# CHAPTER – I
# INTRODUCTION

## 1.1 Background of the Study

The history of banking in Nepal starts with the establishment of Nepal Bank Ltd in 1937 A.D. Before the inception of this bank, there was traditional way of banking in which the local merchants supplied fund to the peasants, traders and intermediaries by drafting a so considered formal document called “Tamsuk” in the society. This is totally based on trust and faith. Even though a lot of commercial banks have come into existence, nonetheless the role of non-banking system is equally significant particularly in the rural area.

Realizing the importance of banking sector for economic development, Nepal Rastra Bank was therefore established in 1956 A.D. to control and monitor the operation of commercial bank as well as formulating the monetary policy of the country. Since then it has been functioning as central bank or bank of banks and supervising the operation of various financial sectors. Nepal Rastra Bank bears the responsibility to monitor, regulate and manage the financial services of commercial banks, development banks, rural development banks, rural micro finances, finance companies, saving and credit cooperative societies, non government organizations and everyone who deals in foreign exchange transaction. Being the central bank, Nepal Rastra Bank has limitation in the area of profit generation. To get rid of this limitation, Nepal Government established the Rastriya Banijya Bank in 1966 A.D. as a fully government owned commercial bank. Since then, Rastriya Banijya Bank is operating as a strong bank able to do the commercial transaction.

Today banking sector has dominant contribution in increasing the GDP of Nepal. Commercial banks are the suppliers of financé for trade and industry. This plays vital role in the economic and financial life of the country. They help in the formation of capital by investing the savings in productive areas. Rural people of underdeveloped country like Nepal need various banking facilities to enhance its economy. In most of the countries, the commercial banks generally concentrate in urban and semi urban sectors. They neglect rural sector due to heavy risk and low return, which is in fact the main key to economic development.

Nepal Commercial Bank Act 2031 B.S. defines commercial bank as “a bank which deals on money exchange, accepting deposit, advancing loan and commercial transition except specific banking related to cooperative, agriculture, industry and other objective." Commercial banks pool the saving of community and arrange to lend to the entrepreneur in the forms of individual, firms, companies and the other organized sector as well. At present 33 commercial banks are operating across the county.

Capital structure refers to the combination or mixture of long-term funds and share capital, namely inclusive of equity share capital, preference share capital, debentures, bonds and long term debts. A prudent financial manager should use proper mixture of the fund so that his/her return on capital is maximum. Return in financial term indicates the increase in wealth of the investor. Capital structure management concentrates on the area of overall cost of capital, total value of firm and it’s earning per share. Optimum capital structure refers to the combination of debt, preferred stock and equity that maximizes the total value of firm, and earning per share, and that minimizes the cost of capital. Whereas not having optimum capital structure means, the bank will have to bear heavy cost of capital, and low profitability.

### 1.2 Focus of the Study

Capital Structure analysis of two commercial banks is the main focus of this study. Any entity/firm depends on the proper management of capital structure. Capital structure affects the earning per share and value of firm but not operating income of the firm. Optimum capital structure is the most essential tool for the success of any organization. This study analyses the capital structure with the help of various parameters relating to the balance sheet, income and expenditure statement and other related parameters. Various financial tools are used to evaluate the appropriateness of optimal capital structure used by firm. So to measure the contribution of Siddhartha Bank Ltd and Laxmi Bank Ltd in the national development this study emphasizes in evaluating the capital structure of Siddhartha Bank Ltd and Laxmi Bank Ltd.

### 1.3 Brief profile of the banks under Study

#### 1.3.1 Siddhartha Bank Limited (SBL)

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

While the promoters come from a wide range of sectors, they possess immense business acumen and share their valuable experiences towards the betterment of the Bank.

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

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

**Vision**

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

**Mission**

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

The following mission statement is a guide to meet the Vision of the Bank:

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

4. Be the place of pride to all its stakeholders.

**Core values of the bank**

1. Customer focus
2. Shareholder prosperity
3. Employee growth
4. Economic welfare

**Banking Services**

SBL has adopting innovative latest banking technology. The bank provides various services and facilities such as:

1. Personal Banking
2. Corporate Banking
3. Small and Medium Enterprise
4. Remittance
5. Treasury and Correspondent Banking
6. Mutual Fund
7. Siddhartha Safe deposit locker

**Table 1.1**

**Present Composition of Capital Structure of SBL**

| **Particulars** | **Amount (Nepali Rupees in million)** |
|---|---|
| Share Capital | 1619 |
| Reserve and Surplus | 563 |
| Debenture and Bond | 628 |
| Total | 2810 |

*(Source: Annual Report of 2068/69 B.S)*

**1.3.2 Laxmi Bank Limited (LBL)**

Laxmi Bank was incorporated in April 2002 as the 16th commercial bank in Nepal. In 2004 Laxmi Bank merged with HISEF Finance Limited, a first generation financial company which was the first and ever merger in the Nepali corporate history. Laxmi Bank is a Category 'A' Financial Institution and re-registered in 2006 under the "Banks

and Financial Institutions Act" of Nepal. The Bank's shares are listed and actively traded in the Nepal Stock Exchange (NEPSE).

Laxmi Bank's award winning Annual Reports has set the standards for quality, presentation and disclosure for the Nepalese corporate sector to follow since 2005. Laxmi Bank promotes a separate life insurance company – Prime Life Insurance Limited which came into operation in 2009.

**Mission**

Committed to excellence in delivery of entire gamut of financial services in order to achieve sound business growth and maximize stakeholder values by embracing team spirit, progressive technology and good corporate governance.

**Vision**

1. Provider of most integrated financial services
2. Key player in consumer banking
3. The best asset book
4. Best IT capability
5. Preferred employer in the financial sector

Over a period of time, Laxmi Bank foresees itself to be one of the leading banks in Nepal and eventually a niche player in the South Asian region.

**Services**

LBL has been adopting innovative latest banking technology. The bank provides various services and facilities such as:

1. SMS Banking
2. Safe deposit locker
3. Remittance
4. Electronic Banking
5. Loan :Home loan, Auto loan, Personal loan

**Table 1.2**

**Present Composition of Capital Structure of LBL**

| **Particulars** | **Amount (Nepali Rupees in million)** |
|---|---|
| Share Capital | 1694 |
| Reserve and Surplus | 606 |
| Debenture and Bond | 350 |
| Total | 2,650 |

*(Source: Annual Report of 2068/69 B.S)*

### 1.4 Statement of the Problems

Every business firm can take advantage through making appropriate capital structure decision because long term run profitability depends on its capital structure besides other factors. Financial institutions play important role for the industrial development in under-developed country like Nepal. We have been seeing, the commercial banks have to shoulder more responsibilities and act as the key role models.

In Nepalese context, it has been observed that one of the reasons behind the loss in many organizations, is not with the mobilization of capital, but the actual problem lies in good capital management. So it is essential to evaluate the management of capital structure in terms of different financial ratios. Therefore, the present study seeks to explore the answers of the following questions:

1. Whether the Siddhartha Bank Ltd & Laxmi Bank Ltd are able to implement the capital structure guidelines.
2. What steps should be taken to improve the capital structure system in Siddhartha Bank Ltd & Laxmi Bank Ltd?

### 1.5 Objectives of the Study

The following are the specific objectives of the study.

1. To analyze the capital structure of the Siddhartha Bank Ltd & Laxmi Bank Ltd. in the light of NRB guidelines.
2. To analyze the relationship of the capital structure with various important variables such as Earning Per Share, Dividend Per Share and Net Worth.

## 1.6 Significance of the Study

Capital Structure has become the vital & important tool in the field of managerial decisions. Its study will be very useful to decision maker & further researcher. The financial institutions are more concerned with the firm's long-term financial strength. To judge the long term financial position of firm, capital structure is worth analysing. Capital structure analysis would help to indicate and to follow the appropriate mix of debt & owners equity in financing the firm's assets. A firm having good return & efficient management is considered to be better & brighter in future. Therefore to these significances on account, this study on behalf of firm's capital structure is justified as a specific subject matter.

## 1.7 Limitations of the Study

There are limitations, which we can generalize, e.g. inadequate coverage of industries period taken & reliability of statistical tools used and other variables. This study is simply partial requirement of MBS program. So, this study will be limited by following data:

1. This study is based on secondary data like annual reports of the banks under study, journals, unpublished and published thesis works, related published articles, and related materials from various websites.
2. The study period covers only 5 fiscal years beginning 2064/65 to 2068/69.
3. The study covers only 2 commercial banks.
4. The study talks only about capital structure, and not include other aspects of commercial banks.

## 1.8 Organization of the Study

The thesis has been classified into five major chapters.

**Chapter I: Introduction**

This chapter deals with subject matter of the study. It includes introduction, historical background, problem of the study, significance of the study, objectives the study & limitations of the study.

**Chapter II: Review of Literature**

This chapter deals with review of literature. It consists of review of conceptual thoughts of the study, review of related journals, books, articles and thesis.

**Chapter III: Research Methodology**

This chapter is all about the research methodologies used to conduct the study. It also mentions and defines the statistical tools used.

**Chapter IV: Presentation and Analysis of Data**

This chapter deals with the presentation & analysis of data. Financial and statistical tools have been used for this data calculation.

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**Chapter V: Summary, Conclusion and Recommendation**

This chapter summarizes the study. It is presented in the form of major findings, strengths, weaknesses & recommendations.

# CHAPTER II
# REVIEW OF LITERATURE

In this section, related literature has been reviewed thoroughly. This chapter includes the review of underlying literature from textbooks, journals, reports and previous thesis. The main objectives of this chapter are justifying this research work and to show the need of the current study on a rational basis. This chapter tries to clarify the conceptual and theoretical concept regarding the definition of capital structure, theories of capital structure, determinants of capital structure, review of literature from renowned scholars' works and review of previous thesis. The review of relevant literature has been categorized in the following headings:

1. Conceptual Review
2. Review of Related Studies

## 2.1 Conceptual Review

### 2.1.1 Concept of Capital Structure

Capital structure refers to the mix of long-term sources of funds such as debenture, long-term debt, preference share capital and equity share capital. If companies do not plan their capital structure, they may face difficulties in raising funds to finance their activities. Thus, the firms cannot achieve their goal. The capital structure decision affects the overall cost of capital, total value of the firm and earning per share (EPS). The financial manager should plan optimal capital. The optimal structure refers the best possible combination of debt, preferred stock and equity that maximizes the value of the firm and EPS, and minimizes the cost of capital. Thus, the capital structure does not affect the total operating earning of a firm but it affects the earning per share and value of the firm.

“Capital structure is the permanent financing of the firm, represented primarily by the long-term debt, preferred stock and common equity, but excluding of all short-term credit” (*Weston and Brigham, 1982:555*).

‘Capital Structure’ should not be confused with “Capitalization”. Capitalization is a quantitative aspect of financial planning as it refers to the total amount of securities issued by Company, while capital structure is concerned with qualitative aspect as it refers to the

kings of securities and the proportionate amounts that make up capitalization. "Capitalization = total of all types of long term capital structure = proportions of types of long term capital, financial structure = Proportions of all types of long term and short term capital" (*Upadhaya, 1985:799*).

Capital structure is composition of debt and equity that comprises a firm's financial position of its assets. Both debt and equity are used in large organization.

"The choice of the amount of debt and equity is made after a comparison of certain characteristics of each kinds of security of internal factor related to the firm's operations and of external factor that can affect the firm"(*Hampton,1986:42*).

"The financial or capital structure decision is a significant managerial decision as it influences the shareholder's return and risk. Consequently, whenever funds have to capital structure initially at the time of its promotion and subsequently, whenever funds have to be raised to finance in investments capital structure decision involved" (*Van Horn, 1997:10*).

The term capital structure refers to the proportion of debt equity capital. "A company can finance its investment by variety of sources, such as debt, preference share capital and common share capital, including, reserves and surplus" (*Pandey, 1988:204*).

"Capital Structure refers to the combination of long term sources of funds, such as, long-term debt, preference stock and common equity including reserves and surpluses (i.e. retained earnings).
Capital structure of a firm can be shown in equation as:
Capital structure = Long-term debt + Preferred stock + Common equity"
(*Gautam and Thapa, 2011: 003*)

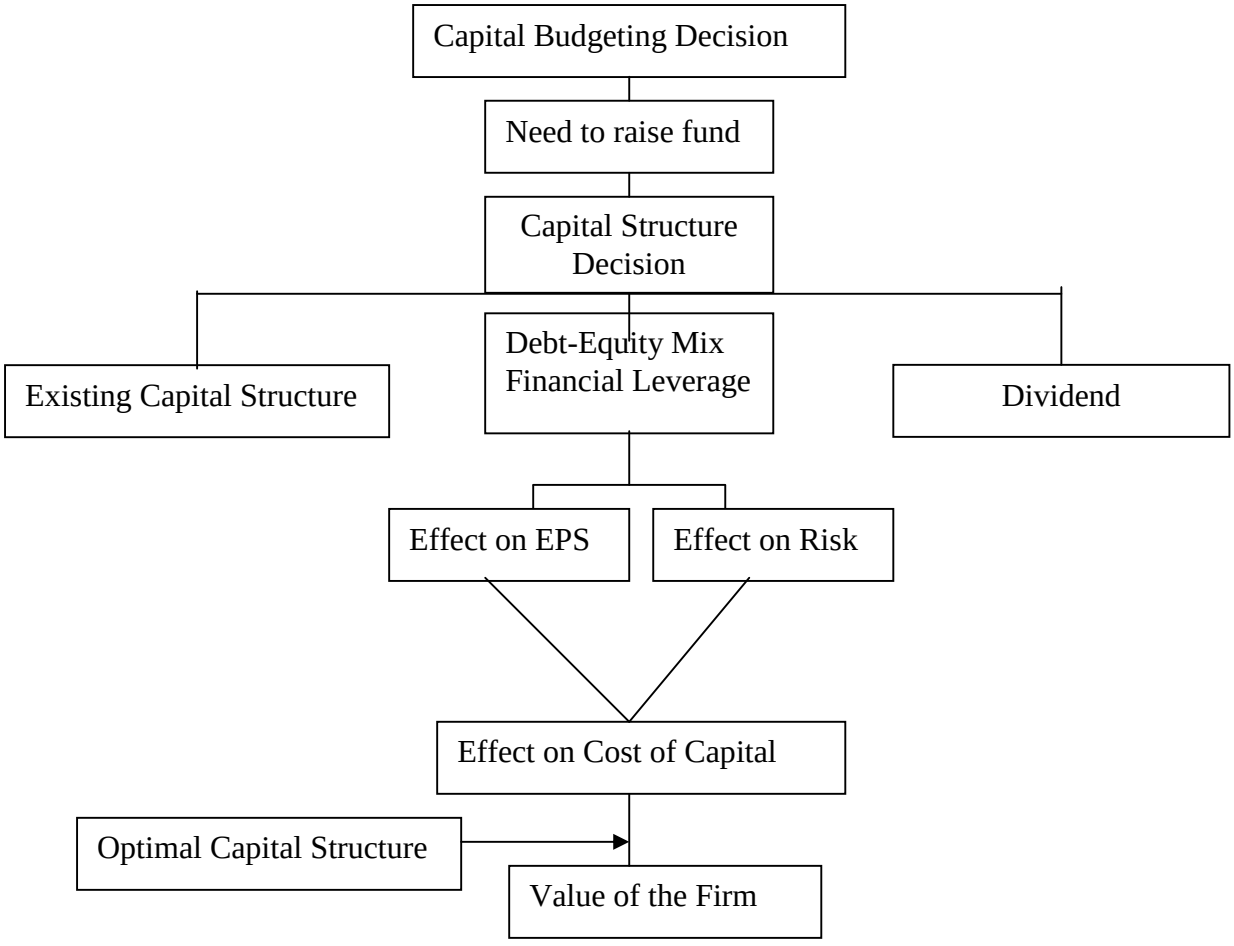
Capital structure known as 'financial plays' refers to composition of long-term debt, preference share capital and equity share including reserve and surplus. The objective is to assess the capital structure of selected Nepalese Commercial banks in terms of debt and equity as well as determination of bank's financial position.

The basic pattern of capital structure can be simple or complex. A simple capital structure consists of equity share and preference shares. But a complex capital structure consists of multi securities as equity shares, preference shares, debenture bonds, warrants, convertibles etc.

The capital structure has many relevant dimensions. The financing mix is one of the other dimensions involved in the investment decisions of the firm and optimal use of leverage, within the constraints imposed by the internal and external environmental conditions. These conditions, in turn affect the decision of the firm with respect to the timing of investment and financing transactions as well as the acceptable levels of risk and liquidity. Capital structure can be dealt with three different levels of complexity.

**Figure 2.1**

**Process of Capital Structure**




*(Source: Pandey, 1999:204)*

The chart in figure 2.1 depicts that demand for funds generates a new capital structure, since a decision has to be made as to the quality and forms of financing; this decision will involve an analyzing of the existing capital structure and the factors which will govern the decision at present. The dividend decision bearing on the capital structure may affect its debt equity mix. The debt equity mix has implications on the shareholders' earning and risk, which in turn will affect the cost of capital structure. The important categories are:

1. Common Stock
2. Debenture
3. Retained Earning

**2.1.2. Theories of Capital Structure:**

The capital structure concept has an important place in the theory of financial management. The term capital structure, is also known as financial structure or financial plan or leverage.

The optimal capital structure and its implication are more noticeable. Argument between those who believe that there should be an optimal capital structure for each firm and among those who believe in the absence of such optimal capital structure began in late 1950's and there is yet no resolution of the conflict.

To understand about the capital structure decision and concept under different theories, it is important to have some idea of major capital structure theories. The history presents several theories on capital structure management in order to analyze the capital structure of commercial banks.

The theories are:

1. Net Income (NI) Approach,
2. Net Operating Income (NOI) Approach,
3. Traditional Theory,
4. Modigliani and Miller Model

**1. Net Income (NI) Approach:**

The essence of the NI approach is that the firm can increase its value or lower the overall cost of capital by increasing the proportion of debt in the capital structure. Under this

approach, the cost of debt ($K_d$) and the cost of equity ($K_e$) are assumed to be independent of the capital structure. "The weighted average cost of capital declines and the total value of the firm rises with increased use of leverage" (*Pandey, 1999:228*).

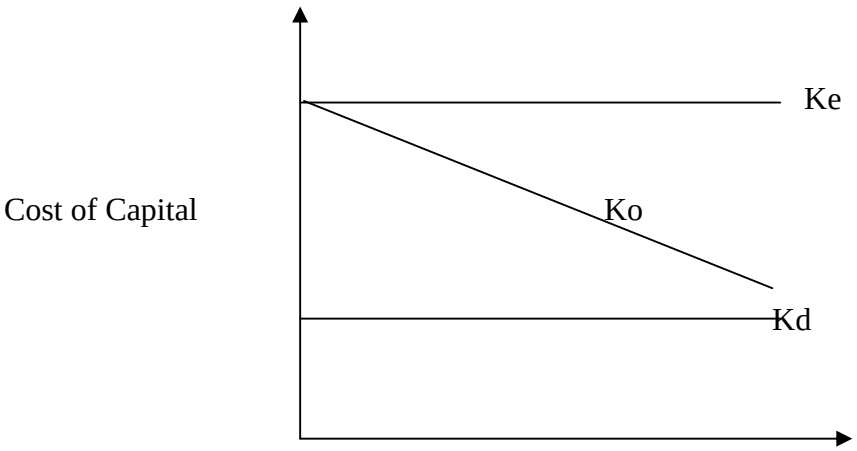
A change in the capital structure use will lead to the corresponding changes in the overall cost of capital as well as the total value of firm. Because debt is less riskier than equity, as the firm adds cheaper debt to its capital structure, its cost of capital declines. On the other hand, the overall value of the firm increases. Thus, as the firm increases its leverage by increasing debt in capital structure, the overall cost of capital declines which ultimately increases the value of the firm.

