CHAPTER - I

INTRODUCTION

1.1General Background of the Study

Nepal is landlocked country surrounded by mountains & hills. It occupies a total area of 147181 km, expanding 885 km from east to west & ranging 145 km to 241 km from north to south. The population of Nepal is 23.2 million. It lies between two giant Countries China & India.

About 80% of the people are dependent on agriculture for their income & employment. So it is an agricultural country. Agriculture sector contributes 36% of GDP. The sustainable economic development is not possible without the development of agriculture. Long-Term agriculture development plan is under implementation aiming to reduce poverty & increase economic growth by means of increasing employment opportunities & agriculture production.

Due to internal conflicts & turbulent political situation , Nepalese economy has remained unstable for the last few years. In the fiscal year 2005/06,the growth rate of GDP (at producer prices) was 2.80 & 2.50 in the fiscal year 2006/07 which is less than previous year. GDP growth at the basic prices of this year is estimated to be 2.29% compared to the 3.14% growth last year. Growth rate of GDP hardly cover the growth rate of population in Nepal.

1.2 Concept of Banking

The word ‘Bank’ is derived from Italian word ‘Banco’ which means a bench. Previous Italian Goldsmith used to perform the monetary task sitting on the bench not in the market. So ‘Banco’ was used to denote monetary transactions.

Generally the bank refers to those organized institutions which are established under the provision of current laws, rules & regulations to perform work related to currency. Practical Nepali Dictionary (2061) defines “It as the institute which accepts deposits , grants loans & the persons can withdraw deposited amount at any time”. Nepali Encyclopedia takes “ bank as to these commercial , government or non-government institutes which accept deposit , provides interest on it, pays when demanded, provides loan etc”.

Now a days the word Bank refers to these institutions which are established under law for dealing with monetary transactions. It means those institutions are treated as banks which accept the deposit of public & grant loan to the needy person or businessman against security deposit. Bank is an institute which deals with currency & performs work related to credit. Bank refers to the government, semi-government & non-government organizations which performs work of monetary mobilization, credit creation & controls.

The first Bank Casade San Giorgio in Genoa was established in 1148 A.D. Bank of Vanice was established in 1147 A.D. In 1401 Bank of Barcelona was established in Barcelona. In 1609 the Bank of Amasterdan was established. Likewise in 1610 A.D Bank of Hunburg was established in Germany. The first central bank was established in 1844 A.D as “The Bank of England”. In the context of Nepal, “The Nepal Bank Ltd.” Was established in 1994 B.S & “Nepal Rastra Bank” as a Central bank was established in 2013 B.S.

To know about the meaning of Bank some definitions given by some renoun economists are given below.

According to G.S Crowther: “A bank is an institution which collects money from those who have in spare or who are saving it out of their income and lends this out to those who acquire it.”

According to Kinley: "Bank is an establishment to individuals, such advances of money as may be required and safely made & to which individuals entrust money when not required by them for use."

According to R.S Sayers: "I believe in that fact the banks are not merely purveyors of money but also in an important sense, manufactures of money."

According to Dictionary of Banking & Finance(P.H collin, reprint 1997)
" Business which holds money for its clients, which lends money at interested and trade generally in money."

In conclusion ,we can say in a sentence that banks are those institution, which are established under a current act to perform monetary and credit transaction.

1.3 Importance of Bank

Now a days no one can not think of the life without Bank. So Bank is important for all. Importance of Bank is pointed out below.

- Capital formation.
- Availing capital to industries.
- Helps in the establishment of new industries.
- Role of agent.
- Mobilization of capital.
- Provides loan.
- Promotes saving.
- Creation & Control of credit.
- Performs exchange functions.
- Payment of amount.

1.4 Emergence of Commercial Banks in the Economy

Modern and managed banking system of an economy acts as a bridge between two edges savers and investors. In our economy such banking system has not a longer history. Under traditional banking system private moneylenders, Tankadhari and Tejarath Aadhtha were the main agents of the system. King Jayasthithi malla had given the responsibility to a cast of society called "Tankadhari" while he had given to name of the castes their professions for the purpose of transaction of money in the society. He classified the people on the basis of the works performed by them into 64 casts including Tankadhari. This cast was specialized to perform monetary transactions and dealt with loan & exchange for the country. But it was highly profit oriented. In order to avoid such exploitation to the borrowers, Tejarath Addha was established in 1933 B.S by government. This organization provided loan especially to the then Majesty's government staffs on the basis of their personnel collateral & on the basis of gold & silver to the general people. But this office had no right to accept deposit of public. So Tejarath Addha could not fulfill the necessity of the time.

The history of modern banking system started with the establishment of Nepal Bank limited on 30th Kartik, 1994 in place of Tejarath Addha. The bank was established to render services to the people & for economic development of the country. Prior to the establishment of Nepal Rastra Bank, it played the role of central bank also. NRB as central bank was established on 14th Baishakh,2013 B.S. After the establishment of it, Rastriya Banijya Bank & Agriculture Development Bank were established. ADB started commercial functions since 2041 B.S. After the restoration of multi party democracy in Nepal,the government took liberal economic policy. As a result, a large number of commercial banks were established under joint venture with foreign commercial banks. As per the permission of Central Bank, such bank can established at any time anywhere. Now there are 25 commercial banks, 58 development banks,79 finance companies, 12 micro credit development banks, 16 saving & credit co-operatives (limited banking licensed by NRB), 47 NGO's(licensed by NRB). There are many more savings & credit co-operatives operating in the field under the license of co-operative department. Total number of such co-operatives by mid july, 2006 was 2,912.

1.5 Commercial Bank

Bank which are established to accept deposits & grant loan to the industries, individuals, and trades with a view to earn profit are known as commercial banks. The first commercial bank of Nepal is 'Nepal bank ltd.' It is taken milestone of modern banking of the country. Now there are 25 commercial banks in Nepal with government's investments, private parties' investment, joint investments.

Functions of Commercial Banks

The important functions of commercial banks are given below.

- To Accepts deposits.
- To provide loan.
- Transfers money.
- To provide agency service.
- Exchange foreign currency.
- Overdrafts.
- Credit creation.
- Other functions.

To Accepts Deposits

Commercial banks collect various unproductive & saving money of public or different organization by providing different accounts: current account, saving account & fixed account.

Current Account: The account in which any amount can be deposited & withdrawn at any time is known as current account. No interest is given by the bank to the account holder under this account. Now a days minimum limit of deposit is determined by the bank under this account as per their own rule. Specially banks operate this account for industries, trade & business.

Saving Account: The account which is managed to collect the small saving of people is known as saving account. The main objectives of this account is to promote the saving of the people. Limited amount can be deposited & withdrawn from the bank in the specified time. If a person needs the amount more than limit, prior information is to be given to the bank as per their rule. Bank provide nominal rate of interest in the account.

Fixed Deposit Account: The A/C which is managed to accept the deposit for fixed period of time providing higher rate of interest is known as fixed deposit A/C. Amount can not be withdrawn from bank before the expiry of time. If A/C holder needs amount before the expiry of time, A/C holder can take loan against the security deposit of it paying some extra interest.

To Provide Loan

Commercial bank provides loan to the public organization for specific purpose against the security of gold, silver & other stock, land, buildings, shares & securities of company. It provides short-term, mid-term & long-term loan. It charges interest on & other service charges in providing the loan to them. This is one of the strong ways the generating revenues of the banks. Commercial bank provides business loan, education loan, home loan, priority sector loan etc.

Transfers Money

Commercial bank transfers the amount of public & organizations from one place to another place with in the country or out side the country or one A/C to another A/C with the help of T.T, draft etc. Bank takes commission for performing this work. Bank transfers amount from one A/C to another A/C of some bank or to the other bank which has central relation.

To Provide Agency Service

It purchases & sells the shares & debentures of company, undertakes the payment of subscription, insurance premium, rent etc. & collects cheques, bills, salaries, pensions, dividends, interest on investment etc. on behalf of its customers. It takes commission for this purpose.

Exchange Foreign Currency

Commercial bank exchanges foreign currency considering the directions provided by central bank . Now a days commercial bank fixes the rate of foreign currency as per market demand & competition.

Overdrafts

This facility is generally granted to those customers who are regular, honest & long-time customer like business partners. It is the facilities granted by commercial banks to its customers to withdraw money greater than they hold in their respective A/C.

Credit Creation

In order to earn profit, they accept deposits & advance loans by keeping small cash in reserve for day to day transactions. By granting a loan, the bank creates credit or deposit, which helps in creating credit that could be needed in the economy as a capital formation process.

Other Functions

It manages locker to keep gold, silver & valuable items safely, assists in foreign trade, provides financial advising, office security brokerage services etc.

Table 1.1

List of Licensed Commercial Banks

S.N.	Commercial Banks	Established Date	Head Office
1.	Nepal Bank Ltd.	1937/11/15	Kathmandu
2.	Rastriya Banijya Bank	1966/01/23	Kathmandu
3.	Nabil Bank	1984/07/16	Kathmandu
4.	Nepal Investment Bank Ltd.	1986/02/27	Kathmandu
5.	Standard Chartered Bank	1987/01/30	Kathmandu
6.	Himalayan Bank Ltd.	1993/01/18	Kathmandu
7.	Nepal Bangladesh Bank	1993/06/05	Kathmandu
8.	Nepal SBI Bank Ltd.	1993/07/07	Kathmandu
9.	Everest Bank Ltd.	1994/10/18	Kathmandu
10.	Bank of Kathmandu Ltd.	1995/03/12	Kathmandu
11.	Nepal Credit and Commercial Bank	1996/10/14	Siddhartha Nagar
12.	Lumbini Bank Ltd.	1998/07/17	Naryanghat
13.	Nepal Industrial and Commercial Bank Ltd.	1998/07/2	Biratnagar
14	Macchapuchhre Bank Ltd.	2000/10/03	Kathmandu
15.	Kumari Bank Ltd	2001/04/03	Pokhara
16.	Laxmi Bank Ltd.	2002/04/03	Kathmandu
17.	Siddhartrha Bank Ltd	2002/12/24	Kathmandu
18	Agricultural Development Bank Ltd.	1968/01/02	Kathmandu
19	Global Bank Ltd.	2007/01/02	Birgunj, Parsa
20	Citizen Bank Ltd.	2007/06/21	Kathmandu
21	Prime Bank Ltd.	2007/09/24	Kathmandu
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu
23	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu
24	NMB Bank Ltd.	2008/05/02	Kathmandu
25	Development Credit Bank Ltd.	2008/05/25	Kathmandu

Source: http://brf.nrb.org.np

Nabil Bank, Nepal investment Bank, Standard Chartered Bank, Himalayan Bank, Nepal SBI Bank, Nepal Bangladesh Bank, Everest Bank, Bank of Kathmandu are commercial bank with foreign capital investments & NCC Bank ,Lumbini Bank, Machhapuchhre Bank, Kumari Bank , Laxmi Bank, Siddhartha Bank etc. are private sector commercial banks.

1.6 Introduction of Lumbini Bank Ltd.

It was established in the year 2055 B.S in Naryangarh.It is the first regional Bank of Nepal. It was established with paid up capital Rs 750 million of which, Nepali promoters invested 70% share & remaining 30% share issued for public. It’s head office lies at Naryangarh, Pragatipath, Chitwan & Corporate office lies at Durbar Marg, Kathmandu. It has total 5 branches, one in Kathmandu valley at Durbar Marg remaining other are outside the valley namely Hetaunda, Butwal, Biratnagar, Naryangarh. It’s new structured products cover personal loan, home loan, vehicle loan, mortgage loan, education loan, time loan etc. Main services provided by LBL are trade finance, letter of credit, remittance, SMS banking, Any Branch Banking System (ABBS), treasury, foreign exchange, safe deposit lockers, 365 days banking etc.

It’s direction is guided towards obtaining new challenges & opportunities. All customers are treated with atmost courtesy as valued clients. It has as a part of an ongoing process & restructured various products. LBL has adopted the modern banking technology & experienced professionals. Mission of LBL is to make banking simple,fast & customer friendly .

1.7 Introduction of Kumari Bank Ltd.

It was established on 21st Chaitra, 2057 B.S with an objectives of providing competitive & modern banking services in the Nepalese financial market. It has paid up capital of Rs 900 million, of which 70% is contributed from promoters &

remaining from public. At present there are 10 branches ,6 outside & 4 inside the valley. It is pioneer in providing some of the latest/lucrative banking services like E-Banking & SMS Banking services in Nepal. The bank has adopted modern GLOBUS Software developed by Temenos NV, Switzerland. It has been providing 365 days banking facilities, utility bill payment service, inward & outward remittance services & other banking services. Visa Electron Debit Card, Internet Banking, SMS Banking are quite popular products of Kumari Bank Ltd.

It has been able to get recognition as an innovative & fast growing institution striving to enhance customer value & satisfaction by banking transparent business practice, Professional management, corporate governance & total quality management as the organizational mission. The key focus of the bank is always center on serving unfulfilled needs of all classes of customers located in various parts of the country by offering modern & competitive banking products & services in their door step. Customers are always it's first priority.

1.8 Introduction of Machhapuchchhre Bank Ltd.

It was opened in 2056 B.S as the first regional commercial bank to start banking business from the western region of Nepal with its head office in Pokhara. It has it's corporate office in Kathmandu. There are 15 branches in different part of country & the bank intends to open many more branches in the coming years(2065) & have already envisaged the opening of 8 branches during the year(2064/65). There are 33 officer level employees & 201 assistance level employees in the bank at the end of the review period (2063/64).

It is the first bank to introduce centralized banking software named 'GLOBUS BANKING System'. Currently it is using the latest version of GLOBUS, refered as T-24 banking system. The bank provides modern banking facilities such as Any Branch Banking , Internet Banking, Debit/ATM cards & Mobile Banking etc. to its valued customers. It’s new scheme pewa bachat khata & yuva bachat khata has been able to attract women depositors & youth.

1.9 Statement of the Problem

The world economy has become more liberalized, broadened & integrated in the recent years. Due to the globalization, every country has interdependency among other countries. It is said that today’s world has become interdependent in economics, in communication, in human dreams & so on. There is more competition. So it is easy to establishment but it is hard to survive at unhealthy economic environment, competitive environment, turbulent political situation. There are 25 commercial bank. These commercial banks are established & operated for the profit as well as services. So profit is the main objectives of every business organization. But to make profit is no joke. It is to be planned & managed.

Profit planning system requires the effective co-ordination between various functional budgets. It is important not only for manufacturing industries but also for commercial banks. Banks generate their profit by providing many services such as short term , long term loan & by mobilizing its deposits.

LBL is 1st regional bank of Nepal .Kumari Bank & Machhapuchchhre Bank Ltd ,which rank in the topmost among the private commercial banks. This study is basically designed to solve the following problems:

- What is profitability position of LBL, KBL & MachBL?
- Are the bank’s operating at profit?
- Has the bank adopted the policy of making plan for deposit collection & it’s mobilization?

1.10 Objectives of the Study

The main objectives of commercial banks are to serve people as well as maintain profitability position. This study was based on the comparative profitability of LBL,KBL & MachBL. The specific objectives of study are:

- To analysis the income & expenditure, cost & profit trends of the banks.
- To study profit plan of the banks.
- To evaluate the profitability & financial position of these banks.
- To evaluate the trend of deposit loan & advances of the banks.
- To analysis the profit comparatively profitability
- To provide relevant recommendations for improving competitiveness of LBL, KBL, MachBL.

1.11 Significance of the Study

Profit is most important for every organization. Profit is motivating factor to the shareholders, new investor & employees too. But profit can not be achieved easily. It should be managed well with better managerial skills. Profit is the difference of revenue & cost. Very few studies have been made in the profit planning & control of commercial bank. This study will be significant in the following ways:

- It helps all the interested parties to know the profitability position of LBL, KBL & MachBL
- It may give guideline to follow the profit planning process in any banking sector.
- It is also useful to interested parties, loan investor, shareholder, deposit holder etc.
- This study would be very useful to the policy maker, accountant, potential manager & researcher because profit plan is the most useful tools to improve profitability position.

