, diversify its business with the large numbers of small investors and come forward to meet the national objective of privatization of more entrepreneurs. .(Finding No. 11)
- **Training of the Employees:** It is suggested that the commercial banks of Nepal have to use well-trained personnel. Well-trained personnel will provide better services to the bank and peoples. From the study it is found that sufficient amount has been spent by GIBL in order to train its staffs. However, in case of SBL training expenses is not seem to be sufficient so as to cope up with modern technology. Therefore, it is recommended for SBL to manage such training to its employees so that it will increase the operating efficiency of the bank. .(Finding No. 8)

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Annex: 1

Mean, Standard Deviation and Coefficient of Variance from ROE

Global IME Bank Ltd

Year	ROE	X-x	(X-x)²	S.D.(σ)	CV=σ/mean
2008/09	2.51	-6.46	41.71	$\sqrt{\frac{1}{N}\Sigma x^2}$	
2009/10	4.80	-4.17	17.37		
2010/11	13.17	4.20	17.66		
2011/12	10.46	1.49	2.23		
2012/13	13.90	4.93	24.32		
TOTAL	44.84		103.29		
MEAN	8.97	1/N=	20.65	4.54	50.67

Siddhartha Bank

Year	ROE	X-x	(X-x)²	S.D.(σ)	CV=σ/mean
2008/09	17.04	0.61	0.37	$\sqrt{\frac{1}{N}\Sigma x^2}$	
2009/10	15.02	-1.41	1.99		
2010/11	15.66	-0.77	0.59		
2011/12	15.14	-1.29	1.66		
2012/13	19.29	2.86	8.18		
TOTAL	82.15		12.8		
MEAN	16.43	1/N=	2.56	1.60	9.74

Annex:2

Mean, Standard Deviation and Coefficient of Variance from ROTA

Global IME Bank Ltd

Year	ROTA	X-x	(X-x)²	S.D.(σ)	CV=σ/mean
2008/09	0.21	0.58	0.33	$\sqrt{\frac{1}{N} \sum x^2}$	
2009/10	0.42	0.42	0.18		
2010/11	1.28	1.28	1.64		
2011/12	0.87	0.08	0.01		
2012/13	1.15	0.07	0.00		
total	3.93	1.14	2.16		
mean	0.79	1/n=	0.43	0.66	0.84

Siddhartha Bank Ltd

Year	ROTA	X-x	(X-x)²	S.D.(σ)	CV=σ/mean
2008/09	1.22	0.00	0.00	$\sqrt{\frac{1}{N} \sum x^2}$	
2009/10	1.06	0.16	0.03		
2010/11	1.28	0.06	0.00		
2011/12	1.12	0.10	0.01		
2012/13	1.43	0.21	0.04		
total	6.11	0.59	0.08		
mean	1.22	1/n=	0.02	0.13	0.11

Annex: 3

Mean, Standard Deviation and Coefficient of Variance from EPS

Global IME Bank Ltd

Year	EPS	X-x	(X-x) ²	S.D.(σ)	CV=σ/mean
2008/09	26.30	2.74	7.51	$\sqrt{\frac{1}{N} \sum x^2}$	
2009/10	49.50	25.94	672.88		
2010/11	14.06	9.50	90.25		
2011/12	11.79	11.77	138.53		
2012/13	16.15	7.41	54.91		
Total	117.80	0.00	964.08		
mean	23.56	1/n=	192.82	13.89	0.59

Siddhartha Bank Ltd

Year	EPS	X-x	(X-x) ²	S.D(σ)	CV=σ/mean
2008/09	22.89	0.09	0.01	$\sqrt{\frac{1}{N} \sum x^2}$	
2009/10	21.99	21.99	483.56		
2010/11	19.82	19.82	392.83		
2011/12	20.41	20.41	416.57		
2012/13	29.80	29.80	888.04		
Total	114.91	91.93	2181.01		
mean	22.98	1/n=	436.20	20.89	0.91

Annex 4

Mean, Standard Deviation and Coefficient of Variance from Net Profit Margin

Global IME Bank Ltd

Year	N.P margin	X-x	(X-x)²	S.D.(σ)	CV=σ/mean
2008/09	11.73	11.73	137.5929	$\sqrt{\frac{1}{N}\sum x^2}$	
2009/10	14.51	14.51	210.5401		
2010/11	33.3	33.3	1108.89		
2011/12	41.47	41.47	1719.7609		
2012/13	32.55	32.55	1059.5025		
Total	133.56	133.56	4236.2864		
mean	26.712	1/n=	847.25728	11.56	43.29

