PROFITABILITY ANALYSIS OF LAXMI BANK LTD. & SIDDHARTHA BANK LTD.

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RECOMMENDATION

This is to certify that the thesis

Submitted by**:**

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Entitled:

PROFITABILITY ANALYSIS OF LAXMI BANK LTD.& SIDDHARTHA BANK LTD.

has been prepared and approved by this department in the prescribed format of Faculty of Management. This thesis is forwarded for the examination.

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VIVA-VOCE SHEET

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And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of requirements for

Master Degree of Business studies (M.B.S)

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DECLARATION

I hereby declare that the work reported in this thesis entitled, **" Profitability analysis of Laxmi Bank Ltd. & Siddhartha Bank Ltd."** Submitted to the office of Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master Degree of Business Studies (M.B.S) under the supervision of **Joginder Goet** Lecturer of Shankar Dev Campus.

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………………………………

Dipika Neupane

Researcher

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CHAPTER I
INTRODUCTION

1.1 Background of the study

In modern economic system, banking is regards as the backbone of economy .It is a financial institution which acts as transaction of money by accepting various types of deposit, disbursing loans and rendering other financial services. According to History of Bank, An Institutional Banking system came into existence in Nepal only in the 19 century but this is better to know about the financial institution and origin of Bank basically the word "Financial Institution" is related to financing trade, commerce and Industry. Bank is one of the financial institutions dealing with monetary transactions.

"Bank" is derived from the Latin word "Bancus " which mean a " Bench" .During those days the Bankers used to do their banking business sitting on a bench in the market .The History of Banks began from Italy. The banker's business is to take the debts of other people to offer his own in exchange and these by create money . The bank is ordinary banking business consists of charging cash for bank deposits and bank deposits for cash , transferring bank deposits from one person or corporation to another giving bank deposits in exchange for bills of exchange government bonds, the secured or unsecured promises of businessmen to repay.

Establishment of Industry and commerce are very essential for the rapid economic development of a developing country without industrial and commercial development; economic foundation of country cannot be establishment. For smooth running of an enterprise and economic activity in the society like selling, purchasing, processing, manufacturing, transporting, repairing, producing, consuming etc. such activity will strengthen the economy as well economic activity of the public .This will develop economy as a whole. The achievement of business goal fully depends upon how of all those activities is integrated and coordinated in the business system. So, Bank is a financial institution which plays significant role in the development of the country .It helps the growth of agriculture, trade, commerce and Industry of National Economy. The banking system is largely responsible for collecting household saving items of different sector of the economy. The banking sector has now reached even to the most remote areas of the country and has contributed a good deal to the growth of the economy.

1.2 Concept of Profitability

The term "Profitability" is composed of two words 'profit' and 'ability'. There are two main concepts with regards to the word profit economic and accounting. According to Adam Smith (The father of economics, " profit is the sum remaining after the payment of all wages 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 of the unimproved value of land , as the return to capital. Under the mathematic of capital of accountancy, the final accounting profit of such corporations includes two elements, a return representing economic rent on the value of land and a return on capital. However, there is not even a faint idea as to what part of accounting profit is representing by each of these two economic elements. ME Murphy aptly remarks , “Business cannot exist without profits, an economy cannot without sound business. Profit must be something for all to be proud of: they should not be suspect.” As a matter of fact, the overall efficiency of a bank is reflected in its profits. Profit has been universally recognized and accepted as a measure of business efficiency. Thus, the larger the profits, the more efficiency and profitable the bank is deemed to be. This criterion has the greater advantage that it provides a common standard of measuring the efficiency if different bank. The profit motive remains on the main springs of an enterprise and spur to efficiency. It is clearly the desire to make profit which inspires the search for more efficient methods, reduced unit costs, better organization and greater turnover.

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, investment are sound. As other type of business entity, commercial banks are inspired by the profit. The main objectives of the commercial banks are to maximize profit .Profit earned by the firm is main financial indicators of a business enterprise .In conclusion, amongst all objectives; profit maximization is the ultimate objectives of Nepalese commercial banks.

1.3 Statement of the Problem

The global financial crisis in 2008 is affecting the economy of the country somehow. Financial sector, which has been correlated with trading and industry, has been aversely affected. Investment in the productive sector has been adversely affected and has been decreasing due to social security and labor problem.

Profit is the most for a bank to survive in the competitive market. And traditional profit is possible only if the bank makes proper and safe investment. Banks have been globalizing with their services and they are moving towards other near banking agency function, which can create utilities. The technology has knocked to the world wide networking of the banking in the present scenario of Nepalese economy, banks should think of some other alternative ways of profit. Banks can generate revenues by rendering banking and non – banking services. Traditionally , Investment and commercial lending were considered as the prime customer banks .However , today banks have emerged many trustee and agency roles , off-balance sheet transaction and other near bank services by which bank have minimize the risk exposes and gained fees and commissions . The fee based income compromise a major source of profit.

This study is an attempt of dogwatch on the fund – based income and fee- based income of the banks.

The statements of the problems of this study are mentioned below:

- In the above mentioned present scenario, are the banks maintaining same level of achievements as the former years?
- Are the banks operating profits satisfactory?
- Why private banks are in the depth problem of the inter – competition?
- Why many of the banks are getting out of market lacking better planning and performance?
- Are the banks enhancing their near banking agency functions so as to cover their profitability position as before?

1.4 Objectives of the Study

The study is mainly concerned with the financial statement of the two banks mainly profit and loss statement. Since the basic objective of this study is the evaluation of the profitability of Laxmi Bank Ltd. in comparison to Siddhartha Bank Ltd . It has its main objective of exploring some of the relation in the statements that are by virtue not shown in the statutory annual reporting of the banks.

The specific Objectives of the study are as follows:

- To evaluate the impact of cyclical factors on profitability trend.
- To evaluate its sustainability of profitability.
- To evaluate and analyze the financial soundness and profitability of sample organization.
- To recommend for making strategically effective planning and performance in banking process.

1.5 Significance of the Study

Mobilization of internal resources is one of the key factors in economic and social development of a country .Financial Institutions are the major key players in this field .The more healthy banking practice in an economy, the better becomes the economic development .Profit is the key measure of the banks success since banks success is measured with the profitability .Now a days the rate of interest of deposit is highly increased which reduced profit of the bank. The banks are also required to manage cost of fund and control their operating cost in this scenario.

There have been many studies of financial performance of the Nepalese commercial banks; however, most of them have been concentrated on the investment function and financial analysis.

This study is highly focused towards the better implication of the management tools and tactics for developing the better course of action to generate outstanding performance of the banking sector. Every individual as well as further researcher will have a good source of literature for review about the findings done by this project.

1.6 Research Methodology

Research methodology is the combination of two words research and methodology. Research means to search again to find out something new and more about a phenomenon. It is systematic and organized effort to inquire about a specific problem that needs an answer. This process of gathering , recording , analyzing , and interpreting data with the purpose of finding solution to the problem is called research. Methodology is a systematic rules and procedure upon which research is based . It is the science of method of rules of the game.

In order to complete any research, inputs like facts and figures are necessary and such inputs are called data. Data may be collected either from primary sources or secondary source. Primary data is such types of data which are collected first time by the researcher where as secondary data is second hand data gathered from published form or unpublished form. In order to review the historical background and concept of banking process different books, articles, newspapers and magazines are used.

In order to examine planning and performance evaluation of banking in Nepal various secondary data has been used and such data are collected from different publication of

Ministry of Finance, Nepal Rastra Bank Publication, Journals and annual report of Laxmi Bank Limited and Siddhartha Bank Limited, and different reports and statements etc.

For the proper findings and evaluation following tools will be used:

- Financial Tools
- Ratio Analysis
- Statistical Tools: Trend Analysis, Regression Analysis, Measurement of Variation and Deviation, Correlation Coefficient.

1.7 Limitations of Study

Along with the significance of this study also have some limitations which are as follows:

- The study focuses on the profitability aspect only.
- The study analysis only with the help of financial tools and very few statistical tools are used.
- The study is limited to the five years of period.
- Since the study deals with two joint venture banks i.e Laxmi and siddhartha, the result drawn from the study may or may not be applicable for other commercial banks.
- The study is mostly based on secondary data i.e. published documents like annual reports, related journals. Magazines, booklets etc.
- The study excludes all other components which affect the financial performance of the bank.
- The study is meant for the fulfillment of requirement of the Master Degree in Business Studies (MBS)

1.8 Organization of the study

The whole study has been divided in the five chapters; each chapter is developed to the some aspects of the study.

CHAPTER 1 : INTRODUCTION

This chapter incorporates the general background, focus of the study, statement of the problem, objective of the study, significance of the study, limitations of the study and organization of the study.

CHAPTER 2 : REVIEW OF LITERATURE

This chapter gives readers background information which continues from chapter 1 and gives the brief conceptual framework as well as reviews the existing literature in the relevant area.

CHAPTER 3: RESEARCH METHODOLOGY

This chapter deals with the methodology adopted in carrying out the research and it includes research design, population & sample, sources of data and the methods of data collection.

CHAPTER 4: DATA PRESENTATION AND ANALYSIS

This chapter deals with the presentation and analysis of relevant data and information. Various analytical tools have been used to analyze and interpret the result.

CHAPTER 5: SUMMARY, CONCLUSION AND RECOMMENDATIONS

The final chapter summaries the whole spectrum of the study and offers recommendation for the improvement of the institution.

Bibliography and Annexure have been presented at the end of the report.

CHAPTER II
REVIEW OF LITERATURE

2.1 Conceptual framework

Review of literature means reviewing research studies or other relevant propositions in the related area of the study so that all the past studies, their conclusions and deficiencies may be known and further research can be conducted. It is an integral and mandatory process in research works.

The main reason of review of research in the past is to know the outcomes of those investigations in areas where similar concepts and methodologies had been used successfully. Further an extensive or even exhaustive process of such review may offer vital links with the various trends and phases in the researches in one's area of specialization, familiarizing with the characteristics percepts, concepts and interpretation with the special terminology, with the rationale for the understanding one's proposed investigation. In this connection, a review of previous related research projects will help the researcher to formulate a satisfactory structure for the project.

Review of literature is stock taking of available literature in one's field of research. It comprises the concept of financial analysis, conceptual review and review of related

2.1.1 Concept of profitability

The term 'Profitability' is composed of two words, 'Profit' and 'Ability'. There are two main concepts with regard to the word profit - economic and accounting. According to Adam Smith (The father of economics, "Profit is the sum remaining after the payment of all wages 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. Under the mathematics of capital of accountancy, the final 'accounting ' profit of such corporations includes two elements, a return representing economic rent on the value of land and a return on capital. However, there is not even a faint idea as to what part of 'accounting' profit is representing by each of these two economic elements. For this reason, there is the confusing reality that 'accounting' or the 'businessman's profit is not 'economic' profit. Accounting profit is a mathematical residue, which results from the successive subtraction of many, and varied items of expense from gross income. 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 concept of man made legislation; a concept which has always been in evolution. 'Economic' profit on the 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 total expenses over a period of time.