The emphasis of an EBIT is to measure how the degree of leverage changes in the valuation of the firm. "Assuming a constant equity capitalization rate, the increase in cheaper debt funds lowers the weighted average cost of capital and thereby raises the value" (*Shrestha, 1985:49*).

The degree of leverage and the value of the firm are shown as below:

**Figure 2.2**

**$K_d$, $K_o$ and $K_e$ under Net Income (NI) Approach**




From the above figure, we know that degree of leverage $K_e$ and $K_d$ are assumed constant with leverage. As the portion of debt is increased in the capital structure being less costly, it causes weighted average cost of capital to decrease and approach the cost of debt. The optimal capital structure would occur at the point where the value of the firm is maximum and overall cost of capital is minimum. Under this approach the firm will have the maximum value and the lowest cost of capital when it is all most debt finance.

The essence of the net income approach is that the firm can increase its value or lower the cost of capital by increasing the portion of debt in the capital structure.

The crucial assumption of this approaches are:-

1. The use of debt does not change the risk perception of investors, as a result the equity capitalization rate Ke and the debt capitalization rate Kd remain constant with changes in leverage.
2. The debt capitalization rate is less than the equity capitalization rate (i.e. $K_d < K_e$)
3. "The corporate income tax does not exist." (*Pandey: 1999:678*).
4. The first assumption implies that, if $K_d$ and $K_e$ are constant. The second assumption indicated that the increased use of debt magnifies the shareholders' earnings. As, there is no corporate tax increased, value of the equity ultimately increases the value of the firm.

Hence, Capital Structure decision impacts on the cost of capital, which further impacts in shareholders' value and value of the firm symbolically.

$$K_0 = \frac{NOI}{V}$$

$$K_0 = K_e - \frac{(K_e - K_d)D}{V}$$

Where, $K_0$ = Cost of Capital of the Firm

$K_e$ = Cost of equity

$K_d$= Cost of debt

D= Debt

V= Value of Firm

NOI = Net Operating Income

**2. Net Operating Income (NOI) Approach**

According to NOI approach the market value of the firm is not affected by the capital structure changes. The market value of the firm is found out by capitalizing the net operation income at the overall, or the weighted average cost of capital which is constant. The market value of firm is determined as follows:

Value of firm = Market value of debt + Market Value of common share

Or

$$\frac{NOI}{Cost\ of\ Capital}$$

Or

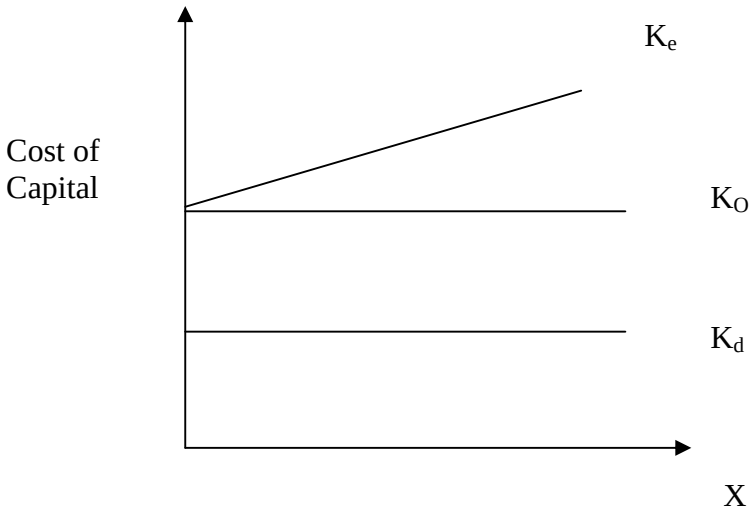
$$\frac{EBIT}{Cost\ of\ Capital}$$

"Under the net operating income (NOI) approach, the cost of equity is assumed to increase linearly with leverage. As a result, the weighted average cost of capital remains constant and the total value of the firm also remains constant as leverage change." (*Eugene and Hanson, 1976:236*).

This approach is opposite to the net income approach. Changes in leverage will not lead to any changes in the total value of the firm and market price of share. The overall cost of capital remains constant too. According to this approach, the net operating income is capitalized at an overall capitalization rate to calculate the total market value of the firm and deduct market value of debt from total to obtain market value of equity. Note that the overall cost of capitalization rate and cost of debt remain constant but the cost of equity increases linearly with leverage. This approach can be expressed as:

**Figure 2.3**

**Net Operating Income (NOI) Approach**




Degree of Leverage

It can be expressed as:

$$K_e = K_0 + \frac{(K_0 - K_d)\,B}{S}$$

Under the net operating income approach, the capital structure can be presumed as independent of the value of the firm which remains constant. The change in the degree of leverage employed by a firm cannot change underlying factors. It merely changes the distributing of income and risk between debt and equity without affecting the total income and risk, which influence the market value of the firm. Hence, the degree of leverage cannot influence the market value (or equivalently the average cost of capital) of the firm. The critical assumptions of net operating income approach are as below:

1. The market capitalized the value of the firm as a whole. Thus, the split between debt and equity is not important.
2. The market uses an overall capitalization rate $K_0$ to capitalize the net operating income which depends on the business risk. If the business risk is assumed to remain unchanged, $K_0$ is constant.
3. The use of less costly debt funds increases the risk of shareholders. This causes the equity capitalization rate to increase. Thus, the advantage of debt is offset exactly by the increase in the equity capitalization rate $K_e$.
4. The debt capitalization rate $K_d$ is constant.
5. The corporate income taxes do not exist.

As stated above, "under NOI approach, the value of firm is found out by dividing the net operating income by the overall cost of capital". (*Pandey, 1999:681*)

**3. Traditional Approach**

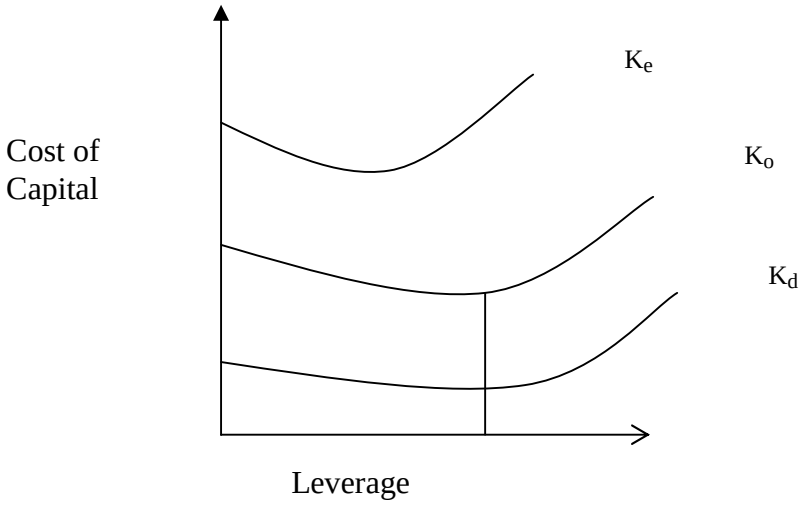
The traditional approach, popularized by Ezra Soloman, is also known as an intermediate opportunity, compromised between the net income approaches. The tradition approach to evaluation and leverage assumes that there is an optimal capital structure and the company can increase the total value of the firm through the judicious use of leverage. The traditional presumption is that a company's value is a concave function of its financial leverage and that an optional financial leverage exists where the slope of the function is Zero.

According to traditional position, the manner in which the overall cost of capital reacts to the change in degree of leverage can be divided into three stages.

According the I.M. Pandey, the traditional view is a compromise between the net income approach and the net operating income approach. According to this view, the value of the firm can be increased or judicious mix of debt and equity capital can reduce the cost of capital. The traditional view on the relationship between the capital structure and the cost of capital is that the firm's cost of capital can be reduced by the judicious mix of debt and equity capital and that optimum capital structures exist for every firm. This approach is comparison between the net income approach and the net operating income approach. In this approach, the cost of capital decreases with the reasonable limit of debt and then increase within the leverage. Following figure can illustrate this approach graphically.

**Figure 2.4**

**Traditional Approach of Capital Structure**




The main assumptions of the traditional approach are:

1.The cost of debt capital $K_d$ remains more or less constant up to a certain degree of leverage but rises after a certain point.

2.The cost of equity capital $K_e$ remains more or less constant or rises only gradually up to a certain degree of leverage and rises sharply thereafter.

3.The average cost of capital $K_o$, as a consequence of the above behavior of $K_e$ and $K_d$,

(1) decreases up to a certain point.

(2) remains more or less unchanged for moderate increase in leverage thereafter, and rises beyond a certain point.

"The traditional approach is not as sharply defined as the net income approach. Several shapes of $K_d$, $K_e$ and $K_o$ are constant with this approach" (Chandra, 1994:613).

**4. The Modiglani Miller Hypothesis:**

Till 1950, it was believed that judicious mix of debt and equity capital i.e., financial leverage of capital increases the value of firm and helps in determination of optimal structure. But in 1958, Franco Modiglani and Merton H. Miller published a research paper titled, "The cost of capital, corporation finance and Theory of Investment" and added another milestone on the theory of Capital Structure".

"This theory propounded by these two researchers was later known as M-M theory. The M-M theory is based on some assumptions, which are mentioned as below" (*Pandey, 1999:687*):

1.Perfect competition market environment where information relating investment is freely accessible it involves no transaction cost. In addition to this, investors are free to sell and buy the securities, can borrow without any restriction at the same rate as corporation does. All investors are rational and no investor can influence the market.

2.The individual investors may have the different views as to the shape of the probability distribution, but expected rate of return for all is assumed the same.

3.The division of income between cash dividend and retained earnings in any period is more detail or Dividend payout ratio is 100%.

4.There are no income taxes. Modigliani and Miller remove this assumption later.

5.Homogeneous business risk.

**Assumption of M-M hypothesis can be classified into two ways:**

1. M.M. Hypothesis with no taxes is identical to Net Operating Income approach, which has already been explained.

2. M-M Theory with taxes:

M-M hypothesis says that firm is independent of its capital structure. But in reality, the corporate income taxes exit and interest paid to the debt holder is treated as deductible expenses. So, debt financing is advantageous. In their 1963 article, “M-M shows that the value of the firm will increase with debt due to the deductibility of the interest charges for tax computation, and the value of levered firm will be higher than of the un-levered firm" (Miller and Modigliani, 1966:128).

**Proposition - I**

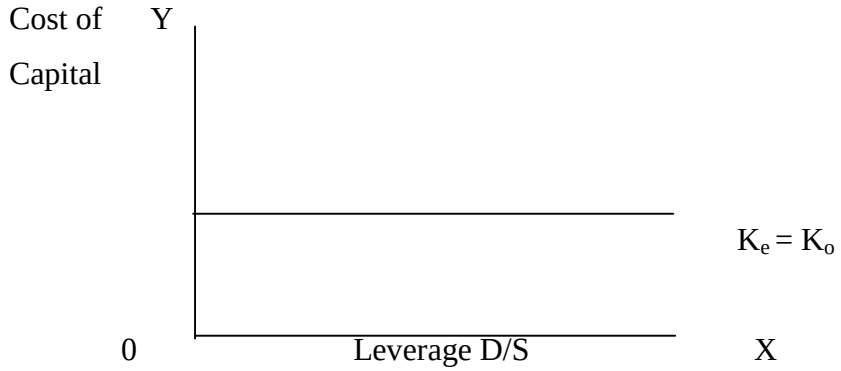
The value of levered firm is equal to the value of un-levered firm in the same risk class plus the gain from leverage. The gain from leverage is the value of tax saving, found as the product of the corporate tax rate (T) times the amount of debt the firm uses (B).

Value of levered firm = Value when unleveled + tax shield

$$V_L = Vu + T \times B$$

**Figure 2.5**

**The cost of capital under M-M Proposition I**




Here when corporate tax is introduced, the value of levered firm exceeds that of the unlevered firm by the amount of tax shield. Theoretically a firm's value is maximized at 100% debt financing. The value of firm is equal to the firm's value of equity with zero debt. The value of un-levered firm can be found by using following equation.

$$V_u = S = \frac{EBIT(1-T)}{K_{eU}}$$

Where,

Vu = valued of un-levered firm

S = Market Value of Stock

T = Corporate tax rate

$K_{eU}$ = Cost of equity of un-levered firm

**Proposition – II**

Under this proposition, the cost of equity of levered firm is equal to the cost of equity of an unlevered firm in the same risk class plus a risk premium whose size depends on the

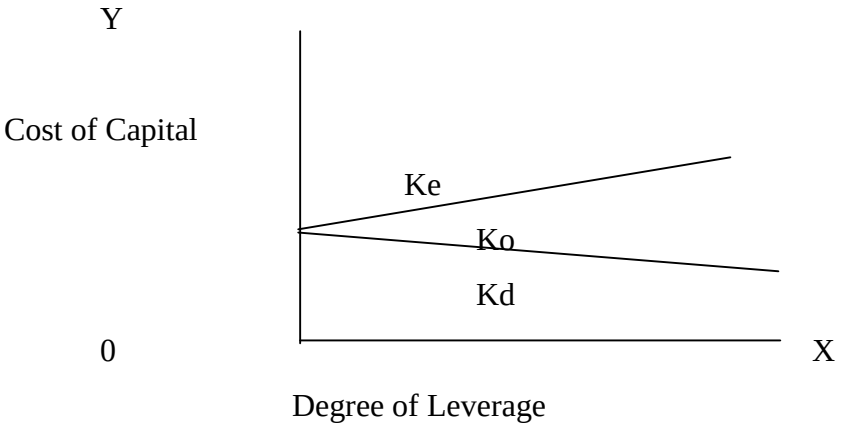
differential between the cost of equity and debt to and unlevered firm, the amount of financial leverage uses, and the corporate tax rate.

$$K_{eL} = K_{eU} + (K_{eU} - K_d)(1\text{-}T)\frac{B}{S}$$

Where, $K_{eL}$ = Cost of equity of levered firm

**Figure 2.6**

**The cost of capital under M-M Proposition II**




The M-M view under tax consideration implies that because of tax deductibility of interest charges, a firm can increase its value or lower its cost of capital continuously with leverage. Thus the optimal capital structure is reached when the firms employ 100% debt in its capital structure. But the observed expenditure does not entirely support this view. In practice, firms do not employ large amount of debt, nor are lenders ready to lend beyond certain limits. M-M suggests that firms would adopt a target debt ratio so as not to violate the limit of debt level imposed by lenders.

### 2.1.3. Risk Measurement in Capital Structure

About the relationship between risk and leverage, Weston and Brigham (1981) have presented a very clear view and have stated risk as a measure by standard deviation that has a linear relationship to the debt to equity ratio measured at the book value but an upward curvilinear relationship to the debt to total assets ratio at book value.

Conversely, when risk is measured by the co-efficient of variation, the relationship to the book debt to total assets ratio is linear.

There is theoretical relationship between beta and leverage ratios for comparison with beta at market values. At market value, the relationship between beta and debt to equity ratio is linear and between beta and the ratio of debt to total value of the firm is curvilinear upward. The different shapes of relationship steam from the basic underlying theory of the computation involved but what is common to all of the six portrays of the relationship between risk and leverage is that to obtain the higher expected earnings (whether measured by earning per share of return on shareholders' equity) that goes with increased leverage, the firm incurs more risk.

To sum up, "there is a positive relationship between return and risk as well as between risk and degree of leverage employed. Thus, higher the leverage, greater is the return and consequently the higher will be the risk" (*Weston and Brigham, 1981:563-64*).

### 2.1.4. Financial Leverage and Return on Equity

With financial leverage the advantage lies in the possibility that funds borrowed as a fix interest rate can be used for investment opportunities earning a rate of return higher than the interest paid. The difference of course is profit to the owners' business, thus, additional profit earned is the leverage effects generated by the employment of low cost fund.

Given the ability to make investment, that gives returns above the going rate of interest; it will be to the company's advantage to engage in "Trading on Equity". This means borrowing as much as prudent debt management will permit and thereby boosting the return on owners' equity by the difference between the rates of return achieved and the rate of interest paid.

### 2.1.5. Factors Affecting Capital Structure:

"Capital Structure decision is not an easy task that a manager can handle individually. Some major factors that play significant role in forming composite capital structure of a firm are pointed below" (*Weston and Brigham, 1981:63-64*):

1. **Growth Rate of Future Sales:**

The expected future growth rate of sales is the measure of the extent to which the earning per share of firm is likely to magnify by leverage. However, the common stock of a firm

whose sales and earning is increasing at favorable rate commands a high price, thus it sometimes appears that equity financing is desirable. The firm must weight the benefits of using leverage against the opportunities of broadening its equity base when it chooses between future financing alternatives.

2. **Sales Stability:**

With greater stability in sales and earning, a firm can incur the fixed charge of debt with less risk than when its sales and earning are periodical. Thus sales stability and debt ratio are directly related.

3. **Competitive Structure:**

Debt servicing capacity is not only dependent on sales volume but also on the profitability. Loss (weak) entry barriers and ability of competing firms to expand, both influence profit margin.

4. **Asset Structure:**

Assets structure of the firm directly influences the financing. The firm having long lived fixed assets and having much assumed demand for its outputs uses long-term debt extensively. The Firms have their assets mostly in receivables and in inventory, as in wholesale and retail trade, rely less on long term debt.

5. **Management Attitude:**

Choice of financing is influenced by management attitude about risk and control. Large firms having wide spread common stockholders prefer issuance of more stocks, because it does not influence on control of the firm significantly, in contrast, the owners of small firms may prefer to avoid issuing the manager of small company is comparative on account of risk taking.

6. **Lender Attitude:**

The management can’t individually determine its capital structure ignoring lender’s attitude. Sometimes lender’s attitude can be the most influencing factor. They emphasize that excessive debt reduces the credit standing of the borrower and the credit rating the securities previously issued.

## 2.2 Review of Major International Studies

A number of international theory developers have studied capital structure. Some of these studies are reviewed below:

1. **The Modigliani- Millers (MM) Study (1958)**

The MM approach is perhaps the most widely accepted capital structure theory. Franco Modigliani and Merton Miller introduced two propositions on relation between a firm's capital structure, its market value and cost of capital. The first proposition suggests that in a perfect capital market, without taxes and bankruptcy cost, a firm's total market value and overall cost of capital remain in-variant to capital structure decision. And if there is corporate taxes, the market value of firm can be maximized by maximizing the debt. Likewise, the second proposition assumes that the cost of equity of levered firm is greater than that of unlevered firm. Apart from this, in his presidential address to the American finance association, Merton Miller presented a model to show leverage affects firms' values when both personal and corporate taxes are taken into account.

2. **Optimal Leverage and Aggregate Investment (1999)**

Biasis, Bruno and Casamatta Catherine performed a research on the topic titled Optimal Leverage and Aggregate Investment and tested different models. The researcher analyzed the optimal financing or investment project ed when managers must expert unobservable effort and can switch to less profitable riskier venture. As per their findings, optimal financial contracts can be implemented by a combination of debt and equity. The risk-shifting problem is the most severe while stock options are also needed when the effort problem is the most severe. Further finding of the study was that worsening of the moral hazard problems lead to decrease in investment and output at the macroeconomic level. Moreover, aggregate leverage decreases with the risk shifting problems and increases with the effort problem.

The study has taken the conclusions from some previous studies into consideration and stated that leverage is high for regulated firms and in low-tech industries. The leverage can be low in high tech industries. Similarly, leverage decreases with research and development expenditure i.e. in innovative industries.

To determine the investment decisions, the study found that there is tension between two moral hazards problems. To induce the manager to exert effort one has to promise large payoffs, when the cash flow generated by the firm is large. Unfortunately, this can make risk taking too attractive for the manager when this tension is too strong it can lead to credit rationing.