Siddhartha Bank Limited

Year	N.P margin	X-x	(X-x)²	S.D.(σ)	CV=σ/mean
2008/09	48.21	6.546	42.85	$\sqrt{\frac{1}{N}\sum x^2}$	
2009/10	39.36	-2.304	5.308		
2010/11	40.71	-0.954	0.91		
2011/12	38.55	-3.114	9.697		
2012/13	41.49	-0.174	0.03		
Total	208.32		58.8		
mean	41.664	1/n	11.76	3.43	8.23

Annex-5

Mean, Standard Deviation and Coefficient of Variance from LLP to Total Income

Global IME Bank Ltd

Year	LLP to total income	X-x	(X-x)²	S.D.(6)	CV=6/mean
2008/09	4.76	0.86	0.75	$\sqrt{\frac{1}{N} \sum x^2}$	
2009/10	3.43	-0.47	0.22		
2010/11	3.40	-0.50	0.25		
2011/12	4.01	0.11	0.01		
2012/13	3.88	-0.02	0.00		
Total	19.48		1.22		
mean	3.90	1/n=	0.24	48.99	9.79

Siddhartha Bank Limited

Year	LLP to total income	X-x	(X-x)²	S.D.(6)	CV=6/mean
2008/09	14.30	2.29	5.24	$\sqrt{\frac{1}{N} \sum x^2}$	
2009/10	9.72	-2.29	5.23		
2010/11	21.91	9.91	98.11		
2011/12	7.56	-4.45	19.78		
2012/13	6.55	-5.46	29.80		
Total	60.03		158.16		
mean	12.01	1/n=	31.63	5.62	46.79

Annex 6

**Mean, Standard Deviation and Coefficient of Variance from Operating Expenses
to Total Income**

Global IME Bank Ltd

Year	op. exp. to total Income	X-x	(X-x)²	S.D.(6)	CV=σ/mean
2008/09	2.51	-	0.71	$\sqrt{\frac{1}{N}\sum x^2}$	
2009/10	3.19	-	0.03		
2010/11	3.62	-	0.39		
2011/12	3.01	-	0.22		
2012/13	3.79	-	0.57		
Total	16.13	0.00	1.03		
mean	3.23	1/n=	0.21	0.45	14.05

Siddhartha Bank Limited

Year	op. exp. to total income	X-x	(X-x)²	S.D.(6)	CV=σ/mean
2008/09	4.96	0.90	0.80	$\sqrt{\frac{1}{N}\sum x^2}$	
2009/10	4.08	0.02	0.00		
2010/11	3.52	-0.55	0.30		
2011/12	3.50	-0.57	0.32		
2012/13	4.26	0.20	0.04		
Total	20.32	0.00	1.47		
mean	4.06	1/n=	0.29	0.54	13.36

Annex-7

Mean, Standard Deviation and Coefficient of Variance from Staff Expenses per Employee

Global IME Bank Ltd

Year	staff exp. Per employee	X-x	(X-x)²	S.D.(6)	CV=σ/mean
2008/09	275.20	(30.28)	917.12	$\sqrt{\frac{1}{N}\Sigma x^2}$	
2009/10	266.64	(38.84)	1,508.86		
2010/11	401.56	96.08	9,230.60		
2011/12	238.23	(67.25)	4,523.10		
2012/13	345.79	40.31	1,624.57		
Total	1,527.42	0.00	17,804.25		
mean	305.48	1/n=	3,560.80	59.67	0.19

Siddhartha Bank Limited

Year	staff exp. Per employee	X-x	(X-x)²	S.D.(6)	CV=σ/mean
2008/09	472.53	19.06	363.36	$\sqrt{\frac{1}{N}\Sigma x^2}$	
2009/10	315.14	(138.33)	19,134.64		
2010/11	415.47	(38.00)	1,443.85		
2011/12	479.02	25.55	652.90		
2012/13	585.18	131.71	17,348.05		
Total	2,267.34	0.00	38,942.80		
mean	453.47	1/n=	7,788.40	88.25	0.19