Profit is the primary and legitimate objective of a business. It is really the pivot around which revolves the various business activities. It is no longer regarded as an indicator oc self interest. It is due to the fact that a joint venture bank can discharge its obligations to the various sections of the society only through earning profits. Profits to the managements are the test of efficiency and measurement of control: 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 taxpaying capacity and the basis of legislative action: to the 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 is index of economic progress. Thus, if a bank fails to make profits, capital invested in eroded and if this situation prolongs it (Banks) ultimately ease to exist. “Business cannot exist without profits, an economic cannot without sound business. Profit must be something for all to be proud of: they should not be suspect”.

Even though government sector Banks should work first and foremost for the country's good, they should not ignore the fact that they are under the necessary if the functioning efficiency and earning a monetary return.

The profit motive remains on the main springs of an enterprise and spur to efficiency. It is clearly the desire to make profit which inspires the turnover (Taylor and Shearing, 1934: 304).

As a matter of fact, the overall efficiency of a bank is reflected in its profits. Profit has been universally recognized and accepted as a measure of business efficiency. Thus, the larger the profits, the more the efficiency and profitable the bank is deemed to be. This criterion has greater advantage that it provides a common standard of measuring the efficiency of different banks. Profit is the simple, convenient and the most popular yardstick of judging the efficiency of a business enterprise in private as well as public sector. Profit helps in judging the overall efficiency and is easy to calculate. Even though profit maximization, unlike private enterprise, is not objective of public enterprises, yet profit services as well as accepted criterion for the judging the overall efficiency of public enterprises too.

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. 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 (Gilchrist, 1972:119).

Perhaps the most important reason for keeping account as far as management of business is concerned is that the information contained in them provides the means of measuring the progress of a business, of testing its pulse and of indication when and where remedial action, if necessary, shall be taken (Duck and Jervis, 1964: 303).

The second component part of profitability is 'ability' which reflects the capacity or power of bank to earn profit. This ability is also referred to as 'earning capacity' or 'earning power' of the concern investment. Thus, the term profitability may be taken as the ability of a bank to earn profit.

The word profitability may be defined as the ability of a given investment to earn return on its use (Howard and Upton, 1953: 65).

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 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 transactions. 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 two or more bank with different scale of operations. In the profitability analysis, the profit making ability of bank as measure in terms of size of investment in it or its sales volume .Such an analysis of profitability reveals how particularly such a position stand is a result of transactions made during the year. It is

particularly interesting to the suppliers of funds who can evaluate their investments 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 present whether on a daily basis with an intention to forecast its future prospects, likewise an analysis records yearly profit of a bank with a view to making 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 is the business can produce but to the minimum it must produce. The minimum profit is the profit at a minimum rate required for the desired type of investment in a bank. However, there must not be enough profit to yield the capital in the market rate of return on money, which is already sunk in business, but also provide additional capital needed to cover the cost of staying in business.

2.1.2 Profit and Profitability

Profit is the prize of entrepreneurship and risk taking. It is lifeblood of each type of business. In a simple term, by profit we meant the residual balance of earning expected to be available with the firm that is obtain after deducting entire expenses, costs, charges and provision from total revenue of period of time. Profit is the resources left to the firm for future growth and explanation or reward to be distributed to the entrepreneurship in the form of dividends etc.
The profit has three meanings
In economics the concept of reward of the entrepreneur for risk taking and management.
Business operations, the gain from manufacturing, merchandising and selling expenses after all expenses are met. Since profit normally is added to net worth, it may be measured by the increases in net worth over that of the previous accounting period. The amount of the concern's profit thus may be determined not only through the profit and loss statements but also by the comparison of the earned surplus or net worth over that of the previous accounting period. The account of the concern's profit thus may be determined not only through the profit and loss statements but also by the comparison of the earned surplus or net worth in the balance sheet which, however is the residue profits after dividends and any other appropriations in and does not reveal details of source of income and expenditures, such as are found in profit and loss account.
In speculative transactions, the excess of the net selling price over the costs (including all charges)of the security or commodities traded in.
Profit is 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 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. Therefore it is common in economic theory to hypothesize that the criteria for evaluate the action of the firm is profit maximization. The basic incentives are for business is to produce goods and service. The profit motive is the engine for the free enterprise system. Under conditions of pure competition, economic profits are residual dynamic and temporary. Profit in the sense is

revenue that remains after deducting both explicit and implicit costs, including the nominal profit considered as a cost of entrepreneur's service. "Profit is essential for every enterprise to survive in the long run as well as to maintain capital adequacy through retain earning. It is also necessary to accept market for both debts and equity to provide funds for increased assistance to the productive sectors".

Profit is constantly changed in amount and among firms. Long run forces in the economy tend to reduce or eliminate economic profit. When losses prevail, market forces tend to make adjustment that can result in profits. The other term used for profit is surplus, reserves, income, revenue etc.

There is wide difference between profit in the accounting sense and profit in the economic sense.

Profit in the accounting sense is the excess of revenue receipts over the cost 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.

Many financial analysts have recommended market value accounting for banks, because the results of financial ratio of bank condition based on the both implicit and explicit costs are deducted from total sales revenue in determining profits.

Many financial analysts have recommended market value accounting for banks, because the results of financial ratio of bank condition based on the book values are unlikely to be timely predictions of bank risks.

Profit in the accounting sense is the net figure or difference between all types of accountable revenue and all accountable costs. In accounting profit is expressed only in explicit and measurable accounting costs. In accounting profit is expressed only in explicit and measurable accounting terms and on the book value basis. However, in economics profit is measured in the realizable terms.

As per the economic sense, all assets and liabilities are order in terms of their maturity or remaining terms of liquidity position, not on the book value. However, in real financial terms, this item deposit can be long term liability or current liability in accordance with its remaining term of maturity. Multiple meaning of the word 'profit' has always been troublesome. Accountant has made energetic efforts in recent years to discard the word for their 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 accountant are as follows:

- The inclusiveness of cost s i.e. what should be subtracted from revenue to get profit.
- Meaning of depreciation
- The treatment of capital gains and losses and perhaps most important
- The price level basis of valuation of assets.

Although there may be arguments in favor and against profit generating, almost all firms require earning it then rate of earning differs from firm to firm and time to time.

- **Measurement of performance:**

Profit is only one key factor to measure the management efficiency, productivity and performance. Profit is the yardstick to see what really is to be achieved and where the firm is to go in the future.

- **Premium to cover cost 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 call for a profit margin for a long stay in the business.

- **Ensuring supply for future capital:**

Profit is necessary to plough back in the investments like innovations, business expansions, and self-financing. It attracts investors for investments.
The study is primarily related to the area of commercial banks of which surplus generating is one of the major objectives.

2.1.3 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 investment are sound. As other type of business entity, commercial banks are inspired by the profit .The main objectives of commercial banks are to maximize profit.
Commercial banks invest public deposits on those sectors that drive the maximum income or higher rate of return in their assets. Hence the investment or g ranting 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 n different securities.
Ambition 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 shareholder who contributed to build up the bank's capital and keep aside for the provisions 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 obligation, it will go ahead for the investment.

A successful bank is one who invests must of its fund 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 a 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.
In conclusion, amongst all objectives, profit maximization is the ultimate objectives of Nepalese commercial banks;
Profit earned by the firm is the main financial indicators of a business enterprise (Robinson 1952: 63).

2.1.4 The Financial Statement of a Commercial Bank

Banks are simply the business firms selling different kinds of products. The product a bank deals with is the financial instrument representing various financial claims. The particular services a bank chooses to offer and the overall size of the banking organization are reflected in the financial statements. Two basic financial reports of commercial banks have to be submitting to the regulatory authorities and public each year is: Balance sheet and Income Statement. These statements are viewed as the list of inputs and outputs .As with any other firm's balance sheet, the sources of bank's fund mush equal to total uses of bank's fund must equal to total uses of bank's fund (i.e. total assets=total liabilities +equity capital).The balance sheet reflects all assets, liabilities and net worth of the ban k on a particular day of a year. Assets represent uses of funds/sources to generate revenue for the bank, liabilities and net worth are sources of bank fund.

"One useful way to view a bank's balance sheet is to note that bank liabilities and equity capital represents accumulated sources of fund, which provide the needed spending power for the bank to acquire the assets' bank's assets, on the other hand, are its accumulated uses of funds, which are made to generate income for its stockholders, pay interest to its depositors and compensate the bank employees for their labor and skill.

2.1.4.1 Cash and bank balance

The most liquid asset held by any commercial bank is cash. Since cash is an idle asset, a bank to hold a minimum level of cash is held by banks to ensure that the statutory requirement is at least fulfilled. Since cash is the most liquid assets it is used to cover deposit withdrawals, handle credit demand from customers and to meet all regular and emergency expenses. This item include currency and coins in the bank vault, any cash balance maintained in other banks and financial institutions and cash item in the process collection for clearing and this all composition is regarded as the first line of defense for meeting liabilities.

Cash items refer to the clearing checks, which are in the collecting process, and written against deposit accounts of other banks. Eventually(not more than 3 or 4 days later)the bank sending these clearing items will receive credit for them, either in its reserve account maintain in the central bank(NRB in our case)or in the form of an increased deposits at a correspondent bank.

2.1.4.2 Investment in the securities

As the third line of the defense to meet demand for cash and serve a quick source of funds are the bank's liquid security holdings often called secondary reserves. These assets are normally more than one third of the total assets of banks. These typically includes holding of shorter-term government bonds like treasury bills, development bonds, etc and other securities purchased in the open market and readily converted into cash in the financial market. These security bear low risk, low return but high liquidity. The remaining securities banks invest in are investments, direct and indirect, in the sector where by venture the statutory requirements are imposed. For example, most of the Nepalese commercial banks feel continent to invest in the rural developments. Bank's share as this complies both NRB regulations for priority sector lending and also to get moderate return from them.

Commercial banks invest their excess funds to the share and debenture 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.

2.1.4.3 Loans and Advances

This is the primary source of income and most profitable asset to a bank. A bank is always willing to lend as more as possible since they constitute the large part of the revenue. This occupies the largest proportion of assets of any commercial banks bearing more than 40% of the asset used. But a bank has to be more careful while providing loan and advances since they may not be realized short period of time. And sometimes they may turn into bad debts. There for it is wise not to rely on them of emergency for all banks.

Commercial banks hardly lend money for long period of time it lends money for short period of time. The commercial banks are never bounded to provide long term loan because it has to synchronize the loans and advances with the nature of deposits they receive. Loans and advances are provides against the personal securities of the borrower or against the security of the immovable and movable properties. Banks provide the loans in the various forms: overdraft, cash credit, direct loan and discounting bills of exchange.