3. **The effect of capital structure on profitability (2005)**

Joshua Arbor in his study titled The effect of capital structure on profitability, mentioned that the relationship between capital structure and firm has been the subject of considerable debate. Throughout the literature, debate has centered on whether there is an optimal capital structure for an individual firm or whether the proposition of debt usage is irrelevant to the individual firm's value. The capital structure of a firm concerns the mix of debt and equity the firm uses in its operation. Berkely and Myers contend that the choice of capital structure is fundamentally a marketing problem. According to Weston and Brigham, the optimal capital structure is the one that maximizes the market value of the firm's outstanding shares. Other theories that have been advanced to explain the capital structure of firms include bankruptcy cost, agency cost and pecking order theory. These theories are discussed below:

Bankruptcy costs are the cost directly incurred when the perceived profitability that the firm will default on financing is greater than zero. The bankruptcy profitability increases with debt level since it increases the fear that the interest and the company might not be able to generate profits to pay back the interest and the loans. The potential costs of the bankruptcy may be both direct and indirect. Examples of indirect bankruptcy costs are the loss in profits incurred by the firm as a result of the unwillingness of stakeholders to do business with them.

The use of debt in capital structure of the firm also leads to agency costs. Agency costs arise as a result of the relationships between shareholders and managers and those between debt holders and share holders. The need to balance gains and cost of debt financing emerged as a theory known as the static trade off theory by Myers. It values the company as the value of the present value of bankruptcy and agency costs.

4. **Determinants of Capital Structure (2005)**

Fakher Buferna, Kenbata Bangassa and Lynn Hodgkinson made a study on the topic Determinants of Capital Structure, and contributed towards a better understanding of financing behavior in Libyan companies. Hypothesis, based on comparing the relationships between long and short term debt and four explanatory variables that represent profitability, growth, tangibility and size, were developed to test which capital structure theories best explained Libyan companies' capital structure. The results suggest that both the static trade-off theory and the agency cost theory are pertinent theories whereas there was little evidence to support the information asymmetry theory. The lack of a secondary market may have an impact on agency costs as shareholders, who are unable to offload their shares, might exert pressure on management to act in their best interests. It is likely that equity agency costs, arising due to conflict between debt holders and shareholders, will be more of a for private companies and indeed the relationship supporting the agency cost theory were stronger for private companies.

**2.3 Review of Journal / Article**

Shrestha (1985) published an article on *"Analysis of Capital Structure in Selected Public Enterprises"* pointing at the confusing capital structure of the banks and how ad hocism has become the basis for capital structure and most of them want to eliminate debt if possible to relieve financial obligation.

Garvey and Hanka (1999) did an article *"Capital Structure and Corporate Control"*. On their article, the effect of anti take over statutes on firm leverage are stated as follows: It was found that firms protected by second generation state anti take over locals substantially reduced their use of debt and that unprotected firms do the reverse. This result supports recent models in which the threat of hostile takeover motivates managers to take on debt, they would otherwise avoid. An implication is that legal barriers to takeovers may increase corporate stock.

Corporate managers have discretion over capital structure choices, as the firm's founding shareholders cannot write a comprehensive ex-ante contract specifying all future financing decisions. Most capital structure models make the simplifying assumption that managers choose capital structure in the interest of shareholders. Examples of this approach range from the classic static tradeoff between tax benefits and expected casts of

financial distress to Leland Toffas (1996) dynamic analysis that allows for agency problems between debt holder and shareholders increasingly. However research into capital structure has explicitly recognized that managers self interest can lead to financial policies that do not maximize shareholder wealth. An early example is Donaldson's (1969) field study of financing choices, which emphasizes goals such organizational survival and growth.

Booth et al. (2001) has conducted a research work on capital structure in developing countries. The purpose of the study was to analyse the capital structure choices made by companies from developing countries having different institutional structure and economic structures. Data and information were collected from the International Finance Corporation. And other related data were collected from 10 different countries: India, Pakistan, Thailand, Malaysia, Turkey, Zimbabwe, Mexico, Brazil, Jordon and Korea. Different common financial and mathematical tools were used to examine the financial structure of the 10 firms. They found that the variables that are relevant for explaining capital structure in the United States and European countries are also relevant in the developing countries. Although there are financial differences in institutional factors across these countries, they concluded that the knowledge of institutional factors is essential to predict the financial structure and capital structure of a firm than the knowledge of its nationality. However there are systematic differences in the way these ratios are affected by country factors such as, GDP growth rates, inflation rates and the development of capital markets.

Poudyal (2002) in his article, '*Capital Structure: Its Impact on Value of Firm*' examined the interrelationship between the objective of achieving an optimal capital structure and to provide conceptual framework for the determination of the optimal capital structure. For this, a hypothetical firm is constructed and different assumptions are laid down to analyze the effect of capital. Various financial and statistical tools like ratio analysis are used to extract reasonable firm for the hypothetical firm. It is observed the minimum value of firm and price per share are attended at debt ratio of 30%. Furthermore, if there is flexibility to select capital structure in any proportion, optimal capital structure range from 30% to 40%. An optimal capital structure would fulfill the interest of equity shareholders and financing requirement of a company as well as other concerned groups.

Shrestha (2006) has carried out a study on *Interrelationship of Capital Structure* with various important variables such as Earning Per Share, Dividend Per Share and Net Worth of the joint venture banks and provide suggestions to overcome various issues and gaps. The study has used financial tools such as Ratio Analysis, EBIT-EPS analysis, and overall capitalization rate, and equity capitalization rate. Likewise, total value calculation and statistical tools such as, Karl Pearson's correlation and probable error. The study concluded that all the joint venture banks are using high percentage of total debt in raising the assets and all the banks are able to pay the interest. The study suggested that the bank must control total deposit and the bank must control investment, the bank needs to reduce its expenses and control fluctuations in the earnings per share to improve its market price per share.

Karki (2008) has carried out a study on *Capital Structure and Profitability, a Comparative Case Study between the Nepal Indosuez Bank Ltd. (now Nepal Investment Bank Ltd (NIBL)) and the then Nepal Grindlays Bank Ltd. (today's Standard Chartered Bank Ltd.).* The capital structure of both banks was highly levered so it was difficult for them to pay interest and principal that might have ultimately led them to liquidity or bankruptcy. There was no significant relationship between debt and equity ratios in terms of fixed deposits to net worth and overall capitalization rates of the banks. The return on equity fluctuation was found to be influenced by the dividend payout ratio and interest margin in NIBL. Both banks varied in the case of total assets, number of bank branches and volume of transactions. Both the banks were efficient and doing well. The study suggested that NIBL should expand assets and branches, which may ultimately affect the bank's performance and increase the profitability more than ever.

Ali (2011) studied *Practical Implication of Capital Structure Theories: Empirical Evidence from Banks of Pakistan*, and found that banking sector of Pakistan offers a number of financial facilities to corporate and individual users. Along with its number of financial products and services, banking sector of Pakistan is often considered as the backbone of the economy. He suggests that mainly two directions can be explored within future research. First is to testify the implication of capital structure theory across different industries. Secondly, cross-sectional study can be attributed on the financial and non financial industries in the economic segment of Pakistan.

**2.4 Review of Thesis**

Shrestha (2009), did her Masters thesis on *Capital Structure of Commercial Banks (comparative study between Himalayan Bank Ltd. and NABIL Bank Ltd.).*

The major objectives of the study were:

1. To study the existing capital structure of the sample commercial banks.
2. To analyse the relationship between capital structure and to effect to the banks.
3. To study the debt servicing capacity of the sample banks.

The major findings of the study were:

1. The total debt and net worth of NABIL Bank Ltd. was seen to be in an increasing trend over the period of 2002/03 – 2007/08.
2. In the fiscal year 2002/03, the total value of HBL was higher than that of NABIL Bank Ltd. But by the end of the fiscal year 2007/08, total value of NABIL Bank Ltd was higher than that of HBL. During the fiscal year 2002/03-2007/08, both banks showed an increasing trend but the increasing trend of NABIL Bank is higher than of HBL.
3. In the fiscal year 2007/08, altogether 15 companies including 1 commercial bank, 4 development banks, 8 finance companies, 2 insurance companies, and one other company issued securities to public. The amount of issue was Rs. 3874.75 million.
4. Market per share of the Himalayan Bank was in increasing trend all through the study period. The MPS rose from Rs. 836 in 2002/03 to Rs. 1980 in 2007/08.Whereas the MPS of NABIL Bank was Rs. 740 in 2002/03, but then with dramatic increasing trend, it rose to Rs.5257 in 2007/08. This is at a much higher rate than that of the HBL.

Pokhrel (2011), did his thesis on *A Comparative Analysis of Capital Structure of Commercial Banks with reference to NIBL, HBL and NABIL*.

The main objectives of the study were:

1. to analyze and compare the capital structure of the selected commercial banks.
2. to identify the trend of composition of assets and capital structure.
3. to analyse the return on equity and assets.
4. to evaluate the aggregate liability bearing capacity of the selected banks.

The major findings were :

1. All of the selected banks have enough capacity to meet the debt obligation.
2. NABIL generates higher return on assets and return on equity than the other banks.
3. On per share basis, NABIL has better achievement and distributes higher dividend to common shareholders. So comparatively NABIL is better.

4. Long term debt to total debt ratio showed that all the sample banks had fluctuating trend.

5. The amount of total debt or debt capital and equity capital is moving in the same way of raising tendency over the study period. Looking individually, all the banks equity capital is in the increasing trend.

6. The Long term debt to total debt ratio of NIBL is higher and other banks position is average that means not be zero and not be higher than NIBL.

7. All the sample banks have likely equal total debt to total asset ratio. In the same proportion, creditor provide the fund in all banks.

8. On per share basis, comparatively NABIL has better achievement. EPS of NABIL is more than two times than the other banks. In average, HBL earns Rs. 60.88, NIBL earns Rs 53.83, and NABIL earns Rs 120.19 per share.

Shrestha (2012), did his thesis on *Comparative analysis of capital structure of commercial banks with reference to Himalaya Bank Ltd (HBL), Nepal Investment Bank Ltd (NIBL) and Bank of Kathmandu Ltd.*

Objectives of the study:

1. To analyse the behaviour of the capital structure of the selected commercial banks.
2. To examine the relationship of capital structure with variables such as, Earning Per Share, Dividend per share and Net worth .
3. To analyse the value of the firm, cost of capital and profitability of the selected banks.
4. To show the trend of composition of assets and capital structure .
5. To provide suggestions on the basis of findings for future growth of the banks under study.

Major findings of the study:

1. The analysis shows that among the three banks, HBL has the least and NIBL has the highest long term debt to capital employed ratio. This indicates that NIBL is using more long term debt financing as its capital.
2. The average ratio of total debt to total assets is almost equal for all the banks. Debt amount is used up to 92% by all banks in average for asset financing purpose. It means creditors have greater contribution on assets financing of the banks.
3. Debt equity ratio of HBL shows the creditors have 22% claim on the assets, which is the lowest among the three banks. It also indicates that the company has lesser amount to be paid as interest on debt. The creditors claim 32% in NIBL and 37% in BOKL, which is

the highest among the selected banks. Comparatively BOKL has greater contribution by debt-holders than that of the equity holders. So BOKL enjoys more tax shield than the other two.

4. HBL is able to satisfy the interest claim of the debtholders even if the bank's EBIT falls to 54.05%. Similarly, NIBL and BOKL can cover interest even after EBIT falls to 55.55% and 49.50% respectively. Although all the banks have ability to pay their annual interest payments, BOKL has the greatest ability.

5. Under the Net Income approach, the interest rate and the cost of equity are dependant of the capital structure. With the high use of leverage, overall cost of capital declines and the total value of firm rise. From the calculations, BOKL has the optimum capital structure because it has the least cost of capital.

Lama (2012), did his thesis in 2012 on the topic *"A Study on Capital Structure Management of Commercial Banks (with reference to NIBL and NABIL).*

The major objectives of the study were:

1. To evaluate the role of capital structure on the growth of the selected commercial banks in Nepal.
2. To analyse the capital structure of the selected commercial banks.
3. To analyse the relationship of the capital structure with various important variable such as earning per share, dividend per share and net worth.
4. To analyse the market value of the selected commercial banks.

The major findings of this study were:

1. Average cash reserve ratio of NABIL is near the NRB directives of 6.5% and CRR of NIBL is higher than NRB directives. In comparison, NIBL has higher average CRR than NABIL which measures the ability to meet short term obligation and reflect the short term financial strength and solvency of the back than NABIL.
2. The major components of Total fixed deposit of NABIL and NIBL are local currency and foreign deposit currency. Total shareholder equity is paid up capital and reserve fund. The level of total deposit and total shareholders equity are in increasing trend over the study period.
3. Both the banks have more debt equity ratio, i.e. greater claims of creditors than owners, which shows that the banks have somehow been able to reduce the claim of creditors than that of the owners. The average ratio of NIBL was higher than the average ratio of NABIL. The variability of fixed deposit to net worth is higher in NABIL and NIBL.

4. NABIL has higher ROA than NIBL. This shows the higher ROA earning bank, i.e. NABIL has higher efficiency in utilizing their assets. Both mentioned banks have lower CV, i.e. 9.42 % of NIBL and 5.64 % of NABIL, which shows the less fluctuation on ROA of both banks. But the fluctuation of NIBL is quiet higher than that of NABIL.
5. NABIL has higher ROE than NIBL. This shows the higher ROE earning bank, i.e. NABIL has higher efficiency in utilizing their shareholders' fund.

Ayer (2013), did thesis on *Capital Structure Management of Commercial Banks in Nepal (with reference to EBL, HBL and NIBL)*.
The specific objectives of this study were:
1. To examine the leverage position of the sample banks
2. To evaluate the impact of capital structure on the profitability of the sample commercial banks.
3. To analyse the relationships between operating income and interest payment.
4. To examine the relationship between debt to equity ratio and cost of equity.
The major findings of the study were as below:
1. Long term debt to total assets ratio measures the financial leverage of the firm. This ratio shows the relationship between long term debt and total assets. The average LTD to assets ratio of EBL, HBL and NIBL were 0.936 %, 1.39% and 2.24%. The NIBL has higher ratio than EBL and HBL which means NIBL is using more LTD than other sample banks. Optimum utilization of LTD is fruitful for organization.
2. The long term debt to equity ratio measures the long term components of capital structure. Long term debt and shareholders' equity are used in financing assets of the companies. So it reflects the relative claim of creditors and shareholders against the assets of the firm. The average LTD to equity ratio of EBL, HBL and NIBL are 14.94, 18.23 and 30.33. All the sample banks have the lower LTD to equity proportion. This is not profitable for the sample banks. Amongst the sample banks, NIBL has the highest proportion.
3. The long term debt to total debt ratio measures the percentage of long term debt to total debt used in the firm. So, it is the percentage of long-term debt among the total debt employed by the firm. The average ratio of EBL, HBL and NIBL are 1%, 1.50% and 2.422% respectively. All the sample banks have low portion of long term debt in comparison of the total debt.

4. The interest coverage ratio shows that all selected banks are able to pay interest. Average ratio of interest coverage is only 1.88, 1.818 and 1.82 times of EBL, HBL and NIBL respectively. In comparison, EBL is operating slightly efficiently in terms of interest coverage ratio than HBL and NIBL. Otherwise all the selected banks should make effort to retire excessive debt to have comfortable coverage ratio.
5. The return of shareholders' equity ratio of EBL, HBL and NIBL are 27.44%, 21.02% and 25.18% on an average. The ROE ratio has great impact to show the relative performance and strength of the bank for future investment. EBL's earning of 27.442% shows that the bank has been able to utilize the shareholders' equity in efficient way.

**Research Gap**

There have been numerous national and international studies on capital structure to date. They have tried to examine the different sources of capital structure and to evaluate the role of capital structure on the growth of commercial banks in Nepal. Commercial Bank invests its deposit in different profitable sectors according to the directives and circulars of the NRB and guidelines and policy of their own bank. This study covers the more recent financial data and analysis is done within the latest guidelines and curriculum of NRB. The analysis is based on expressing all items in the statement as a percentage taking the most recent data.

The world is becoming more dynamic and subject to rapid changes. This research will be based upon the modern approaches to capital structure analysis; in which comparable group approach is used and include consideration of economic and strategic factors where feasible. Even the study will base upon those core indicators especially related with banking sector as well as it will compare across time and same line of banks i.e. leading two commercial banks (SBL and LBL). Thus the research will be an interest to a wide range of its stakeholders and other government regulatory interests.

# CHAPTER –III
# RESEARCH METHODOLOGY

## 3.1 Introduction

Research Methodology is the way to solve research problem systematically. **(Kothari, 1990:39)**. It is composed of two words "Research & Methodology". The entire process of study by which we attempt to solve problems is called research. And methodology is the techniques used to make calculations and come to logical reasons. The process of research methodology includes a varied activities: gathering information, recording, analyzing, & interpreting the findings with the purpose of coming to a logical conclusion.

## 3.2 Research Design

The main objective of the present study is analyzing capital structure of the two commercial banks of Nepal. Descriptive research design and analytical study of collected data of various financial statements over the time period is being used. Therefore, descriptive as well as analytical research design are adopted here to make the analysis more effective.

## 3.3 Population and Sample

This study tries to look at the banks established since 15 years back in Nepal. There are 19 banks established since 1998. Of the 19 banks taken as the population size, two banks started operation in the same year in 2002.These two banks namely, Siddhartha Bank Limited and Laxmi Bank Limited have been taken as the sample banks for this study.

## 3.4 Nature and Sources of Data

This study used the secondary data. The data are directly obtained from the selected commercial banks. Annual reports of these banks that include balance sheet and profit and loss account are the main sources of data. The data have been collected from the fiscal year 2007/08 to 2011/12. Data have also been collected from their official websites, which are http://www.laxmibank.com/ for Laxmi Bank Limited and http://www.siddharthabank.com/ for Siddhartha Bank Limited. Beside this, the other major sources of information are thesis studies made by seniors of T.U. Other essential

information is supplemented from various publications of Nepal Stock Exchange Ltd. and Nepal Rastra Bank.

### 3.5 Method of Data Analysis:

Different works are used to analysis for all conduction tools cannot be used effectively. Tools have been selected according to the nature of data as well as subject matter. The major tools employed in this study for the analysis of the data are the ratio analysis, which established the quantities or numerical relationship between two variables of the financial statement. Beside this statistical tools are also used.

#### 3.5.1 Financial Tools:

Financial tools are used to examine the financial performance i.e. strength and weakness of the bank. In this study, financial tools like ratio analysis, leverage analysis, EBIT-EPS analysis and other analysis have been used.

**Ratio Analysis:**

Ratio analysis is a powerful tool of financial analysis. It shows the relationship between two accounting figures expressed mathematically. In financial analysis, ratio is used as an index or yards stick for evaluation of the financial position of a form. Ratio helps to summarize the large quantities of financial data and to mark qualitative judgment about firm's financial performance.

Ratio analysis is defined as the systematic use of ratio to interpret the financial statement so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. Though there are many ratios, only those ratio have been covered in this study, which are related to the capital structure management of the banks, The required financial ratios for this study are enabled in detail as follows:

**I. Leverage Ratio**: Leverage ratio measures the funds supplied by owner as compared with the financing provided by the firm's creditors. It also provides some measures of a risk of debt financing by calculating the coverage of fixed charge. In this study, following leverage has been calculated:

**1. Debt Equity Ratio**: A high debt equity ratio indicates that the claims of creditors are greater than that of the owners and vice versa.

$$Debt\ Equity\ Ratio = \frac{Total\ Debt}{Shareholders'\ Equity}$$

**2. Total Debt to Total Assets Ratio**: It measures the percentage of total fund provided by creditors. Debt includes current liabilities and all the bonds. This can be calculated as :

$$Total\ debt\ to\ Total\ Assets\ Ratio = \frac{Total\ Debt}{Total\ Assets}$$

The ratio however gives some similar indication as debt-equity ratio.