1.12 Limitations of the Study

It has some limitations, which are summarized in as follows:

- The study was based on the profit planning aspects of the bank & it did not consider about other aspects of the bank.
- The study covers the data & information of five accounting periods only covering the fiscal year 2058/59 to 063/64.
- The accuracy & reliability of the study was based on the data available & true response made out of interaction with the staff of the banks.
- The study was completely based on secondary source of data even though some interaction with concerned parties were made.
- This study was based on only three Joint Ventured Commercial banks.

1.13 Organization of the Study

Organization of this research work was done in the following manner.

Chapter - I: Introduction

It is the introductory chapter. It dealt with general background, concept of banking ,importance of bank, emergence of commercial bank in the economy, function of commercial bank, statement of problems, objectives , importance & limitation of the study.

Chapter - II: Literature Review

It dealt with two broad sub-headings ,conceptual frame work & literature review. Conceptual frame works dealt with concept of profit planning & control, concept of some terminologies used in the analysis part of the study. Literature review covered review of books ,previous study, research papers & review of unpublished thesis of various research students.

Chapter - III: Research Methodology

It dealt with possible statistical tools that were used to analyze the data & information of the study, Methodology used for the collection of data & type of data.

Chapter -IV: Data Presentation & Analysis

This chapter is mainly concerned with the analysis of the different profitability ratios related to the financial statement of LBL, KBL, MachBL & trend analysis of profit with forecast of trend line. This is one of the most important chapter in this research work.

Chapter - V: Summary, Conclusion & Recommendations

This chapter included summary, conclusion and recommendations will be helpful to improve the profitability of the banks.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Introduction

2.1.1 Concept of Profit Planning & Control

Profit Planning & Control is an important approach, mainly in profit-oriented organizations. Every business organizations involve in different activities for making profit. But profit can not be achieved easily. It should be managed well with better managerial skills. PPC facilitates the managers to accomplish managerial goals in a systematic way. The management is efficient if it is able to accomplish its objectives. It is possible only when an organization is managed in a systematic manner with the help of planning, Organization, Co-Ordinating & Controlling. PPC is also one of the ways, which assists an organizational management to accomplish it's objectives with the help of such best components of modern management towards it's destination with harmony with the available resources.

Profit is the primary measure of business success. It is necessary for their sustainability, further growth & development. If organization suffers from continuous loss over some period it will be driven out from the market. So it is the life & blood for every firm. Profit Planning is a part of an overall planning process & is an area in which the financial function plays major role. Profit plan is an important responsibility of financial manager, while an activity of this sort requires an accounting background. They also set heavily upon the knowledge of business principles, economics, statistics and mathematics. Hence from companies or firm's view profit & efforts to continue profit planning activities within the framework of accounting procedures would be determined to the long range interest of the firm.

“Profit Planning represents an overall plan of operations covers a definite period of time & formulates the planning definitions of management” (Myers, John Ho, 1999:250).

“Profit Planning in fact is a managerial techniques and a profit plan is such a written plan, in which all aspects of business operation with respect to definite future period are included. It is a formal statement of policy, plan ,objectives and goal established by the top management in respect of some future period. Profit planning is a predetermined detailed plan of action developed and distributed as a guide to current operations and as a basis for a subsequent evaluation of performance”(Gupta, 1992: 521).

Comprehensive profit planning and control helps to enhance effective management for achieving organization goals. Comprehensive profit planning & control is a new term in the literature of business, it is not a new concept in management. The other terms, which can be used in the same context are comprehensive budgeting, managerial budgeting and simply budgeting. A comprehensive profit planning and controlling is a systematic and formalized approach for stating and communicating the firm’s expectation and accomplishing management in such a way as to maximize the use of a profit plan to achieve the maximum benefit from the resources available to and organization.

PPC involves in development and application of:

- Broad and long-range objectives for the enterprises.
- Specification of goals.
- Long-range profit plan in broad terms.
- Tactical short-range profit plan detailed by assigned responsibilities(division, department, project)

- A system of periodic performance reports detailed by assigned responsibilities.
- Control System.
- Follow up procedures.

Hence, profit planning and control represents an overall plan of operations, providing guidelines to management and acting as single light for the management. It enables the management to correct it’s policy. PPC covers a definite period of time and formulates the planning decision of management. It consists of three main budgets: i. operational budget, ii. financial budget, iii. appropriation budget. PPC is used for the development and acceptance of objectives and goals and moving an organization efficiently, systematically and timely to achieve the predetermined objectives and targeted goals. PPC is also important aspect for the banking sector to increase their profitability. The commercial banks are profit-oriented institutions. They collect money, accept deposit and lend it on profitable sector as a short-term loan. The banks also provide long-term loan.

2.1.2 Profit

Profit has different meaning to different people . A profit for an organization or business accountant is simply the excess of revenue over cost. Profit is the source of income in the sense of tax collector or government. Similarly, in economic terms, profit is the reward of the entrepreneur for risk taking and management. Basically, two concepts or theories are available in our study in regard to the term profit;

- Accounting profit
- Economic profit.

Accounting Profit

Accounting profit may be calculated as;

Accounting Profit = TR- (W+R+I+M)

Where,

TR = Total revenue

W = Wage and Salaries

R = Rent

I = Interest

M= Cost of materials

Profit in the accounting sense is the net figure or difference between all types of accountable revenue & all accountable costs. In accounting, profit is expressed only in explicit and measurable accounting terms and on the book value basis. Profit is surplus of revenue over and above all paid-out costs, including both manufacturing and overhead expenses. One is to be well understood that cost may be paid up or due, is to be included while calculating profit.

Economic Profit

Economists are quit different from accountants in the matter of profit. Economic Profit is the residual value that is left in an organization after meeting all the explicit & implicit costs from it's revenue.

Pure/ Economic Profit = Total Revenue – (Explicit Costs + Implicit Costs)

Economists have propounded several theories of profits to explain profits of entrepreneurs;

- Theory of risk and uncertainty bearing,
- Dynamic theory of profit,
- Innovation theory of profits

In economics sense profit is measured in the realizable terms. All assets and liabilities are listed in terms of their maturity or remaining terms of liquidity position, not on the book value. So, it is better to include opportunity costs and other costs, which are not recorded in the books of accounts while calculating economic profit. The point of difference in accounting and economic profit is the consideration of implicit or imputed costs.

Profit is motivating factor behind many managerial activities. Profit plays three roles in the capitalistic society. Profit is the financial reward of risk taking; profit is the financial reward for having monopoly power; profit is the financial reward for the efficient management. Profit is essential for every enterprise to survive in the long run as well as to maintain capital adequacy through retained earning. It is also necessary to accept market for both debts and equity to provide funds for increased assistance to the productive sectors. 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 future. Business environment is full of risks and uncertainties. Profit is necessary to grasp the globally changing technologies, to stay in the market uncertainties, to replace and acquire assets and enhancing business scope etc. It is also necessary to plough back in the investments like innovations, business expansion and self-financing. It attracts investors for investments.

There is wide difference between profit in the accounting sense and profit in the economic sense. The most important points of difference between the economists and accountant are as follows:

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

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 adjustments that can result in profits.

2.1.3 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. The second component part of the term profitability is 'ability' which reflects the capacity or power of a joint venture 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. According to Howard and Upton; "The word profitability may be defined as the ability of a given investment to earn return on its use."

It may be mentioned that the term ' profitability' is distinguished from the word profit. Profit refers to the absolute quantum of profit where as profitability alludes to the ability to earn profit. According to WH. 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 joint venture 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 it's sales volume. Such an analysis of profitability reveals how particularly such a position stand as a result of transactions made during the year. It is particularly interesting to the suppliers of funds who can evaluate their investment and take necessary decision thereon. The state of profitability is a variable thing like the temperature and humidity of a day. A meteorologist records present weather 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 it's profitability objectives.

2.1.4 Profitability Of Commercial Banks

Amongst all objectives, profit maximization is the ultimate objectives of Nepalese commercial banks. The major source of funds of the bank is public deposit. The bank in most of the cases has to pay certain rate of interest to the public in their deposit. Thus, the banks have to mobilize these funds in the profitable sectors, which derive the maximum return on the assets. Hence the investment or granting of loan and advances by them are highly influenced by profit margin. Generally the profit of commercial bank depends upon the interest rate of the bank, volume of loan provided, time period of loan and nature of investment in different securities. It is necessary to invest in different sectors in order to earn profits and it is most necessary to set aside some of it's fund in order to maintain their liquidity. Major source of bank's fund is public deposits. So the bank has to be able to allow the depositors to withdraw their deposit in terms of need. A successful bank is one who invests most of it's funds in different earning assets standing safely from the problem of liquidity i.e. keeping cash reserves to meet the daily requirements of the depositors. Lower the liquidity, higher the profitability and higher the liquidity lower the profitability. But both are equally important, banks cannot afford to ignore any of them.

Banks today are under great pressure to perform to meet the objectives of their stockholders, employees, depositors and borrowing customers, while somehow keeping government regulators satisfied that the bank's policies, loans and investments are sound. The main objectives of the commercial banks are to maximize profits. To achieve maximum profit, the management has to make a crucial decision regarding a mixture of liquidity and profitability.

2.1.5 Liquidity

Liquidity generally refers to the cash or any assets that can be converted into cash immediately. In other words, liquidity refers to the capacity of bank to pay cash against any upcoming obligations. The major source of funds of the bank is the public deposit. A large part of bank deposits are withdrawn on demand and hence the bank must be prepared with sufficient degree of liquidity of it's assets. Banking is a serious business. Once the confidence is lost in depositors eye, they may withdrawal all the deposits with in the brief period with out giving any chance the bank to manage since most of assets of the bank are attached in the loan and advances. Bank can not survive in such situation. So it is most necessary to have sufficient degree of liquidity. Commercial banks maintain liquidity in all or many forms of following.

- Cash vault and in other banks- specially in NRB(first line of defense)
- Overnight placements, money at call or short notice or any other very short term placements (second line of defense)
- Investment in marketable securities like government- securities, which can be easily sold and readily convertible into cash (third line of defense)

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

2.2 Review of Books

Peter, Rose (1999) in his study, Commercial Bank Management Achieving superior profitability for a bank depends upon several crucial factors:

- Careful use of 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 proportions of fixed cost input the bank uses to boost its operating earnings before taxes as bank output grows.
- Careful control of operating expenses so that more dollars of sales revenue become net income.
- Careful management of assets portfolio to meet liquidity needs while seeking the highest returns from any assets acquired.
- Careful control of the bank's exposure to risks so that the losses don't overwhelm its income and equity capital.

Michael R. Baye and Dennis W. Jansen (1996) entitled "Money, Banking and Financial Markets" have tried to analyze a bank's profitability under an economic approach. They state "To maximize profits bank should attract the interest rate paid on deposits".

Lyn M. Fraser and Allien Ormiston (2002) entitled, "Understanding Financial Statements: "Banks earn interest on loans and investments, they pay interest to the depositors when interest 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 rising costs. The reverse would be true during a period of falling interest rates.

The interest gap is the difference between rate sensitive assets and liabilities. holding more rate sensitive assets than liabilities is called a positive gap and an excess of rate sensitive liabilities over assets result in a negative gap"

Rose, Kolari & Fraser (1993) entitled, "Understanding and Managing Financial Services" Analyzing the behavior and future prospects for profitability of a financial institution is a complex ask. Many factors affect each institution's profitability. Among the most important factors are the risk ness 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 to control expenses(particularly interest expenses and employee costs.)

2.3 Review of the Previous Thesis

Din Nath Tiwary (2006) has presented a dissertation on the topic of "*A Case of Credit Management of HBL*." The main objective of his research was is examine the practice of disbursing loans and recovery of HBL. His study period covers only the date of financial years from the FY 2000 to FY 2004. His research based on primary and secondary data. Though, the main source of data was collected from secondary sources. The specific sub-objectives were;

- To examine the impact of deposit in liquidity.
- To analyze the portfolio behaviour of lending and measuring the ratio of loans and advanced made in different sector.
- To examine the assets management efficiency and profitability ratio
- To analyze the lending efficiency of the bank.

The major findings observed in his study are as follows:

- It has been found that liquidity position is satisfactory.
- The cash and bank balance has not mobilized in the more profitable assets.

- Bank has not mobilized fund in government sector and has not followed the NRB directives. And bank disbursed credit on the private sector is higher.
- Assets management position of the bank shows better performance in the latest year.
- In the aspect of profitability position, interest expenses ratios shows the more profitable salivation. Also total income to total expenses ratio shows the overall predominant of the bank is satisfactory. Operating income, return as loan and advances and working fund are also showing more profitable position of bank.
- After analyzing the lending efficiency of the bank, the loan loss provision to loan and advances eradicates the decrease in non performing loan. Other loan and advance indicator shows the better performance in the latest year. The interest expenses to total deposit working funds ratio show the improving efficiency of the bank.

Pramod, Dhungana (1993) has conducted "*A study of joint venture banks profitability*". This study with main objectives of assessing the profitability of joint venture bank in Nepal during the period of five years from 1987/88 to 1991/92.

Other objectives of the study were,

- To identify whether the profitability of joint venture banks are optimal or not.
- To identify the pattern of profitability of joint venture banks especially have Nepali Grind lays Bank Limited.
- To suggest on the basis of finding and analysis.

Major findings, He had present were as follows,

- Interest income of Nepal Indosuez Bank Limited was the highest.
- NGBL's commission and discount earning and foreign exchange income were higher then both of NIBL and Nabil.
- Nabil's operating income was appeared higher then other banks.

- NIBL had paid highest tax per share than other banks and NGBL paid the same least.
- In average Nabil,NIBL and NGBL had highest personnel expenses, interest expenses on deposit and other operating expenses respectively.

Manish Timilsina (2000) has conducted "*Comparative Analysis of the Best Banks of Nepal*". In his paper tried to analyze which banks performing efficiently and which are facing financial risk. He uses four parameters including financial, operations, profitability and productivity and concludes that-

- Fresh challenges are likely to emerge in several critical areas, which impact the business and profitability of the banks. The exercise banks need to perform now also includes human resources development, technology, industrial relations, customer services, internal controls and improved risk management. These remain academic, without actually deciding he survival and sustenance of the bank.
- The opening up of the economy to foreign investment, as well as a domestic deregulation can only increase the volatility of financial markets and impact bank profitability. The deregulation of interest rate has also meant increased risk.
- The banks have done comparatively better than the previous years.
- The loans and advances to the total deposit is very low, in fact, around 1 to 2% whereas the situation was better previous year. The liquidity position of the newly established banks has not significantly improved. This indicates that they are having a problem in increasing their deposits.
- Comparing the older banks such as Nabil, Grindlays, Indosuez and Nepal SBI Banks, who have been in operation for more than 5 years, shows that they are doing very well and that they are neck to neck in terms of profitability, credit ratios and liquidity.

- In totality, the banks have been putting in a lot of efforts to increase their deposit base. On the other hand, it shows that they are either not able to increase the lending or being cautious in lending out.

Sagar Sharma (2002), has conducted in the topic of "*Practices of Management Accounting in the Listed Companies in Nepal*" had stated the following objectives;

- To study and examine the present practice of management accounting tools in the listed companies in Nepal.
- To identify the areas where management accounting tools can be applied to strengthen the companies.
- To identify the difficulties in applying management accounting tools in Nepalese countries.
- To make recommendations to overcome the difficulties in applying management accounting tools in Nepalese companies.

Sharma has pointed out various findings and recommended in his research. Some remarkable findings were as follows:

- While examining the tools practiced in the listed companies for planning, controlling and decision making, it was founded that capital budgeting, cash flow analysis, ratio analysis, annual budgeting were widely practiced management tools in the listed companies. Activity Based Costing and responsibility accountings were unused tools in the companies.
- Regarding long-term investment decision-making and fixed purchase decision-making, companies mostly practices Pay Back Period (PBP) and Net present Value (NPV) methods are employed.
- To adjust for risk while evaluating capital investment it was found that companies preferred in practicing simple technique such as sensitivity

analysis. Besides this shorten PBP and increase reqqire rate of return was also practiced.