2.1.4.4 Other Assets

The great majority of banks assets are financial claims. However, banks assets also include the value of bank buildings, vehicle, equipments, computers (hardware and software) and other miscellaneous fixed assets like differed revenue expenditures, leaseholds and free holds, prepaid expenses and advances. However, only a small portion (2 to 5 percent) of total assets is covered in this category.

2.1.4.5. Deposits

The principal liability of commercial bank is its deposit collection from general public, business and government agencies. It is a direct claim of outsider to the bank. The total assets of banks are financed\supported by more than 75%from the deposits. Normally deposits are classified into three categories:

Demand\checking deposits, saving deposits and fixed term\time deposits.

2.1.4.6. Borrowing

Banks assets are supported from other non deposit liabilities with or without cost. Inter bank borrowings, placements, overnight placements, borrowing from central banks; foreign banks are some examples of nominal cost bearing sources. However, these are short term liabilities, due to no obligation for banks to maintain reserves for them, these types are short term liabilities, due to no obligation for banks to maintain reser4ves for them, these types of liabilities are also important for banks. Other cost free sources of liabilities are accrued interest payable, differed expenses, account payable, differed liabilities, obligation such as bankers acceptances, banker’s checks, matured time deposits, remittance awaiting disposal awaiting disposal and other liabilities.

2.1.4.7 Stock holder’s equity\Internal Financing Sources

Every new bank begins with a minimum amount of owner’s capital and borrowers funds from the public to level up its operations. There capital normally accounts less than 10% value of the total assets. So, banks are institutions having the greatest financial leverage using from external source of finance. Though relatively a small item banks capital account typically includes value of paid up capital, share premium, statutory and other reserves and retain\ploughed back profits. Usually the largest item of capital account is retained earnings, undivided profits, which include accumulated profit over each year after payments and dividends.

2.1.5 Profit and Loss account of commercial banks

2.1.5.1 Operating Income

Operating income for the business entity is the regular and prime source of revenue for that business. It is the main identity of a business regarding what a business stand for.

Interest Income

Under operating income of a commercial bank, interest income is the primary source of income. Not surprisingly, interest and fees generated from loan account for most banks revenue account more than two third of total income. Under interest income, loan and overdrafts ,income on investment from securities ,interest from inter bank lending, etc. interest income is considered the main traditional income source of a commercial bank.

Fees and Commission

Banks have moved towards near banking near banking business other than the traditional banking of lending and investments. Banks create utility of serves under various sources. They play various role like agency role, guarantor's role, and mediator's role and so on. From these services banks earn fees and commission. Banks earn from fees and commission from various sources such as letter of credit, guarantee, bills purchase, share underwriting commission, discounts, remittance fees, etc. Nowadays banks have taken those sources of income as operating income.

Trading and revaluation gain

Similarly, banks deal with foreign currencies. Foreign currencies are remitted outwards and income. Banks involve in trade while dealing this transaction; while selling and buying foreign currency stocks for their trade. Banks also gain from revaluation the stock whenever the revaluation rates are in their favor.

2.1.5.2 Non operating income

Non operating incomes are the casual sources not the regular sources of revenue for business entity. These incomes 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 institutions and other government institutions. The investing bank receives dividend income and other income. Further banks receive various types of fees from safe deposits locker, credit cards, ATM cards issuance and renewals, consultancy fee and other non banking and casual incomes like gain from sales of assets, revaluation gain of assets etc.

2.1.5.3 Operating Expenses

Operating expenses of a business is the regular and prime item of cost and expenditure. It is the main identity of a business regarding what a business expenses for .This type of business expenditure is directly attributable to the production\services that entity provides for.

2.1.5.4 Interest Expenses

The main expenditure item for a commercial bank is interest expenses on deposits. Normally this type of expenditure covers more than half of the total expenditure. Interest is regularly expensed off for various deposits, interbank borrowings, central bank borrowings and other external obligations.

2.1.5.5 Non interest expenses\Administrative overheads

Under non interest expenses bank has to bear the various fixed and variable administrative overheads like office occupancy expenses, depreciation expenses, amortization of deferred expenditures, personal expenses and other general and administrative expenses like insurance, stationary, repair and maintenance, fuel, telephone, electricity and others.

2.1.5.6 Non operating expenses

Under this heading the casual type of expenditure like loss of sales of assets and other are included. In addition to other expenditures, banks deduct form revenue any loss from revaluation of foreign currency, staff bonus, loan loss provision and income tax before arriving to net disposable income.

2.1.6 Off-balance sheet Activities:

The massive explanation and growth of banking in the last couple of decades and constant pressure on improving the rate of return having force the banking sector to diversify from its traditional function of lending and deposit mobilization with deregulation of financial system, new financial institution mostly in the form of off-balance sheet commitment have increasingly emphasis on activities that generate income without increasing the assets in the balance sheet.

The banks, in their traditional function, increased lending and committed itself beyond the strength of the commercial bank. Quality of the assets was questioned i.e. lending become bad due to slow recovery, but banks continued lending and thereby increasing the portfolio and the balance sheet footing.

At this point of time the central bank and the regulatory bodies were forced to introduce control mechanisms in terms of capital adequacy ratios. The bank in order to come out of this difficult situation were forced to diversify activity in order to maintain the ratios and increase profitability thus the introduction of off-balance sheet transaction.

Off balance sheet activities arise from the contingent commitments of banks in the present time, which can appear at real liabilities in the near future. These activities are not recognized as asset and liabilities in the balance sheet. These activities are very important, as they are the good source of profit to the bank, though they have risk. The off-balance sheet items are not included in balance sheet until they are recognized as real liabilities. Off-balance sheet activities involve contracts for future purchase or sale of assets and all these activities are contingent obligation that is not recognized as assets or liabilities on the balance sheet.

Few types of off balance sheet transactions are as follows.

- Letter of credit
- Bills of collection
- Bid Bond
- Letter of guarantees

- Documents Negotiated Under Research
- Commitments
- Acceptance
- Performance Bond
- Forward foreign exchange transaction

It is estimated that the commercial banks generate more than one third of their total income funds from fee based activities. The commercial bank has been successful in harnessing the fee based activity to the maximum possible extent so as to earn profits.

2.2 Review of Literature

2.2.1 Review of Books and Articles:

Peter Rose in her book commercial Bank Management says, " Achieving superior profitability for a bank depends upon several crucial factors:

- Careful control of operating expenses so that more dollars of sales revenue become net income.
- Financial leverage (or the proportion of bank assets financed by debts as opposed by the shareholders equity capital).
- Careful use of operating leverage from fixed assets (or the proportion of fixed cot input the bank uses to boost its operation earnings before taxes as bank output grows)
- Careful management of assets portfolio to meet liquidity needs while seeking the highest return from any assets acquired.
- Careful control of the bank's exposure to risks.

Michael R. Baye and Dennis W. Jansen through their book money banking and Financial Markets have tried to analyze banks profitability under an economic approach. They state " to maximize profit banks should attract deposits unto the point where the value of marginal product of deposits equals the interest rate paid on deposits"

"Banks earns interest on loan and advances and investments; they pay interest to the depositors. When interest rate changes, there may be an effect on income if a bank holds rate sensitive assets and liabilities. If, for example, a bank holds more rate sensitive assets than liabilities when interest rate rise, profits will be improved because the bank will receive more in increased interest revenue than it will pay out in raising costs. The reverse would be true during a period of failing interest rates.
The interest rate gap is the difference between rate sensitive assets and liabilities; holding more rate sensitive assets than liabilities is called a positive gap and excess of rate sensitive liabilities over assets result in the negative Gap.
Emphasizing the banks modern functions Meir Kohn says' " Banks now have steadily expanded their activities in payment related services, in delegation and trust services, in credit substitution and services, and in forward transactions. In doing so, they have pursued economic of scope, relatively unconstrained by regulation.
Analyzing the behavior and future prospect for profitability of a financial institution is a complex task. Many factors affect each institution's profitability. Among the most important factors the friskiness of loans and investments made; liquidity needs and the institution's

provision for those needs; the effectiveness of tax management practices; the level of efficiency in utilizing human and non-human resources; and the ability of management control expenses (particularly interest expenses and employee costs).

L.V. Chandler says in this regard, “A banker seeks optimum combination of earning, liquidity and safety, while formulating investing policy.”

H.D. Crosse puts in this way, “Lending is essence of commercial banking, and consequently the formulation and implementation of sound policies are among the most important responsibility of bank directors and management.

Well- conceived lending policies and careful lending practices are essential if a bank is to perform its credit creating function effectively and minimize the risk inherent in any extension of credit.

In the word of S.P. Sing & Sing, “The investment policies of banks are conditioned, to great extent, by the national policy framework, every banker has to apply its own judgment for arriving at a credit decision, keeping, of course his bankers credit policy is also in mind.”

2.2.2 Review of Research Papers:

Mr. Khagendra Prasad Ojha has researched on “Profit planning in public enterprises in Nepal” a comparative study of Royal Drugs Limited (RDL) and Herbs Production and Processing Company (HPPC). He has examined and analysis the current practices of profit planning and its effectiveness in Nepalese Public Enterprises. His research had the following findings and recommendations:

- Objectives of Nepalese public enterprises are not clear. Conflict between social objectives and profit objectives are hindering to profit planning program of PEs, RDL & HPPC have not any effective program to increase profitability but these enterprises have numbers of social objectives.
- Nepalese public enterprises are not successful to maintain coordination within organization.
- One major problem in Nepalese public enterprises is behavioral. But this PEs has no any attempt to solve behavioral problems that are in organization.
- Pricing system of Nepalese public enterprises is not scientific. PEs adopts traditional pricing methods. Usually, cost-plus pricing method is applied to determine price. Certain products are priced below cost as per HMG circular.

Recommendations of Mr. Ojha’s research are:

- Since external variables exert major influences on the enterprises, HPPC and RDL all PEs should adequately identify and evaluate these variables. These enterprises should have in-depth analysis of the company’s strengths and weakness.
- Objectives are the ends, which an enterprise seeks to achieve. RDI and HPPC should develop the objectives to create and maintain on optimum enterprise environment that maximizes the interest and motivation of all employees.
- This enterprise should maintain proper co-ordination within the organization. Line and staff authorities and responsibility should be clearly defined.

- Nepalese PEs should attempt to solve the behavioral problems that arise in organization.
- Price cost volume relationships should be taken into consideration while developing sales plan and pricing strategies.
- Cost reduction programs should be formulated and applied and present cost capacity structure should be changed, efforts to reduce fixed costs should be made.