**3. Degree of Financial Leverage**: The Degree of financial leverage at a particular EBIT level is measured by the percentage change in earning per share relative to the percentage change in EBIT. The following equation can be used to determine the degree of financial leverage.

$$Degree\ of\ Financial\ Leverage = \frac{Earning\ Before\ Interest\ and\ Tax}{Earning\ Before\ Tax}$$

**4. Interest Coverage Ratio**: It is also known as time interest earned ratio. This ratio measures the debt servicing capacity of a firm, so far a fixed interest on long–term loan can earn. It can be calculated as

$$Interest\ Coverage\ Ratio = \frac{Earning\ before\ Interest\ and\ Tax}{Interest}$$

Larger the coverage ratio the greater ability of the firm to handle fixed charge and more assured the prompt payment of interest to the creditors.

**II. Profitability Ratio:**

Profitability ratio has given final answer about how effectible firm is being managed. In this study following profitability ratio are calculated.

**1. Return on Total Assets Ratio:**

Return on total assets ratio measures the overall profitability of the banks with respect to each financial resources investment of the bank's assets. If the bank's working fund is well managed and efficiently utilized, than return on such assets will be higher and vice-versa.

This ratio is calculated by using following formula:

$$Return\ on\ Total\ Assets = \frac{Net\ Profit}{Total\ Assets}$$

**2. Return on Net Worth:**

The ratio of net profit to owners' equity reflects the extent to which objectives have been accomplished. This ratio has great perspective to the present as well as future also. The shareholder's equity includes common share capital, preference share capital, reserve and surplus. But selected banks have not issued preference share capital.

It is calculated by dividing return (NPAT) by shareholder equity (Net worth). Here return means net profit after tax. Net worth includes paid up capitals, general reserve P&L and provision of loan losses.

$$Return\ on\ Shareholders'Equity = \frac{Net\ Profit\ after\ Tax}{Shareholders'Equity}$$

**3. Earning Per Share (EPS):**

Earning per share is the relationship between earning after tax and number of common equity. EPS is calculated by dividing profit after tax by total number of shares.

$$Earning\ per\ share = \frac{Profit\ after\ tax}{Total\ No.of\ shares}$$

Higher earning per share enhances the value of the shareholder's wealth. Higher profitability of the bank results in higher earning per share.

**4. Dividend Per Share(DPS):**

The net profit after taxes belongs to shareholders. But the income which they really receive is the amount of earnings distributed as cash dividend. Therefore, a large number of present and potential investors may be interested in DPS, rather than EPS. This ratio is calculated by using following formula.

$$Dividend\ per\ share = \frac{Dividend\ paid\ to\ equity\ shareholders}{No.of\ issued\ equity\ shares}$$

**III. Other calculated Financial Tool:**

1. Overall Capitalization Rate
2. Equity Capitalization Rate

### 3.5.2 Statistical Tools:

Besides financial tools statistical tools are used to verify the relationship between the variables and also used to identify the difference between the variable of one bank to other. Statistical tools i.e. percentage, mean, standard deviation, coefficient of variation; correlation coefficient and probable error are used in this study.

**1. Arithmetic Mean**

Arithmetic mean also called 'the mean' or 'average arithmetic mean' is the most popular and widely used method of central tendency. It is the ratio of sum of all observations. It is calculated from ungrouped data and frequency.

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

Where,

$\overline{X}$ = Mean Average

$\sum$ = Summation, N = No. of years

**2. Standard Deviation**

Standard deviation is the most popular and most useful measure of dispersion and gives uniform, correct and stable results. The main characteristics of standard deviation are that it is based on mean. Furthermore a standard deviation is always a positive number and it is superior to the mean deviation. A standard deviation is the positive square root of average sum of squares of deviations of observations from the arithmetic mean of the distribution.

$$\sigma = \sqrt{\frac{\Sigma(X - \bar{X})^2}{N - 1}}$$

Where,

σ = Standard deviation

$\overline{X}$ = Average Mean, X = Sample Data, $\sum$ = Summation, N = No. of years

**3. Coefficient of Variation (CV)**: "The Coefficient of variation is the measure of dispersion, comparable across distribution which is defined as the rate of standard

deviation to the mean expressed in the percentage". Levin and David, (1994; 114). In this study, CV is calculated in order to know and compare the variability of observed data between the banks (i.e. SBL and LBL).

$$\text{CV}= CV = \frac{\pm}{X} * 100$$

**4. Correlation Analysis**: The correlation analysis refers to the techniques used in measuring the closeness of the relationship between the variables. This attempt to determine the degree of relationship between the variables. Among the various methods, Karl Pearson's Method is applied in this study. The result of correlation coefficient lies between +1 and -1 i.e. Correlation can either be positive or negative. If correlation between the variables is positive, it depicts the both the variables are moving the same direction. If the correlation is negative, this explains that the variables are moving in the opposite direction.

Correlation Coefficient is calculated as below:

$$r_{xy} = \frac{n\sum xy - \sum x \sum y}{\sqrt{n\sum x^2 - (\sum x)^2}\ \sqrt{n\sum y^2 - (\sum y)^2}}$$

where,

$r_{xy}$ is Coefficient of Correlation between two variables x and y.

n is number of study periods

It is used to determine whether or not the relationship exists, whether it is significant and finally helps to show cause and effect of the variables

**5. Coefficient of determination ($r^2$):** The coefficient of determination is a measure of the degree of linear association or correlation between two variables. It helps to indicate the percentage variations in independent variable due to the variation in dependent variable

**6. Probable Error (PE):** The probable error of the coefficient helps to interpret its value with the help of probable error, it is possible t determine the accuracy or 'r' value to some extent, i.e. whether 'r' is significant. The probable error or the correlation coefficient is obtained as follows:

$$\text{P.E.} = 0.6745\frac{(1-r^2)}{\sqrt{N}}$$

Where,

r = Correlation coefficient, N = Number of observations

If the value of ‘r’ is less than PE, there is no evidence of correlation and if the value of ‘r’ is more than 6 times PE, Coefficient of correlation is practically certain or the value of ‘r’ is significant.

# CHAPTER – IV
# PRESENTATION AND ANALYSIS OF DATA

## 4.1 Financial Analysis

In this chapter, to achieve the objectives which are set in introduction chapter, the relevant data and information on capital structure management of joint venture banks are presented and analyzed comparatively. It is notable that all types of financial ratio are not studied under this chapter. Only those ratios are calculated and analyzed which are very significant to pasteurize the real capital structure of commercial banks.

Capital structure is concerned with qualitative aspect of financial management. It is the composition of debt and equity i.e. debenture, preference and ordinary shares. A decision about the proportion among these types of securities refers to the capital structure of the banks. In the study period, debentures have been issued but only the equity shares by the selected Commercial Banks. Financial analysis is done through presentation of data and calculating various financial ratios, which reflect the relationship among different variables.

The research methodology is as mentioned in the previous chapter. The following ratios are applied for the study purpose:

- Leverage Ratio
- Profitability Ratio
- Capital adequacy Ratio

### 4.1.1 Leverage Ratio

Capital structure or leverage ratio shows the proportion of debt and equity financing in the firm's asset mix. Long term debts like debenture are a major source of financing. Following capital structure has been analyzed.

#### 4.1.1.1 Debt Equity Ratio:

The relationship describing the lenders contribution for each rupee of the owners' contribution is called Debt Equity ratio. This ratio is calculated by the formula:

$$Debt\ Equity\ Ratio = \frac{Total\ Debt}{Shareholders' Equity}$$

High ratio of total debt enhances its return on total fund. However, a very high debt to shareholder fund is not always favorable because debts are considered more risky than equity fund. Therefore, there should be proper balance in the ratio of debt and net worth. Debt equity ratios of the selected banks are shown in table 4.1.

**Table 4.1**

**Debt Equity Ratio**

| FY | SBL | | | LBL | | |
|---|---|---|---|---|---|---|
| | Debt(in Million) | Equity(in Million) | Ratio | Debt(in Million) | Equity(in Million) | Ratio |
| 2007/08 | 10191.44 | 1068.35 | 9.54 | 10917.23 | 1156.38 | 9.44 |
| 2008/09 | 16082.56 | 1278.74 | 12.58 | 16401.3 | 1343.22 | 12.21 |
| 2009/10 | 20424.8 | 1603.55 | 12.74 | 18432.96 | 1912.33 | 9.64 |
| 2010/11 | 21803.42 | 1988.40 | 10.97 | 18649.63 | 2113.38 | 8.82 |
| 2011/12 | 26576.28 | 2182.71 | 12.18 | 23181.84 | 2300.26 | 10.08 |
| | Average (x) | | 11.60 | | | 10.04 |
| | Standard Deviations (σ ) | | 1.35 | | | 1.30 |
| | Coefficient of Variation (CV) | | 11.64 % | | | 12.95% |

*(source : Appendix III and IV)*

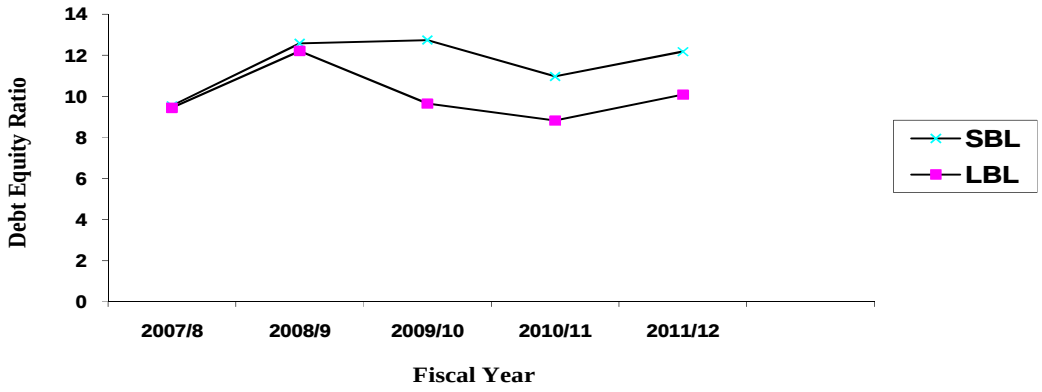
Debt to equity ratio of both banks at different fiscal year is also shown in graphical form in figure 4.1.

According to the table 4.1, total debt to shareholders' equity ratio of LBL went down in the study period and is now in the increasing trend. The average ratio of LBL is 10.04 which is less than that of SBL. Coefficient of Variation of LBL is 12.95% which is greater than of SBL.

According to the figure 4.1, total debt to shareholders' equity ratio of SBL is in fluctuating trend. The average ratio of SBL is 11.60 which is higher than that of LBL. Coefficient of Variation of SBL is 11.64% which is lesser than that of LBL.

**Figure 4.1**

**Debt Equity Ratio**




It can be concluded that the debt-equity ratio of both the banks are fluctuating over the study period. Both banks have used high percentage of debt in the financial structure.

### 4.1.1.2 Total Debts to Total Assets Ratio

Total debt to total assets ratio implies how much debt capital has contributed to the total company's assets.

$$Total\ debt\ to\ Total\ Assets\ Ratio = \frac{Total\ Debt}{Total\ Assets}$$

Total debt to total assets ratio is shown in table 4.2.

According to the table 4.2, total debt to total assets ratio of SBL is in increasing trend. The average ratio of SBL is 0.76 which is less than LBL. Coefficient of Variation of SBL is 17.11% which is greater than LBL.

According to the table 4.2, total debt to total assets ratio of LBL is in increasing trend. The average ratio of LBL is 0.8 which is less than SBL. Coefficient of Variation of LBL is 13.75% which is less than SBL.

**Table 4.2**

**Total Debts to Total Assets Ratio**

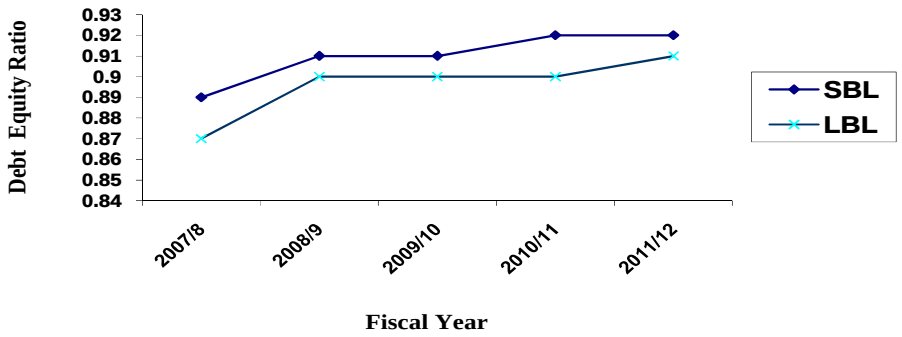
| FY | SBL | | | LBL | | |
|---|---|---|---|---|---|---|
| | Total Debt (in Million) | Total Assets (in Million) | Ratio | Total Debt (in Million) | Total Assets (in Million) | Ratio |
| 2007/08 | 10394.88 | 11668.36 | 0.89 | 11088.64 | 12695.02 | 0.87 |
| 2008/09 | 16275.41 | 17881.75 | 0.91 | 16593.19 | 18386.41 | 0.90 |
| 2009/10 | 20854.39 | 22802.43 | 0.91 | 18939.92 | 20952.25 | 0.90 |
| 2010/11 | 22372.47 | 24405.87 | 0.92 | 19446.52 | 21559.89 | 0.90 |
| 2011/12 | 27352.55 | 29628.73 | 0.92 | 23700.29 | 25916.91 | 0.91 |
| | Average (x) | | 0.91 | | | 0.90 |
| | Standard Deviations (σ ) | | 0.0122 | | | 0.0158 |
| Coefficient of Variation (CV) | | | 1.34% | | | 1.76% |

*(source : Appendix III and IV)*

Total Debts to Total Assets Ratio of SBL & LBL at different fiscal year is also shown in graphical from figure 4.2.

**Figure No. 4.2**

**Total Debts to Total Assets Ratio**




### 4.1.1.3 Interest Coverage Ratio

The ratio measures the debt serving capacity of a firm. It is computed by dividing Net profit before interest and tax by interest.

$$Interest\ Coverage\ Ratio = \frac{Earning\ before\ Interest\ and\ Tax}{Interest}$$

This ratio is also known as times – interest – earned ratio. A high ratio is sign of low burden of borrowing of the business and lower utilization of borrowing capacity. From point of view of the creditors, the larger the coverage, the greater the ability of the firm to make the payment of interest to creditors. This ratio helps find out organization's ability to meet its interest obligation and test firm's debt servicing capacity. It is one of the conventional coverage ratios, which measures relationship between what is normally available from operation of the firm the claims. Interest coverage ratio is shown in table 4.3.

**Table 4.3**

**Interest Coverage Ratio (in times)**

| FY | SBL | | | LBL | | |
|---|---|---|---|---|---|---|
| | EBIT (in million) | Interest (in million) | Ratio | EBIT (in million) | Interest (in million) | Ratio |
| 2007/08 | 625.17 | 408.19 | 1.53 | 598.35 | 421.87 | 1.42 |
| 2008/09 | 1,118.62 | 813.62 | 1.37 | 978.30 | 712.35 | 1.37 |
| 2009/10 | 1,755.17 | 1,406.49 | 1.25 | 1,602.71 | 1,135.61 | 1.41 |
| 2010/11 | 2,372.91 | 1,925.24 | 1.23 | 2,040.44 | 1,501.51 | 1.36 |
| 2011/12 | 2,519.76 | 2,048.91 | 1.23 | 2,151.01 | 1,636.42 | 1.31 |
| | Average (x) | | 1.32 | | | 1.38 |
| | Standard Deviations (σ) | | 0.13 | | | 0.04 |
| Coefficient of Variation (CV) | | | 9.90 | | | 3.07 |

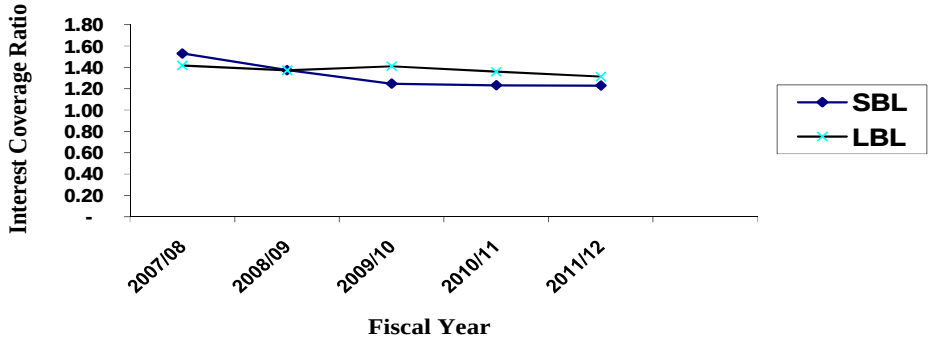
*(source : Appendix IV and V)*

Interest coverage ratio of both banks at different fiscal year is also shown in graphical from in figure 4.3.

Figure 4.3 displays that the Interest coverage ratio of SBL is in fluctuating trend. Coefficient of Variation of SBL is 9.90% which is greater than LBL. The average ratio of SBL is 1.32 times which is smaller than LBL. Therefore, LBL has higher ability to make the payment of interest to creditors.

**Figure 4.3**

**Interest Coverage Ratio**




### 4.1.1.4 Degree of Financial Leverage

Financial leverage refers to the use of interest bearing debts is preferred stock along with debt capital. The degree of financial leverage indicates the degree of financial risk i.e. higher the value of DFL, higher the degree of financial risk and vice –versa. This ratio is calculated by using following formula.

$$Degree\ of\ Financial\ Leverage = \frac{Earning\ Before\ Interest\ and\ Tax}{Earning\ Before\ Tax}$$

The degree of financial leverage of two banks is shown in table 4.4.

The DFL of SBL is in increasing trend. Average DFL of SBL is 4.45 and coefficient of variation is 25.02%.The DFL of LBL is in increasing trend. Average DFL of LBL 3.69 and coefficient of variation is 11.59%. It can be concluded that both banks are in financial risk position. SBL has higher risk than LBL.

**Table 4.4**

**Degree of Financial Leverage**

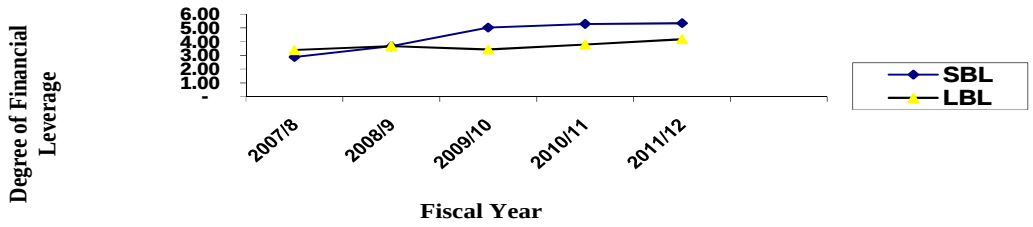
| FY | SBL | | | LBL | | |
|---|---|---|---|---|---|---|
| | EBIT (in Million) | EBT (in Million) | Ratio | EBIT(in Million) | EBT(in Million) | Ratio |
| 2007/08 | 625.17 | 625.17 | 2.88 | 598.35 | 176.48 | 3.39 |
| 2008/09 | 1,118.62 | 1,118.62 | 3.67 | 978.30 | 265.96 | 3.68 |
| 2009/10 | 1,755.17 | 1,755.17 | 5.03 | 1,602.71 | 467.10 | 3.43 |
| 2010/11 | 2,372.91 | 2,372.91 | 5.30 | 2,040.44 | 538.93 | 3.79 |
| 2011/12 | 2,519.76 | 2,519.76 | 5.35 | 2,151.01 | 514.59 | 4.18 |
| | Average (x) | | 4.45 | | | 3.69 |
| | Standard Deviations (σ ) | | 1.11 | | | 0.32 |
| | Coefficient of Variation (CV) | | 25.02 | | | 11.59 |

*(source : Appendix IV and V)*

Degree of financial leverage of different banks at different fiscal year is also shown in graphical from in figure 4.4.