- To carryout operational activities properly, companies mostly practice preparation of master budget.
- While preparing budget most of the companies prepared it on the basis of actual past expenses. There was no practiced of zero base budgeting and activity based budgeting.
- In the practice of budgetary control in the companies most of the companies seem to use tactical plan i.e. short term budgeting and only few companies were seen to be involved in preparation of medium term budget and none of the companies seen to be involved in long term budgetary procedure.
- Most of the companies seen to be using profit or loss while evaluating performance of the companies financial affairs. Even tough ratio analysis and standard costing was also practiced by some of the companies.
- Cost based pricing method was used by most of the companies while pricing products. Transfer pricing was practices by only few companies.
- Least square method and high low point method of cost segregation has been found to be used while segregating mixed costs into fixed and variable by very fewer companies.
- Regarding cost and revenue estimation All of the companies forecasted them on the basis of past; trend analysis.

Khagendra Prasad Ojha (1995), has conducted on " *Profit Planning and Control in Manufacturing Pubic Enterprises in Nepal*" with two selected enterprises namely Royal Drugs Limited and Herbs Production and Processing Company Limited has offered the following major findings:

- Inadequate planning of profit due to lack of skilled manpower.
- inadequate authority and responsibility to planning department.
- Various cost are not diagnosed as controllable and non-controllable expenses.

- Pricing system is not scientific.
- Lack of entrepreneurship and commercial concepts in overall operations of enterprises.

2.4 Research Gap

There is wide gap between the present research and previous researches. Most of the previous researches were conducted on profit planning and control by focusing the budgeting practices in manufacturing companies, especially public enterprises. They were either a case study of particular company or comparative study of two different companies. A few numbers of researches have been made in the area of financial performance analysis, receivable management, inventory management, CVP analysis and so on. But these all are only a part of management accounting, which can't represent the overall practices of management accounting in Nepalese companies. So this study would play important role to fulfill the gap. This research attempted to identify which financial tools and techniques were used and which were not used. It also examine the current profitability position of LBL MachBL and KBL.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Research Design

Research design is the plan, structure and strategy of investigations conceived so as to obtain answers to research questions and to control variances. It is the arrangement of conditions for collection and analysis of data. Here descriptive cum analytical research design is used to achieve the objective of this study. Past five years data were taken to analysis from the FY 2059/60 to 2063/64. To fulfill the objectives of the study primary and secondary data are used. All the data were collected either visiting the banks counters or through internet. Some recent financial tools along with statistical tools were applied to examine facts. The different techniques were adopted to evaluate the profitability of LBL, MachBL and KBL.

3.2 Population and Sample

Population in its real sense is the people residing in certain location classified geographically or politically. In this research all the commercial banks operating in the country represent as population of the research. There are altogether 23 commercial banks functioning all over the kingdom. Though the title itself suggest that the thesis work had to be strictly based upon population. Stating in other words, the present research work had to include all the commercial banks operating in the country. But as per the norms and values of the methodology of the thesis work, minimum 5 years data are to be included in the study. But some of the commercial banks operating in the country did not completed their five fiscal years. There are some semi- government banks which do not provide their annual report. Therefore such banking institutions were not included in this research work. In this study profitability of LBL with comparison to MBL and KBL, were selected from population.

3.3 Source and Nature of Data

Nature and source of data of this research were all most derived from secondary source. In this Category, those data were collected from the published documents, some from the concerned banks, some from website, annual reports and booklets. Following are some of the secondary source of data of the concerned banks used in this study.

- Financial Statements especially income statement and profit and loss account published in the website of the respective banks.
- Annual report published in the website of the respective banks.
- News paper, Magazines, booklets and related articles.
- Other related data available in the subject area.

Even though few information were collected by visiting different banks regarding the nature of income and expense. Primary source of data are the data, which are original in nature, collected by direct visit by the researcher himself/herself to the field. In this research work some of the data regarding products of the banks, types of the income etc. were collected by the researcher himself/herself for the special need of his/her report work.

3.4 Tools and Techniques used

3.4.1 Net Profit Ratios

1. Return On Equity

Return on Equity = Sh

Where, Shareholder’s equity = Share Capital + Reserves + Loan Loss Provision

The shareholders are true owners of the bank and thus the profit belong to them. This ratio displays the returns earned on the shareholders equity. The shareholders equity involved share capital and all other reserves including the loan loss provision.

2. Earning Per Share

Earning Per Share =

The performance and achievement of the banks can be identified with their earning power. The higher ratio displays the strength of the bank. This ratio displays the portion of each share on the profit made by the bank. It is one of the major tools used by the investor to access the performance of their investment.

3. Net Profit Margin

Net Profit Margin =

Where, Total Income is the sum total of the Credit side of Profit and loss Account

Every profit oriented organization wants to get maximum profit because they should bear various costs and risk. The income generated by the bank is used in different activities. There are various expenses of the bank to be dealt with. So, in case the income of the bank exceeds the expenses, there is a surplus, which is called a profit. The net profit margin displays the proportion of net profit from the income of the bank.

3.4.2 Income Expense Ratios

1. Components of Income

The income of the bank is comprised of various sources. This provides an insight of the contribution made by them towards the total income. The source of income is classified into three portions-interest income, commission income and other income.

Where,

Interest Income = Income from Loans and Advances, Investment, Agency Balance, Money at Call and Inter Lending.

Commission Income = Income from Bills /Document Purchase, L/C, G'ee Commission, Remittance Income, Collection etc.

Other Income = Exchange Income + Income from Sale of Assets + Other Miscellaneous Income Like Safe Locker Rentals, Credit Cards etc. , Service Charges etc.

2. Components of Expenses

Like income, the expenses of the bank can be broadly categorized into three portions- Interest expenses, staff expenses, Operating expenses and other expenses. So, this mix will provide a clear picture of the portion of each head in the total expense of the bank.

Where, Interest expenses = Interest expenses on deposits and borrowings

Staff Expenses = Salary + Allowances + Bonus + Pension Gratuity + Provident Fund etc.

Operating Expenses = Rent + Water, Electricity, Power, Telephone charges + Repair and Maintenance + Depreciation on Fixed Assets + Legal Charges + Advertisement Expenses + Newspapers and

Periodicals etc.

Other Expenses = Loss on Sale of Assets + Write Off Bad Debts +
Additional Loan Loss Provision.

3. Interest Payout Ratio

Interest Payout Ratio =

Where, Interest Expenses = Expenses on Deposit and Borrowings
Interest Income = income on Loans and Advances + Investment +
Money at Call + Inter Bank Lending etc.

The main function of a bank is to collect deposit and advance loans. The bank pays interest in the deposits and charges interest on the loans and advances. It also realizes income from the investments and call deposits. Similarly the bank has to pay interest in its borrowings. Thus, this ratio provides the proportion of interest payment of the bank as compared to the interest income generated by the bank.

4. Loan Loss Provision To Total Income

Loan Loss provision To Total Income = $\frac{\text{Additional Loan L}}{\text{Total Inc}}$

Where,
Additional Loan Loss Provision = Additional Provision created in the period.
Total Income = Sum total of the credit side of profit and loss account.

The risk associated with the lending cannot be completely eradicated. However, it can be minimized through creating a buffer in case of losses. Thus, NRB directive requires the banks to create a certain level of provision for loan loss. The requirement depends on the quality of the assets of the bank with provision rate ranging from 1% to 100%. Thus this comparison provides an impact of the loan loss provision on the income of the bank.

5. Operating Expenses to Total Income

Operating Expenses to Total Income =

Where,

Operating Expenses = Expenses Rent+ Water, Electricity, Power, Telephone Charges + Repair and Maintenance + Depreciation on fixed Assets + Legal Charges + Advertisement Expenses + Newspapers and Periodicals + Board Meeting Expenses etc.

6. Staff expenses per Employee:

Staff Expenses per Employee =

Where,

Staff Expenses = Salary + Allowances + Bonus + Pension Gratuity +Provident Fund + Medical Expenses+ Training Expenses etc.

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

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

3.4.3 Others

1. Credit to Deposit Ratio

Credit to Deposit Ratio =

Where,

Total Credit = Loans and Advances (Except Staff Loan) + Bills Purchased

Total Deposit = Sum of all forms of Deposits in the Bank.

The bank cannot invest all the resources on the profitable sectors. It has to apportion a certain amount of resources for the liquidity purposes. So, the banks normally do not invest all their deposits in loans and advances. This ratio analyses the proportion of deployment of total deposit in loans and advances including the bills purchased.

2. NPA to Total Credit

NPA to Total Credit =

Where,

NPA = Loans and Advances with due for more than 3 months and 90 days in case of bills purchased.

Total Credit = Loans and Advances (Except Staff Loan) + Bills Purchased

All the loans and advances of the bank may not be good. So, in order to identify such lending, the NRB has designed certain criteria for the classification of loans with respect to the risks involves. There are four classifications pass, substandard, doubtful and loss. The loan and advances falling under categories except pass is called NPA. The NPA can be a result of many factors like poor credit appraisals, poor credit management or the economic slowdown. The profitability of default is higher as the credit move into the next category. This ratio provides the proportion of such loans and advances in the total portfolio. In the industry average is taken of banks of which the data is available.

3. Loan Loss Provision to NPA

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

Where,

Loan Loss Provision = Sum of Loan Loss Provision after the Current year Adjustments

NPA = Loans and Advances with due for more than 3 months and 90 days in Case of Bills Purchased.

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

4. Interest Spread

Interest Spread = % of Interest Income - % of Interest Expenses

Where,

% of Interest Income = $\frac{\text{Interest Income}}{\text{Credit + Money at call + lending + Invest}}$/

% of Interest Expenses = $\frac{\text{Int}}{\text{Depo}}$

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

3.4.4 Statistical Tools

1. Standard Deviation and Coefficient of Variance

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

Standard Deviation (∃) =

Where,

N = No of observations

= $(X- \ )^2$

Coefficient of variation (C.V) =

Where,

∃ = Standard deviation of the observation

= arithmetic mean of the observation

2. Correlation of Net Profit

Correlation explains the relationship between two series, whether they are related or not and if yes, in what manner? So, under this head, it helps to find the relationship between the profitability of NB Bank with the Industry average. For this purpose we use the Karl Pearson's Coefficient of Correlation.

Correlation Coefficient (r) =

Where,

x = (X-)

y = (Y-)

N = No of observations

$\exists_x$ = Standard deviation of X series

$\exists_y$ = Standard deviation of Y series

3. Trend Analysis

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

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

$Y = a + bX$

Where,

Y = estimated value in Year X

a=

b=

X = No. of years from the average (mid year)

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

Commercial Banks are the backbone of economic development of country. The main function of commercial banks are deposit collection and it's effective utilization. Deposits collection shows the bank's efficiency and effective utilization shows its success. A Bank has to bear many official costs and has to pay interest on deposits, pay dividends to their shareholders. Therefore earning interest through deposit utilization is very crucial task of every bank. Profit is necessary to the bank for their sustainability, further growth and development. Without profit, existence of bank in long term can not be possible.

Three banks were taken to fulfill the objectives of the study. This chapter contained the profitability analysis of LBL with comparison to the MachBL and KBL. To achieve the objectives of this study the data were presented in tabular and graphical form. In order to analyze, various tools like ratio analysis, trend analysis etc. were used.

4.2 Net Profit Ratio

4.2.1 Return on Equity

This ratio helps us to judge whether the firm has earned satisfactory return for it's equity holder's or not. The equity is the wealth of shareholders. It measures the company's return on the investment made by owner of the company. The return on equity of the banks of the 5 years period is given below:

Table 4.1

Return on Equity Ratio

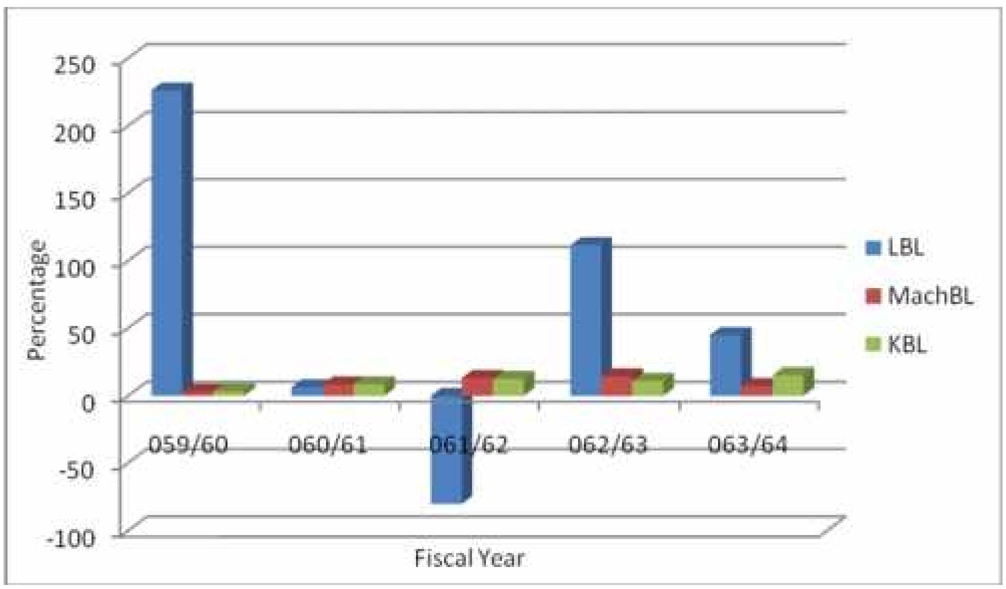
(in %)

Banks	059/60	060/61	061/62	062/63	063/64	Mean	S.D	C.V
LBL	226.44	6.29	-80.31	111.63	44.78	21.77	62.11	285.3
MachBL	3.05	8.42	13.31	14.39	7.41	9.32	4.13	44.33
KBL	3.17	8.54	12.45	11.11	15.27	10.11	4.09	40.47

Source: Annual Reports

Figure 4.1

Return on Equity Ratio



The above table shows that the return on equity of LBL decreased in the FY year 060/61 from 26.44% to 6.29%. The bank went into loss in the FY 061/62. But It earned profit in the FY 062/63 and 063/64.

The above table shows that MBL has 3.05%, 8.42%, 13.31%, 14.39%, 7.41%, Return on equity ratio from the FY 059/60 to 063/64 respectively. KBL has 3.17%, 8.54%, 12.45%, 11.11%, 15.27% Return on equity ratio from the FY

059/60 to 063/64 respectively. Return on equity of both Banks has increased over the period.

The coefficient of variation ratio of return on equity of LBL is greater than MBL and KBL which is 285.30%> 44.33% > 40.47%. Less the C.V more will be the uniformity and more the C.V less will be the uniformity. Returns on shareholders fund reflect that future investment will sound and prospective investors will get attraction. It also reflects the market value of share. Comparatively the market value of the KBL is higher than that of MBL and KBL.

4.2.2 Return On Total Assets

ROTA indicates how effectively all the assets have been utilized by the management. Increasing ROTA indicates the effectiveness of the bank. It measures how far the management has utilized all the assets of the bank for profit generation. ROTA of the banks of the 5 years period is given below.