Mr. Shiva Raj Shrestha, Deputy Director NRB has given the following criteria for measurement of commercial banks performance. "The financial health and performance of commercial banks should evaluate under the following perspectives:

a. Deposits transaction
b. Position of Investments, loan advances and overdrafts
c. Cash and liquidity position
d. Foreign Currency Reserve
e. Qualitative factors of loan and advances
f. Capital Fund
g. Reserve Funds, contingency and other funds
h. Interest rate
i. Position of income
j. Customer base and volume
k. Sources and uses of finance
l. Extension of banking services
m. Off balance sheet transctions
n. Earning per share
o. Banking personnel

Mr. Kshetry in his article says, "To strike balance between profitability and services to the community, commercial banks should focus on activities that provide energy to speed up the productivity and diversity services in the community."

2.2.3 Review of Previous Research works:

Milan Man Maharjan, (2004) in his study, "Profitability of joint venture banks (1992-2003) selected Nabil, SCBNL, HBL, NSBI, EBL and BOK. His whole study focused on analyzing profitability position of selected banks. From the study, he has found that SCBNL has better position in terms of return on working capital fund, total deposits, net worth, total risk assets and net risk assets than the others which indicates that SCBNL has mobilized collected fund properly. Nabil has not highest ratio in return on total assets and return on total deposit in 2003 and HBL & NIC has also satisfactory position in these return but NBBL, BOK and NSBI has lowest and highest variance, so they have to improve comparison to others. In terms of interest income to total assets of SCBNL has lowest and NBBL has the highest.

Mr. Maharjan has concluded that profitability position of SCBNL is very strong of all in average for studied period. The critical profitability ratios are very high and far from the average of industry and in other hand Nabil, HBL, NIB have more or less same profitability ratios which are satisfactory from industries point of view in the other hand NBBL, EBL, BOK and NSBI have lower liquidity ratio.

Mr. Pragun Shrestha in his study (2006), " A comparative analysis of financial performance of the selected commercial banks." Concluded that many of the banks are of the view that political instability in the country is mainly responsible for the decline of the lending opportunities. Now one felt those higher rates of interest on lending to be major factor. Commercial banks play an important role in economic development of the country. At the same time it should target not only the urban sector, it should go to the rural sector also. They have to explore all the potential sectors like tourism etc in order to generate high rate of profit.

Sushma Sthapit (2005) in her study, " A case study of financial performance of Nepalese Commercial Banks" has chosen joint venture bank of Nepal i.e. SCBNL, NABIL, HBL, NSBI, BOK and NIB. The main objectives of her study are to find out strength and weakness of Nepalese Commercial banks. In terms of liquidity position, all studied banks performance is satisfactory but SCBNL is better than others.

Mr. S.L Bajracharya in his study (2004), " Evaluating financial patterns of Nepalese Commercial Banks" concluded as through the trend of deposit is increasing the percentage change each year but lending is decreasing. Commercial banks are contributing to enlarge the gap between collection and utilization of resources.

Lalita Prajapati (2008), in her study, " A comparative financial performance analysis of Nepalese Commercial Banks" she has selected BOK, NABIL, NIC, and SIDDHARTHA Bank. She has found that NIC and SCBNL has higher price earnings ratio than others. Likewise management efficiency ratio of NABIL and BOK is higher than NIC and SCBNL. She has found SIDDHARTHA has more capital adequacy ratio than its requirement. She recommended SIDDHARTHA to keep optimal level of capital adequacy ratio. She further recommended, the bank management should be aware of all factors that CAMEL, which will certainly help the managers to take a right decision at the right time.

2.3 Research Gap

Research gap is the difference between previous works done and the present research work. Earlier works conducted by the superiors in the matching topic 'Financial performance of commercial banks are very useful and appreciated by personnel in various related fields, including academicians ,bankers, shareholders and the general public. The suggestion and recommendations given by the preceding researchers to improve and strengthen the financial decisions have been really benefiting to the relevant banks.

This thesis is completely different from other thesis. In this study, I have evaluated bank's profitability using various ratios and trend analysis.

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

CHATPER III
RESEARCH METHODOLOGY

3.1 Introduction

Research methodology describes the methods and process applied in entire study. It sequentially refers to the various steps to be adopted by a researcher .This study basically helps to conclude the real profitability position of Laxmi Bank and Siddhartha Bank Ltd. To accomplish the goal, the study follows the research methodology describe in this chapter.

3.2 Research Design

Research design is the plan, structure and strategy of investigations conceived so as to obtain answer to research question and to control variances. It is the arrangement of conditions for collection and analysis of data. To achieve the objective of this study, descriptive cum analytical research design has been used .Some recent financial tools along with statistical tools have been applied to examine facts and descriptive techniques have been adopted to evaluate the profitability of Laxmi Bank and Siddhartha Bank Limited.

3.3 Sources of Data

This study is conducted on the basis of secondary data. The data required for the analysis are directly obtained from the balance sheet and profit and loss account of concerned bank's annual reports. Supplementary data and information are collected from numbers of institutions and authorities like NRB, security exchange board, Nepal Stock Exchange Ltd. Ministry of finance, budget speech of different fiscal years, economic survey. All the secondary data are compiled, processed and tabulated in the time series as per the need and objectives. Likewise, various economic data are collected from the economic journals, periodicals, bulletins, magazines and other published and unpublished reports and documents from various sources.

3.4 Population and Sample

There are altogether 26 commercial banks functioning all over the kingdom and most of their stocks are traded actively in the stock market. In this study profitability of Laxmi Bank is compared with that of Siddhartha Bank, which are selected from population.

The population is as follows:

- Nepal Bank Limited
- Rastriya Banijya Bank
- NABIL Bank Limited
- Standard Chartered Bank Nepal Limited
- Nepal Investment Bank Limited
- Himalayan Bank Limited
- Nepal SBI Bank Ltd
- Nepal Bangladesh Bank Ltd
- Everest Bank Ltd
- Bank of Kathmandu
- Nepal Credit and Commerce Bank Limited
- Nepal Industrial and Commercial Bank Limited
- Lumbini Bank Limited
- Machhapuchre Bank Limited

- Kumari Bank Ltd
- Laxmi Bank Limited
- Siddhartha Bank Limited
- Agriculture Development Bank
- Citizen Bank International Limited
- Bank of Asia Nepal Limited
- Prime Commercial Bank Limited
- Sunrise Bank Ltd
- NMB Bank Ltd
- Development Credit Bank Ltd
- Kist Bank Ltd
- Global Bank Ltd

From these samples, the profitability of Laxmi Bank Limited and Siddhartha Bank Ltd is studied.

3.5 Analysis of Data

In this study, various financial, accounting and statistical tools have been used to achieve the objectives of study. The analysis of data is done according to the pattern of data available. The various tools applied in this study, are present as follows:

3.5.1 Financial Tools

Financial tools are used to examine the financial strength and weakness of bank. In these study financial tools like ratio analysis has been used.

3.5.2 Ratio Analysis

Financial ratio is the mathematical relationship between two accounting figures. Ratio analysis is a part for the whole process of analysis of financial statements of any business or industrial concern especially to take output and credit decisions. Thus, ratio analysis is use to compare the firms financial performance and status to that of other firm's or to itself over time. The qualitative judgment regarding financial performance of a firm can be done with the help of ratio analysis.

Even though, there are many ratios used in various studies to evaluate different aspects of a business entity, the ratios are of different importance and used differently in various industry base. For example it is no significant to analyze the quick ratio or current ratio in the context of commercial banks. Further, in the context of commercial banks the insider and outsider fund base cannot be interpreted as per the standard of production units since financial institutions are by virtue highly levered by outsider's fund.

Similarly, in the banking industry, there is no significance to say deposits are current liabilities or some of the studies have considered time deposits as fixed liabilities. Both of the interpretations are not viable since these liabilities should be considered as per their maturity schedules. In this study, various ratios from newly developed empirical studies have been used just to see the profitability position of commercial banks. This study contents following ratios:

3.5.3 Profitability Ratios

Profitability Ratios are used to measure the efficiency of operation of a firm in terms of profit. It is the indicator of the financial performance of any institution. This implies that higher the profitability ratio, better the financial performance of bank and vice versa.

The profitability of Laxmi Bank Ltd and Siddhartha Bank Ltd is evaluated through following different ratios:

- Return on total assets (ROTA)
- Return on equity (ROE)
- Return on external capital employed (RECE)
- Interest earning assets to total assets (Earning Based)
- Total interest income to total earning assets
- Net profit margin
- Net interest margin
- Earning spread
- Operating efficiency ratio
- Net operating margin
- Interest paying liabilities to total liabilities ratio
- Total interest expenses total interest bearing liabilities
- weighted average cost of deposits
- Earning per share.

B) Income Expenses Analysis

- Income interest to total income
- Fee and commission income to total income
- Foreign Exchange Income to Total income
- Interest Expenses to Total Expenses
- Staff Expensed to Total Expenses
- Office operating expenses to total expenses

3.5.4 Statistical Tools

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 net profit and interest income of Laxmi Bank and Siddhartha Bank 2003 to 2008 and make the forecast for the next five years till 2013.

CHAPTER IV
PRESENTATION AND ANALYSIS OF DATA

4.1 Financial Analysis

Under this chapter various financial ratios related to profitability and fund mobilization are studied to evaluate and analyze the performance of Siddhartha Bank Ltd. and Laxmi Bank Ltd. Study of all types of ratio is not done .Only those ratios that are important form the point of view of profitability and the fund mobilization are calculate. The important ratios that are studied for this purpose are given below:

4.1.1 Profitability Ratio

This ultimate objective of banks is to earn profit. Strictly speaking no bank can survive without profit. Profit is the indicator of efficient operation of bank. They acquires profit by providing different services to its customers or by making investment of different kinds.
Sufficient profit is a must to have good liquidity, grab investment opportunities expand banking transaction, finance government is need of development fund, overcome the future contingencies and meet internal obligation for the bank. Following profitability ratios, which are related with profit and fund mobilization are studied under this heading.

1. **Return on Total Assets(ROTA)**

This ratio is a primary indicator of managerial efficiency. It indicates how far the management has utilized all the assets of the bank for profit generating activities. Higher ROTA indicates higher efficiency in the utilization of the total assets and vice versa.

Table: 4.1
Return on Total Assets (%)

Banks	2003/04	2004/05	2005/06	2006/07	2007/08
Siddhartha	(1.67)	2.27	1.37	1.20	1.23
Laxmi	0.40	0.68	0.68	0.76	0.95

(Source: appendix I and II)

The above table shows that the ratio of Siddhartha has ranged between (1.67) (in the year 2003/04) to 2.27 (in the year 2004/05). Similarly the ratio of Laxmi Bank has ranged from 0.40 to 0.95 respectively in the year 2003/04 and 2007/08. Laxmi has consistent growth rate than Siddhartha Bank.