Annex-8

**Mean, Standard Deviation and Coefficient of Variance from Credit to
Deposit Ratio**

Global IME Bank Ltd

Year	credit to deposit ratio	X-x	(X-x)²	S.D.(6)	CV=6/mean
2008/09	83.78	2.11	4.44	$\sqrt{\frac{1}{N} \sum x^2}$	
2009/10	83.48	1.81	3.27		
2010/11	84.82	3.15	9.91		
2011/12	77.15	(4.52)	20.45		
2012/13	79.13	(2.54)	6.46		
Total	408.36	0.00	44.53		
mean	81.67	1/n=	8.91	2.98	0.04

Siddhartha Bank Limited

Year	credit to deposit ratio	X-x	(X-x)²	S.D=	CV=6/mean
2008/09	85.18	1.53	2.35	$\sqrt{\frac{1}{N} \sum x^2}$	
2009/10	83.65	0.00	0.00		
2010/11	86.43	2.78	7.75		
2011/12	79.42	(4.23)	17.86		
2012/13	83.55	(0.10)	0.01		
Total	418.23	0.00	27.97		
mean	83.65	1/n=	5.59	2.36	0.47

Annex-9

Mean, Standard Deviation and Coefficient of Variance from Interest Spread

Global IME

Year	interest spread	X-x	(X-x) ²	S.D.(6)	CV=6/mean
2008/09	3.05	-0.44	0.20	$\sqrt{\frac{1}{N} \sum x^2}$	
2009/10	3.05	-0.44	0.20		
2010/11	3.27	-0.22	0.05		
2011/12	3.88	0.39	0.15		
2012/13	4.21	0.72	0.52		
Total	17.46	0.00	1.11		
mean	3.49	1/n=	0.22	0.47	0.13

Siddhartha Bank

Year	interest spread	X-x	(X-x) ²	S.D.(6)	CV=6/mean
2008/09	3.45	-0.46	0.21	$\sqrt{\frac{1}{N} \sum x^2}$	
2009/10	3.94	0.03	0.00		
2010/11	3.94	0.03	0.00		
2011/12	3.82	-0.09	0.01		
2012/13	4.39	0.48	0.23		
Total	24.6	0.00	0.45		
mean	4.92	1/n=	0.09	0.30	0.08

Annex-10

Mean, Standard Deviation and Coefficient of Variance from NPA to Credit

Global IME Bank Ltd

Year	NPA to Credit	X-x	(X-x)²	S.D.(σ)	CV=σ/mean
2008/09	0.09	(1.38)	1.92		
2009/10	0.85	(0.62)	0.39		
2010/11	2.52	1.05	1.09		
2011/12	1.64	0.17	0.03		
2012/13	2.27	0.80	0.63		
Total	7.37	0.00	4.06		
mean	1.47	1/n=	0.81	0.90	0.61

Siddhartha Bank Ltd

Year	NPA to Credit	X-x	(X-x)²	S.D.(σ)	CV=σ/mean
2008/09	0.45	(0.69)	0.47		
2009/10	0.53	0.53	0.28		
2010/11	0.79	0.79	0.62		
2011/12	1.52	1.52	2.31		
2012/13	2.39	2.39	5.71		
Total	5.68	4.54	9.40		
mean	1.14	1/n=	1.88	1.37	1.20

Annex-11

Mean, Standard Deviation and Coefficient of Variance from LLP to NPA

Global IME Bank Ltd

Year	loan loss provision to NPA	X-x	(X-x)²	S.D.(σ)	CV=σ/mean
2008/09	1125.15	787.16	619627.16	$\sqrt{\frac{1}{N} \sum x^2}$	
2009/10	154.79	-183.20	33560.77		
2010/11	126.40	-211.59	44768.64		
2011/12	136.63	-201.36	40544.24		
2012/13	146.96	-191.03	36490.93		
Total	1689.93		774991.74		
mean	337.99	1/n=	154998.35	393.69	1.16

Siddhartha Bank Limited

Year	loan loss provision to NPA	X-x	(X-x)²	S.D.(σ)	CV=σ/mean
2008/09	292.15	88.13	7766.54	$\sqrt{\frac{1}{N} \sum x^2}$	
2009/10	270.57	66.55	4428.64		
2010/11	221.18	17.16	294.40		
2011/12	124.55	-79.47	6315.80		
2012/13	111.66	-92.36	8530.74		
Total	1020.11		27336.12		
mean	204.02	1/n=	5467.22	73.94	0.36