**Figure 4.4**

**Degree of Financial Leverage**




### 4.1.2 Profitability Ratio

Profitability ratio measures how effectively the company manage their funds to earn profit. It is calculated to measure the operating efficiency of banks. The main objectives of commercial banks operating in Nepal are the maximization of profit.

Profit is the difference between revenue and expenses over a period of a time. A company should earn profit to survive and grow over a long period of time. Commercial banks' main objective is to earn profit by providing different types of banking services to its customers. To meet various objectives like to have a good liquidity position, meet fixed interest obligation, overcome the future contingencies, hidden investment opportunities, expand banking transaction in different places etc. Following ratios are calculated, evaluated and analyzed for the study purpose.

#### 4.1.2.1 Return on Total Assets (ROA)

Return on total assets ratio measures the overall profitability of the banks with respect to each financial resources investment of the bank's assets. If the bank's working fund is well managed and efficiently utilized, then return on such assets will be higher and vice-versa. This ratio is calculated by using following formula.

$$Return\ on\ Total\ Assets = \frac{Net\ Profit}{Total\ Assets}$$

Return on total assets is calculated by dividing net profit by total assets which is shown in table 4.5.

**Table 4.5**

**Return on Total Assets**

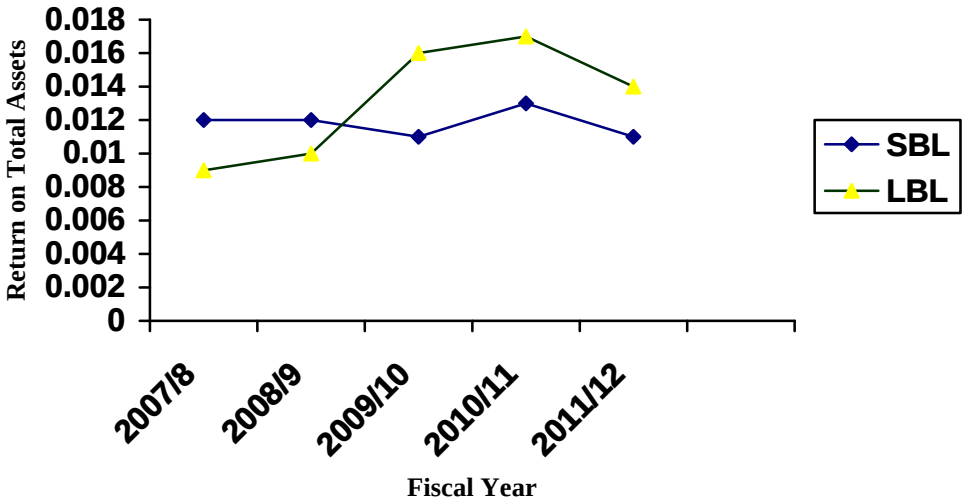
| FY | SBL | | | LBL | | |
|---|---|---|---|---|---|---|
| | Net Profit (in Million) | Total Assets (in Million) | Ratio | Net Profit (in Million) | Total Assets (in Million) | Ratio |
| 2007/08 | 143.17 | 11668.4 | 0.012 | 120.03 | 12695 | 0.009 |
| 2008/09 | 217.92 | 17881.8 | 0.012 | 189 | 18386.4 | 0.010 |
| 2009/10 | 240.85 | 22802.4 | 0.011 | 327.04 | 20952.3 | 0.016 |
| 2010/11 | 311.42 | 24405.9 | 0.013 | 376.91 | 21559.9 | 0.017 |
| 2011/12 | 330.7 | 29579.2 | 0.011 | 356.3 | 26028.5 | 0.014 |
| | Average (x) | | 0.012 | | | 0.013 |
| | Standard Deviations (σ ) | | 0.001 | | | 0.003 |
| Coefficient of Variation (CV) | | | 7.59% | | | 25.73% |

*(source : Appendix III, IV, V and VI)*

Return on total asset of both banks at different fiscal year is also shown in graphical form in figure 4.5.

**Figure 4.5**

**Return on Total Assets**




### 4.1.2.2 Return on Shareholder's Equity (ROE)

The ratio of net profit to owners' equity reflects the extent to which objectives have been accomplished. This ratio has great perspective to the present as well as future also. The shareholder's equity includes common share capital, preference share capital, reserve and surplus. But selected banks have not issued preference share capital.

$$Return\ on\ Shareholders'Equity = \frac{Net\ Profit\ after\ Tax}{Shareholders'Equity}$$

It is calculated by dividing return (NPAT) by shareholder equity (Net worth). Here return means net profit after tax. Net worth includes paid up capitals, general reserve P&L and provision of loan losses.

Thus, for the banks, both ratio of return on net worth and return on common shareholder' equity are the same which is shown in table 4.6.

Figure 4.6 shows that ROE of SBL is almost constant in last three fiscal year. ROE of LBL has increased in first four year and it has decreased in FY 2011/12. Average ROE of both banks are almost same but the ROE of LBL has fluctuated in greater range than that of SBL.

**Table 4.6**

**Return on Shareholders' Equity**

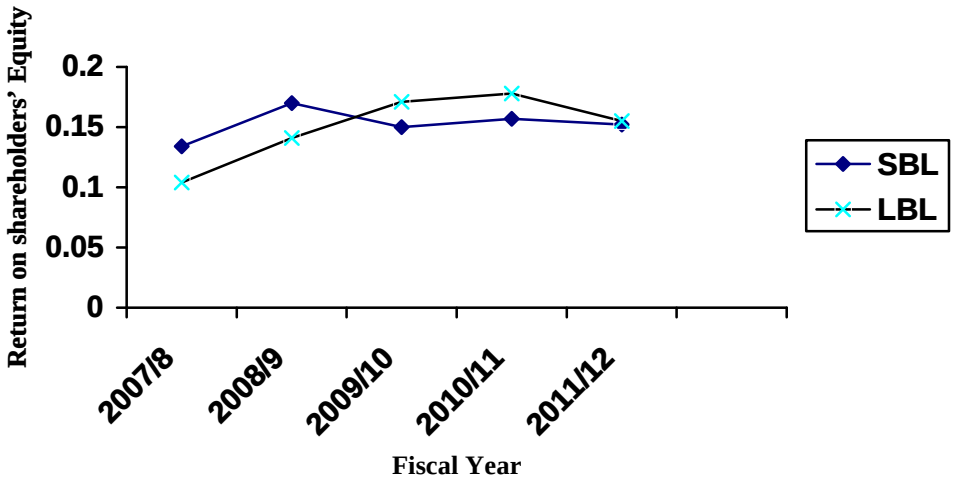
| FY | SBL | | | LBL | | |
|---|---|---|---|---|---|---|
| | Net Profit (in Million) | Total Assets (in Million) | Ratio | Net Profit (in Million) | Total Assets (in Million) | Ratio |
| 2007/08 | 143.17 | 1068.35 | 0.134 | 120.03 | 1156.4 | 0.104 |
| 2008/09 | 217.92 | 1278.74 | 0.170 | 189 | 1343.2 | 0.141 |
| 2009/10 | 240.85 | 1603.55 | 0.150 | 327.04 | 1912.3 | 0.171 |
| 2010/11 | 311.42 | 1988.4 | 0.157 | 376.91 | 2113.4 | 0.178 |
| 2011/12 | 330.7 | 2182.6 | 0.152 | 356.3 | 2300.3 | 0.155 |
| | Average (x) | | 0.153 | | | 0.150 |
| | Standard Deviations (σ ) | | 0.013 | | | 0.030 |
| Coefficient of Variation (CV) | | | 8.59 | | | 19.72 |

*(source: Appendix V and VI)*

Return on shareholders' equity of both banks at different fiscal year is also shown in graphical form in figure 4.6.

**Return on Shareholders' Equity**

**Figure 4.6**




On the basis of average, SBL and LBL is almost same in five years period. Both banks have been efficiently utilizing its shareholder fund in generating profit. High ratio indicates better utilization of its fund.

#### 4.1.2.3 Earning Per Share (EPS)

Earning per share is the relationship between earning after tax and number of common equity. EPS of selected banks are shown in table 4.9. EPS is calculated by dividing profit after tax by total number of shares.

$$Earning\ per\ share = \frac{Profit\ after\ tax}{Total\ No.of\ shares}$$

**Table 4.7**

**Earnings Per Share (EPS)**

| FY | SBL | | | LBL | | |
|---|---|---|---|---|---|---|
| | Net Profit (in Million) | No of shares (in Million) | Ratio | Net Profit (in Million) | No of shares (in Million) | Ratio |
| 2007/08 | 143.17 | 6.00 | 23.862 | 120.03 | 9.28 | 12.93 |
| 2008/09 | 217.92 | 8.28 | 26.319 | 189 | 10.98 | 17.21 |
| 2009/10 | 240.85 | 14.25 | 16.902 | 327.04 | 16.14 | 20.26 |
| 2010/11 | 311.42 | 15.71 | 19.823 | 376.91 | 16.14 | 23.35 |
| 2011/12 | 330.7 | 16.19 | 20.426 | 356.3 | 16.94 | 21.03 |
| | Average (x) | | 21.466 | | | 18.959 |
| | Standard Deviations (σ ) | | 3.671 | | | 4.020 |
| Coefficient of Variation (CV) | | | 17.10 | | | 21.20 |

*(source : Annex V, VI, VII and VIII)*

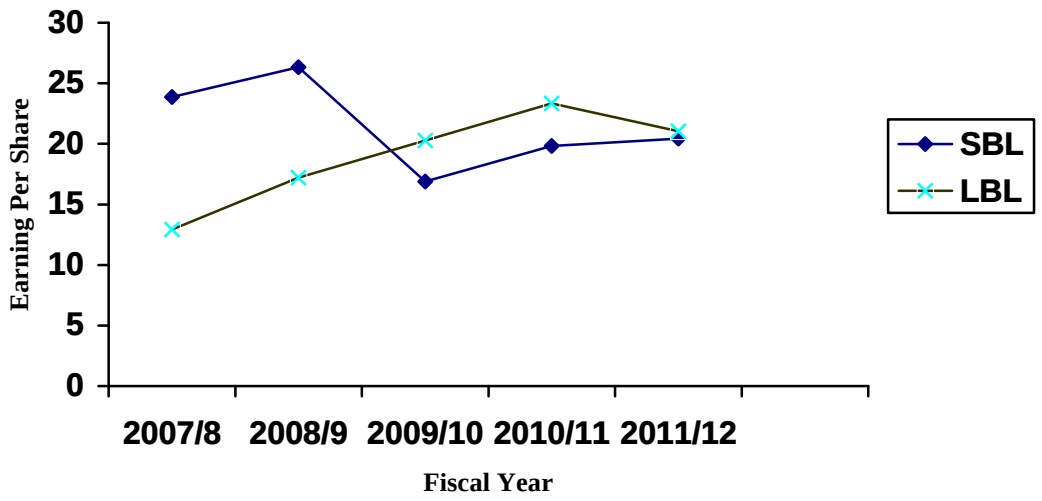
Higher earning per share enhances the value of the shareholder's wealth. Higher profitability of the bank results in higher earning per share. EPS of SBL and LBL is presented in figure 4.7.

EPS of SBL is in fluctuating trend during the study period. EPS of SBL has greatly decreased in FY 2009/10 due to the increase in number of shares. EPS of SBL has 21.46 average ratios greater than LBL which indicates that it has highest earning capacity and it has 17.10% coefficient of variation which is lower than LBL.

On the other hand, EPS of LBL is in increasing trend during the study period. It has 18.95 average ratios which is less than SBL and it has 21.20% coefficient of variation which is greater than SBL.

**Figure 4.7**

**Earnings Per Share (EPS)**




From the above analysis, conclusion can be drawn that SBL is able to maintain higher EPS on an average till date, LBL has lower ratio which is least efficient in terms of EPS. However, trend shows that LBL will have decent EPS in future than that of SBL.

#### 4.1.2.4 Dividend Per Share (DPS)

The net profit after tax belongs to shareholders. But the income which they really receive is the amount of earnings distributed as cash dividend. Therefore, a large number of present and potential investors may be interested in DPS, rather than EPS.

$$Dividend\ per\ share = \frac{Dividend\ paid\ to\ equity\ shareholders}{No.of\ issued\ equity\ shares}$$

From table 4.8, we can observe that SBL is distributing the dividend in almost same rate in past fiscal years. Its average DPS is Rs 14.63 per share and coefficient of variation is also less than that of LBL's DPS. Although average DPS of both banks are similar but as SBL's DPS is more stable, investor prefers SBL rather than LBL.

**Table 4.8**

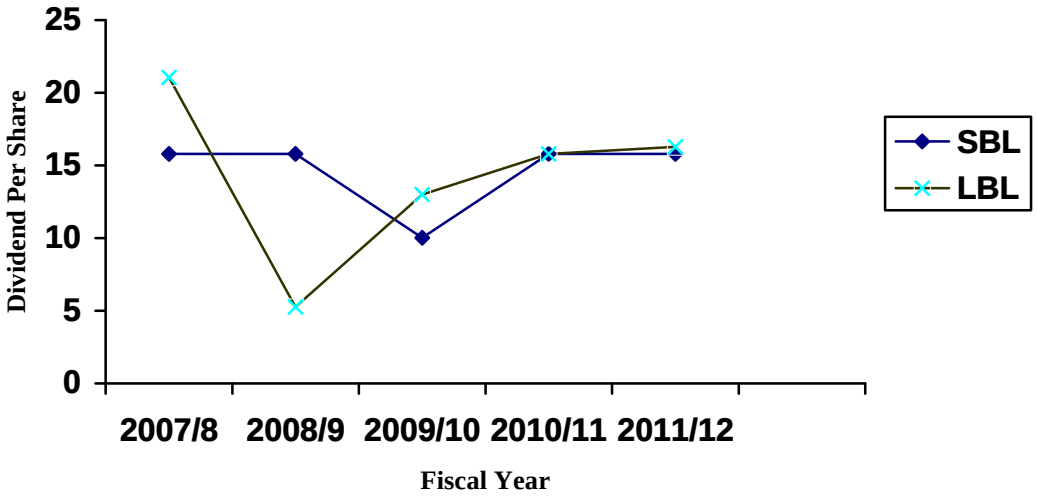
**Dividend per Share**

| FY | SBL | LBL |
|---|---|---|
| | DPS | DPS |
| 2007/08 | 15.79 | 21.05 |
| 2008/09 | 15.79 | 5.26 |
| 2009/10 | 10.03 | 13.00 |
| 2010/11 | 15.79 | 15.79 |
| 2011/12 | 15.79 | 16.28 |
| Average (x) | 14.638 | 14.276 |
| Standard Deviations (σ ) | 2.576 | 5.812 |
| Coefficient of Variation (CV) | 17.60 | 40.71 |

*(Source: Appendix VII and VIII)*

**Figure 4.8**

**Dividend per share**




### 4.1.3 Analysis of Capital Structure

#### 4.1.3.1 Net Income Approach (Overall Capitalization Rate)

The net income approach is focused on overall capitalization rate and measures the degree of leverage of the firm. This approach shows that the increase in trend in debt may not increase risk. The higher use of cheaper debt lowers the cost and consequently increases value. Proper mix of debt and equity maximize the value of the firm. Overall capitalization rate is calculated by using following formula.

$$Overall\ Capitalization\ Rate = \frac{Net\ Operating\ Income}{Value\ of\ Firm}$$

Consider this implication the overall capitalization rate can be calculated and shown in table 4.9.

**Table No. 4.9**
**Calculation of Overall Capitalization Rate ($K_O$)**

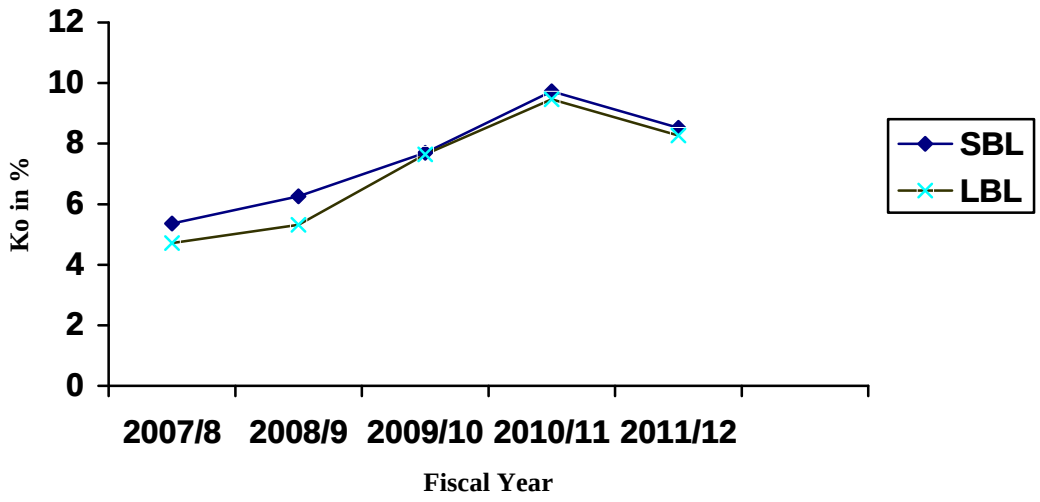
| FY | SBL | | | LBL | | |
|---|---|---|---|---|---|---|
| | Net Profit (in Million) | Firm Value (in Million) | Ratio | Net Profit (in Million) | Firm Value (in Million) | Ratio |
| 2007/08 | 625.17 | 11668.4 | 5.358% | 598.35 | 12695 | 4.713% |
| 2008/09 | 1,118.62 | 17881.8 | 6.256% | 978.3 | 18386.4 | 5.321% |
| 2009/10 | 1,755.17 | 22802.4 | 7.697% | 1,602.71 | 20952.3 | 7.649% |
| 2010/11 | 2,372.91 | 24405.9 | 9.723% | 2,040.44 | 21559.9 | 9.464% |
| 2011/12 | 2,519.76 | 29579.2 | 8.519% | 2,151.01 | 26028.5 | 8.264% |
| | Average (x) | | 7.510% | | | 7.082% |
| | Standard Deviations (σ ) | | 0.017 | | | 0.020 |
| Coefficient of Variation (CV) | | | 23.21 | | | 28.33 |

*(source : Appendix III and IV)*

Overall capitalization rate of both banks at different fiscal year is also shown in graphical form in figure 4.9.

**Figure 4.9**

**Overall Capitalization Rate ($K_O$)**



The average overall capitalization rate of SBL is 7.5% which higher than LBL. This rate is at first increasing four year and last year decreasing trend. SBL has 23.21% coefficient of variations which is lower than LBL.

The average overall capitalization rate of LBL is 7.08% which lower than SBL. This rate is at first increasing 4 years and last year decreasing trend. LBL has 28.33% coefficient of variations which is more than SBL.

In conclusion, LBL has lower and SBL has higher overall capitalization rate.

### 4.1.3.2 Net Operating Income Approach (Equity capitalization Rate)

The net operating income approach focuses on the equity capitalization rate and appears as irrelevant theory of capital structure. However, the equity capitalization rate is obtained simply by dividing the earning before tax by market value of equity.

$$Equity\ Capitalization\ Rate = \frac{Inccome\ before\ tax}{Market\ value\ of\ the\ equity}$$

Thus, under net operation income approach, the equity capitalization rate of bank is presented in table 4.10.