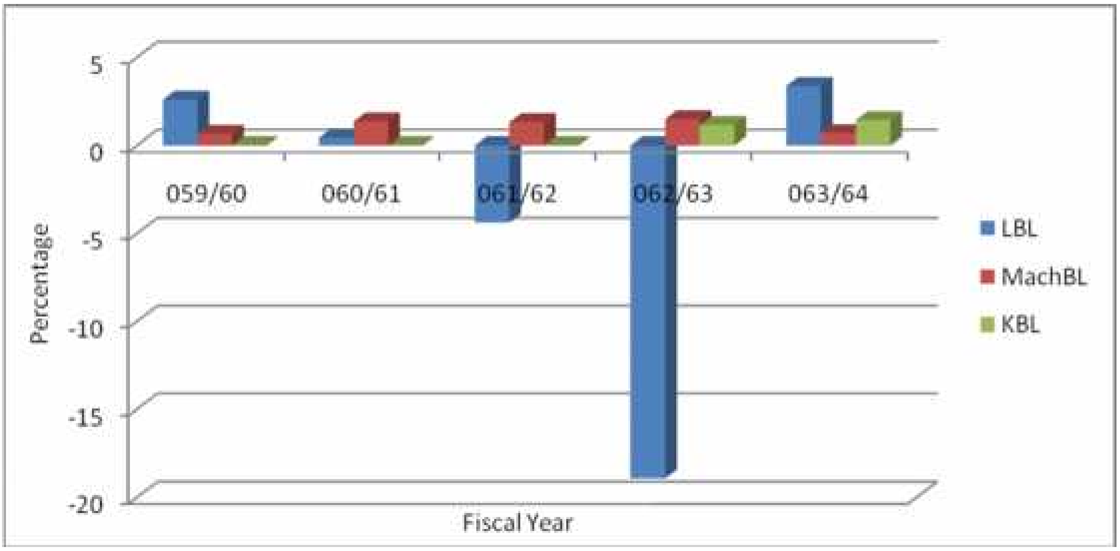
Table 4.2
Return on Total Assets Ratio

(in %)

Banks	059/60	060/61	061/62	062/63	063/64	Mean	S.D	C.V
LBL	2.59	0.43	-4.38	-18.92	3.37	-3.38	8.22	243.18
MachBL	0.64	1.35	1.31	1.48	0.69	1.094	0.35	32.46
KBL	0.0042	0.0089	0.0118	1.15	1.43	0.52	0.63	121.94

Source: Annual Reports

Figure 4.2
Return on Total Assets Ratio



The above table shows that ROTA of LBL seems highly fluctuating.ROTA of LBL were 2.59%, 0.43%, -4.38%, -18.92% and 3.37% in the FY 059/60 to 063/64 respectively. The bank has better position only in the FY o59/60 and 063/64.

The ratio appeared 0.64%, 1.35%, 1.31%, 1.48%, 0.69% of MBL and 0.0042%, 0.0089%, 0.0118%, 1.15%, 1.43% of KBL. Both Banks are in rising trend. The mean ratio of MBL is higher than that of KBL and LBL i.e. 1.094%> 0.520%> -3.382% respectively.

The C.V of LBL shows the negative ratio. C.V of MBL was 32.46% which indicated more consistency than that of KBL 121.94% and LBL -243.18%.

4.2.3 Earning Per Share

This ratio displays the portion of each share on the profit made by the bank. The higher ratio displays the strength of the bank. Every shareholder is much interested in the return on the share. A company is investing when the capital invested can earn adequate return per share. The performance and achievement of a bank can be identified with the earning power of the bank. EPS of banks of 5 Years period is given below.

Table 4.3

Earnings Per Share Ratio

(in Rs)

Banks	059/60	060/61	061/62	062/63	063/64	Mean	S.D	C.V
LBL	25.47	5.33	-39.35	-161.21	32.07	-27.54	71.34	-259.08
MachBL	2.81	8.49	15.43	18.74	9.02	10.898	5.59	51.38
KBL	3.26	9.74	17.58	16.59	22.70	13.97	6.76	48.39

Source: Annual Reports

Figure 4.3

Earnings Per Share Ratio

The above table shows that EPS of LBL were Rs 25.47,5.33,-39.35,-161.21,32.07 in the FY 059/60 to 063/64 respectively. EPS of LBL in the FY 061/62 and 062/63 were in negative. But EPS of MachBL & KBL was In increasing ratio during the period. EPS of MachBL were Rs 2.81,8.49,15.43,18.74,9.02 and EPS of KBL were Rs 3.26, 9.74, 17.58, 16.59, 22.70 in the FY 059/60 to 063/64 respectively. Mean ratio of KBL is greater than MachBL & LBL i.e 13.97> 10.89> 27.54 respectively. C.V of KBL is more consistency than MachBL & KBL.

4.2.4 Net Profit Margin

Every Organization wants to earn maximum profit. Profit is the measurement tools of the performance of any institution. Likewise, it also plays as an important role to measure the performance of the banks. Profit is important to the management, employees and the government etc. for their own reason. Management may use it to measure their performance, employees may use it to validate their claim for better remunerations and the government may use it to receive taxes.

This ratio measures the effectiveness of management. It reflects how far Management is able to manage its expense and cost control. Higher ratio of Net profit margin indicates the management has been able to control its operational costs and maintain efficiency. Net profit Margin of Banks of 5 years period is given below.

Table 4.4

Net Profit Margin Ratio

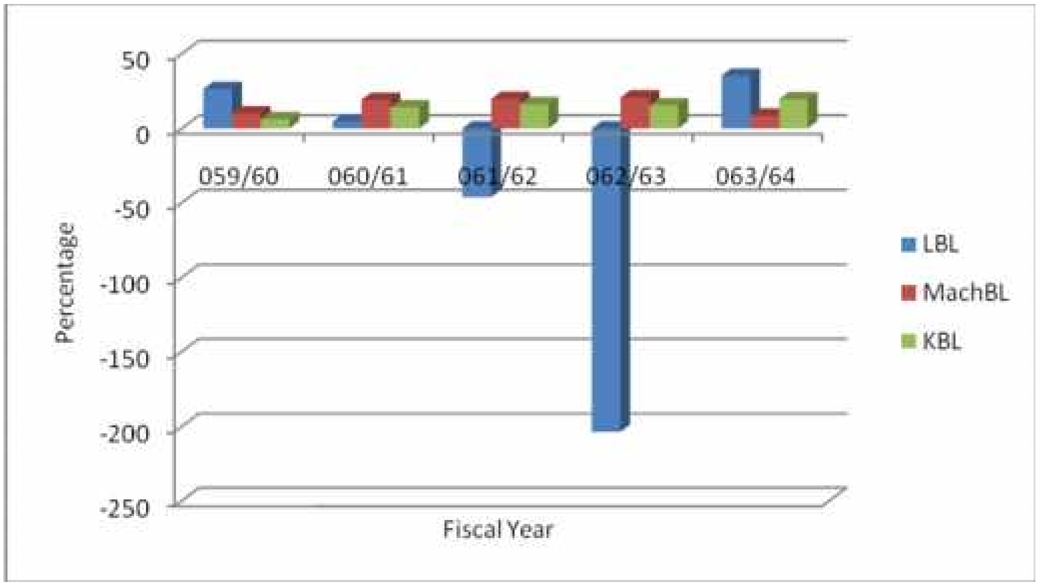
(in %)

Banks	059/60	060/61	061/62	062/63	063/64	Mean	S.D	C.V
LBL	26.51	4.65	-46.28	-203.63	35.23	-36.70	88.13	-240.11
MachBL	10.13	19.16	19.82	20.80	8.66	15.71	5.21	33.13
KBL	6.17	14.20	16.26	15.52	19.61	14.35	4.46	31.1

Source: Annual Reports

Figure 4.4

Net Profit Margin



The above table shows that Net profit margin of LBL were 26.515%, 4.65%, -46.28%, -203.63%, 35.23% in the FY 059/60 to 063/64 respectively. In the FY 062/63 this ratio seems negative. Net profit margin of MachBL and KBL were 10.13%, 19.16%, 19.82%, 20.80%, 8.66% and 6.17%, 14.20%, 16.26%, 15.52%, 19.61% in the FY 059/60 to 063/64 respectively. Net profit margin of MachBL increased from the Fy 059/60 t0 062/63 but decreased in the Fy 063/64. Net profit margin of KBL increased over the period.

C.V of LBL is in negative .MachBL has 33.13% and KBL has 31.10% C.V ratio.

4.2.5 Foreign Exchange Income to Total Income

Commercial Banks deal with foreign currencies to facilitate different activities. Commercial Banks help to facilitate foreign trade through letter of credit, Incoming and outgoing foreign exchanges in remittances, purchase and sale of foreign bills. Such activities result gain or loss to the banks. And the position or stock of currency is affected by the exchange rates revalued time to time. In this way the commercial banks earn income- trading gain and Revaluation gain under the heading of foreign exchange income. Foreign exchange income to total income ratio of banks of 5 years period is given below.

Table 4.5

Foreign Exchange Income to Total Income Ratio

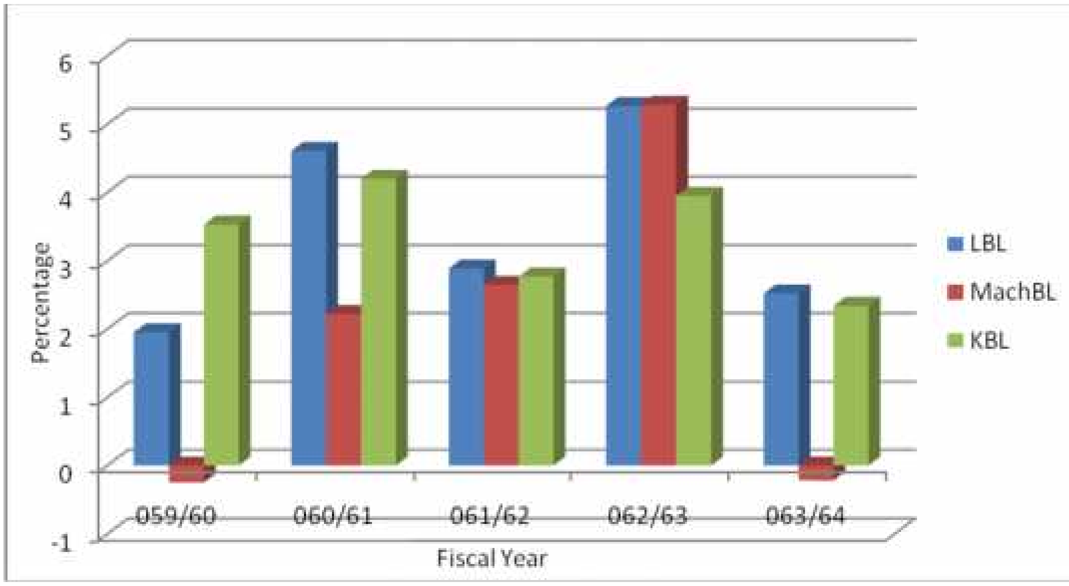
(in %)

Banks	059/60	060/61	061/62	062/63	063/64	Mean	S.D	C.V
LBL	1.95	4.61	2.89	5.27	2.52	3.45	1.27	36.88
MachBL	-0.25	2.22	2.65	5.29	-0.22	1.938	2.06	1.06
KBL	3.53	4.20	2.77	3.95	2.34	3.36	0.70	20.93

Source: Annual Reports

Figure 4.5

Foreign Exchange Income to Total Income Ratio



The above table shows that the ratio appeared 1.95%,4.61%, 2.89%, 5.27%, 2.52% of LBL, -0.25%, 2.22%, 2.65%, 5.29%, -0.22% of MachBL, 3.53%, 4.20%, 2.77%, 3.95%, 2.34% of KBL during the FY 059/60 to 063/64 respectively. The mean ratio of LBL is higher than KBL and MachBL i.e., 3.44% >3.35% >1.93%. The C.V ratio of MachBL is 1.06%, KBL is 20.93% and LBL is 36.88%. So it can be said that MachBL is more consistency than KBL and LBL. If comparison is made between LBL and KBL then it can be concluded that KBL is more consistency than the LBL because the C.V ratio of KBL is less than the LBL.

4.3 Income Expenses Ratios

4.3.1 Fees and commission to Total Operating Income

Commercial Banks are authorized by NRB to deal the banking agency services like under-writings , counseling various service charges, renewal fees and other consultancy functions. They provide other services like, LC guarantee, bills/ clearing, safe deposits, credit cards, ATM etc. which are non-funded fee based services. Fees and commission are major income sources of Nepalese commercial banks. Fees and commission to total operating income ratio of banks of Five years periods is given below.

Table 4.6

Fees and Commission to Total operating Income Ratio

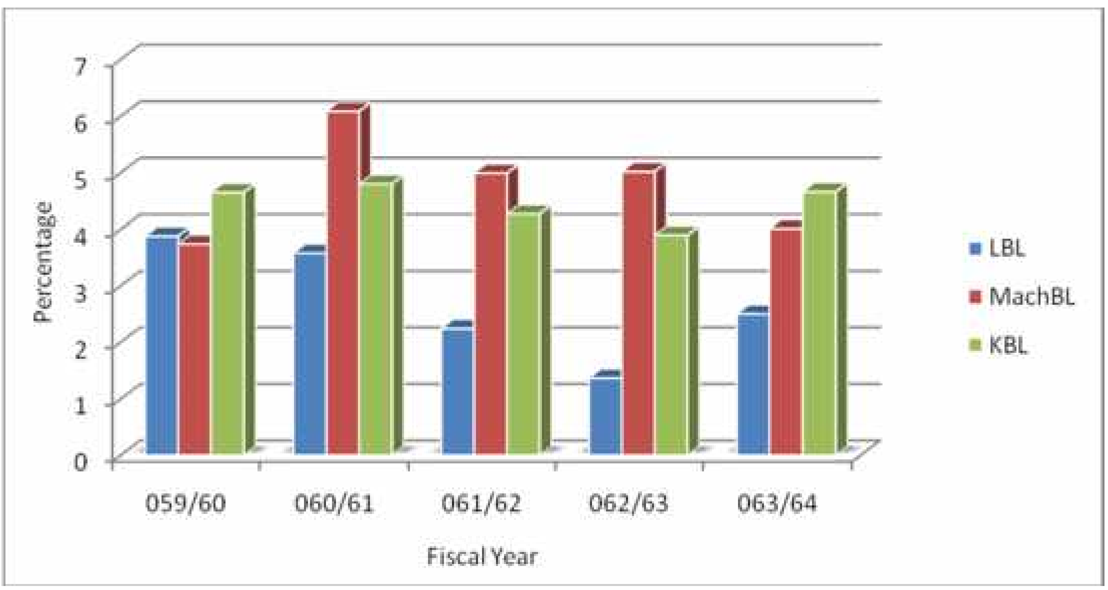
(in %)

Banks	059/60	060/61	061/62	062/63	063/64	Mean	S.D	C.V
LBL	3.88	3.58	2.24	1.37	2.50	2.714	0.91	33.71
MachBL	3.74	6.09	4.99	5.02	4.01	4.77	0.83	17.52
KBL	4.65	4.80	4.27	3.90	4.66	4.46	0.32	7.38

Source: Annual Reports

Figure 4.6

Fees and Commission to Total operating Income Ratio



The above table shows that the ratio appeared 3.88%, 3.58%, 2.24%, 1.37%, 2.50% of LBL, 3.74%, 6.09%, 4.99%, 5.02%, 4.01% of MachBL, 4.65%, 4.80%, 4.27%, 3.90%, 4.66% of KBL from the FY 059/60 to 063/64 respectively. Mean ratio of LBL, MachBL and KBL is 0.91, 0.83 & 0.32 respectively. Mean ratio of LBL is higher than MachBL and KBL. The C.V ratio of KBL is 7.38% which is less than MachBL and LBL. So Fees & commission to total operating income ratio of KBL is more consistent than MachBL and LBL. If LBL and MachBL are compared then it can be said that MachBL is more consistent than LBL because the C.V ratio of MachBL was less than LBL i.e. 17.52% < 33.71%.

4.3.2 Loan Loss Provision to Total Income

Loan loss ratio describes the preparation of provision for loss to total income. Greater loan loss provisions are required to allow in income statement if high loss is expected. This leads to low profit and possible losses that produce less increase or decrease in the capital. Loan loss provision to total income ratio of Banks of five years period is given below.