Annex-12

Trend Analysis of GIBL from Net Profit

Trend Analysis **Profit in Rs.(000)**

Year(X)	Profit(Y)	XY	X²	
1	26304	26304	1	
2	73003	146006	4	
3	224978	674934	9	
4	265316	1061264	16	
5	449218	2246090	25	
ΣX=15	ΣY=1038819	ΣXY=4154598	ΣX²=55	n=5

least square equations are,

$$Y=a+bX \quad \dots\dots(i)$$

$$\Sigma Y=na+b\Sigma X \quad \dots\dots(ii)$$

$$\Sigma XY=a\Sigma X+b\Sigma X^2 \dots\dots(iii)$$

we substitute the values in equations ii and iii, we get:

$$1038819=5a+15b \quad \dots\dots(iv) \times 3$$

$$4154598=15a+55b \quad \dots\dots(v)$$

To solve above equations we multiply equation iv by 3 and subtracting these equation,

we get:

$$3116457=15a+45b \quad \dots\dots(v)$$

$$4154598=15a+55b \quad \dots\dots(vi)$$

- - -

$$-1,038,141 = -10b$$

$$b=103,814.10$$

and, $a=-103,678.50$

now putting these values in equation i, we have

$$Y = -103678.50 + 103814.10X$$

thus, the required regression equation be:

$$Y = -103678.50 + 103814.10X$$

Let the year 013/14, 014/15, 015/16, 016/17, 017/18 be 6, 7, 8, 9 and 10 respectively.

The expected net profit for the year 013/14, 014/15, 015/16, 016/17 and 017/18 will be as tabulated below:

Year	A	bX	Expected net Profit(Y)
013/14	-103,678.50	622,884.6	519,206.1
014/15	-103,678.50	726,698.7	623,020.2
015/16	-103,678.50	830,512.8	726,834.3
016/17	-103,678.50	934,326.9	830,648.4
017/18	-103,678.50	1,038,141	934,462.5

Annex-13

Trend Analysis of SBL from Net Profit

Trend Analysis

Profit in Rs.(000)

Year(X)	Profit(Y)	XY	X ²	
1	217916	217916	1	
2	240848	481696	4	
3	311415	934245	9	
4	330456	1321824	16	
5	482556	2412780	25	
ΣX=15	ΣY=1583191	ΣXY=5368461	ΣX²=55	n=5

least square equations are,

$$Y=a+bX \quad \dots\dots(i)$$

$$\Sigma Y=na+b\Sigma X \quad \dots\dots(ii)$$

$$\Sigma XY=a\Sigma X+b\Sigma X^2\dots\dots(iii)$$

we substitute the values in equations ii and iii, we get:

$$1,583,191=5a+15b \quad \dots\dots(iv)\times 3$$

$$5,368,461=15a+55b \quad \dots\dots(v)$$

To solve above equations we multiply equation iv by 3 and subtracting these equation,

we get:

$$4,749,573=15a+45b \quad \dots\dots(v)$$

$$5,368,461=15a+55b \quad \dots\dots(vi)$$

$$\begin{array}{r} - \quad - \quad - \\ \hline -618,888=-10b \end{array}$$

$$b=61,888.80$$

and, $a= 130,971.80$

now putting these value in equation i, we have

$$Y=130971.80+61888.80X$$

thus, the required regression equation be: $Y=130971.80+61888.80X$

Let the year 013/14,014/15, 015/16,0 16/17, 017/18 be 6,7 ,8 ,9 and 10 respectively.

The expected net profit for the year 013/14, 014/15,015/16, 016/17 and 017/18 will be as tabulated below:

Year	A	bX	Expected net Profit
013/14	130971.8	371332.8	502304.6
014/15	130971.8	433221.6	564193.4
015/16	130971.8	495110.4	626082.2
016/17	130971.8	556999.2	687971
017/18	130971.8	618888	749859.8

Annex-14

Profile of Global IME Bank Limited (GIBL)

Global IME Bank Ltd. emerged after successful merger of Global Bank Ltd (an “A” class commercial bank), IME Financial Institution (a “C” class finance company) and Lord Buddha Finance Ltd. (a “C” class finance company) in 2012. In this year two development banks “Social Development Bank” and “GulmiBikas Bank” are also merged with this bank.