**Table 4.10**

**Net Operating Income Approach (Equity capitalization Rate $K_e$)**

| FY | SBL | | | LBL | | |
|---|---|---|---|---|---|---|
| | Net Profit (in Million) | Equity (in Million) | Ratio | Net Profit (in Million) | Equity (in Million) | Ratio |
| 2007/08 | 625.17 | 1068.35 | 0.59 | 598.35 | 1156.4 | 0.52 |
| 2008/09 | 1,118.62 | 1278.74 | 0.87 | 978.3 | 1343.2 | 0.73 |
| 2009/10 | 1,755.17 | 1603.55 | 1.09 | 1,602.71 | 1912.3 | 0.84 |
| 2010/11 | 2,372.91 | 1988.4 | 1.19 | 2,040.44 | 2113.4 | 0.97 |
| 2011/12 | 2,519.76 | 2182.6 | 1.15 | 2,151.01 | 2300.3 | 0.94 |
| | Average (x) | | 0.98 | | | 0.80 |
| | Standard Deviations (σ ) | | 0.253 | | | 0.182 |
| Coefficient of Variation (CV) | | | 25.80 | | | 22.80 |

*(Source: Appendix III and IV)*

Equity Capitalization Rate of both banks at different fiscal year is also shown in graphical form in figure 4.10.

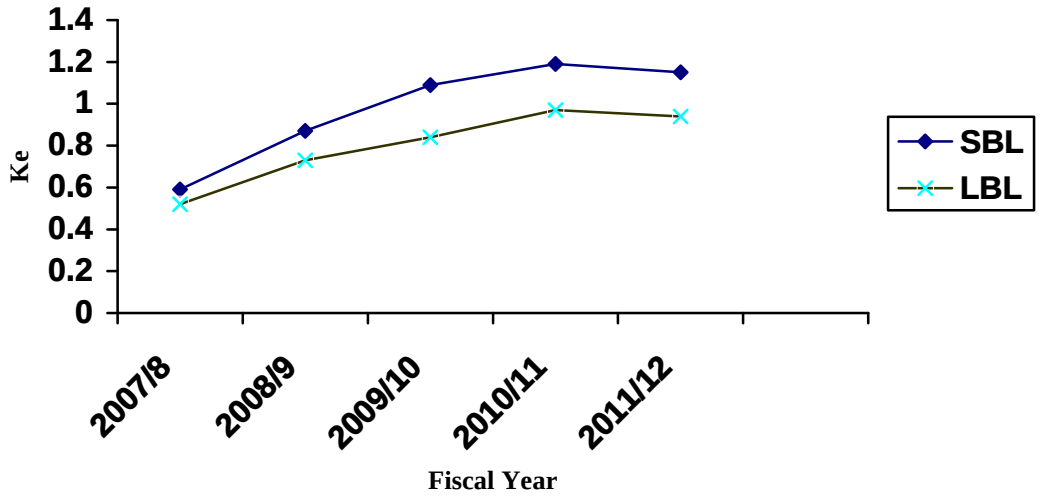
Equity capitalization rate is in increasing trend for SBL and has average rate of 0.98 which is greater than LBL. Coefficient of variation of SBL is 25.8% which is also higher

than LBL. Equity capitalization rate of LBL is in increasing trend with the average rate 0.8 which is less than SBL. Coefficient of variation of LBL is 22.8% which is higher than SBL.

In conclusion, SBL has higher and LBL has lower equity capitalization rate.

**Figure 4.10**

**Equity capitalization Rate ($K_e$)**




### 4.2 Statistical Analysis

Statistical analysis are presented in this section to find out either there is a relationship between certain selected variables or Karl Pearson's coefficient of correlation have been used to find out the direction and correlation of the variables. Then the significance of correlation coefficient between the variables has been tested with the help of probable error.

Under this heading some statistical tools are analyzed which are related to the capital structure correlation, coefficient and trend value of different variables are applied to achieve the objectives of the study.

#### 4.2.1 Co-efficient of correlation Analysis

Karl Pearson's Coefficient of correlation is widely used in practice to measure the degree of relationship of two variables. Here we use this correlation to find out the relationship between Coefficient of Correlation Analysis between Outside Assets and Net Profit**,** Coefficient of Correlation Analysis between Total Deposit and Total Investment**,** and Coefficient of Correlation Analysis between Long Term Debt and EPS.

$$r_{xy} = \frac{n\sum xy - \sum x \sum y}{\sqrt{n\sum x^2 - (\sum x)^2}\ \sqrt{n\sum y^2 - (\sum y)^2}}$$

where,

$r_{xy}$ is Coefficient of Correlation between two variables x and y.

n is number of study periods

And,

$$PE = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

where, PE is Probable Error

In correlation analysis, the value of coefficient of correlation 'r' between 0 and 1 indicates the goodness of fit. The higher value of 'r' denotes better fit. The value of $\mathbf{r_{xy=+1}}$, $\mathbf{r_{xy=\ -1\ and}}$ $\mathbf{r_{xy=0}}$, which indicate perfect positive, perfect negative and no relationship between the variables respectively.

#### 4.2.1.1 Coefficient of Correlation Analysis between Outside Assets and Net Profit

Outside assets include loan and advance and all types of investment of a bank. In this analysis, total outside assets and net profit are assumed as independent variable (x) and dependent variable (y) respectively. The main purpose of computing co-efficient of correlation is to justify whether the net profit is significantly correlation with respect to total outside assets or not. For this purpose, various calculations are made. Following table shows the co-efficient of correlation between the variables, Probable Error (PE) and Co-efficient of determination ($r^2$) of SBL and LBL during the study period.

**Table 4.11**

**Coefficient of Correlation Analysis between Outside Assets and Net Profit**

| Bank | Evaluation Criterion | | | | Significant or, Insignificant |
|---|---|---|---|---|---|
| | r | $r^2$ | PE | 6PE | |
| SBL | 0.98 | 0.96 | 0.012 | 0.07 | Significant |
| LBL | 0.90 | 0.81 | 0.057 | 0.344 | Significant |

*(Source: Appendix I and II)*

On the basis of table 4.11, we can find that the co-efficient of correlation between outside assets (independent variable) and Net Profit (dependent variable) value of r is 0.98 in case of SBL. This shows the positive relationship between these two variables. However by application of co-efficient of determination ($r^2$), the value of $r^2$ is 0.96 only which

represents that 96 percent of the variable in the dependent variable (total outside assets). Moreover by considering the probable error, since the value of r i.e 0.98 is greater than six time of the PE i.e. 0.07, we can further conclude that the value of r is significant in the case of SBL. There is significant relationship between total outside asset and net profit for the bank SBL. Thus we can say that SBL have significant correlation between proper utilization of funds and return i.e. net profit from mobilized funds.

On the other hands when we observe co-efficient of correlation between outside assets (independent variable) and Net Profit (depended variable) in case of LBL, it is found that the value of r is 0.90 which denotes the positive relationship between these two variables. If we again consider the value of co-efficient of determination ($r^2$), it is found to be 0.81 only which represents that 81 percent of the variable in the dependent variable (total outside assets). Moreover on the basis of 6PE and "$r^2$" we can say there is significant relationship between the outside assets and net profit because the value of r is 0.90 which is greater than six times of the PE i.e. 0.344.

#### 4.2.1.2 Coefficient of Correlation Analysis between Total Deposit and Total Investment

Coefficient of Correlation Analysis between Total Deposit and Total Investment is to measure the degree of relationship between two variables. In correlation analysis of total deposit and total investment, total deposit is independent variable (x) and total investment is dependent variable (y). The main purpose of computing correlation co-efficient is to justify whether there is any relationship between these two variables or not. To find out the correlation, various calculations are made. The following table shows the co-efficient of correlation between total deposit and total investment of the two banks during the study period.

**Table 4.12**

**Coefficient of Correlation Analysis between Total Deposit and Total Investment**

| Bank | Evaluation Criterion | | | | Significant or, Insignificant |
|---|---|---|---|---|---|
| | r | $r^2$ | PE | 6PE | |
| SBL | 0.99 | 0.98 | 0.006 | 0.036 | Significant |
| LBL | 0.98 | 0.96 | 0.012 | 0.072 | Significant |

*(Source: Appendix I and II)*

From the table 4.12, it is obvious that the co-efficient of correlation between deposit (independent variable) and total investment (dependent variable) value or r is 0.99 and 0.98 in the case of SBL and LBL respectively. However by application of coefficient of determination the value of $r^2$ is 0.98 and 0.96 only which indicates that 98 percent and 96 percent of the variation in the dependent variable (total Investment) has been explained by the independent variable (total deposit) with respect to SBL and LBL. Moreover, by considering the probable error, since the value of r is greater than six times of PE for both the banks, we can say that the value of "r" is significant i.e. there is significant relationship between total deposit and total investment in the case of SBL and LBL.

#### 4.2.1.3 Coefficient of Correlation Analysis between Long Term Debt and Earning Per Share

Long term debt (LTD) is the source of long term financing or long term funds. Company should pay interest for this debt capital. Whereas earning per share (EPS) is earning of a share of a firm's one year business. EPS has a positive relationship with companies earning. In this section the relationship between these two variables has been shown using Karl Pearson's correlation coefficient method. It tries to analyze that the increment in LTD leads to increment in the EPS or not. The calculated correlation coefficient and their respective probable errors have been shown in the following table.

**Table 4.13**

**Coefficient of Correlation Analysis between LTD and EPS**

| Bank | Evaluation Criterion | | | | Significant or, Insignificant |
|---|---|---|---|---|---|
| | r | $r^2$ | PE | 6PE | |
| SBL | 0 | 0 | 0.302 | 1.809 | Insignificant |
| LBL | 0.86 | 0.74 | 0.078 | 0.471 | Significant |

*(Source: Appendix I and II)*

On the basis of table 4.13, correlation coefficient between LTD and EPS of SBL is 0 and 6 times PE greater than correlation coefficient (r), so there is no significant relationship between the two variables.

In the case of LBL correlation coefficient between LTD and EPS is 0.86. The 6PE of respected correlation is 0.471, which is less than r. So, there is significant relationship between these two variables.

### 4.3 Major Findings of the Study

The major findings of this study as evaluated and found in analysis are summarized as follows:

1. It can be concluded that the debt-equity ratio of both the banks are fluctuating over the study period. Both banks have used high percentage of debt in the financial structure.(Table 4.1)
2. Total debt to total assets ratio of both SBL and LBL is in increasing trend.(Table 4.2)
3. Interest coverage ratio of SBL is in fluctuating trend. Coefficient of Variation of SBL is 9.90% which is greater than LBL. The average ratio of SBL is 1.32 times which is smaller than LBL. Therefore, LBL has higher ability to make the payment of interest to creditors.(Table 4.3)
4. The DFL of SBL is in increasing trend. Average DFL of SBL is 4.45 and coefficient of variation is 25.02%.The DFL of LBL is in fluctuating trend. Average DFL of LBL is 3.69 and coefficient of variation is 11.59%.It can be concluded that both banks are in financial risk position. SBL has higher risk than LBL.(Table 4.4)
5. Return on total assets of SBL is highly fluctuating compared to that of LBL. It has average ratio of 0.012 which is lesser than LBL. SBL's coefficient of variation is 7.59% which is lower than LBL's 25.73%. From the above analysis, SBL’s return is in some satisfactory level than LBL. SBL's capacity to gain profit seems attractive due to proper mobilization of available resources. LBL is unable to generate more because of the lack of proper utilization of its available resources.(Table 4.5)
6. ROE of both banks are almost the same. Both banks have been efficiently utilizing its shareholder fund in generating profit. High ratio indicates better utilization of its fund. However ROE of SBL is more stable in nature.(Table 4.6)
7. SBL is able to maintain higher EPS on an average till date. LBL has lower average ratio which is least efficient in terms of EPS. However, EPS of LBL is in increasing trend during the study period. LBL's coefficient of variation is 21.20 % which is greater than that of SBL. This trend shows that LBL will have decent EPS in future than that of SBL.(Table 4.7)
8. SBL's DPS is observed to be more stable than that of LBL.(Table 4.8)
9. Equity capitalization rate of both banks are in increasing trend. Under the net operating income approach, the average equity rate of SBL is 0.98, which is higher than that of LBL which is 0.80. This indicates that the LBL's earning power is weaker than SBL.(Table 4.10)

10. The co-efficient of correlation between Outside Assets (independent variable) and Net Profit (dependent variable) is, 0.90 for LBL and 0.98 for SBL. Here, coefficient of correlation is greater than 6 PE for both the banks. Hence, both banks are able to earn more profit by utilizing its outside assets in productive projects. (Table 4.11)

11. Considering the probable error, the value of r is 0.99 and 0.98 for SBL and LBL respectively, which are greater than six times of PE i.e., 0.99 > 0.036, and 0.98 > 0.072. Therefore we can say that the value of "r" is significant, i.e. there is significant relationship between total deposit and total investment in the case of both the banks. This means, SBL and LBL are able to mobilize their deposit on proper investment. (Table 4.12)

12. For SBL, correlation coefficient between long term debt and earning per share is 0 and is lesser than 6 times PE, so there is no significant relationship between the two variables. Whereas in the case of LBL, correlation coefficient is 0.86, and greater than 6 times PE. So, there is significant relationship between the two variables.(Table 4.13)

# CHAPTER – V
# SUMMARY, CONCLUSION AND RECOMMENDATIONS

This research is concerned with the study of capital structure management of Siddhartha Bank Limited and Laxmi Bank Limited.

This concluding chapter deals with the findings in a logical manner to the problem of research within the framework stated in introduction chapter. The relevance of related ratios to the capital structure and their contribution to analysis are described in this chapter. Similarly, this chapter is also related with the findings and conclusion desired form the study of the two commercial banks SBL and LBL. This chapter is composition of three sections: firstly, the summary of the study, secondly, conclusion of the study and lastly, some practical recommendations are suggested to help to solve the problems observed o the basis of the findings.

## 5.1 Summary

Capital Structure is the composition of debt and equity that comprise a firm's financing of its assets. Capital structure plays vital role to increase the profitability, to ensure the minimum cost of capital and the maximum return to equity holder. The financial soundness and strengths of a bank depend to a large extent on the composition of capital and assets. A company can finance its investment by a variety of sources such as debt, share capital, including reserves and surpluses.

The Nepalese financial sector is composed of banking sector and non-banking sector. As shown by the study of NRB, the commercial bank is simply a business corporation organized for the purpose of maximizing the value of shareholder's wealth invested in the bank at an accepted level of risk. Financing the firm's assets is very crucial problem in every business and as a general rule there should be a proper mix of debt and equity capital.

Various financial and statistical tools have been used to achieve the objectives of the study. For this purpose, statistical tools such as Karl Pearson's coefficient of correlation have been calculated to show the relationship between various variables.

This study is based on secondary data. Of the total 32 commercial banks in Nepal, for the purpose of the study only two banks have been selected. The necessary data on capital structure, average cost of capital, cost of equity, and other related variables were collected for the period, 2007/08- 2011/12, from the published annual reports of the bank and Securities Board of Nepal.

## 5.2 Conclusion

It is a fact, the globalization of Joint Venture Bank is reality. The growth and increasing integration of the world economic has been paralleled by expansion of global banking activities. Nepal is a member of WTO. So, many International Commercial & Joint Venture banks are coming here since 2010 A.D. So, local commercial banks will face more difficulties and competition. Nepal, a developing country cannot deny the fact that commercial banks have running potentiality, which is responded by extending loans and developing new, highly innovative financial techniques that lay the foundation for totally new approaches to the provision of banking services. This study is mainly concluded on the basis of secondary data, processed and analyzed. On the basis of the entire study, some conclusions are as below.

1. Both banks have used high percentage of total debt in raising the assets. The higher ratio constitutes that the outsider's claim in total assets of the banks is higher than owners claim.

2. SBL has higher average debt-equity ratio than LBL. LBL has higher CV percentage, which indicates that its risk is more than SBL. It can be concluded that both banks' ratio is increasing over the study period. Both banks have used high percentage of debt in the financial structure.

3. Total debt to total assets ratio of SBL & LBL are in an increasing trend during the study period. The average ratio of LBL is greater than SBL. The average ratio is 0.91 and 0.9. Coefficient of Variation of SBL is 1.34% and LBL is 1.76%.

4. Interest coverage ratio of SBL & LBL is in a fluctuating trend. The average ratio of SBL is 1.32 times which is lower than LBL of 1.38 times. Coefficient of Variation of SBL is 9.9% which greater than LBL of 3.07%. In conclusion, LBL has been successful to obtain higher interest coverage ratio. Both the banks are able to maintain paying interest on their debt capital financing.

5. The degree of financial leverage of both the banks is in increasing trend. It can be concluded that both banks are in financial risk position. However, SBL has higher risk

than LBL. Higher degree of financial leverage means large amount of interest has to be paid to the creditors.

6. Average ratio of Return on total assets of LBL is higher than SBL. LBL's capacity to gain profit seems attractive due to the proper mobilization of available resources. SBL is unable to generate more because of the lack of proper utilization of its available resources.

7. The return on shareholder's equity ratio of SBL and LBL in average is 0.153 and 0.15 respectively. The productivity of shareholders fund is fluctuating trend during the study period. Both ROE is almost same.

8. EPS of SBL & LBL is in fluctuating trend during the study period. EPS of SBL has Rs 21.46 averages greater than LBL average EPS 18.95. From the above analysis, conclusion can be drawn that SBL is able to maintain higher EPS during the study period, LBL has lower ratio which is least efficient in terms of EPS.

9. Although average DPS of both banks are similar but as SBL's DPS is more stable, investor prefers SBL rather than LBL.

10. In the case of outsides assets and Net Profit the co-efficient of correlation is Positive and higher than 6PE which is significant relationship of both bank.

11. Similarly, in the case of Total Deposit and total Investment the co-efficient of correlation is Positive and higher than 6PE which is significant relationship of both bank.

12. The Correlation coefficient between LTD and EPS of SBL is positive and higher than 6PE which is significant relationship. The Correlation coefficient between LTD and EPS of SBL is positive and lower than 6PE which isn't significant relationship.

### 5.3 Recommendations

This title focuses on some selected actionable recommendations based on the findings of the analysis. After highlights on capital structure management of the commercial banks on the basis of financial and statistical analysis, following suggestions and recommendations can be advanced to overcome inefficiency and weakness to improve present capital structure of the banking business. The following suggestions are proposed:

1. As there is no rule regarding proportion of debt to equity, it is suggested to issue of right share improvement in the capital structure. From this point of view, it is suggested to reduce level debt gradually by increasing the level of equity in future years to compensate the capital of debt of both banks. (Finding 1)

2. NRB announced that all commercial banks increase their paid up capital to Rs. 2 billion. Hence both the banks should raise their capital as soon as possible.