2. **Return on Equity Ratio (ROE)**

Equity refers to the owner’s claim of the bank. The access amount of total assets over outsiders’ liabilities is known as shareholder’s equity. It is also known as net worth. This ratio measure how prudently the management has employed share holders fund keeping the interest of share holders and maximize their net worth, it is the measurement of the rate of return flowing to the bank’s shareholders. The ratio provides the foundation necessary for the company to deliver good return on equity. This ratio is calculated dividing net profit by total equity capital.
The ratio is expressed as: Net profit After Tax/ Total Equity Capital

Table: 4.2

Return on Equity Ratio (ROE) (%)

Banks	2003/04	2004/05	2005/06	2006/07	2007/08
SIDDHARTHA	(9.79)	18.12	10.82	12.00	11.29
LAXMI	1.88	4.11	5.21	7.59	10.38

(Source: appendix I and II)

The above table shows that the return on equity ratio of LAXMI is consistent than SIDDHARTHA Bank. The ratio of SIDDHARTHA fluctuates within (9.79) to 18.12, whereas same ratio LAXMI Bank fluctuates within 1.88 to 10.38. The fluctuation ratio of Siddhartha is higher than Laxmi Bank.

3. **Return on External Capital Employed (RECE)**

The ratio measures management efficiency on how well the external funds in total have been used to generate optimum profitability .This ratio provides a test of Profitability related to the source of long term fund. It also reveals how much the creditors fund is efficiently utilized by Bank .Higher RECE implies more efficiency in utilizing the capital employed. Where external fund is total of borrowings, deposits and other external liabilities.

The ratio is express as:

= Net profit after tax/Total external capital

Table: 4.3

Return on External Capital Employed (RECE)

Banks	2003/04	2004/05	2005/06	2006/07	2007/08
SIDDHARTHA	(2.02)	2.60	1.57	1.33	1.35
LAXMI	0.52	0.83	0.78	0.85	1.04

(Source appendix I and II)

The above table shows that the ratio of SIDDHARTHA has ranged between (2.02) (in the year 2003/04) to 2.60 in the year 2004/05. Similarly, the ratio of LAXMI has ranged from 0.52 to 1.04 respectively in the year 2003 /04 and 2007/08. LAXMI has consistent growth rate than SIDDHARTHA.

4. **Return on Total Loan/ Discount/ Overdraft (RTLD)**

The ratio expresses one of the key measurements in management discretion in the primary function of commercial banks. The main source of income of commercial banks is lending. Interest earned from LDO is more important income base than interest earned from other investments and inter-bank borrowings.

The ratio is express as:

= Net profit after tax/ Loan and Advances

Table: 4.4

Return on Total loan Discount Overdraft (RTLDO) (%)

Banks	2003/04	2004/05	2005/06	2006/07	2007/08
SIDDHARTHA	(2.10)	2.73	1.73	1.53	1.53
LAXMI	0.60	1.00	0.84	1.02	1.24

(Source: appendix I and II)

The above table shows that the ratio of SIDDHARTHA has ranged between (2.10) (in the year 2003/04) to 2.73 (in the year 2004/05). Similarly, the ratio of LAXMI has ranged from

0.60 to 1.24 respectively in the year 2003/04 and 2007/08. LAXMI has consistent growth rate than SIDDHARTHA.

5. Interest Earned to Total LDO

The ratios express one of the measurements in the management discretion in the primary function of commercial banks. The major sources of income from commercial banks are leading. Interest earned from LDO is more important income base than interest earned from other investments and inter-bank borrowings.
The ratio is expressed as:
= Interest Income/ Total LDO
The following table shows the percentage of interest income out of total loan discount and overdrafts of SIDDHARTHA and LAXMI during the study period.

Table: 4.5
Interest Earned to Total LDO (%)

Banks	2003/04	2004/05	2005/06	2006/07	2007/08
SIDDHARTHA	7.66	7.71	8.06	7.74	7.82
LAXMI	7.16	8.07	7.60	7.31	7.34

(Source: appendix I and II)
The above table exhibits that the ratio of SIDDHARTHA has ranged between 7.71 (in the year 2004/05) to 8.06 (in the year 2005/06). Similarly, the ratio of LAXMI has ranged from 7.16 to 8.07 respectively in the year 2003.04 and 2004/05.

6. Interest Earning Assets to Total Assets Ratio (Earning Based on Assets)

The ratio signifies the proportion of earning assets to total assets, and the ratio is the base for evaluating non-earning assets vs. earning assets. In a bank whose earning based is falling, management and staff must generally work harder to sustain the current level of earnings. This shows how productively the management has chosen its assets out of its scarce resources. It shows the assets management has chosen its assets out of its scarce resources. It shows the assets management capacity of the bank in order to maximize their profit with quality and highly generating assets, as higher ratio is considered better,
The ratio is express as:
= Total Earning Assets / Total Assets
Numerator: LDO, Bills purchased, Investments, Inter-bank, Short funds.

Table: 4.6
Interest Earning Assets to Total Assets Ratio (Earning Based on Assets) (%)

Banks	2003/04	2004/05	2005/06	2006/07	2007/08
SIDDHARTHA	91.58	92.44	93.34	89.10	89.86
LAXMI	78.45	80.32	90.33	91.75	86.03

(Source appendix I and II)
The above table exhibits that the ratio of SIDDHARTHA has ranged between 89.10 (in the year 2006/07) to 93.34 (in the year 2005/06). Similarly, the ratio of LAXMI Bank has ranged from 80.32 to 91.75 respectively in the year 2004/05 and 2006/07. SIDDHARTHA has higher ratio than LAXMI Bank.

7. **Total Interest Income to Total Earning Assets Ratio:**

The ratio implies as a ratio average return earned in the total earning sources. This is a very important ratio because principally each and every asset should be able to generate at least a return but all the assets do not generate same level of earnings. Keeping all types of assets in one group and measuring average return is the main theme of this ratio.
The ratio is express as:
= Total Interest Income / Total Earning Asset

Table: 4.7
Total Interest Income to Total Earning Assets Ratio (%)

Banks	2003/04	2004/05	2005/06	2006/07	2007/08
SIDDHARTHA	6.68	6.76	6.73	6.58	6.59
LAXMI	5.83	6.85	6.69	5.96	6.36

(Source: appendix I and II)
The above table exhibits that the ratio of SIDDHARTHA has ranged between 6.58 (in the year 2006/07) to 6.76 (in the year 2004/05). Similarly, the ratio of LAXMI Bank has ranged from 5.83 to 6.85 respectively in the year 2003/04 and 2004/05. SIDDHARTHA has consistent ratio than LAXMI Bank.

8. **Net Profit Margin**

The ratio signifies the effectiveness of expenses management and cost control and gives the direction to the management for service pricing policies. It means how much of total revenue has been declared as net profit after all the charges are cover up. The higher ratio means the management has been able to control its operational costs and maintain efficiency.
The ratio is express as:
=Net Profit after Tax/ Total Revenue
Note: Denominator part includes all revenues

Table: 4.8
Net Profit Margin (%)

Banks	2003/04	2004/05	2005/06	2006/07	2007/08
SIDDHARTHA	(23.97)	29.25	19.13	17.83	17.57
LAXMI	7.34	10.95	9.85	12.30	14.71

(Source: appendix I and II)
This table exhibits that both of the banks ratio are fluctuating. The ratio of LAXMI Bank is ranged from 7.34 to 14.71. And similarly, the ratio of SIDDHARTHA has ranged from (23.97) to 29.25. Profit margin of LAXMI Bank is more consistent than margin SIDDHARTHA.

9. **Net Interest Margin**

It signifies as a measurement of efficiency and profitability. How well management and staff have been able to keep the growth of revenue from LDO in comparison to the costs attached. The ratio express how large a spread between interest banks earning assets and pursuit of the lower cost of sources, as higher ratio is better in this case.

The ratio is express as:

=Interest Income – Interest expenses/ Total Earning Assets

Denominator includes LDO, investments; inter bank borrowings, bills purchased, etc.

Table: 4.9

Net Interest Margin (%)

Banks	2003/04	2004/05	2005/06	2006/07	2007/08
SIDDHARTHA	4	3.69	3.34	2.87	2.91
LAXMI	2.46	2.75	2.68	2.40	2.53

(Source: appendix I and II)

This table exhibits that, the ratio of LAXMI Bank is ranged from 2.40 to 2.75. And similarly, the ratio of SIDDHARTHA has ranged from 2.87 to 4. Net Interest margin of LAXMI Bank is more consistent than margin of SIDDHARTHA.

10. Earning Spread

The ratio is also called interest spread ratio. It signifies the measurement of the effectiveness of the traditional banking service of borrowing and lending money and also the intensity of competition of the banks market area. Since greater competition tends to squeeze the difference between average assets yields and average liabilities costs. If other factors are held constant, the banks spread will decline as competition increases forcing management to try to find ways of revenue such as fees and commissions.

Higher spread is better to make up a better profit.

Spread Rate: Rate of return on total earning assets – Interest cost on average deposit

Where, Rate of return on total earning assets:

= Total Interest Income/ Average LAO, Investments, Call money. Placements

And, Cost on Average Deposits: Total Interest Expenses/ Average Deposits

Table: 4.10

Earning Spread (%)

Banks	2003/04	2004/05	2005/06	2006/07	2007/08
SIDDHARTHA	5.53	4.46	4.07	3.57	3.71
LAXMI	4.30	4.19	3.24	3.20	3.40

(Source: appendix I and II)

This table exhibits that both of the Banks ratio is decreasing. The ratio of SIDDHARTHA Bank is decreasing from 5.53 to 3.71 and similarly, the ratio of LAXMI has ranged from 4.30 to 3.20. But SIDDHARTHA has higher spread than LAXMI.

11. Operating Efficiency Ratio

To maximize profitability and the value of the shareholders investments in the Bank, Bank management must maintain efficiency in their operations. This usually means reducing their operating expenses and increasing the productivity of their employees. Since banks are to pay huge amount of the interest costs for their funds, they like to reduce non- interest costs especially, staff costs, wages, and overhead costs. Lower the ratio means greater the success of management.

The ratio is expressed as:

= Total Operating Expenses/ Total Operating Income

Table: 4.11

Operating Efficiency Ratio (%)

Banks	2003/04	2004/05	2005/06	2006/07	2007/08
SIDDHARTHA	123.97	63.64	73.16	73.98	73.36
LAXMI	90.81	84.78	85.91	82.07	78.37

(Source: appendix I and II)

The above table exhibits that the ratio of LAXMI Bank has ranged between 78.37 (in the year 2007/08) to 90.81 (in the year 2003/04). Similarly, the ratio of SIDDHARTHA has ranged from 63.64 (in the year 2004/05) to 123.97 (in the year 2003/040). SIDDHARTHA Bank was suffered from loss on the FY 2003/04.