Global Bank Limited (GBL) was established in 2007 as an ‘A’ class commercial bank in Nepal which provides entire commercial banking services. The bank was established with the largest capital base at the time with a paid up capital of NPR 1.0 billion. The paid up capital of the bank has since been increased to NPR 2.42 billion. The bank's shares are publicly traded as an 'A' category company in the Nepal Stock Exchange.

At present the bank is operating with 71 branches in 13 zones of the country with 800 staffs. It has 71 ATMs in different parts of the country which has made very comfort to take banking service to the customers. The bank plays great role to develop the economic condition of country by providing different facilities and services to their customers like collection of bills and cheques, safe keeping of valuables, financial advising etc.

The bank is also providing branchless banking service being one of the leader bank in the most remote areas of the country.

Mission

To win respectable market share through customer focused quality products and services, innovative business solutions and technology driven banking thereby enhancing the growth and profitability of the bank so as to ensure the optimum benefit to all stake holders at all times.

Vision

The bank shares a common vision of “The Bank for All” amongst its Promoters, Directors, Management Team and Staff in commitment to providing the highest standard of services for customers from all regions and societies.

Deposit of Global IME Bank for the period of five-year(2008/2009 to2012/2013)

Particular	2008/2009	2009/2010	2010/2011	2011/2012	2012/2013
A) Non Interest Bearing Accounts					
Current Deposits	1,40,82,97,158	512,013,644	704,008,967	961,158,739	1,318,016,985.00
1.Local Currency	314,373,545	439,986,057	580,497,233	917,824,639	1,212,939,822.00
2.Foreign Currency	13,635,557	72,027,587	123,511,734	43,334,100	105,077,163.00
Margin Deposits	204,141,006	287,046,149	271,115,396	388,388,422	387,082,034.00
Others		-	-	-	-
1.Local Currency	-	-	-	-	-
2.Foreign Currency	-	-	-	-	-
Total Of Non-Interest Bearing Account (I)	532,150,108	799,059,793	975,124,363	1,349,547,161	1,705,099,019.00
B) Interest Bearing Accounts					
Saving Deposits	3,401,943,938	4,353,317,872	3,860,768,000	11,151,142,997	14,975,560,000.00
1.Local Currency	3,337,718,962	4,288,388,376	3,795,340,000	1,110,307,306	14,934,000,000.00

2.Foreign Currency	64,224,976	64,929,496	65,428,000	40,835,691	41,560,000.00
Fixed Deposits	4,566,920,454	6,206,616,459	6,401,204,000	10,141,753,485	12,095,987,520.00
1.Local Currency	4,402,860,750	5,901,631,775	6,209,779,000	9,634,315,985	11,113,567,520.00
2.Foreign Currency	164,059,704	304,984,684	191,425,000	7,437,500	982,420,000.00
Call Deposits	2,431,969,452	3,672,554,223	3,829,393,833	4,271,321,531	5,334,819,222.00
1.Local Currency	2,368,408,477	3,653,336,970	3,814,143,000	4,246,671,965	5,288,679,222.00
2.Foreign Currency	63,560,975	19,217,253	15,250,833	24,649,566	46,140,000.00
Certificate of Deposits	-	-	-	-	-
Total Of Interest Bearing Accounts (II)	9,51,39,53,361	14,232,488,554	14,091,365,833	25,564,218,013	32,406,366,742.00
Total Deposit (I+II)	11,00,20,40,633	15,031,548,347	15,066,490,196	26,913,765,174	34,111,465,761.00

Investment of GIBL Bank for the period of five year. (2008/ 09 to 2012/13)

Particular	2008/09	2009/10	2010/11	2011/12	2012/13
1.Nepal	1347,002,728	1951998850	2059455301	3820691948	4,31,33,17,315
Government Securities					
a. Treasury Bills	807,002,728	1,211,998,850	1319455301	2614166948	3508687896
b. Developments Bonds	-	-	-	-	-
c. National Saving Bonds	540,000,000	740,000,000	740,000,000	1206525000	1201525000
d. Other securities	-	-	-	-	-
2. Foreign Govt. Securities	-	-	-	-	-
3. Nepal Rastra Bank Bond	-	-	-	-	-
4.Shares Debentures and Bonds	8,618,000	25,993,000	25,993,000	30394797	107671849
5.Other Investments	-	-	-	-	-
a. Certificate of Deposits	-	-	-	-	-
b. Mutual Fund	-	-	-	-	-
c. Local	-	-	-	-	-