Table 4.7

Loan Loss Provision to Total Income Ratio

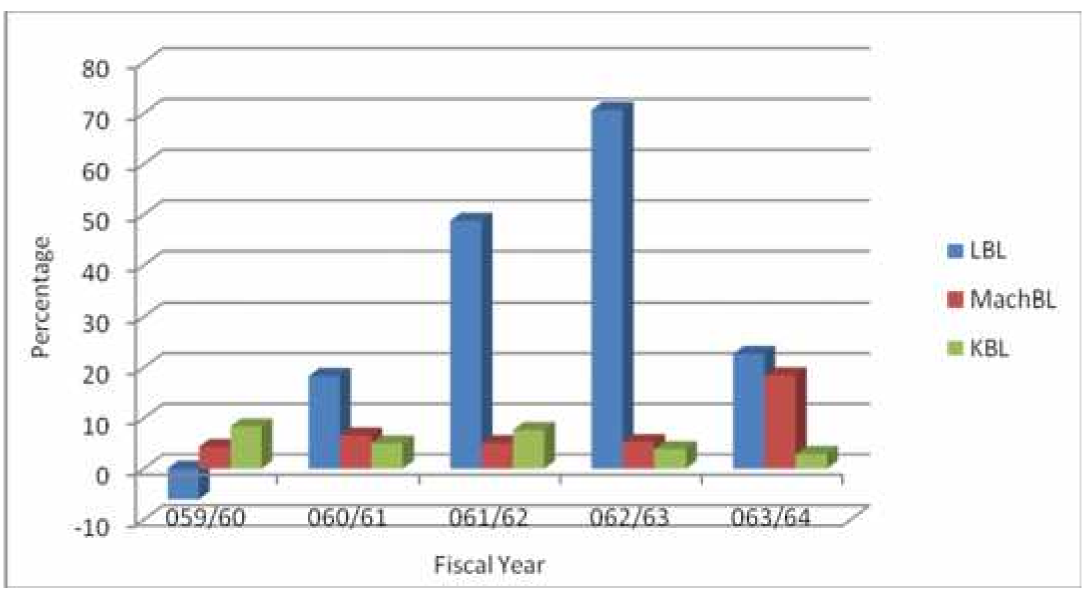
(in %)

Banks	059/60	060/61	061/62	062/63	063/64	Mean	S.D	C.V
LBL	-6.02	18.28	48.78	70.63	22.65	30.86	26.41	85.58
MachBL	4.28	6.56	5.01	5.21	18.42	7.89	5.31	67.29
KBL	8.31	4.99	7.60	3.84	2.85	5.518	2.11	38.31

Source: Annual Reports

Figure 4.7

Loan Loss Provision to Total Income Ratio



The above table shows that ratio appeared -6.02%, 18.28%, 48.78%, 70.63%, 22.65% of LBL, 4.28%, 6.56%, 5.01%, 5.21%, 18.42% of MachBL, 8.31%, 4.99%, 7.60%, 3.84%, 2.85% of KBL from the FY 059/60 to 063/64 respectively. Mean ratio of LBL, MachBL and KBL were 85.58, 67.29 and 38.31.Mean ratio of LBL was greater than others. C.V ratio of KBL was lower than MachBL and LBL i.e. 38.31% < 67.29% <85.58%. So loan loss provision to total income ratio of KBL was more consistent. But C.V ratio of MachBL was lower than LBL So it was more consistent than LBL but not the KBL.

4.3.3 Operating Expenses to Total Income

Rent, water, electricity, power, telephone charges, repair and maintenances, depreciation on fixed assets, legal charges, advertisement exps, newspapers exps etc. expenses are included under the heading of operating exp. These expenses dilute a significant amount of the revenue. Operating expenses to total income ratio of Banks of five years period is tabulated below.

Table 4.8

Operating Expenses to Total Income Ratio

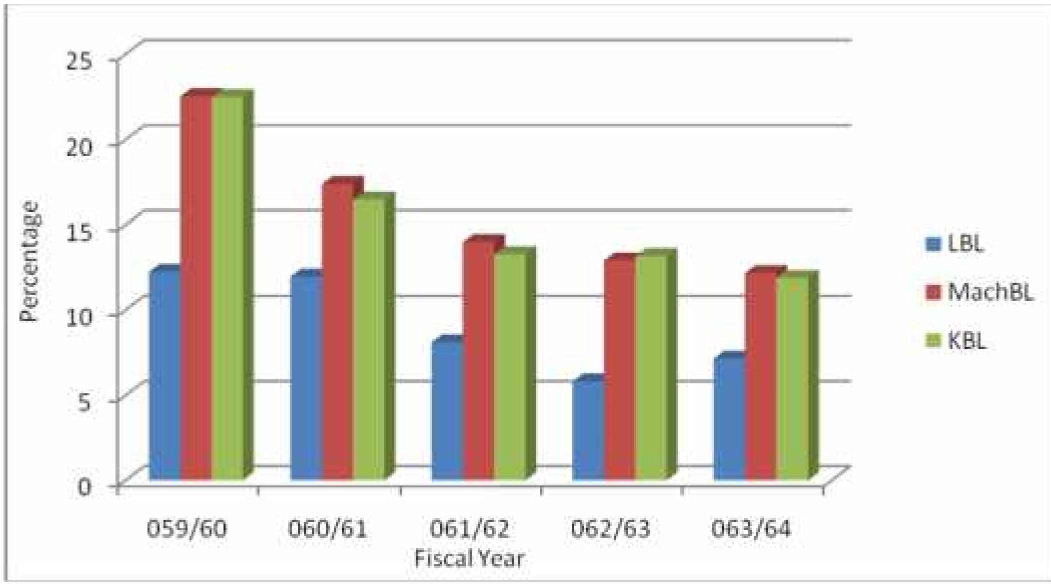
(in %)

Banks	059/60	060/61	061/62	062/63	063/64	Mean	S.D	C.V
LBL	12.25	11.97	8.10	5.81	7.14	9.05	2.60	28.72
MachBL	22.55	17.38	14.01	12.91	12.18	15.81	3.81	24.12
KBL	22.50	16.46	13.28	13.17	11.90	15.46	3.83	24.75

Source: Annual Reports

Figure 4.8

Operating Expenses to Total Income Ratio



The above table shows that operating exp to total income ratio were 12.25%, 11.97%, 8.10%, 5.81%, 7.14% of LBL, 22.55%, 17.38%, 14.01%, 12.91%, 12.18% of MachBL, 22.50%, 16.46%, 13.28%, 13.17%, 11.90% of KBL from the FY 059/60 to 063/64 respectively. Mean ratio of LBL was 9.05, MachBL 15.81, KBL 15.46. Mean ratio of MachBL was higher than LBL and KBL. C.V ratio of MachBL was less than KBL and LBL i.e. 24.12% <24.75% < 28.72% which indicated that operating expenses to total income ratio of MachBL was more consistent than KBL and LBL. If comparison is made between LBL and KBL then it can be said that operating expenses to total income ratio of KBL was more consistent than LBL.

4.3.4 Interest Expenses to Total Expenses

Interest expenses is the major expenses head of commercial bank. Under this heading interest expenses on deposits and borrowings are included. Deposits are the raw material inputs for banks to produce loans. Banks provide low interest to their deposit holders and charges more interest to the loan. In fact, the lower the cost of deposits, the higher the profitability margin and vice- versa. Interest expenses to total expenses ratio of banks of five years period is tabulated below.

Table 4.9

Interest Expenses to Total Expenses Ratio

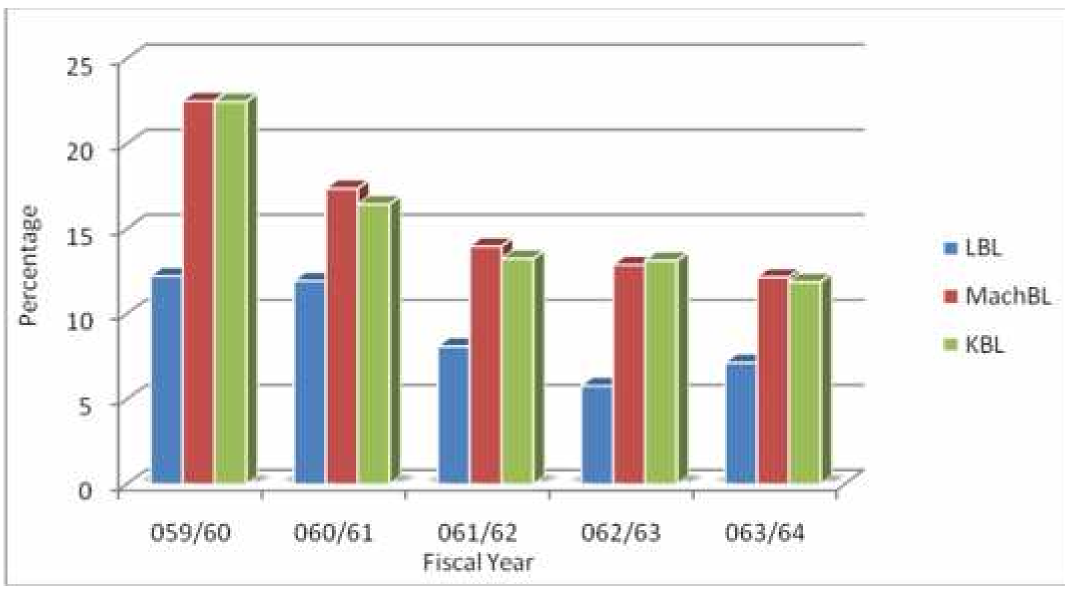
(in %)

Banks	059/60	060/61	061/62	062/63	063/64	Mean	S.D	C.V
LBL	55.51	49.18	31.10	17.79	27.52	36.22	14.01	38.68
MachBL	50.38	46.61	43.68	43.36	46.48	46.10	2.53	5.49
KBL	45.96	47.81	44.42	50.06	45.40	46.73	1.99	4.27

Source: Annual Reports

Figure 4.9

Interest Expenses to Total Expenses Ratio



The above table shows that interest expenses to total expenses ratio were 55.51%, 49.18%, 31.10%, 17.79%, 27.52% of LBL, 50.38%, 46.61%, 43.68%, 43.36%, 46.48% of MachBL, 45.96%, 47.81%, 44.42%, 50.06%, 45.40% of KBL from the FY 059/60 to 063/64 respectively. Mean ratio of KBL was higher than MachBL and KBL i.e. 46.73> 46.10 > 36.22. C.V ratio of KBL was 4.27% which was less than MachBL and LBL so, interest expenses to total expenses ratio of KBL was more consistent. If LBL and MachBL are compared then it can be said that Interest expenses to total expenses ratio of MachBL was more consistent than LBL because MachBL has less C.V ratio than LBL.

4.3.5 Staff expenses to Total Operating Expenses

Salary, Allowances, Bonus, pension and gratuity, provident fund etc. are included in the heading of staff expenses. Staff expenses to total expenses ratio of Banks of five years period is tabulated below.

Table 4.10

Staff Expenses to Total Operating Expenses Ratio

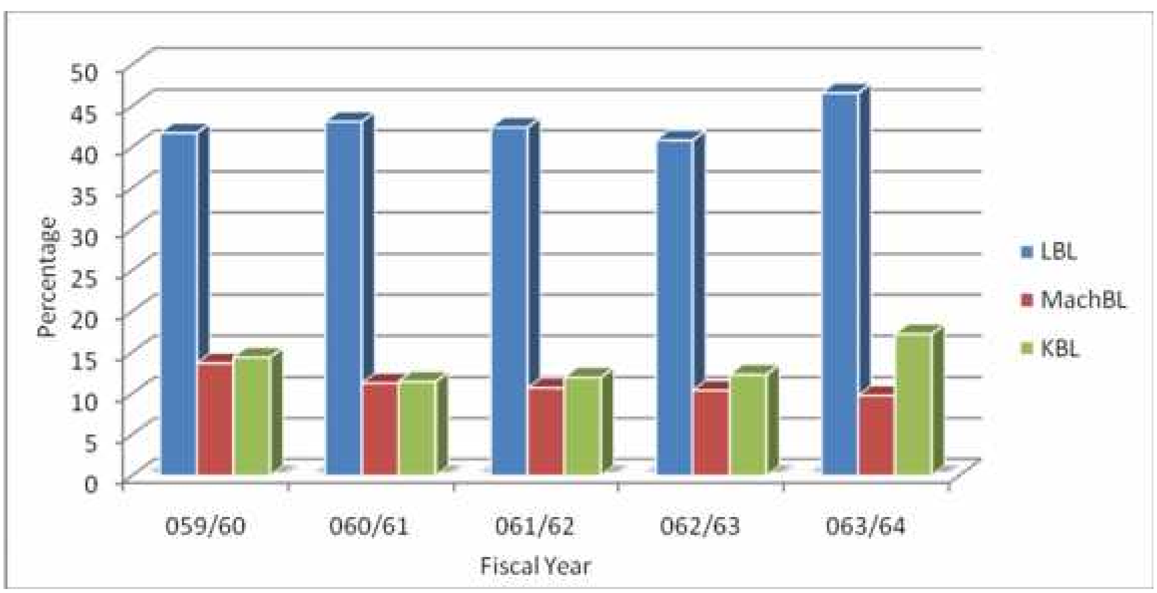
(in %)

Banks	059/60	060/61	061/62	062/63	063/64	Mean	S.D	C.V
LBL	41.71	43.11	42.40	40.83	46.60	42.93	1.98	4.62
MachBL	13.66	11.30	10.70	10.39	9.77	11.16	1.34	12.02
KBL	14.38	11.48	11.96	12.32	17.22	13.47	2.12	15.72

Source: Annual Reports

Figure 4.10

Staff Expenses to Total Operating Expenses Ratio



The above table shows that staff expenses to total expenses ratio were 41.71%, 43.11%, 42.40%, 40.83%, 46.60% of LBL, 13.66%, 11.30%, 10.70%, 10.39%, 9.77% of MachBL, 14.38%, 11.48%, 11.96%, 12.32%, 17.22% of KBL from the FY 059/60 to 063/64 respectively. Mean ratio of LBL, MachBL and KBL was 42.93, 11.16 and 13.47. The C.V ratio of LBL was 4.62% which was less than MachBL and KBL. It indicated that staff expenses to total expenses ratio of LBL was more consistent than MachBL and KBL. If MachBl and KBL are compared then it can be said that staff expenses to total expenses ratio of MachBL was more consistent than KBL. Because MachBL has less C.V ratio than KBL i.e. 12.02%< 15.72%.

4.3.6 Office Operating Expenses to Total Expenses

This ratio indicates that percentages of office operating expenses which is bear by banks over its total expenses. Office operating exp to total expenses of Banks of five years period is given below.

Table 4.11

Office Operating Expenses to Total Expenses Ratio

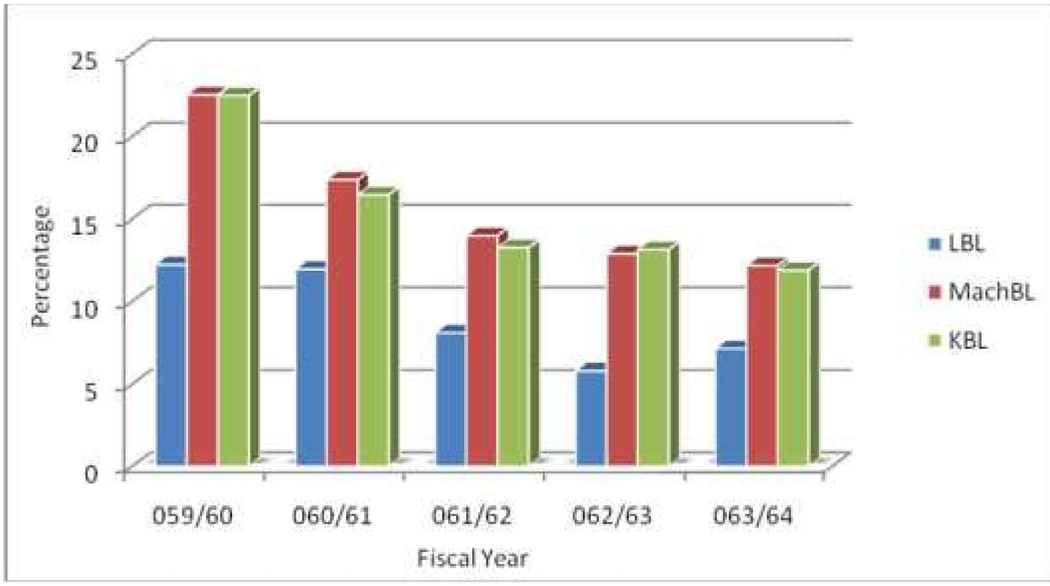
(in %)

Banks	059/60	060/61	061/62	062/63	063/64	Mean	S.D	C.V
LBL	12.25	11.97	8.10	5.81	7.14	9.054	2.60	28.71
MachBL	22.55	17.38	14.01	12.91	12.18	15.81	3.81	24.12
KBL	22.50	16.46	13.28	13.17	11.90	15.46	3.83	24.75

Source: Annual Reports

Figure 4.11

Office Operating Expenses to Total Expenses Ratio



The above table shows that office operating exp to total expenses ratio were 12.25%, 11.97%, 8.10%, 5.81%, 7.14% of LBL, 22.55%, 17.38%, 14.01%, 12.91%, 12.18% of MachBL, 22.50%, 16.46%, 13.28%, 13.17%, 11.90% of KBL from the FY 059/60 to 063/64 respectively. Mean ratio of LBL was 9.05, MachBL 15.81, KBL 15.46. Mean ratio of MachBL was higher than LBL and KBL. C.V ratio of MachBL was less than KBL and LBL i.e. 24.12% <24.75% < 28.72% which indicated that office operating expenses to total expenses ratio of MachBL was more consistent than KBL and LBL. If LBL and KBL are compared then it can be said that office operating expenses to total expenses ratio of KBL was more consistent than LBL.