12. Net Operating Margin

This is also a ratio to measure operating efficiency of commercial banks. The net operating margin of commercial banks signifies what portion of operating profit remains after deducting all operating costs. And the net operating margin is expressed with total earning assets to find out what percentage of net operating margin has contributed to total earning assets. Higher the margin, the better is the efficiency of the management.

The ratio is expressed as:

=Totals Operating Revenue – Total Operating Exp/ Total Earning Assets

Table: 4.12

Net Operating Margin (%)

Banks	2003/04	2004/05	2005/06	2006/07	2007/08
SIDDHARTHA	(1.83)	3.03	2.02	1.90	1.96
LAXMI	0.53	1.06	1.06	1.21	1.54

(Source: appendix I and II)

The above table exhibits that the ratio of LAXMI Bank has ranged between 0.53 (in the year 2003/04) to 1.54 (in the year 2007/08). Similarly, the ratio of SIDDHARTHA has ranged from (1.83) (in the year 2003/04) to 3.03 (in the year 2004/05). The LAXMI has consistent growth rate than SIDDHARTHA.

13. Interest Paying Liabilities to Totals Liabilities Ratio

The ratio signifies the actual average cost or liabilities sources and shows how much management is prudently choosing the lower cost of liability. The ratio also works as measuring financial leverage of the banks. The ratio is interpreted as lower the better.

The ratio is express as:

= Interest paying Liabilities/ Total External Liabilities

Where, numerator includes deposits and interest paying borrowings and denominators includes external funds like deposits, borrowings and include other external liabilities.

Table: 4.13

Interest paying liabilities to totals liabilities ratio (%)

Banks	2003/04	2004/05	2005/06	2006/07	2007/08
SIDDHARTHA	81.36	85.79	86.17	88.69	89.10
LAXMI	77.40	80.36	85.95	88.69	89.54

(Source; appendix I and II)

The above table exhibits that the ratio of LAXMI bank has ranged between 77.40 (in the year 2003/04) to 89.54 (in the year 2007/08). Similarly, the ratio of SIDDHARTHA has ranged from 81.36 (in the year 2003/04) to 89.10 (in the year 2007/08). Interest paying liabilities of SIDDHARTHA is higher than LAXMI.

14. Total Interest expenses to Total Interest bearing Liabilities ratio

The ratio is sometimes called “cost of fund” in the banking sector. This ratio helps the mixed up cost of various funds used in the various funds in the various assets. The total interest bearing liabilities includes deposits, inter- bank borrowings. Borrowings from NRB, borrowing from foreign banks and other cost bearing liabilities. As per the general economic principals, resources are limited. And they are costly. The lower the ratio, the better managements prudent efficiency lies in the discretion to minimize the cost attached to the resources and obtain an optimum mix- up point. However, while interpreting this ratio, the ratio of interest paying liability to total liability should be considered.

Table: 4.14

Total Interest expenses to total interest bearing liabilities ratio (%)

Banks	2003/04	2004/05	2005/06	2006/07	2007/08
SIDDHARTHA	3.01	3.47	3.75	3.85	3.93
LAXMI	3.16	3.86	4.26	3.68	3.71

(Source: appendix I and II)

The above table exhibits that the ratio of LAXMI Bank has ranged between 3.16 (in the year 2003/04) to 4.26 (in the year 2005/06). Similarly, the ratio of SIDDHARTHA has ranged from 3.12 (in the year 2003/04) to 3.93 (in the year 2007/08). Both of the banks cost of fund is increasing.

15. Weighted Average Cost of Deposits

The major expenses head of commercial banks is the interest expenses. Since deposit are the raw material inputs to the banks to produce loans. Banks management should be able to screen up the various deposits, obtain an economic deposit mix and minimize the cost of deposit so that a higher spread gap remains to contribute in profitability. In fact, the lower cost of deposits. The higher the profitability margin and vice versa.

The weighted average cost of deposit is derived as:

=Total interest expenses/ Total deposit

Table: 4.15

Weighted Average cost of deposit (%)

Banks	2003/04	2004/05	2005/06	2006/07	2007/08
SIDDHARTHA	3.52	3.74	3.92	4.10	4.01
LAXMI	3.75	3.88	4.29	3.68	3.86

(source: appendix I and II)

Both of the banks weighted average cost of deposit is increasing. The above table shows that the ratio of SIDDHARTHA Bank has ranged between 3.52 in the year 2003/04 to 4.10 (in the year 2006/07). Similarly, the ratio of LAXMI has ranged from 3.75 (in the year 2003/04) to 4.29 (in the year 2005/06).

16. Earning per Share

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 if the bank. EPS is the widely quoted statistics in every investor's world. Every shareholders is much interested in the return on the share. A company is ingestible 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 express as:

=Net profit available to equity holders/ No. of ordinary share outstanding

Table: 4.16

Earning Per Share (%)

Banks	2003/04	2004/05	2005/06	2006/07	2007/08
SIDDHARTHA	(8.89)	20.08	13.05	15.88	17.29
LAXMI	1.90	4.34	5.80	10.75	16.45

(source: appendix I and II)

The above table exhibits that the ratio of LAXMI bank has ranged between 1.90 (in the year 2003/04) to 16.45 (in the year 2007/08). Similarly, the ratio SIDDHARTHA has ranged from (8.89) (in the year 2003/04) to 20.08 (in the year 2004/05).

17. Interest Income To Total Income

Total interest earned to total income ratio indicates the extend to which the bank has successfully mobilize its fund in interest earning asset. Interest earned to total income ratio measure the magnitude of interest income in total income.

Total interest income to total income:

=Total interest earned/ Total income

Total income includes the interest income, commission and discount, dividend income, foreign exchange income and other income.

Table: 4.17

Interest income to total income (%)

Banks	2003/04	2004/05	2005/06	2006/07	2007/08
SIDDHARTHA	87.57	82.59	89.58	90.06	89.59
LAXMI	87.08	88.62	88.84	88.23	87.13

(Source: appendix I and II)

The above table exhibits that the ratio of LAXMI Bank has ranged between 87.08 (in the year2003/04) to 88.84 (in the year 2005/06). Similarly, the ratio of SIDDHARTHA has ranged from 82.49 (in the year 2004/05) to 90.06 (in the year 2006/07).

18. Fees and Commission Income to Total Income

The second measure source of income of the Nepalese commercial bank is fee income. Commercial banks nowadays have moved towards the near banking agency services like under writings counseling, various service charges. Renewal fees, and other consultancy functions. They have expose to non- funded fee based services like LC, guarantee, bills\clearing, safe deposit, credit card, ATM etc from these services, banks earn fees and commissions.

The ratio is express as:

= Fees and Commission/ Total Income**Table:4.18**

Fees and Commission Income to Total Income (%)

Banks	2003/04	2004/05	2005/06	2006/07	2007/08
SIDDHARTHA	5.42	3.14	4.04	3.77	2.63
LAXMI	7.93	5.85	4.18	2.84	2.57

(Source: appendix I and II)

The above table exhibits that the ratio of LAXMI bank has ranged between 2.57 (in the year 2007/08) to 7.93 (in the year2003/04). Similarly, the ratio of SIDDHARTHA has ranged from 2.63 (in the year 2007/08) to 5.42 (in the year 2003/04).

19. Foreign Exchange Income to Total Income

Commercial Banks facilitate foreign trade through letter of credits, the incoming and outgoing foreign exchanges in remittances, purchase and sales of foreign bills and other activities induce commercial banks to deal with foreign currencies. Such trade on various foreign currencies result gain or loss to the banks. Further, the position of stock of currency is affected by the exchange rates revaluated time to time. In this way, Foreign exchange income comprised two types of income: Trading gain and revaluation gain.

The ratio is express as:

=Total foreign exchange income/ Total income

Table: 4.19

Foreign Exchange Income to Total Income (%)

Banks	2003/04	2004/05	2005/06	2006/07	2007/08
SIDDHARTHA	1.72	2.98	3.53	2.66	3.39
LAXMI	4.27	4.93	5.79	8.64	12.20

(Source: appendix I and II)

The above table exhibits that the ratio of LAXMI bank has ranged between 4.27 (in the year 2003/04) to 12.20 (in the year 2007/08). Similarly, the ratio of SIDDHARTHA has ranged from 1.72 (in the year 2003/04) to 3.53 (in the year 2005/06). The portion of foreign exchange income of SIDDHARTHA is less than LAXMI Bank.

20. Interest Expenses to Total Expenses

The major expenses head of commercial banks is the interest expenses. Interest expenses occur on the various LYC & FCY deposit, inter- bank borrowers, borrowings form NRB and from other foreign banks. Since deposit are the raw materials inputs for the banks to produce loans, bank management should be able to screen up to various deposits, obtain an economic deposit mix and minimize the cost so that a higher spread gap remains to contribute in the profitability. In fact, the lower the cost of deposits, the higher the profitability margin and vice versa.

The ratio is express as:
= Interest Expenses / Total Expenses

Table: 4.20
Interest Expenses to Total Expenses (%)

Banks	2003/04	2004/05	2005/06	2006/07	2007/08
SIDDHARTHA	28.29	60.16	61.59	68.70	68.30
LAXMI	48.84	57.82	61.73	64.05	65.98

(Source: appendix I and II)
Both of the banks interest expenses to total expenses are increasing. The above table exhibits that the ratio of LAXMI Bank has ranged between 48.84 (in the year 2003/04) to 65.98 (in the year 2007/08). Similarly, the ratio of SIDDHARTHA has ranged from 28.29 (in the year 2003/04) to 68.70 (in the year 2006/07).

21. Staff Expenses to Total Expenses

One of the major expenses of the banks administration and operation is staff expenses. Staff expenses comprises of salary, allowances, Provident fund and other incentives. In average, the staff expenses comprises share in total operating expenses is more than 15% of average Nepalese commercial banks.
The ratio is expressed as:
= Staff Expenses / Total Expenses

Table: 4.21
Staff expenses to Total expenses (%)

Banks	2003/04	2004/05	2005/06	2006/07	2007/08
SIDDHARTHA	10.23	13.28	10.45	8.50	8.07
LAXMI	14.84	14.61	12.19	11.15	10.01

(Source appendix I and II)
Both of the banks staff expenses to total expenses are decreasing. The above table exhibits that the ratio of LAXMI Bank has ranged between 10.01 (in the year 2007/08) to 14.84 (in the year 2003/04). Similarly, the ratio of SIDDHARTHA has ranged from 8.07 (in the year 2007/08) to 13.28 (in the year 2004/05).