Banks					
d. Foreign Banks	77,800,000	292,495,517	116,981,670	217498011	632040607
e. Others	-	-	-	-	-
6. Local Licensed Institutions	186,700,000	-	717,816,960	178475222	100,000,000
Total Investment	1,620,120,728	2,270,487,367	2920246931	4247059978	5549925352
Provision		-	-	-	979135
Net Investment	1,620,120,728	2,270,487,367	2,920,246,931	4,247,059,978	5,548,946,217

Annex-15

Profile of Siddhartha Bank Limited (SBL)

Siddhartha Bank Limited (SBL), established in 2002 and promoted by prominent personalities of Nepal, today stands as one of the consistently growing banks in Nepal. While the promoters come from a wide range of sectors, they possess immense business acumen and share their valuable experiences towards the betterment of the Bank.

Within a short span of time, Siddhartha Bank has been able to come up with a wide range of products and services that best suits its clientele. Siddhartha Bank has been posting growth in its portfolio size and profitability consistently since the beginning of its operations. The management of the Bank has been thoroughly professional.

Siddhartha Bank has been able to gain significant trust of the customers and all other stakeholders to become one of the most promising commercial banks in the country in less than 10 years of its operation. The Bank is fully committed towards customer satisfaction. The range and scope of modern banking products and services the Bank has been providing is an example to its commitment towards customer satisfaction. It is this commitment that has helped the Bank register quantum growth every year. And the Bank is confident and hopeful that it will be able to retain this trust and move even further towards its mission of becoming one of the leading banks of the industry.

The bank is operating with its 43 branches in different parts of the country with 460 staffs. The bank is also providing branchless banking services as well.

Vision

Siddhartha Bank runs with a vision to be financially sound, operationally efficient and keep abreast with technological developments.

Mission

The Bank desires to be one of the leading banks of the industry by fulfilling the interest of the stakeholders and also aims to provide total customer satisfaction by way of offering innovative products and by developing and retaining highly motivated and committed staff. It directs all its efforts to move ahead with increased profits. The following mission statement is a guide to meet the Vision of the Bank:

- Be one of the leading banks of the industry in terms of profitability, productivity and innovation.
- Aim at total customer satisfaction by rendering efficient and diversified financial services through improved technology.
- Build a highly motivated and committed team of staff by nurturing a good work culture to achieve superior individual performance aiming to enhance organizational effectiveness.

Be the place of pride to all its stakeholders

Annex 16

Deposit of Siddhartha Bank for period of five year (2008/ 09 to 012/13)

Particular	2008/09	2009/10	2010/11	2011/12	2012/13
A) Non Interest Bearing Accounts					
Current Deposits	295,737,885	353,738,342	512,333,461	702,674,456	895,029,086
1.Local Currency	273,573,636	342,125,958	411,844,885	546,233,677	811,703,771
2.Foreign Currency	22,164,249	26,608,880	100,488,576	156,440,779	83,325,315
Margin Deposits	113,760,813	121,439,148	155,662,066	294,757,923	259,446,137
Others		-	-	-	-
1.Local Currency	-	-	-	-	-
2.Foreign Currency	-	-	-	-	-
Total Of Non-Interest Bearing Account					
(I)	409,498,698	475,177,490	667,995,527	997,428,379	1,154,475,223
B) Interest Bearing Accounts					
Saving	3,445,689,862	2,961,258,059	3,169,661,590	5,661,716,649	7,385,578,203

Deposits					
1.Local					
Currency	3,421,859,469	2,938,942,458	3,142,144,680	5,636,451,093	7,350,399,839
2.Foreign					
Currency	23,830,393	22,315,601	27,516,910	25,265,557	35,178,365
Fixed					
Deposits	7,158,200,151	10,195,733,566	11,458,271,928	10,966,949,025	10,708,836,223
1.Local					
Currency	6,925,570,151	9,186,821,526	10,710,911,128	9,996,749,025	10,325,636,223
2.Foreign					
Currency	232630,000	1,008,912,040	747,360,800	970,200,000	783,200,000
Call					
Deposits	4841409692	6,564,860,287	6,279,724,937	8,322,411,726	9,143,932,637
1.Local					
Currency	4639734157	6,504,842,819	6,208,565,454	8,184,638,405	8,918,454,561
2.Foreign					
Currency	201675535	60,017,468	71,159,484	137,773,321	225,578,077
Certificate					
of					
Deposits	-	-	-	-	-
Total Of	15445299705	19,721,851,912	20,907,658,455	24,951,077,401	27,238,347,064
Interest					
Bearing					
Accounts					
(II)					
Total	15854798403	20,197,029,402	21,575,653,982	25,948,505,780	28,392,822,287
Deposit					
(I+II)					