4.3.7 Staff Expenses Per Employee

Staff is very important resources of any organization. Motivate and satisfied human resource can do their duty effectively. So Banks spend some money for their staff as a salary, Allowance, pension etc. Staff expenses per employee of Banks of five years period is given below.

Table 4.12

Staff Expenses Per Employee Ratio

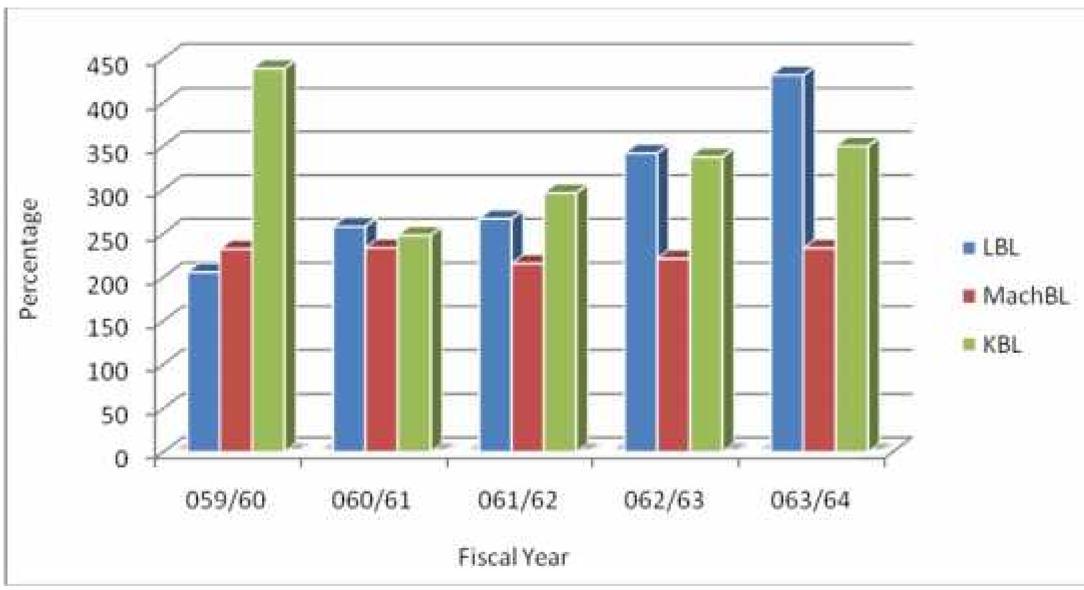
(Rs in'000)

Banks	059/60	060/61	061/62	062/63	063/64	Mean	S.D	C.V
LBL	206.08	258.13	266.79	342.12	431.20	300.86	78.31	26.02
MachBL	232.47	233.79	215.92	221.48	233.59	227.45	7.37	3.24
KBL	438.75	248.48	296.46	337.96	350.20	334.37	63.20	18.90

Source: Annual Reports

Figure 4.12

Staff Expenses Per Employee Ratio



The above table shows that staff expenses per employee (Rs in '000) were 206.08, 258.13, 266.79, 342.12, 431.20 of LBL, 232.47, 233.79, 215.92, 221.48, 233.59 of MachBL, 438.75, 248.48, 296.46, 337.96, 350.20 of KBL from the FY 059/60 to 063/64 respectively. Staff expenses per employee of LBL increased over the period, MachBL has fluctuating trend, but KBL also increased it's Per employee expenses. Mean ratio of LBL, MachBL, KBL were 300.86, 227.45, 334.37 respectively. C.V ratio of MachBL was 3.24% which was less than KBL and LBL. So staff expenses per employee of MachBL was more consistent. If comparision is made etween LBL and KBL then it can be concluded that KBL was more consistent than LBL. Because KBL has less C.V ratio than LBL i.e. 18.90%< 26.02%.

4.3.8 Credit to Deposit Ratio

Commercial Banks collect money from different group. Deposit is the major sources of resource of banks.The major outlet of resource is the credit. Credit to deposit ratio of Banks of five years period is given below.

Table 4.13

Credit to Deposit Ratio

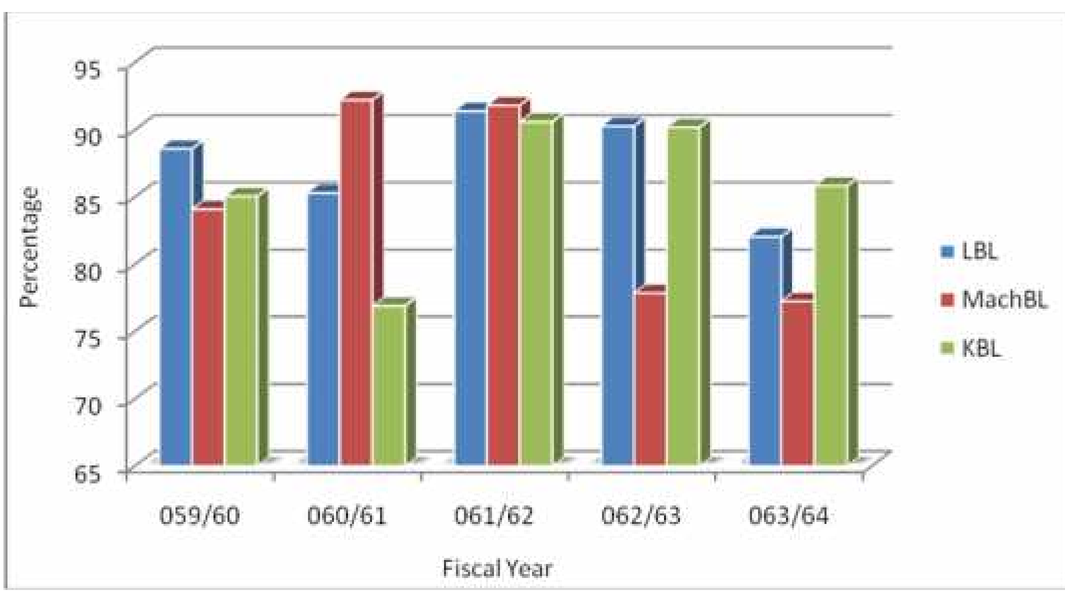
(in %)

Banks	059/60	060/61	061/62	062/63	063/64	Mean	S.D	C.V
LBL	88.60	85.31	91.41	90.29	82.07	87.54	3.42	3.91
MachBL	84.09	92.24	91.83	77.87	77.25	84.65	6.48	7.66
KBL	85.06	76.91	90.62	90.20	85.84	85.73	4.94	5.76

Source: Annual Reports

Figure 4.13

Credit to Deposit Ratio



The above table shows that credit to deposit ratio were 88.60%, 85.31%, 91.41%, 90.29%, 82.07% of LBL, 84.09%, 92.24%, 91.83%, 77.87%, 77.25% of MachBL, 85.06%, 76.91%, 90.62%, 90.20%, 85.84% of KBL from the FY 059/60 to 063/64 respectively. Mean ratio of LBL, MachBL and KBL were 87.54, 84.65 and 85.73 respectively. LBL has the higher mean ratio. C.V ratio of LBL was 3.91% which was less than MachBL and KBL, so credit to deposit ratio of LBL was more consistent. If MachBL and KBL are compared then it can be concluded that Credit to deposit ratio of KBL was more consistent because C.V ratio of KBL was less than MachBL i.e. 5.76% < 7.66%.

4.4 Liquidity Ratio

4.4.1 Cash and Bank Balance to Total Deposit Ratio (Excluding Fixed Deposit)

Cash and Bank Balance to Total Deposit Ratio

$$= \frac{\text{Cash \& Bank Ba}}{\text{Total Deposit (Excluding}}$$

Cash and bank balance includes cash in hand, foreign cash in hand, cheque and other cash items, balance with domestic bank and balance held abroad. Total deposits includes current deposits, saving deposits, fixed deposits, money at call and short- notice and other deposits. It is fact that total deposits would not withdraw , in case at a time. So bank keeps a certain margin of cash.

Higher ratio indicates the higher liquid, lower ratio indicates the lower liquid. Low and high liquid is danger and harmful to the bank. So banks should manage it’s liquidity properly. High ratio indicates that sound liquidity position of the bank, even after that too high ratio is not good enough as it reveals the under utilization of fund. Cash and bank balance to total deposit ratio of banks of five years period is tabulated below.

Table 4.14

Cash and Bank Balance to Total Deposit Ratio

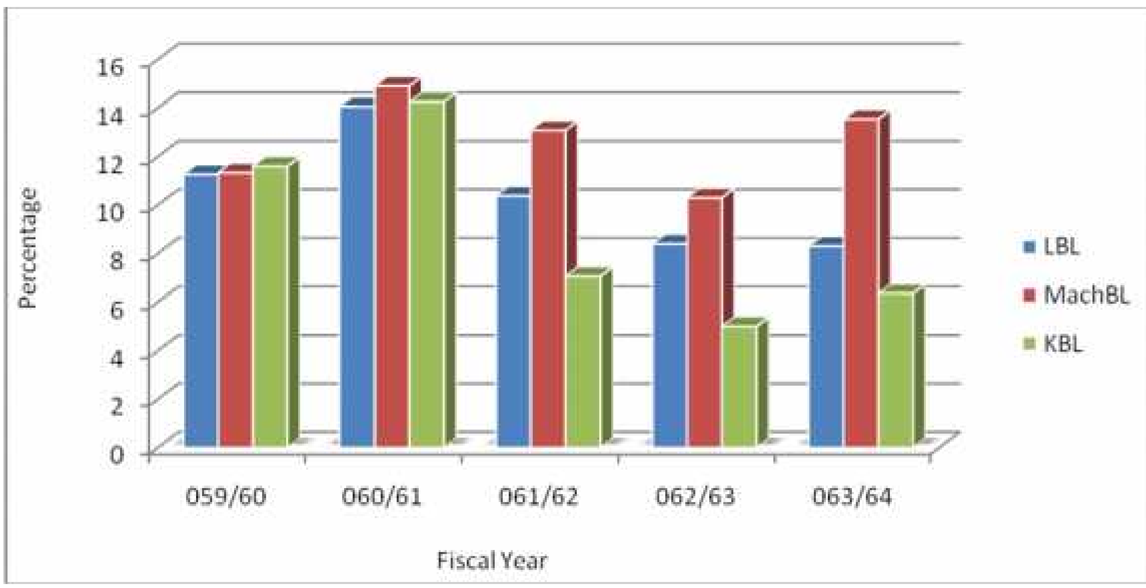
(in %)

Banks	059/60	060/61	061/62	062/63	063/64	Mean	S.D	C.V
LBL	11.27	14.06	10.39	8.40	8.31	10.49	2.12	20.22
MachBL	11.34	14.91	13.09	10.31	13.55	12.64	1.63	12.90
KBL	11.61	14.26	7.07	5.01	6.37	8.86	3.49	39.39

Source: Annual Reports

Figure 4.14

Cash and Bank Balance to Total Deposit Ratio



The above table shows that cash and bank balance to total deposit ratio were 11.27%, 14.06%, 10.39%, 8.40%, 8.31% of LBL, 11.34%, 14.91%, 13.09%, 10.31%, 13.55%, 12.64% of MachBL, 11.61%, 14.26%, 7.07%, 5.01%, 6.37% of KBL from the FY 059/60 to 063/64 respectively. Mean ratio of LBL, MachBL & KBL were 10.48, 12.64 and 8.86 respectively. C.V ratio of MachBL was 12.90% which was less than LBL and KBL, so cash and bank balance to total deposit ratio of MachBL was more consistent. If LBL and KBL are compared then it can be said that cash and bank balance to total deposit ratio of LBL is more consistent than KBL.

4.4.2 Fixed deposit to Total Deposit Ratio

$$\text{Fixed Deposit to Total Deposit Ratio} = \frac{\text{Fixed Deposit}}{\text{Total Deposits}} \times 100$$

Fixed deposit is the long- term interest bearing deposit. But increasing fixed deposit proves to be an additional advantages if utilized properly by granting long-term loans to their potential clients at higher interest rate. This ratio is tested to determine the proportion of fixed deposit out of the total deposit. Fixed deposit to total deposit ratio of banks of five years period is tabulated below.

Table 4.15

Fixed Deposit to Total Deposit Ratio

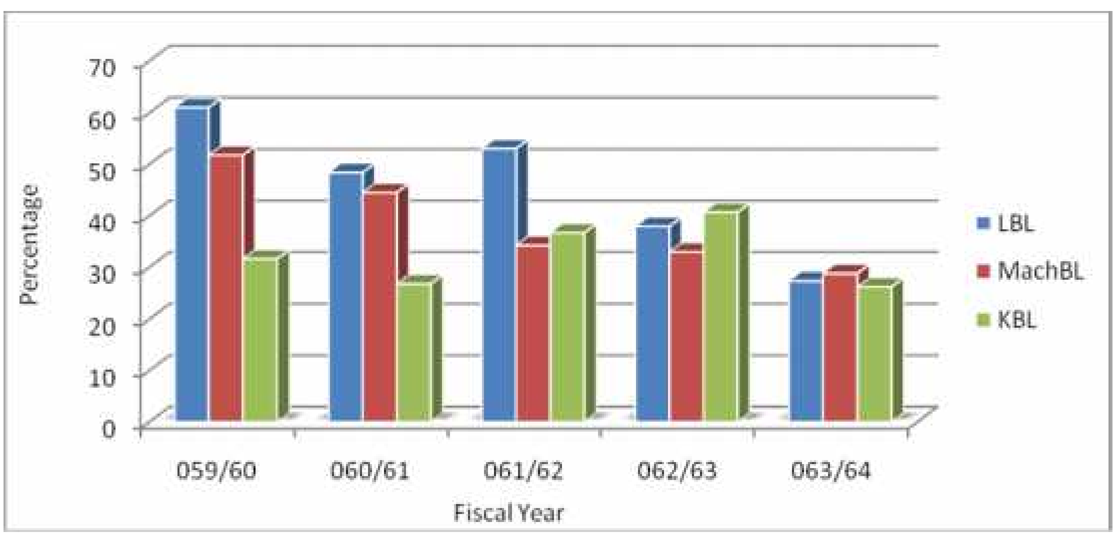
(in %)

Banks	059/60	060/61	061/62	062/63	063/64	Mean	S.D	C.V
LBL	61.09	48.43	53.08	37.95	27.45	45.60	11.76	25.79
MachBL	51.81	44.55	34.27	33.00	28.85	38.49	8.43	21.89
KBL	31.65	26.88	36.72	40.71	26.29	32.45	5.58	17.21

Source: Annual Reports

Figure 4.15

Fixed Deposit to Total Deposit Ratio



The above table shows that fixed deposit to total deposit ratio were 61.09%, 48.43%, 53.08%, 37.95%, 27.45% of LBL, 51.81%, 44.55%, 34.27%, 33%, 28.85% of MachBL, 31.65%, 26.88%, 36.72%, 40.71%, 26.29% of KBL from the FY 059/60 to 063/64 respectively. LBL and MachBL have been decreasing trend. KBL has fluctuating trend. Mean ratio of LBL, MachBL and KBL were 45.6, 38.49 & 32.45. LBL has highest mean ratio than MachBL and KBL. C.V ratio of KBL was 17.21% which was less than LBL and MachBL, so fixed deposit to total deposit ratio of KBL was more consistent than LBL and MachBL. If LBL and MachBL are compared then it can be said that MachBL was more consistent than LBL because it has less C.V ratio than MachBL i.e. 21.89% < 25.79%.