22. Office Operating Expensed and Total Expenses

Office operating expenses comprises rent of office building and premises, electricity. Water, repair and maintenance of various fixed assets, insurance, stationary, telex, telephone, advertisements, legal expenses, expenses relating to board of directors, expenses relating to

board of audit, depreciation, amortization, professional service fee, security expenses, commission and discount and others.
The ratio is express as:
= Office Operating Expenses / Total Expenses

Table: 4.22
Office operating expenses to Total expenses (%)

Banks	2003/04	2004/05	2005/06	2006/07	2007/08
SIDDHARTHA	13.47	20.21	17.68	14.09	11.96
LAXMI	27.62	18.12	16.23	14.52	13.11

(Source: appendix I and II)
The above table exhibits that the ratio of LAXMI bank has ranged between 13.11 (in the year 2007/08) to 27.62 (in the year 2003/04). Similarly, the ratio of SIDDHARTHA has ranged from 11.96 (in the year 2007/08) to 20.21 (in the year 2004/05).

4.2 STATISTICAL ANALYSIS

In this study, statistical tool least square linear trend has been used. This topic analyzes the trend of net profit of LAXMI bank and SIDDHARTHA from 2003/04 to 2007/08 and makes the forecast of the next five years till 2012/13.
The trend analysis and projection for next five years.
Analysis of trend of net profit of LAXMI and SIDDHARTHA is done under this topic. The forecast is made for the next five years. The forecast is based on the following assumptions:

- The main assumption is that other things remain constant.
- The forecast will be true only when the limitations of least square method are carried out.
- The bank will run in present position.
- The economy will remain in the present stage.
- Nepal Rastra bank will not change its guidelines to commercial banks.

Trend Analysis of Net Profit

Under this topic, the trend values of the net profit for 5 years from the mid July 2003/04 to 200/08 have been calculated. Forecasted for next 5 years from 2008/09 to 2012/13 is done. The following table 25 shows the trend values of net profit for 10 years have from 2003/04 to 2012/13 of the LAXMI Bank and SIDDHARTHA.

Table: 4.23
Trend values of Net Profit of LAXMI and SIDDHARTHA

Years	Trend Values (SIDDHARTHA)	Trend Values (LAXMI)
2003/04	(6,136)	73
2004/05	25,575	25,754
2005/06	57,287	51,582
2006/07	88,999	77,410
2007/08	120,710	103,238
2008/09	152,422	129,066
2009/10	184,134	154,893
2010/11	215,846	180,721
2011/12	247,557	206,549
2012/13	279,269	232,377

The above table shows, the net profit of the banks has the increasing trend. If other things remaining same the total net profit of LAXMI and SIDDHARTHA will be 232,377 million and 279,269 thousand respectively for the mid July 2013.

4.3 Major Findings:

- The return on total asset ratio of LAXMI bank ranges from 0.40 to .95 whereas same ratio of SIDDHARTHA has higher than LAXMI bank except negative return on FY2003/04.
- The return on total equity ratio of LAXMI bank ranges from 1.88 to 10.38 where as same ratio of SIDDHARTHA has higher than LAXMI bank except negative return on FY2003/04.
- SIDDARHA shows higher return on external capital employed than LAXMI bank except negative return on FY2003/04.It indicates that SIDDHARTHA is using more external fund than LAXMI Bank.
- The interest earned to total Loan Discount and overdraft (LDO) ratios of SIDDHARTHA Bank are higher than LAXMI Bank.
- The interest earned to total asset ratio of SIDDHARTHA bank is higher than LAXMI Bank. Both of the sample bank's interest income to total earning assets ratio are decreasing. Earning spread rate of both of the banks ratio are also decreasing.
- The net profit margin of SIDDHARTHA Bank is higher than LAXMI except during the FY 2003/04.Similarly net interest margin and interest speared of SIDDHARTHA bank is also more than that of LAXMI Bank Ltd.
- The operating efficiency ratio of SIDDARTHA Bank is lower than LAXMI Bank except during FY 2003/04.
- The Net operating margin of SISDDHARTHA Bank is higher than LAXMI Bank except during the FY 2003/04.
- Interest paying liabilities ratio of Laxmi is lower than Siddhartha bank and 77.40 to 89.54 whereas same of Siddhartha bank is higher than Laxmi and ranges from 81.386 to 89.10 but more consistent than Laxmi Bank.
- Both the bank has similar portion of their interest bearing liabilities is paid as interest expenses.
- Weighted average cost of deposit of SIDDARTHA ranges from 3.52 to 4.10 and Laxmi Bank ranges from 3.75 to 4.29.The weighted average cost of deposit of Laxmi Bank is more consistent than SIDDARTHA bank.
- Among the total income, more than 75% of the income came from interest. So it is the main source of income .In comparison Laxmi bank is earning more amounts from interest than Siddhartha among the total income of their respective bank. It means Siddhartha is earning more from fees and commission than Laxmi bank.
- Interest expenses to total expenses ratio of both bank is increasing.

- Staff expenses to total expenses ratio of SIDDARTHA Bank is lower than LAXMI Bank.
- Office operating expenses to total expenses ratio of LAXMI Bank is more consistent than SIDDARTHA Bank.

CHAPTER V
SUMMARY CONCLUSIONS AND RECOMMENDATIONS

This chapter deals with the findings and conclusions of the study. This chapter consists of the three sections: the first section provides the summary of the study, the second section draws the conclusion of the study and the final section gives recommendation to solve of findings:

5.1 Summary

Profitability is a deviation of the term profit, which explains the ability to make a profit, profit is primary a measuring rod of success of business enterprise. It is a basis test of the performance of any business concern. Simply stating, Profit is money excess of sales over money spent but the term profit has several different interpretations.

Profit is basically on arc around which the venture every business involves. Profit is the main financial indicator of business firm, which is indeed a need to service and growth the business environment. Profit is essential to raise the market price of share and to attract additional capital Investment. Profit is the outcome of good management efficiency operation etc.

Financial goal of a firm in the past had been the maximization of profit but it is now different form the past generally almost all the business are designed in order to earn profit, so in absence of the ability of making profit. Business concerned cannot service without profit. So, the matter of profit is delay concerned with the objectives of the firm and economics theory as well.

5.2 Conclusions:

- Return on total asset ratio of LAXMI bank ranges from 0.40 to .95 whereas same ratio of SIDDHARTHA has higher than LAXMI bank except negative return on FY2003/04.
- Return on total equity ratio of LAXMI bank ranges from 1.88 to 10.38 where as same ratio of SIDDHARTHA has higher than LAXMI bank except negative return on FY2003/04.
- SIDDARHA shows higher return on external capital employed than LAXMI bank except negative return on FY2003/04.It indicates that SIDDHARTHA is using more external fund than LAXMI Bank.
- Interest earned to total Loan Discount and overdraft (LDO) ratios of SIDDHARTHA Bank are higher than LAXMI Bank.
- Interest earned to total asset ratio of SIDDHARTHA bank is higher than LAXMI Bank. Both of the sample bank's interest income to total earning assets ratio are decreasing. Earning spread rate of both of the banks ratio are also decreasing.
- Net profit margin of SIDDHARTHA Bank is higher than LAXMI except during the FY 2003/04.Similarly net interest margin and interest speared of SIDDHARTHA bank is also more than that of LAXMI Bank Ltd.

- Operating efficiency ratio of SIDDARTHA Bank is lower than LAXMI Bank except during FY 2003/04.
- Net operating margin of SISDDHARTHA Bank is higher than LAXMI Bank except during the FY 2003/04.
- Interest paying liabilities ratio of Laxmi is lower than Siddhartha bank and 77.40 to 89.54 whereas same of Siddhartha bank is higher than Laxmi and ranges from 81.386 to 89.10 but more consistent than Laxmi Bank.
- Weighted average cost of deposit of SIDDARTHA ranges from 3.52 to 4.10 and Laxmi Bank ranges from 3.75 to 4.29.The weighted average cost of deposit of Laxmi Bank is more consistent than SIDDARTHA bank.
- Among the total income, more than 75% of the income came from interest. So it is the main source of income .In comparison Laxmi bank is earning more amounts from interest than Siddhartha among the total income of their respective bank. It means Siddhartha is earning more from fees and commission than Laxmi bank.
- Interest expenses to total expenses ratio of both bank is increasing.
- Staff expenses to total expenses ratio of SIDDARTHA Bank is lower than LAXMI Bank.
- Office operating expenses to total expenses ratio of LAXMI Bank is more consistent than SIDDARTHA Bank.

5.3 Recommendation

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

The study reveals that SIDDARTHA Bank has suffered from loss during the fiscal year 2003/04 due to extra loan loss provisioning. This is suggested to SIDDARTHA Bank to give more emphasis in asset quality.

SIDDARTHA Bank has better profitability ratios than LAXMI Bank. This is suggested to LAXMI for better utilization of its assets and interest margin.

The bank should follow the strict investment policy to avoid the non-performing assets. It should increase investment in the government securities to trade off and stabilizes the quality investment in commercial LDO.

The fee-based activities of bank are found to be very profitable and important nowadays in banking business. These are commission, discounts and fees .They yield height return to a bank. LAXMI bank is not in the better position regarding fee based income.

Foreign exchange income is also one of the most important incomes of commercial banks. This is suggested to SIDDARTHA Bank to pay attention to increase the foreign exchange income.

Looking at the current trend of banking business a bank must be very much careful on formulating market strategies to serve its customers. The marketing strategies should be innovative that would attract and retain the customers. It is recommended both bank to develop an innovative approach to bank marketing for its well being and sustainability in the market.

The earnings per share and dividend per share attracts the investors. The bank also not generating sufficient return from the equity. So, higher cash dividend strategy should be adopted for the better growth of shareholders worth.

An emphasis should be given on planning, research and development for the proper planning and controlling purpose. Proper and regular internal audit system can help the management in regards the cost control strategy and avoid unnecessary leakage in expenses.

Majority of commercial banks have been found to be profit oriented ignoring their social responsibility. For a survival of a long run, banks should be able to render their services in the rural, deprived areas. For more social movement, the bank is suggested to introduce a scheme like loan for further study to the students, loan for promoting skills for women or unemployed housewives etc.

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APPENDIX III

Calculation of Trend Line of net profit of SIDDARTHA Bank

F/Y	Net Profit(Y)	Deviation fo FY 2005/06=X	X2	XY	Ye=a+bx
2003/04	-31,106	-2	4	62,214	(6,136)
2004/05	70,279	-1	1	(70,28)	25,575
2005/06	65,252	0	S	0	57,287
2006/07	38,836	1	1	38,837	88,999
2007/08	143,172	2	4	286,346	120,710
Total`	286,435		10	317,117	286,436

Where
Average (a) = Sum of the net profit/No of Years
= 286,435/5 = 57287
Rate of change in Net Profit (b) = XY/X2
=317117/10
=31712
Hence the equation (1) the value of Y1 to Y5 is plotted in the above table and by plotting the calculated values of Y1 to Y5 corresponding to first year to the fifth year respectively, a trend line will be obtained.
Forecast for the next five years:

Fiscal year	Deviation from FY 2005/06=X	Trend Value
2008/09	3	152422
2009/10	4	184134
2010/11	5	215846
2011/12	6	247557
2012/13	7	279269

APPENDIX IV

Calculation of Trend line of Net Profit of LAXMI Bank:

F/Y	Net Profit(Y)	Deviation of FY 205/06=X	X2	XY	Ye=a+bx
2003/04	10,450	-2	4	(20,899)	(73)
2004/05	26,465	-1	1	(26,465)	25,754
2005/06	35,385	0	0	0	51,582
2006/07	65,579	1	1	65,579	77,410
2007/08	120,031		10	240,063	103,238
Total	257,910		10	258,278	257,911

Where,
Average (a) =Sum of net profit/No of Years
=257,910/5=51582
Rate of change in Net Profit (b) =XY/X2
=258278/10
=25828
Hence the equation (1), the valuable of Y1 to Y5 is plotted in the above table and by plotting the calculated values of Y1 to Y5 corresponding to first year to the fifth year respectively ,a trend line will be obtained.