Annex 17

Investment of Siddhartha Bank limited for the period of five year. (2008/09 to 2012/13)

Particular	2008/09	2009/10	2010/11	2011/12	2012/13
1.Nepal.Government Securities	1693573056	319490661	1795361026	2673273133	3198200433
a. Treasury Bills	1483723056	10927929	1,487,991,343	1184467100	1762729750
b.Developments Bonds	-	-			
c. National Saving Bonds	-		-		
d. Other securities	209850000	308562732	307,369,683	1488806033	1435470683
2. Foreign Govt. Securities	-	-	-	-	-
3. Nepal Rastra Bank Bond	-	-	-	-	-
4.Shares Debentures and Bonds	16357000	19932000	20,307,600	72392600	309932569
5.Other Investments	50000000	651700000	394,960,000	327860000	191600000
a. Certificate of Deposits	-	-	-	-	-
b. Mutual Fund	-	-	-	-	-
c. Local Banks	-	-	-		
d. Foreign Banks	416247741	379483000	327,280,800	320342400	744366000
e. Others	-	-	-	-	-
Total Investment	2176177797	2452475662	2,537,909,426	3393868133	4472839002
Provision	-	-			48594
Net Investment	2176177797	2452475662	2,537,909,426	3393868133	4472790408

Annex-18

Components of income of GIBL for the year 2012/13

Components of Income	Amount	Ratio to Total Income
Interest income	3206646423	87.44
Commission and disc.	171895770	4.69
Other income	215796374	5.88
Exchange gain	73148355	1.99
Total	3667486922	100

Annex-19

Components of income of Siddhartha Bank for the year 2012/13

Components of Income	Amount	Ratio to Total Income
Interest income	2898414698	86.51
Commission and disc.	113066701	3.37
Other income	182092830	5.44
Exchange gain	156644586	4.68
Total	3350218815	100

Annex-20

Components of Expenditure of GIBL for the year 2012/13

Components of Expenditure	Amount	Ratio to Total Expenditure
interest exp.	1826784727	70.22
staff exp.	289774654	11.14
operating exp.	317746703	12.21
other exp.	167328907	6.43
Total	2601634991	100

Annex-21

Components of Expenditure of Siddhartha Bank for the year 2012/13

Components of Expenditure	Amount	Ratio to Total Expenditure
interest exp.	1742838625	74.60
staff exp.	216516361	9.27
operating exp.	281005179	12.03
other exp.	95885884	4.10
Total	2336246049	100

Annex-22

List of current Commercial Banks of Nepal:

1. Nepal Bank Limited
2. Rastriya Banijya Bank
3. Agriculture Dev. Bank
4. NABIL Bank Limited
5. Nepal Investment Bank Ltd.
6. Standard Chartered Bank Nepal Ltd.
7. Himalayan Bank Ltd.
8. Nepal SBI Bank Limited
9. Nepal Bangladesh Bank Limited
10. Everest Bank Limited
11. Bank of Kathmandu Limited
12. Nepal Credit and Commercial Bank Ltd.
13. Lumbini Bank Limited
14. NIC Asia Bank Ltd.
15. Machhapuchhre Bank Limited
16. Kumari Bank Limited
17. Laxmi Bank Limited
18. Siddhartha Bank Limited
19. Global IME Bank Limited
20. Citizens Bank International Ltd.
21. Prime Commercial Bank Ltd
22. Sunrise Bank limited
23. Grand Bank Nepal Ltd.
24. NMB Bank Limited
25. Kist Bank Limited
26. Janata Bank Nepal Limited
27. Mega Bank Nepal Limited

28. Commertz and Trust Bank Nepal Limited
29. Civil Bank Limited
30. Century Commercial Bank Limited
31. Sanima Bank Limited

Source: www.nrb.com.np