4.4.3 Saving Deposit to Total Deposit

Saving Deposit to Total Deposit =

Saving deposit is generally regarded as short- term obligation as it can withdrawn or without pre- notice or with short- notice. Saving deposit is short- term interest bearing deposit. Saving deposit to total deposit ratio of banks of five years period is tabulated below.

Table 4.16

Saving Deposit to Total Deposit Ratio

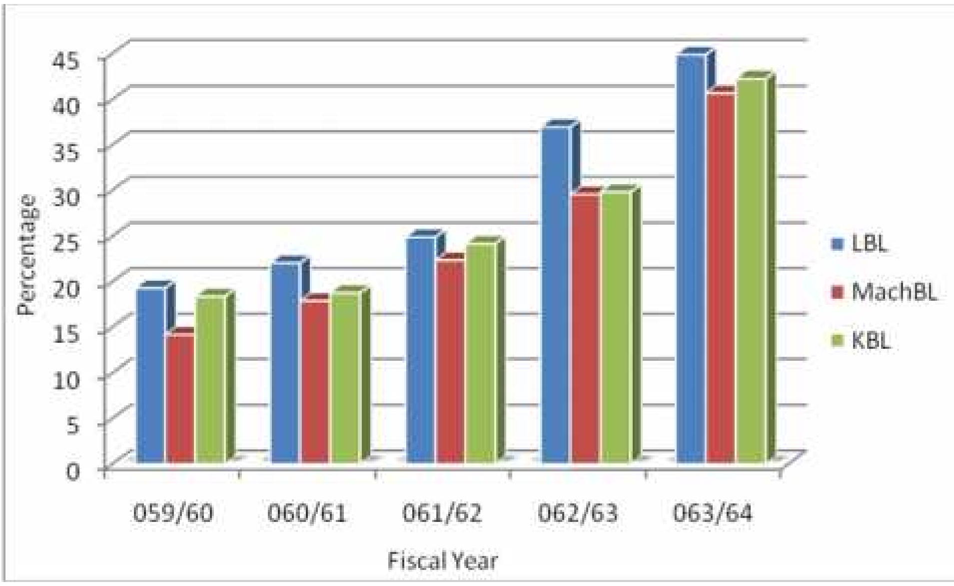
(in %)

Banks	059/60	060/61	061/62	062/63	063/64	Mean	S.D	C.V
LBL	19.30	22.06	24.90	36.97	44.87	29.62	9.72	32.82
MachBL	14.17	17.90	22.38	29.56	40.70	24.94	9.40	37.69
KBL	18.38	18.78	24.17	29.83	42.26	26.68	8.83	33.11

Source: Annual Reports

Figure 4.16

Saving Deposit to Total Deposit Ratio



Above table shows that saving deposit to total deposit ratio were 19.30%, 22.06%, 24.90%, 36.97%, 44.87% of LBL, 14.17%, 17.90%, 22.38%, 29.56%, 40.70% of MachBL, 18.38%, 18.78%, 24.17%, 29.83%, 42.26% of KBL from the FY 059/60 to 063/64 respectively. LBL , MachBL and KBL increased this ratio during the period. The mean ratio of LBL was higher than KBL and MachBL i.e. 29.62> 26.68> 24.94. C.V ratio of LBL was 32.82% which was less than KBL and MachBL, so saving deposit to total deposit ratio of LBL was more consistent than others. If MachBl and KBL are compared then it can be said that saving deposit to total deposit ratio of KBL was more consistent than MachBL because C.V ratio of KBL was less than MachBL i.e. 33.11% < 37.69%.

4.4.4 NRB Balance to Total Deposits Ratio

$$\text{NRB Balance to Total Deposits Ratio} = \frac{\text{Balance with NRB}}{\text{Total Deposits}} \times 100$$

Commercial banks have to hold certain percentages balance of their total deposits amount in Nepal Rastra Bank in order to satisfy legal requirements. This ratio shows whether the bank has holding it's balance as required by NRB or not. NRB balance to total deposits ratio of Banks of five years period is given below.

Table 4.17

NRB Balance to Total Deposit Ratio

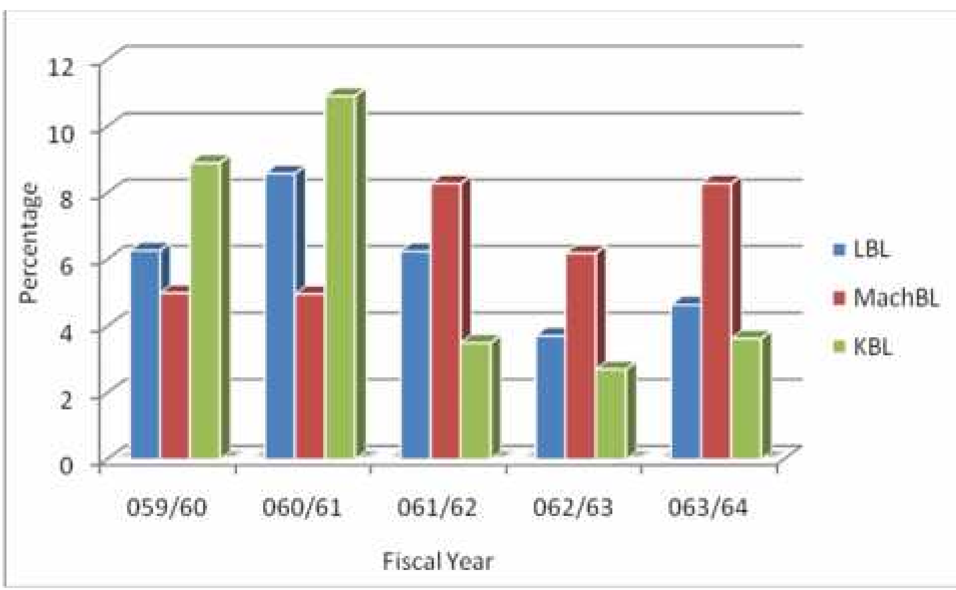
(in %)

Banks	059/60	060/61	061/62	062/63	063/64	Mean	S.D	C.V
LBL	6.27	8.59	6.25	3.72	4.65	5.89	1.66	28.19
MachBL	4.99	4.96	8.29	6.19	8.29	6.54	1.49	22.81
KBL	8.91	10.91	3.51	2.71	3.64	5.94	3.32	55.94

Source: Annual Reports

Figure 4.17

NRB Balance to Total Deposit Ratio



The above table shows that NRB balance to total deposits ratio were 6.27%, 8.59%, 6.25%, 3.72%, 4.65% of LBL, 4.99%, 4.96%, 8.29%, 6.19%, 8.29% of MachBL, 8.91%, 10.91%, 3.51%, 2.71%, 3.64% of KBL from the FY 059/60 to 063/64 respectively. These banks ratio is in fluctuating trend during the period.

Mean ratio of LBL, MachBL and KBL were 5.89, 6.54 and 5.93 respectively. C.V ratio of MachBL was 22.81% which was less than LBL and KBL. So NRB balance to total deposit ratio of MachBL was more consistent. If LBL and KBL are compared then it can be concluded that NRB balance to total deposit ratio of LBL was more consistent than KBL because C.V ratio of LBL was less than KBL i.e. 28.19% < 55.94%.

4.5 Interest Spread

Interest Spread = Rate of Return on Total Earning Assets – Int. Cost on Average Deposit

Where,

Rate of Return on Total Earning Assets

$$= \frac{\text{Total Interest Income}}{\text{Average LAO, Investments, Call Money Placements, Total Depo}}$$

Cost on Average Deposits =

The major source of income in a bank is interest on loans and advances. Thus, the rate of interest spread is significant importance in the aspect of profitability. The spread is the difference between the buying and selling rates of the fund. The spread can be increased either by acquiring funds of low costs or lending at higher rates of interest. But acquiring funds at low cost is difficult to achieve while lending at high rates means taking higher risk of default. However, spread should be with in 5% as per Nepal Rastra Bank. Interest spread of Banks of five years period is tabulated below.

Table 4.18

Interest Spread Ratio

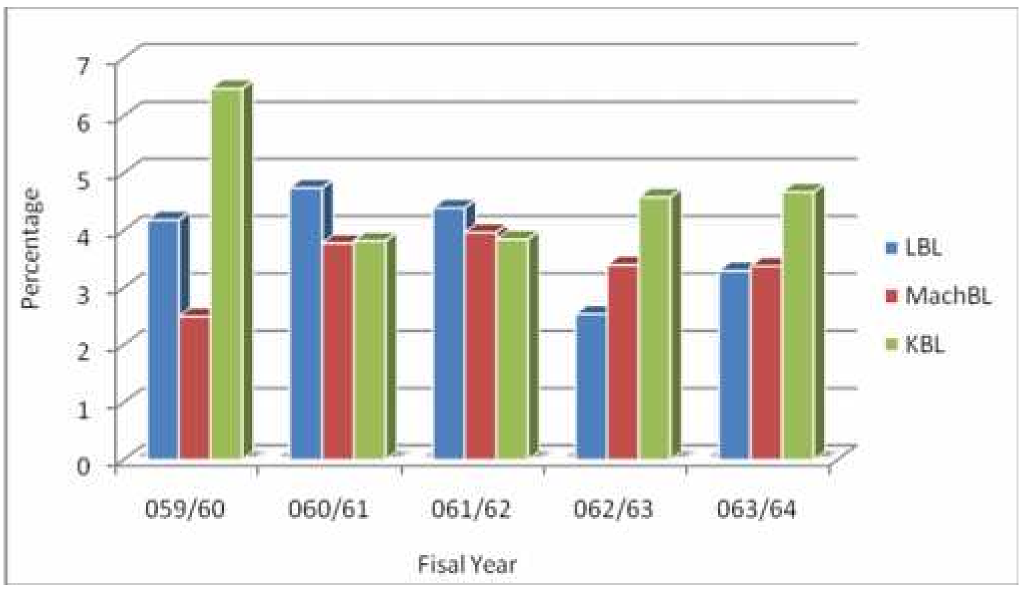
(in %)

Banks	059/60	060/61	061/62	062/63	063/64	Mean	S.D	C.V
LBL	4.18	4.74	4.39	2.54	3.30	3.83	0.80	20.92
MachBL	2.50	3.78	3.97	3.40	3.38	3.41	0.50	14.85
KBL	6.48	3.82	3.85	4.58	4.67	4.68	0.97	20.67

Source: Annual Reports

Figure 4.18

Interest Spread Ratio



The above table shows that interest spread ratio were 4.18%, 4.74%, 4.39%, 2.54%, 3.30% of LBL, 2.50%, 3.78%, 3.97%, 3.40%, 3.38% of MachBL, 6.48%, 3.82%, 3.85%, 4.58%, 4.67% of KBL from the FY 059/60 to 063/64 respectively. Mean ratio of LBL, MachBL and KBL were 3.30, 3.38 and 4.67 respectively. Mean ratio of KBL was higher than LBL and MachBL. C.V ratio of MachBL was 14.85% which was less than LBL and KBL. So Interest spread ratio of MachBL was more consistent than LBL and KBL. If LBL and KBL are compared then it can be said that interest spread ratio of KBL was more consistent than LBL because C.V ratio of KBL was less than LBL i.e. 20.67% < 20.92%.

4.6 Dividend Per Share

Future is uncertain and money has it's time value so the shareholders and prospective investors focus the current earning on their share. To grasp the current market opportunity and benefit from trade of shares, the shareholders are more interested in dividend per share. Dividend per share of banks of five years period is tabulated below.

Table 4.19

Dividend Per Share

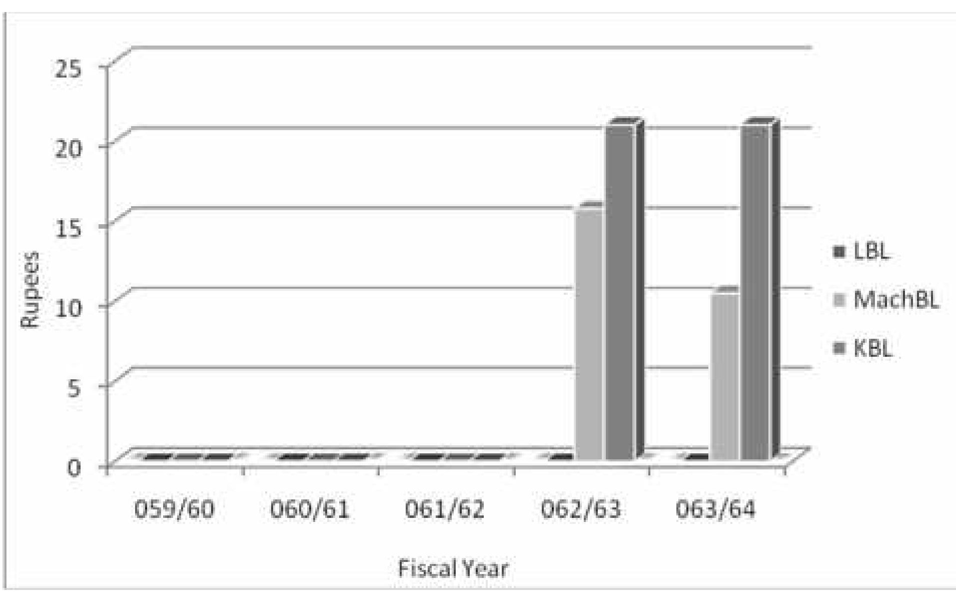
(In Rs)

Banks	059/60	060/61	061/62	062/63	063/64
LBL	0	0	0	0	0
MachBL	0	0	0	15.79	10.52
KBL	0	0	0	21.05	21.05

Source: Annual Reports

Figure 4.19

Dividend Per Share



The above table shows that LBL has not provided any dividend during the period. MachBL has provide dividend only in the FY 062/63 and 063/64. DPS of MachBL were Rs 15.79 and 10.52 in the FY 062/63 and 063/64. KBL also provide dividend only in the FY 062/63 and 063/64 i.e Rs 21.05 and 21.05 respectively.