Forecast for the next five years

Fiscal year	Deviation from FY 2005/6=X	Trend Value
2008/09	3	129066
2009/10	4	154893
2010/11	5	180721
2011/12	6	206549
2012/13	7	232377

APPENDIX V

Summary of Financial Intermediaries, operating under approval of Nepal Rastra Bank up to end of Chaitra 2065

Financial Intermediaries	Numbers
Commercial Banks	26
Development Banks	61
Rural Development Banks	78
Finance Companies	13
Cooperative Institutions	17
Non-Government Organizations	47
Total	242

APPENDIX VI

Commercial Banks approved by Nepal Rastra Bank to perform commercial bank functions by the end of Chaitra 2065

S.N.	Name of commercial Bank	Establishment Date
1	Nepal Bank Limited	2094-07-30 BS
2.	Rastriya Banijya Bank	2022-10-10 BS
3.	Agriculture Development Bank Limited	2024 B.S
4.	NABIL Bank Limited	2041-03-29 BS
5.	Nepal Investment Bank Limited	2042-11-26 BS
6.	Standard Chartered Bank Limited	2043-10-26 BS
7.	Himalayan Bank Limited	2049-10-26 BS
8	Nepal SBI Bank Limited	2049-03-26 BS
9	Nepal Bangladesh Bank Limited	2050-02-23 BS
10	Everest Bank Limited	2051-07-01 BS
11	Bank of Kathmandu	2051-11-28 B.S
12	Siddhartha Bank Limited	2059-09-09 BS
13	Lumbini Bank Limited	2055-04-01 B.S
14	Nepal Industrial and Commercial Bank Limited	205504-05 B.S
15	Machhapuchhre Bank Limited	2057-06-17 B.S
16	Kumari Bank Limited	2057-06-21 B.S
17	Laxmi Bank Limited	2055-04-01 B.S
18	Nepal Credit and Commerce Bank	2053-06-21 B.S
19	Global Bank Limited	2063-09-18 B.S
20	Citizens Banks International Limited	2064-01-07 B.S
21	Bank of Asia Nepal Limited	2064-06-25 B.S
22	Sunrise Bank Limited	2064-06-25 B.S
23	Prime Commercial Bank Limited	2064-06-07
24	DCBL Bank Limited	May.2008 A.D
25	NMB Bank Limited	May.2008 A.D
26	Kist Bank Limited	March,2009 A.D

APPENDIX VII

An Introduction to Laxmi Bank Limited and Siddhartha Bank Limited

Brief Profile of the selected Banks

Commercial Banking in Nepal commenced in a formal manner in B.S. 1994 with the establishment of Nepal Bank Limited. From that day, forward banking in Nepal has taken many forward with a myriad of banks and multitude of financial products entering the market. The entry of Joint Venture Banks in the country opened the doors to international standard banking services and with it heightened customer expectations. To meet these whilst some choose to complete on price others choose to complete on service delivery and customer satisfaction.

The brief profile of the organization under research can be presented as below:

A) Laxmi Bank

B) Siddhartha Bank

Laxmi Bank Limited

Laxmi Bank Limited was established in April 2002 by the Nepal's leading families in partnership with the Citizen Investment Trust.

Now bank is providing its service through 18 branches all over the country. The bank is providing its service through cell phone, internet, ATM, Point on sell (POS) etc.

Following are the details of the share capital and shareholding pattern of Laxmi Bank Limited.

Share Capital of Laxmi Bank Limited:

Authorized Capital:	Rs 1,600,000,000.00
Issued capital:	Rs 915,000,000.00
Paid up Capital:	Rs 913,196,300.00

Shareholding Pattern of Laxmi Bank Limited.

Promoter Shareholder:	55%
Citizen Investment Trust:	9%
General Public:	36%

Siddhartha Bank Limited

Siddhartha Bank was established in 2002 by a group of highly reputed Nepalese dignitaries. The bank is providing its services from ten branches. The bank has very aggressive plan of establishing more branches in different parts of the country in the near future.

Following are the details of the share capital and shareholding pattern of Siddhartha Bank Limited.

Share Capital of Siddhartha Bank Limited

Authorized Capital:	Rs 1,000,000,000.00
Issued Capital:	Rs 828,000,000.00
Paid up Capital:	Rs 828,000,000.00

Shareholding Pattern of Siddhartha Bank Limited

Promoter	51%
General Public	49%

Comparative Balance Sheet

Capital and liabilities	03/4	04/5	05/6	06/7	07/8
Share capital	350,000,000	350,000,000	500,000,000	60,000,000	828,000,000
Reserve and surplus	(32,391,151.32)	37,888,643	103,141,455	193,709,939	240,346,086
Debenture and bond	-	-	-	-	-
Borrowings	220,000,000	190,000,000	181,150,000	430,000,00	205,132,877
Deposit liabilities	1,291,313,880	1,291,313,880	3,918,076,217	6,625,076,217	10,191,440,970
Bills payable	961,993.45	429,211	-	-	15,884,195
Proposed Dividend /Unpaid Dividend	-	-	-	4,736,842	6,536,842
Income Tax Liabilities	-	17,083,448	1,112,820	5,203,446	11,155,193
Other Liabilities	27,689,866.57	33,778,928	53,454,957	95,935,742	168,859,787
Total	1,857,574,589	3,091,102,752	4,756,935,449	7,954,664,475	44,668,355,950

Siddhartha Bank Limited

Comparative Income Statement

Particulars	03/4	04/5	05/6	06/7	07/8
Interest Income	113,629,914	198,184,538	305,560,896	481,523,807	729,872,484
Commission and Discount	7,034,057	7,552,790	13,774,645	20,177,802	21,454,424
Other Income	9,094,553	34,522,109	21,755,437	32,940,283	63,319,016
Total	129,758,524	240,259,437	341,090,978	534,641,892	814,645,924

Expenses

Particulars	03/4	04/5	05/6	06/7	07/8
Interest Expenses	45,505,567	91,980,954	153,708,962	271,710,950	408,188,955
Staff Expenses	16,457,854	20,310,190	26,087,462	33,620,506q	48,247,208
Administrative	21,667,879	30,898,025	44,124,593	55,721,156	71,480,863
Expenses					
Other Expenses	77,234,121	9,707,027	25,627,092	34,457,416	69,747,009
Total Expenses	160,865,421	152,896,196	249,548,109	395,510,028	597,664,035
Net Income befor e tax Less Income Tax	(31,106,897)	87,363,241 17,083,448	91,542,869 26,290,057	139,131,864 43,826,537	216,981,889 73,808,900
Net Income After Tax	(31,106,897)	70,279,793	65,252,821	95,305,327	143,172,989
No of Share	3,500,000	3,500,000	5,000,000	6,000,000	8,280,000

Comparative Balance Sheet

Capital and Liabilities	03/04	04/05	05/06	06/07	07/08
Share capital	549,789,000	609,839,000	609,917,300	729,697,000	913,196,3000
Reserve and surplus	7,265,957	33,730,741	69,116,074`	134,695,563	243,179,508
Debenture and bond					
	-	-	-	-	-
Borrowings					
Deposits Liabilities	317,005,000	18,691,219	29,760,000	-	450,000,000
Bills Payable					
Proposed	1,684,158,652	3,051,758,905	4,444,351,452	7,611,653,306	10,917,232,367
Dividend/Unpaid					
Dividend	283,027				
	26,988,168	31,442,547	4,748,655	8,091,419	5,850,753
Income Tax Liabilities					
Other Liabilities	-	-	149,435	126,900	9,758,87
	-	-	47,147,351	103,424,364	155,803,719
Total	2,585,489,804	3,820,768,930	5,205,19,267	8,582,688,552	12,695,021,517

ASSETS	03/4	04/5	05/6	06/7	07/8
Cash	36,976,923	109,851,609	66,602,175	119,437,325	267,932,363
NRB Balance	-	-	132,381,459	323,697,613	720,394,571
Balance with Banks /Financial Institutions	342,49,293	359,691,976	26,140,346	26,587,192	249,833,920
Money at call and short notice	100,000,000	57,505,376	70,000,000	13,028,000	251,737,774
Investment Loan,Advances and Bills purchased	1,733,419,666	2,657,958,436	499,310,970	1,437,170,759	1,241,041,732

Fixed Assets	32,633,396	124,384,625	125,169,757	140,021,540	9,680,948,652
Non Banking Assets	-	-	661,924	784,571	-
Other Assets	44,863,228	10,437,584	82,512,302	84,512,302	78,735,181
Total	2,585,489,804	3,820,768,930	5,205,190,267	8,582,688,552	12,695,021,516

Particulars	03/4	04/5	05/6	06/7	07/8
Interest Income	124,045,956	214,132,108	319,253,094	470,494,833	711,006,319
Commission and Discount	11,299,424	14,136,407	15,038,886	15,156,901	20,943,463
Other Income	7,102,370	13,367,40	25,080,977	47,584,087	83,927,900
Total	142,447,750	241,635,923	359,372,957	533,235.821	815,877,682

Expenses

Particulars	03/4	04/5	05/6	06/7	07/08
Interest Expenses	63,176,634	118,438,529	190,589,535	280,277,851	421,871,791
Staff Expenses	19,198,174	29,933,955	37,640,491	48,785,260	20,943,813
Administrative Expenses	35,729,976	37,122,391	50,122,992	63,547,087	83,848,664
Other Expenses	11,258,893	19,361,674	30,384,279	44,993,794	69,686,783
Total	129,363,677	204,856,549	308,737,297	437,604,403	639,402,051
Net Income Before Tax	13,084,677	36,779,374	50,635,660	95,631,418	176,475,631

Less income Tax	2,634,408	10,314,589	15,250,327	30,051,929	56,444,284
Net income after Tax	10,449,665	26,464,785	35,385,333	65,579,489	120,031,347
No of share	5,497,890	6,098,390	6,099,173	7,296,970	9,131,963