3. Both bank's net profit and earning per share are not in satisfactory level. They are fluctuating nature due to the decreased interest rate of loan and investment. So, in this scenario, the bank should explore the new ways of marketing and invest in the most profitable big projects. (Finding 7)

4. Nepalese shareholders are very much concerned about the payment of cash dividend by the commercial banks rather than their financial statement. As such banks are suggested to pay cash dividend regularly. A higher payout attracts both the existing and potential investors lending to increase in market price of the share. (Finding 8)

5. Both banks should keep up with their current trend of return on equity (ROE). As with the current trend of high ratio of ROE, both the banks are efficiently utilizing their shareholder fund in generating profit.(Finding 6)

6. Both the banks have low dividend per share. To attract the interest of the investors, both the banks should increase dividend per share and maintain stability. (Finding 8)

7. Both the banks are using excessive debt. The banks are aiming for profit maximization. It is suggested the banks should rather move towards wealth maximization. (Table 4.1)

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# APPENDICES

## APPENDIX I

### Calculation of Correlation Coefficients of Siddharth Bank Ltd.

Calculation of Correlation Coefficient between Outside Assets and Net Profit

| Year | Total Outside Assets (x) | Net Profit (y) | $x^2$ | $y^2$ | xy |
|---|---|---|---|---|---|
| 2007-08 | 10,485 | 625 | 109,935,225 | 390,838 | 6,554,907 |
| 2008-09 | 15,504 | 1,119 | 240,374,016 | 1,251,311 | 17,343,084 |
| 2009-2010 | 19,105 | 1,755 | 365,001,025 | 3,080,622 | 33,532,523 |
| 2010-11 | 20,921 | 2,373 | 437,688,241 | 5,630,702 | 49,643,650 |
| 2011-12 | 23,610 | 2,520 | 557,432,100 | 6,349,190 | 59,491,534 |
| Sum | 89,625 | 8,392 | 1,710,430,607 | 16,702,662 | 166,565,698 |

(source : Annual Reports of sample banks)

$$r_{xy} = \frac{n\sum xy - \sum x \sum y}{\sqrt{n\sum x^2 - (\sum x)^2}\ \sqrt{n\sum y^2 - (\sum y)^2}}$$

$$= \frac{5 \times 166565698 - 89625 \times 8392}{\sqrt{(5 \times 1710430607 - 89625^2)(5 \times 16702662 - 8392^2)}}$$

$$= \frac{80695490}{\sqrt{519512410 \times 13087646}}$$

$$= 0.98$$

$$r^2 = 0.96$$

$$PE = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1-0.96}{\sqrt{5}}$$

$$= 0.012$$

$$6PE = 0.07$$

Calculation of Correlation Coefficient between Total Deposit and Total Investment

| Year | Total Deposit (x) | Total Investment (y) | $x^2$ | $y^2$ | xy |
|---|---|---|---|---|---|
| 2007-08 | 10,191 | 10,485 | 103,856,481 | 109,935,225 | 106,852,635 |
| 2008-09 | 15,854 | 15,504 | 251,349,316 | 240,374,016 | 245,800,416 |
| 2009-2010 | 20,197 | 19,105 | 407,918,809 | 365,001,025 | 385,863,685 |
| 2010-11 | 21,575 | 20,921 | 465,480,625 | 437,688,241 | 451,370,575 |
| 2011-12 | 25,948 | 23,610 | 673,298,704 | 557,432,100 | 612,632,280 |
| Sum | 93,765 | 89,625 | 1,901,903,935 | 1,710,430,607 | 1,802,519,591 |

(source : Annual Reports of sample banks)

$$r_{xy} = \frac{n\sum xy - \sum x \sum y}{\sqrt{n\sum x^2 - (\sum x)^2}\ \sqrt{n\sum y^2 - (\sum y)^2}}$$

$$= \frac{5\times 18025 19591 - 93765 \times 89625}{\sqrt{(5\times 1901903935 - 93765^2)(5\times 1710430607 - 89625^2)}}$$

$$= \frac{608909830}{\sqrt{717644450 \times 519512410}}$$

$$= 0.99$$

$$r^2 = 0.98$$

$$PE = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1 - 0.98}{\sqrt{5}}$$

$$= 0.006$$

$$6PE = 0.036$$

Calculation of Correlation Coefficient between Long Term Debt and EPS

| Year | Long Term Debt (x) | EPS (y) | $x^2$ | $y^2$ | xy |
|---|---|---|---|---|---|
| 2007-08 | - | 0.000024 | - | 0.0000000006 | - |
| 2008-09 | 227 | 0.000026 | 51,529 | 0.0000000007 | 0.006 |
| 2009-2010 | 227 | 0.000017 | 51,529 | 0.0000000003 | 0.004 |
| 2010-11 | 227 | 0.000020 | 51,529 | 0.0000000004 | 0.005 |
| 2011-12 | 627 | 0.000020 | 393,129 | 0.0000000004 | 0.013 |
| Sum | 1,308 | 0.000107 | 547,716 | 0.0000000023 | 0.028 |

(source : Annual Reports of sample banks)

$$r_{xy} = \frac{n\sum xy - \sum x \sum y}{\sqrt{n\sum x^2 - (\sum x)^2}\ \sqrt{n\sum y^2 - (\sum y)^2}}$$

$$= \frac{(5 \times 0.028) - (1308 \times 0.000107)}{\sqrt{(5 \times 547716 - 1308^2)(5 \times 0.0000000023 - 0.000107^2)}}$$

$$= \frac{0.14 - 0.14}{\sqrt{1027716 \times .0000000000051}}$$

$$= 0$$

$$r^2 = 0$$

$$PE = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1-0}{\sqrt{5}}$$

$$= 0.302$$

$$6PE = 1.809$$

## APPENDIX II

### Calculation of Coefficient of Correlation of Laxmi Bank Limited

Calculation of Correlation between Outside Assets and Net Profit

| year | x | y | x2 | y2 | x.y |
|---|---|---|---|---|---|
| 2007-08 | 11892.22 | 120.03 | 141424896.5 | 14407.2009 | 1427423.167 |
| 2008-09 | 17419.81 | 189 | 303449780.4 | 35721 | 3292344.09 |
| 2009-2010 | 19343.51 | 327.04 | 374171379.1 | 106955.1616 | 6326101.51 |
| 2010-11 | 20659.19 | 376.91 | 426802131.5 | 142061.1481 | 7786655.303 |
| 2011-12 | 24275.62 | 356.3 | 589305726.4 | 126949.69 | 8649403.406 |
| Sum | 93590.35 | 1369.28 | 1835153914 | 426094.2006 | 27481927.48 |

(source : Annual Reports of sample banks)

$$r_{xy} = \frac{n\sum xy - \sum x \sum y}{\sqrt{n\sum x^2 - (\sum x)^2}\ \sqrt{n\sum y^2 - (\sum y)^2}}$$

$$= \frac{(5 \times 27481927.48) - (93590.35 \times 1369.28)}{\sqrt{(5 \times 1835153914 - 93590.35^2)(5 \times 426094.2 - 1369.28^2)}}$$

$$= \frac{9258243}{\sqrt{372462210.6 \times 250509539.3}}$$

$$= 0.90$$

$$r^2 = 0.81$$

$$PE = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1 - 0.81}{\sqrt{5}}$$

$$= 0.0573$$

$$6PE = 0.3438$$

Calculation of Correlation between Total Deposit and Total Investment

| year | x | y | $x^2$ | $y^2$ | x.y |
|---|---|---|---|---|---|
| 2007-08 | 10917.23 | 10921.99 | 119185910.9 | 119289865.6 | 119237876.9 |
| 2008-09 | 16051.3 | 15798.76 | 257644231.7 | 249600817.5 | 253590636.4 |
| 2009-2010 | 18082.96 | 17747.02 | 326993442.4 | 314956718.9 | 320918652.8 |
| 2010-11 | 18299.63 | 18241.27 | 334876458.1 | 332743931.2 | 333808491.7 |
| 2011-12 | 22831.84 | 20234.74 | 521292917.8 | 409444702.9 | 461996346.1 |
| Sum | 86182.96 | 82943.78 | 1559992961 | 1426036036 | 1489552004 |

(source : Annual Reports of sample banks)

$$r_{xy} = \frac{n\sum xy - \sum x \sum y}{\sqrt{n\sum x^2 - (\sum x)^2}\ \sqrt{n\sum y^2 - (\sum y)^2}}$$

$$= \frac{(5\times 1489552004) - (86182.96 \times 82943.78)}{\sqrt{(5\times 1559992961 - 86182.96^2)(5\times 1426036036 - 82943.78^2)}}$$

$$= \frac{299419546}{\sqrt{372462210.6 \times 250509539.3}}$$

$$= 0.98$$

$$r^2 = 0.96$$

$$PE = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1-0.96}{\sqrt{5}}$$

$$= 0.012$$

$$6PE = 0.072$$

Calculation of Correlation between Earning per share and Long Term Debt

| year | x | y | $x^2$ | $y^2$ | x.y |
|---|---|---|---|---|---|
| 2007-08 | 0.0000129 | 0 | 1.66E-10 | 0 | 0 |
| 2008-09 | 0.00001721 | 350 | 2.96184E-10 | 122500 | 0.0060235 |
| 2009-2010 | 0.00002026 | 350 | 4.10468E-10 | 122500 | 0.007091 |
| 2010-11 | 0.00002335 | 350 | 5.45223E-10 | 122500 | 0.0081725 |
| 2011-12 | 0.00002103 | 350 | 4.42261E-10 | 122500 | 0.0073605 |
| Sum | 0.00009475 | 1400 | 1.86055E-09 | 490000 | 0.0286475 |

(source : Annual Reports of sample banks)

$$r_{xy} = \frac{n\sum xy - \sum x \sum y}{\sqrt{n\sum x^2 - (\sum x)^2}\ \sqrt{n\sum y^2 - (\sum y)^2}}$$

$$= \frac{(5 \times 0.0287) - (.00009475 \times 1400)}{\sqrt{(5 \times .000000001861 - .00009475^2)(5 \times 490000 - 1400^2)}}$$

$$= \frac{0.01085}{\sqrt{0.00000000327 \times 490000}}$$

$$= 0.86$$

$$r^2 = 0.7396$$

$$PE = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1 - 0.7396}{\sqrt{5}}$$

$$= 0.078$$

$$6PE = 0.471$$

## Appendix III

Balance Sheets of Siddhartha Bank Ltd.

### Balance Sheet as at 15 July 2008

| CAPITAL AND LIABILITIES | SCHEDULE | THIS YEAR RS. | PREVIOUS YEAR RS. |
|---|---|---|---|
| 1. Share Capital | 4.1 | 828,000,000 | 600,000,000 |
| 2. Reserves and Surplus | 4.2 | 240,346,086 | 193,709,939 |
| 3. Debenture and Bonds | 4.3 | - | - |
| 4. Borrowings | 4.4 | 205,132,877 | 430,000,000 |
| 5. Deposit Liabilities | 4.5 | 10,191,440,970 | 6,625,078,506 |
| 6. Bills Payables | 4.6 | 15,884,195 | 14,239,758 |
| 7. Proposed Dividend & Dividend Payables | | 6,536,842 | 4,736,842 |
| 8. Income Tax Liabilities | | 11,155,193 | 5,203,446 |
| 9. Other Liabilities | 4.7 | 169,859,787 | 81,695,964 |
| Total Liabilities | | **11,668,355,950** | 7,354,664,475 |

| ASSETS | SCHEDULE | THIS YEAR RS. | PREVIOUS YEAR RS. |
|---|---|---|---|
| 1. Cash Balance | 4.8 | 149,006,950 | 130,442,580 |
| 2. Balance with Nepal Rastra Bank | 4.9 | 270,219,328 | 380,563,747 |
| 3. Balance with Banks & Financial Institutions | 4.10 | 18,198,991 | 6,220,027 |
| 4. Money at Call & Short Notice | 4.11 | 584,735,884 | 229,446,305 |
| 5. Investment | 4.12 | 1,150,095,800 | 865,188,561 |
| 6. Loans, Advances & Bills Purchased | 4.13 | 9,335,597,738 | 6,222,586,813 |
| 7. Fixed Assets | 4.14 | 72,398,043 | 46,667,101 |
| 8. Non- Banking Assets | 4.15 | - | 10,173,349 |
| 9. Other Assets | 4.16 | 88,103,216 | 63,375,992 |
| Total Assets | | **11,668,355,950** | 7,354,664,475 |

### बासलात

(२०६६ साल आषाढ मसान्त)

| | पुँजी तथा दायित्व | अनुसूची | यस वर्ष रु. | गत वर्ष रु. |
|---|---|---|---|---|
| १. | शेयर पुँजी | ४.१ | ९५,२२,००,००० | ८२,८०,००,००० |
| २. | जगेडा तथा कोषहरू | ४.२ | ३२,६५,४४,५२६ | २४,०३,४६,०८६ |
| ३. | ऋणपत्र तथा बण्ड | ४.३ | २२,७७,७०,००० | – |
| ४. | तिर्न बाँकी कर्जा तथा सापटी | ४.४ | ३२,७६,००,००० | २०,५१,३२,८७७ |
| ५. | निक्षेप दायित्व | ४.५ | १५,८५,४७,९८,४०३ | १०,११,१४,४०,९७० |
| ६. | भुक्तानी दिनुपर्ने बिलहरू | ४.६ | १,७८,७७,०८४ | १,५८,८४,१९५ |
| ७. | प्रस्तावित तथा भुक्तानी दिन बाँकी लाभांश | - | ७५,१७,३६८ | ६५,३६,८४२ |
| ८. | आयकर दायित्व | - | ४८,४५,९२८ | १,११,५५,१९३ |
| ९. | अन्य दायित्व | ४.७ | १६,२५,९६,८२८ | १६,९८,५९,७८७ |
| | **कुल पुँजी तथा दायित्व** | | १७,८८,१७,५०,१३८ | ११,६६,८३,४५,९५० |

| | सम्पत्ति | अनुसूची | चालु आ.व. रु. | गत आ.व. रु. |
|---|---|---|---|---|
| १. | नगद मौज्दात | ४.८ | २७,०९,४५,७८७ | १४,९०,०६,९५० |
| २. | नेपाल राष्ट्र बैंकमा रहेको मौज्दात | ४.९ | ९८,४९,८९,२८८ | २७,०२,११,३२८ |
| ३. | बैंक/वित्तीय संस्थामा रहेको मौज्दात | ४.१० | २९,१७,५७,०२६ | १,८१,९८,९९१ |
| ४. | माग तथा अल्प सूचनामा प्राप्त हुने रकम | ४.११ | ४८,४८,४०,००० | ५८,४७,३५,८८४ |
| ५. | लगानी | ४.१२ | २,१७,६४,२७,७९७ | १,१५,००,९५,८०० |
| ६. | कर्जा, सापट तथा बिल खरिद | ४.१३ | ९३,३२,८६,२१,५१५ | ९,३३,५५,९७,७३८ |
| ७. | स्थिर सम्पत्ति | ४.१४ | १७,२१,५८,१३१ | ७,२३,९८,०४३ |
| ८. | गैर बैंकिङ्ग सम्पत्ति | ४.१५ | – | – |
| ९. | अन्य सम्पत्ति | ४.१६ | १७,२०,१८,५९४ | ८,८१,०३,२१६ |
| | **कुल सम्पत्ति** | | १७,८८,१७,५०,१३८ | ११,६६,८३,४५,९५० |

## वासलात

(२०६७ साल आषाढ मसान्त)

| | पुँजी तथा दायित्व | अनुसूची | यस वर्ष रु. | गत वर्ष रु. |
|---|---|---|---|---|
| १. | शेयर पुँजी | ४.१ | १,३१,०४,३६,४४५ | ९५,२२,००,००० |
| २. | जगेडा तथा कोषहरू | ४.२ | २९,३१,०५,६६३ | ३२,६५,४४,५२६ |
| ३. | ऋणपत्र तथा बण्ड | ४.३ | २२,७७,७०,००० | २२,७७,७०,००० |
| ४. | तिर्न बाँकी कर्जा तथा सापटी | ४.४ | ३४,५०,००,००० | ३२,७६,००,००० |
| ५. | निक्षेप दायित्व | ४.५ | २०,१९,७०,२९,४०२ | १५,८५,४७,९८,४०३ |
| ६. | भुक्तानी दिनुपर्ने विलहरू | ४.६ | ३,५७,०३,८९५ | १,७८,७७,०८४ |
| ७. | प्रस्तावित तथा भुक्तानी दिन बाँकी लाभांश | - | १३,१४,५६,६३२ | ७५,१७,३६८ |
| ८. | आयकर दायित्व | - | ७४,३९,१३३ | ४८,४५,९२८ |
| ९. | अन्य दायित्व | ४.७ | २५,४४,८८,१३० | १६,२५,९६,८२८ |
| | **कुल पुँजी तथा दायित्व** | | **२२,८०,२४,२९,३००** | **१७,८८,१७,५०,१३७** |

| | सम्पत्ति | अनुसूची | चालु आ.व. रु. | गत आ.व. रु. |
|---|---|---|---|---|
| १. | नगद मौज्दात | ४.८ | ३२,६८,६८,२०३ | २७,०९,४५,७८७ |
| २. | नेपाल राष्ट्र बैंकमा रहेको मौज्दात | ४.९ | १,०२,७४,६५,०६५ | ९८,४९,८१,२८८ |
| ३. | बैंक/वित्तीय संस्थामा रहेको मौज्दात | ४.१० | १,०५,२२,७६,९३७ | २९,१७,५७,०२६ |
| ४. | माग तथा अल्प सूचनामा प्राप्त हुने रकम | ४.११ | ६९,९०,४२,०११ | ४८,४८,४०,००० |
| ५. | लगानी | ४.१२ | २,४५,२४,७५,६६२ | २,१७,६१,७७,७९७ |
| ६. | कर्जा, सापट तथा बिल खरिद | ४.१३ | १६,६५,३८,५१,९२२ | १३,३२,८६,२१,५१५ |
| ७. | स्थिर सम्पत्ति | ४.१४ | ३६,०४,२५,७६२ | १७,२१,५८,१३१ |
| ८. | गैर बैंकिङ्ग सम्पत्ति | ४.१५ | – | – |
| ९. | अन्य सम्पत्ति | ४.१६ | २३,००,२३,७३८ | १७,२२,६८,५९४ |
| | **कुल सम्पत्ति** | | **२२,८०,२४,२९,३००** | **१७,८८,१७,५०,१३७** |

## वासलात

(२०६८ साल आषाढ मसान्त)

| | पुँजी तथा दायित्व | अनुसूची | यस वर्ष रु. | गत वर्ष रु. |
|---|---|---|---|---|
| १. | शेयर पुँजी | ४.१ | १,६१,८२,६३,९०० | १,३१,०४,३६,४४५ |
| २. | जगेडा तथा कोषहरू | ४.२ | ३७,०१,४०,९३६ | २९,३१,०५,६६३ |
| ३. | ऋणपत्र तथा बण्ड | ४.३ | २२,७७,७०,००० | २२,७७,७०,००० |
| ४. | तिर्न बाँकी कर्जा तथा सापटी | ४.४ | ४,५०,००,००० | ३४,५०,००,००० |
| ५. | निक्षेप दायित्व | ४.५ | २१,५७,५६,५३,९८२ | २०,१९,७०,२९,४०२ |
| ६. | भुक्तानी दिनुपर्ने विलहरू | ४.६ | २६,८५,७८३ | ३,५७,०३,८९५ |
| ७. | प्रस्तावित तथा भुक्तानी दिन बाँकी लाभांश | - | २०,०९,३९,२५८ | १३,१४,५६,६३२ |
| ८. | आयकर दायित्व | - | १,५६,५९,०९९ | ४८,४५,९२८ |
| ९. | अन्य दायित्व | ४.७ | ३४,९७,५९,०९१ | २५,४४,८८,१३० |
| | **कुल पुँजी तथा दायित्व** | | **२४,४०,५८,७२,०४९** | **२२,८०,२४,२९,३००** |

| | सम्पत्ति | अनुसूची | चालु आ.व. रु. | गत आ.व. रु. |
|---|---|---|---|---|
| १. | नगद मौज्दात | ४.८ | ४९,१२,४९,३४२ | ३२,६८,६८,२०३ |
| २. | नेपाल राष्ट्र बैंकमा रहेको मौज्दात | ४.९ | १,२२,२४,१९,८९४ | १,०२,७४,५५,०६५ |
| ३. | बैंक/वित्तीय संस्थामा रहेको मौज्दात | ४.१० | १९,२०,२३,७४२ | १,०५,२२,७६,९३७ |
| ४. | माग तथा अल्प सूचनामा प्राप्त हुने रकम | ४.११ | ८८,२७,८१,३८४ | ६९,९०,४२,०११ |
| ५. | लगानी | ४.१२ | २,४३,७९,०९,४२६ | २,४५,२४,७५,६६२ |
| ६. | कर्जा, सापट तथा बिल खरिद | ४.१३ | १८,३८,४०,३३,०९३ | १६,६५,३८,५१,९२२ |
| ७. | स्थिर सम्पत्ति | ४.१४ | ३६,८१,७३,६३४ | ३६,०४,२५,७६२ |
| ८. | गैर बैंकिङ्ग सम्पत्ति | ४.१५ | – | – |
| ९. | अन्य सम्पत्ति | ४.१६ | ३२,७२,८९,५३३ | २३,००,२३,७३८ |
| | **कुल सम्पत्ति** | | **२४,४०,५८,७२,०४९** | **२२,८०,२४,२९,३००** |