4.7 NPA to Credit

All the loans and advances of the bank are not good. There are four classification of loans, they are –pass, substandard, doubt and loss. Loans and advances falling under the aove categories except pass is called NPA. NPA to total credit ratio of Banks of five years period is tabulated below:

Table 4.20

NPA to Credit Ratio

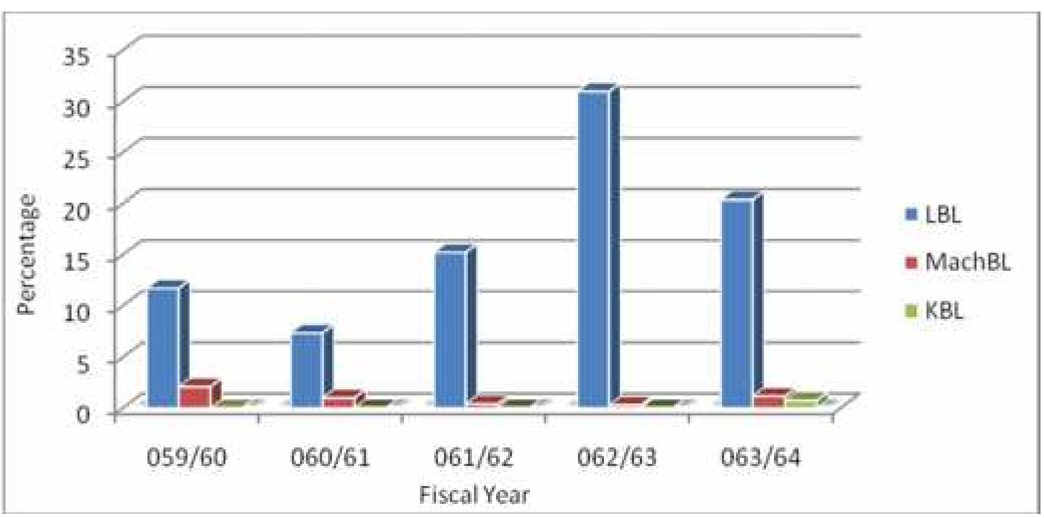
(in %)

Banks	059/60	060/61	061/62	062/63	063/64	Mean	S.D	C.V
LBL	11.70	7.36	15.23	30.99	20.37	17.13	8.14	47.51
MachBL	2.08	0.98	0.39	0.28	1.16	0.98	0.64	65.95
KBL	0.02	0.01	0.01	0.01	0.73	0.16	0.28	183.99

Source: Annual Reports

Figure 4.20

NPA to Credit Ratio



The above table shows that NPA to total credit ratio were 11.70%, 7.36%, 15.23%, 30.99%, 20.37% of LBL, 2.08%, 0.98%, 0.39%, 0.28%, 1.16% of MachBL, 0.02%, 0.01%, 0.01%, 0.01%, 0.73% of KBL from the FY 059/60 to 063/64 respectively. Mean ratio of LBL was higher than MachBL and KBL i.e. 17.13> 0.97> 0.15. C.V ratio of LBL was less than MachBL and KBL i.e. 47.51% < 65.95% <183.99%. So NPA to total credit ratio of LBL was more consistent. On comparison of NPA to credit ratio of MachBL and KBL only then it can be said that NPA to total credit ratio of MachBL was more consistent than KBL. Because C.V ratio of MachBL was less than KBL.

4.8 Loan Loss Provision to NPA

This ratio helps to ascertain the amount available to the bank to absorb the financial impact in case all the NPA are immediately defaulted. In order to protect the banks from financial difficulty in case of default, the banks are required to create loan loss provisions according to the quality of their lending. Loan loss provision to NPA ratio of Banks of five years periods is tabulated below.

Table 4.21

Loan Loss Provision to NPA Ratio

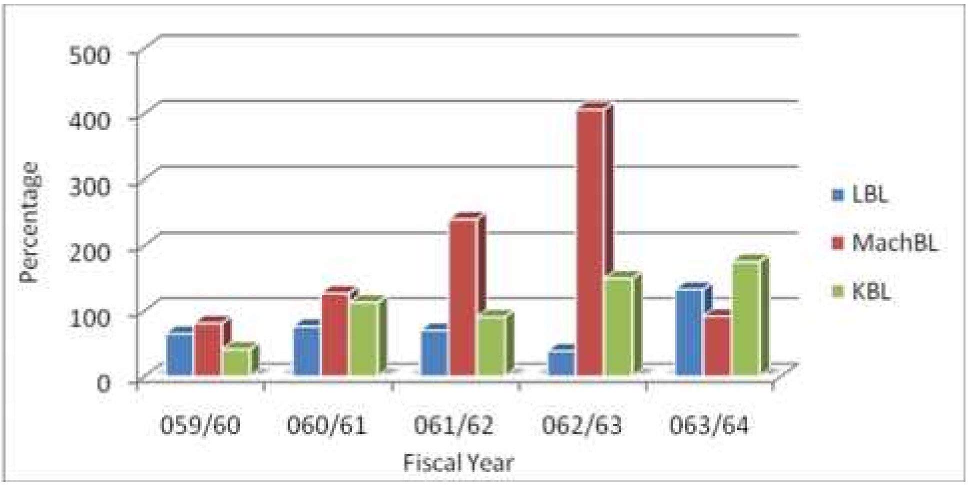
(In %)

Banks	059/60	060/61	061/62	062/63	063/64	Mean	S.D	C.V
LBL	65.25	76.15	70.10	38.63	132.83	76.59	30.90	40.35
MachBL	81.14	126.88	240.07	406.64	91.75	189.29	122.41	64.67
KBL	41.42	112.98	90.71	149.75	175.33	114.04	46.58	40.85

Source: Annual Reports

Figure 4.21

Loan Loss Provision to NPA Ratio



The above table shows that loan loss provision to NPA ratio were 65.25%, 76.15%, 70.10%, 38.63%, 132.83% of LBL, 81.14%, 126.88%, 240.07%, 406.64%, 91.75% of MachBL, 41.42%, 112.98%, 90.71%, 149.75%, 175.33% of KBL from the FY 059/60 to 063/64 respectively. Mean ratio of MachBL was higher than KBL and LBL i.e. 189.29> 114.04> 76.59. C.V ratio of LBL was less than KBL and MachBL i.e. 40.35% < 40.85% < 64.67%. So loan loss provision to NPA ratio of LBL is more consistent. On comparison of loan loss provision to NPA ratio of MachBL and KBL then it can be said that KBL was more consistent than MachBL because C.V ratio of KBL was less than MachBL.

4.9 Trend Analysis of Net Profit

Trend analysis of net profit is very important statistical tools in the planning process. Here the profitability of the banks can be estimated for the next years. This analysis is based on the least squares method. It helps estimate a considerably reliable future with the help of past performances. Profit of Banks during last FY and Future estimated profit is given below.

Table 4.22

Net Profit of LBL, MachBL and KBL

Years	Net Profit of LBL	Net Profit of MachBL	Net Profit of KBL
059/60	8,91,39,129	1,53,07,485.80	1,24,74,065
060/61	1,86,39,673	4,66,89,945.30	4,86,85,822

061/62	(196772729)	8,48,70,027.30	8,78,80,557
062/63	(80,60,62,623)	13,39,96,709.53	10,36,66,767
063/64	19,24,04,492	7,40,85,647	17,02,62,909
064/65	(20,23,47,569)	9,14,76,272	12,16,49,887
065/66	(26,41,64,726)	11,19,62,581	15,87,05,750
066/67	(32,59,81,883)	13,24,48,890	19,57,61,613
067/68	(38,77,99,040)	15,29,35,199	23,28,17,476
068/69	(44,96,16,197)	17,34,21,508	26,98,73,339
069/70	(51,14,33,354)	19,39,07,817	30,69,29,202

The table shows that the net profit of LBL were in decreasing trend. It will decline in the coming years. But the total net profit of MachBL and KBL was in increasing trend line.

4.10 Major Findings

The major findings of the studies are summarized below:

- The mean ratio of return on equity of LBL is higher than KBL and MachBL. C.V ratio of KBL is less than MachBL and LBL i.e. 40.47% < 44.33%<285.30%. It indicates that return of equity ratio of KBL is more consistent.
- The mean ratio of return on total assets of MachBL is higher than KBL and LBL i.e 1.094> 0.520>-3.382. LBL has negative C.V ratio. C.V ratio of MachBL is less than KBL i.e 32.46 %<121.94%.
- The highest earning per share of LBL is RS 32.07 in the fiscal year 063/64. But the mean ratio of earning per share of LBL is negative. EPS of MachBL increased upto RS 18.74 in the FY 062/63 but decreased in the FY 063/64 i.e 9.02. The mean ratio of MachBL was 10.89. EPS of KBL also increased during the year. Highest EPS of KBL was RS 22.70, The mean ratio of KBL was 13.97. KBL has highest mean ratio of EPS and it’s ratio was in increasing trend so that the future of KBL may be bright.

- The mean ratio of net profit margin of MachBL is higher than KBL and LBL i.e 15.71>14.35>-36.70. LBL has negative mean ratio. It indicated that LBL beared more loss, but KBL is running at profit. Net profit margin ratio of MachBL is greater than KBL.
- The mean ratio of foreign exchange income to total income ratio of LBL is higher than KBL and MachBL i.e. 3.44>4.35>1.93. It indicated that LBL gain comperatively more income than KBL and MachBL from foreign exchange. LBL has highest mean ratio of fees and commission ratio than MachBL and KBL.
- The mean ratio of operating expenses to total income ratio of MachBL is higher than KBL and LBL i.e. 15.80>15.46>9.05.
- Mean ratio of interest expenses to total expenses ratio of KBL is greater than MachBL and LBL i.e. 46.73>46.10>36.22. C.V ratio of KBL is less than MachBL and LBL. So interest expenses to total expenses ratio of KBL is more consistent.
- Mean ratio of staff expenses per employee of KBL was higher than LBL and MachBL i.e (RS'000) 334.37>300.86>227.45. The mean ratio of credit to deposit ratio of LBL was higher than KBL and MachBL i.e. 87.53>85.72>84.65, C.V ratio of LBL was less than KBL and MachBL. So credit to deposit ratio of LBL was more consistent.
- Cash and bank balance to total deposit ratio of MachBL was greater than LBL and KBL i.e. 12.64>10.48>8.86. It indicated that the better liquidity position of MachBL.
- The mean ratio of fixed deposit to total deposit ratio of LBL was greater than MachBL and KBL i.e. 45.6>38.49>32.45. It indicated that fixed deposit of MachBL occupied comparatively greater portion of total deposit.
- The mean ratio of saving deposit to total deposit ratio of LBL was higher than KBL and MachBL i.e. 29.62>26.68>24.94.

- NRB balance to total deposit ratio of LBL,MachBL and KBL were not sufficient compare to the standard set by NRB i.e. 7% in each year of the review period. But comparatively MachBL has the higher mean ratio than KBL and LBL i.e. 6.54>5.93>5.89.
- Profitability position of KBL was better than MachBL and KBL.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Development of whole country depends upon its economic growth. Many factors & sectors affects the economic growth of the country. Likewise, commercial banks plays vital role for the economic growth of the country. Commercial banks collects small saving from different groups & it creates huge investable fund. It helps monetization of the economy. It provide many other facilities to the entrepreneur such as loan facilities, security of deposit etc. It also provide short-term & long term loan to neediest party. Profit is necessary to the existence and growth of commercial banks. Profitability is one of the principle of commercial banks.

Profit is primary measure of business success. It is necessary for their sustainability ,future growth & development. If organization suffers from continuous loss over some period, it is driven out from the market. So profit is the life & blood for every firm. This study is conducted to examine the profitability position of the LBL, MachBL & KBL. This is comparative study of these three banks. With the help of this study it can be compared the performance of similar other commercial banks too. The history of modern banking system in Nepal is short. It started to the economy with the establishment of Nepal Bank Limited on 30th Kartik, 1994. At that time it played the role of central bank. In 2013 B.S,Baishakh-14,NRB was established as a central bank of the economy. Before the liberalization, the Nepalese economy was fully dependent on the Nepal Bank LTD and Rastriya Banijya Bank. The presence of these two banks were not sufficient to sustain the economic development. After that many other commercial banks were established in Nepal. Now there are 25 commercial banks. Some are with foreign capital investment and some are with National investment. LBL, MachBL & KBL are the banks with national investment.

LBL was established in the year 2055 B.S in Naryangarh. This is the first regional bank in Nepal. It has total 5 branches. The authorized capital of the banks is RS 1,00,00,00,000(1,00,00,000 shares @ RS 100). The bank has issued capital of 60,00,000shares@ RS 100 and paid up capital of 60,00,000 shares @ RS 100 each.

Machhapuchhre Bank Limited was established in 2056 B.S. It has 15 branches in different parts of the country. There are 33 officer level and 201 assistant level employees in the bank. The bank has RS 1,00,00,00,000 authorized capital (1,00,00,000 shares@ RS 100 each), issued capital of 82,16,513 shares@ RS 100 each, paid up capital of 82,16,513 shares@ RS 100 each.

Kumari Bank Limited was established in 2057 B.S,Chaitra-21. There are 10 branches(6 outside the valley, 4 inside the valley). There are total 212 staff in the bank. The bank has RS 1,00,00,00,000 authorized capital (1,00,00,000 shares@ RS 100 each), issued capital of 75,00,000 shares @ RS 100 each and paid up capital 75,00,000 shares @ RS 100 each.

This study was done to identify the profitability position of Lumbini Bank Limited, Machhapuchchre Bank Limited and Kumari Bank Limited. The study covered 5 years period i.e FY 059/60 to 063/64 and divided in five main chapters which consists of (i) Introduction (ii) Literature review (iii) Research methodology (iv) Data presentation and analysis (v) Summary, Conclusion and Recommendations.

5.2 Conclusions

This is the age of globalization. Thus, competition is high in every sector. Banking business also face many risks and challenges. In the present global environment, The financial system of a country needs to be made more capable and stronger even on a comparative basis. Different types of policies such as sound macroeconomic policies, pursuing prudent sectoral policies are necessary to develop the financial sectors of the country.

A sound, efficient and healthy system is the pre-condition for achieving the faster economic growth. But this situation cannot be built without the presence of sound and healthy banking and financial system in the economy. Nepal's financial sector has witnessed rapid expansion over the past two and half decades due mainly to the liberalized policy adopted by the government. Now there are 23 commercial banks in Nepal.

On the basis of the different analysis, observation reached in the following conclusion:

- Liquidity position of MachBL is comparatively better than LBL and KBL. Liquidity position of LBL was better than KBL but not the MachBL.
- The profitability position of MachBL is comparatively better than LBL and KBL. LBL has not better profitability position. But KBL has better profitability position than LBL.
- MachBL has maintained adequate capital in relation to the nature and condition of its assets, its deposit liabilities and other corporate liabilities. But LBL has not maintained adequate capital. KBL has maintained adequate capital than LBL but not the MachBL.

- The rate of interest spread is significant importance in the aspect of profitability. KBL's average interest to total deposits ratio was found marginally higher than MachBL and LBL. It reveals these three banks have managed its assets properly to earn interest.
- Interest expenses to total expenses ratio of MachBL was higher than KBL and LBL. Depositors would be attracted due to the higher rate of interest.
- By analyzing the trend, it is estimated that KBL and MachBL will increase it's profitability position. But LBL will decrease the profitability position.
- Human resource is most important resource of every organization. Organization itself does not do anything but their success or failure depends upon their employees. Only satisfied, motivated and qualified staff would be able to contribute the organization. Staff expenses to total operating ratio of LBL was higher than KBL and MachBL. MachBL has comparatively less staff exp ratio than KBL and LBL.

5.3 Recommendations

Nepal has become member of WTO which helps Nepal to enter the globalization. Foreign banks may be establish here and create more competition. Based on the analysis, findings, issues and gaps followings recommendations seems to be fruitful to the management of the bank and other concerned parties.

1. Liquidity

MachBL has the strong liquidity position than LBL and KBL. LBL and KBL should improve their liquidity ratio.

2. Earnings Per Share

LBL was not generating sufficient return for the equity. MachBL and KBL generated some return for the equity but it was not enough. So higher cash dividend strategy should be adapted for the better growth of shareholders worth.

3. Loan loss Provision

MachBL has not maintained the require amount of loan loss provision. So it should increase the amount of loan loss provision. LBL and KBL maintained the proper amount of loan loss provision.

4. Control Expenses

LBL, MachBL and KBL have to control in its expenses which are unnecessary. LBL must formulate the strategy to control such expenses using modern technology, experts and well trained personal.

5. Training of the Employees

Employees are very important factor of the banks. It is suggested that the commercial banks of Nepal have to use well trained personnel. Well trained personnel will provide better services to the bank and peoples.

6. Mobilizing the Deposits Funds in Productive Sector

They are suggested that to come forward to meet government obligations by financing in the priority sector developments programs such as poverty alleviation programs, women development programs, income generating programs, generating new services etc.

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