## बासलात

(२०६९ साल आषाढ मसान्त)

| | पुँजी तथा दायित्व | अनुसूची | यस वर्ष रु. | गत वर्ष रु. |
|---|---|---|---|---|
| १. | शेयर पुँजी | ४.१ | १,६१,९२,४४,३०० | १,२१,८२,६३,९०० |
| २. | जगेडा तथा कोषहरू | ४.२ | ५६,४०,२८,२०० | ३७,०१,४०,९३६ |
| ३. | ऋणपत्र तथा बण्ड | ४.३ | ६२,७७,७०,००० | २२,७७,७०,००० |
| ४. | तिर्न बाँकी कर्जा तथा सापटी | ४.४ | ४,५०,००,००० | ४,५०,००,००० |
| ५. | निक्षेप दायित्व | ४.५ | २५,९४,८५,०५,७८० | २१,५७,५६,५३,९८२ |
| ६. | भुक्तानी दिनुपर्ने बिलहरू | ४.६ | ७७,२१,१४१ | २६,८५,७८३ |
| ७. | प्रस्तावित तथा भुक्तानी दिन बाँकी लाभांश | - | १३,६३,५७,४१५ | २०,०९,३९,२५८ |
| ८. | आयकर दायित्व | - | २,७४,७०,५३९ | १,५६,५९,०९९ |
| ९. | अन्य दायित्व | ४.७ | ६०,३१,०१,५१३ | ३४,९७,५९,०९१ |
| | **कुल पुँजी तथा दायित्व** | | २९,५७,९१,९८,८८८ | २४,४०,५८,७२,०४९ |

| | सम्पत्ति | अनुसूची | चालु आ.व. रु. | गत आ.व. रु. |
|---|---|---|---|---|
| १. | नगद मौज्दात | ४.८ | ८१,३१,८०,०३१ | ४९,१२,४९,३४२ |
| २. | नेपाल राष्ट्र बैंकमा रहेको मौज्दात | ४.९ | २,९२,५०,८४,३३६ | १,२२,२४,११,८९४ |
| ३. | बैंक/वित्तीय संस्थामा रहेको मौज्दात | ४.१० | ५५,३६,२६,३९९ | १९,२०,२३,७४२ |
| ४. | माग तथा अल्प सूचनामा प्राप्त हुने रकम | ४.११ | ६४,७४,७९,५०० | ८८,२७,८१,३८४ |
| ५. | लगानी | ४.१२ | ३,३९,३८,६८,१३३ | २,५३,७९,०९,४२६ |
| ६. | कर्जा, सापट तथा बिल खरिद | ४.१३ | २०,२१,७५,८४,५८९ | १८,३८,४०,३३,०९३ |
| ७. | स्थिर सम्पत्ति | ४.१४ | ३५,८७१२,८६९ | ३६,८१,७३,६३४ |
| ८. | गैर बैंकिङ्ग सम्पत्ति | ४.१५ | – | – |
| ९. | अन्य सम्पत्ति | ४.१६ | ६६,९६,६३,०३१ | ३२,७२,८९,५३३ |
| | **कुल सम्पत्ति** | | २९,५७,९१,९८,८८८ | २४,४०,५८,७२,०४९ |

**Appendix IV**

Balance Sheets of Laxmi Bank Ltd.

## Balance Sheet

As at Ashad 31, 2066 (July 15, 2009)

(in NPR)

| CAPITAL & LIABILITIES | SCHEDULE | THIS YEAR | PREVIOUS YEAR |
|---|---|---|---|
| 1. Share Capital | 4.1 | 1,098,086,100 | 913,196,300 |
| 2. Reserves and Surplus | 4.2 | 245,132,972 | 243,179,508 |
| 3. Debentures & Bonds | 4.3 | 350,000,000 | - |
| 4. Borrowings | 4.4 | 450,000,000 | 450,000,000 |
| 5. Deposit Liabilities | 4.5 | 16,051,303,096 | 10,917,232,367 |
| 6. Bills Payable | 4.6 | 16,158,286 | 5,850,753 |
| 7. Proposed Dividend & Unpaid Dividend | | 4,171,800 | 9,758,870 |
| 8. Income Tax Liabilities | | 5,001,279 | - |
| 9. Other Liabilities | 4.7 | 166,559,448 | 155,803,719 |
| **Total Capital And Liabilities** | | **18,386,412,982** | **12,695,021,516** |

| ASSETS | SCHEDULE | THIS YEAR | PREVIOUS YEAR |
|---|---|---|---|
| 1. Cash Balance | 4.8 | 211,721,472 | 267,932,363 |
| 2. Balance with Nepal Rastra Bank | 4.9 | 1,243,649,202 | 720,394,571 |
| 3. Balance with Banks/Financial Institution | 4.10 | 377,407,049 | 249,833,920 |
| 4. Money at Call and Short Notice | 4.11 | 405,700,000 | 251,737,774 |
| 5. Investment | 4.12 | 2,483,151,161 | 1,241,041,732 |
| 6. Loans, Advances and Bills Purchase | 4.13 | 13,315,604,304 | 9,680,948,652 |
| 7. Fixed Assets | 4.14 | 247,733,210 | 204,397,323 |
| 8. Non Banking Assets (net) | 4.15 | - | - |
| 9. Other Assets | 4.16 | 101,446,583 | 78,735,181 |
| **Total Assets** | | **18,386,412,982** | **12,695,021,516** |

## Balance Sheet

as at Ashad 32, 2067 (July 16, 2010)

*(in NPR)*

| CAPITAL & LIABILITIES | SCHEDULE | THIS YEAR | PREVIOUS YEAR |
|---|---|---|---|
| 1. Share Capital | 4.1 | 1,613,520,500 | 1,174,952,127 |
| 2. Reserves and Surplus | 4.2 | 298,809,990 | 168,266,945 |
| 3. Debentures & Bonds | 4.3 | 350,000,000 | 350,000,000 |
| 4. Borrowings | 4.4 | 100,000,000 | 450,000,000 |
| 5. Deposit Liabilities | 4.5 | 18,082,957,988 | 16,051,303,096 |
| 6. Bills Payable | 4.6 | 5,262,902 | 16,158,286 |
| 7. Proposed Dividend | | 209,757,665 | 4,045,580 |
| 8. Income Tax Liabilities (net) | | 2,801,578 | 5,001,279 |
| 9. Other Liabilities | 4.7 | 289,138,935 | 166,685,668 |
| **Total Capital and Liabilities** | | **20,952,249,558** | **18,386,412,982** |

| ASSETS | SCHEDULE | THIS YEAR | PREVIOUS YEAR |
|---|---|---|---|
| 1. Cash Balance | 4.8 | 244,205,091 | 211,721,472 |
| 2. Balance with Nepal Rastra Bank | 4.9 | 1,219,716,716 | 1,243,649,202 |
| 3. Balance with Banks/Financial Institution | 4.10 | 376,782,432 | 377,407,049 |
| 4. Money at Call and Short Notice | 4.11 | 904,377,086 | 405,700,000 |
| 5. Investment | 4.12 | 3,186,905,894 | 2,483,151,161 |
| 6. Loans, Advances and Bills Purchase | 4.13 | 14,560,109,588 | 13,315,604,304 |
| 7. Fixed Assets | 4.14 | 282,349,126 | 247,733,210 |
| 8. Non Banking Assets (net) | 4.15 | - | - |
| 9. Other Assets | 4.16 | 177,803,626 | 101,446,583 |
| **Total Assets** | | **20,952,249,558** | **18,386,412,982** |

## Balance Sheet

as at Ashad 32, 2068 (July 16, 2011)

*(In NPR)*

| CAPITAL & LIABILITIES | SCHEDULE | THIS YEAR | PREVIOUS YEAR |
|---|---|---|---|
| 1. Share Capital | 4.1 | 1,694,196,525 | 1,613,520,500 |
| 2. Reserves and Surplus | 4.2 | 419,180,198 | 298,809,990 |
| 3. Debentures & Bonds | 4.3 | 350,000,000 | 350,000,000 |
| 4. Borrowings | 4.4 | - | 100,000,000 |
| 5. Deposit Liabilities | 4.5 | 18,299,627,620 | 18,082,957,988 |
| 6. Bills Payable | 4.6 | 302,100,039 | 5,262,902 |
| 7. Proposed Cash Dividend | | 174,098,862 | 209,757,665 |
| 8. Income Tax Liabilities (net) | | 4,678,074 | 2,801,578 |
| 9. Other Liabilities | 4.7 | 316,010,075 | 289,138,935 |
| **Total Capital and Liabilities** | | **21,559,891,393** | **20,952,249,558** |

| ASSETS | SCHEDULE | THIS YEAR | PREVIOUS YEAR |
|---|---|---|---|
| 1. Cash Balance | 4.8 | 356,669,236 | 244,205,091 |
| 2. Balance with Nepal Rastra Bank | 4.9 | 1,866,490,707 | 1,219,716,716 |
| 3. Balance with Banks/Financial Institution | 4.10 | 551,432,373 | 376,782,432 |
| 4. Money at Call and Short Notice | 4.11 | 50,000,000 | 904,377,086 |
| 5. Investment | 4.12 | 3,041,421,767 | 3,186,905,894 |
| 6. Loans, Advances and Bills Purchase | 4.13 | 15,199,847,906 | 14,560,109,588 |
| 7. Fixed Assets | 4.14 | 352,338,243 | 282,349,126 |
| 8. Non Banking Assets (net) | 4.15 | - | - |
| 9. Other Assets | 4.16 | 141,691,161 | 177,803,625 |
| **Total Assets** | | **21,559,891,393** | **20,952,249,558** |

लक्ष्मी बैंक लिमिटेड
Laxmi Bank Limited

## वासलात

३१ आषाढ २०६९ (१५ जुलाई २०१२)

| | पुँजी र दायित्व | अनुसूची | यस वर्ष रु. | गत वर्ष रु. |
|---|---|---|---|---|
| १. | शेयर पुँजी | ४.१ | १,६९,४०,८१,१०० | १,६१,४१,९६,४२५ |
| २. | जगेडा तथा कोषहरू | ४.२ | ६०,६१,७७,८०८ | ४१,९१,८०,१९८ |
| ३. | ऋणपत्र तथा बण्ड | ४.३ | ३५,००,००,००० | ३५,००,००,००० |
| ४. | तिर्न बाँकी कर्जा सापटी | ४.४ | २,७९,८०,००० | - |
| ५. | निक्षेप दायित्व | ४.५ | २२,८३,१८,४२,६३९ | १८,२९,९६,२७,६२० |
| ६. | भुक्तानी दिनुपर्ने बिलहरू | ४.६ | १७,६५,२२५ | ३०,२१,००,०३९ |
| ७. | प्रस्तावित तथा भुक्तानी दिन बाँकी लाभांश | | १६,९४,०८,११० | १७,४०,९८,८६२ |
| ८. | आयकर दायित्व (खुद) | | - | ४६,७८,०७४ |
| ९. | अन्य दायित्व | ४.७ | ३४,७२,७३,३५५ | ३१,६०,१०,०७५ |
| | **कुल पुँजी र दायित्व** | | **२९,०२,८५,२८,२३७** | **२१,५५,९८,९९,३९३** |

| | सम्पत्ति | अनुसूची | यस वर्ष रु. | गत वर्ष रु. |
|---|---|---|---|---|
| १. | नगद मौज्दात | ४.८ | ४०,७७,८८,८७४ | ३५,६६,६९,२३६ |
| २. | नेपाल राष्ट्र बैंकमा रहेको मौज्दात | ४.९ | ३,८४,५३,००,२७६ | १,८६,६४,९०,७०७ |
| ३. | बैंक / वित्तीय संस्थामा रहेको मौज्दात | ४.१० | ९९,५५,८५,११५ | ५५,१४,३२,३७३ |
| ४. | माग तथा अल्प सूचनामा प्राप्त हुने रकम | ४.११ | ६५,९४,८७,८७३ | ५,००,००,००० |
| ५. | लगानी | ४.१२ | ३,७५,८१,०५,९०९ | ३,०४,१४,२१,७६७ |
| ६. | कर्जा, सापट तथा बिल खरिद | ४.१३ | १६,४७,६६,३०,२०१ | १५,१९,९८,४७,९०६ |
| ७. | स्थिर सम्पत्ति | ४.१४ | ३०,८१,७२,११० | ३५,२३,३८,२४३ |
| ८. | गैर बैंकिङ सम्पत्ति (खुद) | ४.१५ | - | - |
| ९. | अन्य सम्पत्ति | ४.१६ | ३७,७४,५७,८७९ | १४,१६,९१,१६१ |
| | **कुल सम्पत्ति** | | **२९,०२,८५,२८,२३७** | **२१,५५,९८,९९,३९३** |

## Appendix V

Profit and Loss Accounts of Siddharth Bank Ltd.

### Profit & Loss Accounts

For the period from 17 July 2007 to 15 July 2008

| PARTICULAR | SCHEDULE | THIS YEAR RS. | PREVIOUS YEAR RS. |
|---|---|---|---|
| 1. Interest Income | 4.18 | 729,872,484 | 481,523,807 |
| 2. Interest Expenses | 4.19 | 408,188,955 | 271,710,950 |
| Net Interest Income | | 321,683,529 | 209,812,857 |
| 3. Commission & Discount | 4.20 | 21,454,424 | 20,177,802 |
| 4. Other Operating Income | 4.21 | 31,294,159 | 18,659,095 |
| 5. Exchange Fluctuation Gain | 4.22 | 27,487,389 | 14,245,653 |
| Total Operating Income | | 401,919,501 | 262,895,407 |
| 6. Employees Expenses | 4.23 | 48,247,208 | 33,620,506 |
| 7. Other Operating Expenses | 4.24 | 71,480,863 | 55,721,156 |
| 8. Exchange Fluctuation Loss | 4.22 | - | - |
| Operating Profit Before Provision for Possible Loan Loss | | 282,191,430 | 173,553,745 |
| 9. Provisions for possible losses | 4.25 | 48,048,820 | 20,544,230 |
| Operating Profit | | 234,142,610 | 153,009,514 |
| 10. Non- Operating Income/(Loss) | 4.26 | 506,222 | 35,535 |
| 11. Possible Loss Provision Written Back | 4.27 | 4,031,246 | - |
| Profit from Regular Activities | | 238,680,078 | 153,045,049 |
| 12. Profit/Loss from Extraordinary Activities | 4.28 | - | - |
| Net Profit after Extraordinary Items | | 238,680,078 | 153,045,049 |
| 13. Provision for Staff Bonus | | 21,698,189 | 13,913,186 |
| 14. Provision for Income Tax | | 71,721,066 | 43,826,537 |
| a. This year provision | | 71,721,066 | 43,826,537 |
| b. Provision upto last year | - | - | |
| c. Deferred Taxes | | 2,087,834 | - |
| Net Profit/ (Loss) | | 143,172,989 | 95,305,326 |

### नाफा-नोक्सान हिसाब

(१ श्रावण २०६४ देखि ३१ आषाढ २०६५ सम्म)

| | विवरण | अनुसूची | यस वर्ष रु | गत वर्ष रु |
|---|---|---|---|---|
| १. | ब्याज आम्दानी | ४.१८ | १,२५,४५,८२,१४१ | ७२,९८,७२,४८४ |
| २. | ब्याज खर्च | ४.१९ | ८१,३५,१९,०४६ | ४०,८१,८८,९४५ |
| | **खुद ब्याज आम्दानी** | | **४५,१९,६३,०८९** | **३२,१६,८३,५२९** |
| ३. | कमिशन तथा डिस्काउन्ट | ४.२० | ३,२५,४७,८३० | २,१४,५४,४२४ |
| ४. | अन्य सञ्चालन आम्दानी | ४.२१ | ४,६३,५४,२१२ | ३,१२,९४,१४९ |
| ५. | सटही घटबढ आम्दानी | ४.२२ | ३,८६,८२,१६३ | २,७४,८७,३८९ |
| | **कुल सञ्चालन आम्दानी** | | **५६,९५,४७,२९४** | **४०,१९,१९,५०१** |
| ६. | कर्मचारी खर्च | ४.२३ | ७,९३,८४,७८५ | ४,८२,४७,२०८ |
| ७. | अन्य सञ्चालन खर्च | ४.२४ | ११,४८,१५,८८५ | ७,१४,८०,८६३ |
| ८. | सटही घटबढ नोक्सान | ४.२२ | – | – |
| | **सम्भावित नोक्सानी व्यवस्था अघिको सञ्चालन मुनाफा** | | **३७,५३,४५,६२४** | **२८,२१,९१,४३०** |
| ९. | सम्भावित नोक्सानी व्यवस्थाहरू | ४.२५ | ३,९८,४२,४४७ | ४,८०,४८,८२० |
| | **सञ्चालन मुनाफा** | | **३३,५५,०३,१७७** | **२३,४१,४२,६१०** |
| १०. | गैर सञ्चालन आम्दानी/(नोक्सान) | ४.२६ | – | ५,०६,२२२ |
| ११. | सम्भावित नोक्सानी व्यवस्थाबाट फिर्ता | ४.२७ | ८८,५७,४६६ | ४०,३१,२४६ |
| | **नियमित कारोबारबाट भएको मुनाफा** | | **३४,४३,६०,६४३** | **२३,८६,८०,०७८** |
| १२. | असामान्य कारोबारबाट भएको मुनाफा/(खर्च) | ४.२८ | ८८,५७,४६६ | – |
| | **सम्पूर्ण कारोबार समावेश पछिको खुद मुनाफा** | | **३३,५५,०३,१७७** | **२३,८६,८०,०७८** |
| १३. | कर्मचारी बोनस व्यवस्था | | ३,०५,००,२८९ | २,१६,९८,१८९ |
| १४. | आयकर व्यवस्था (क+ख-ग) | | ८,७०,८७,०८० | ७,३८,०८,९०० |
| | क. चालु वर्षको | | ९,२३,४२,१३१ | ७,१७,२१,०६६ |
| | ख. गत वर्षसम्मको | | – | – |
| | ग. स्थगन करिएको कर दायित्व | | ५२,५५,०५१ | (२०,८७,८३४) |
| | **खुद नाफा/(नोक्सान)** | | **२१,७९,१५,८०८** | **१४,३१,७२,९८९** |

## नाफा-नोक्सान हिसाब

(१ श्रावण २०६६ देखि ३२ आषाढ २०६७ सम्म)

| | विवरण | अनुसूची | यस वर्ष रु. | गत वर्ष रु. |
|---|---|---|---|---|
| १. | ब्याज आम्दानी | ४.१८ | २,०१,८२,९१,८१३ | १,२६,४५,८२,१३१ |
| २. | ब्याज खर्च | ४.१९ | १,४०,६४,८९,४७२ | ८१,३६,१९,०४२ |
| | **खुद ब्याज आम्दानी** | | **६१,१८,०२,२४१** | **४५,१९,६३,०८९** |
| ३. | कमिशन तथा डिस्काउण्ट | ४.२० | ४,२७,५८,२८३ | ३,२५,४७,८३० |
| ४. | अन्य सञ्चालन आम्दानी | ४.२१ | ५,०६,९४,४२२ | ४,६३,५४,२१२ |
| ५. | सट्टी घटबढ आम्दानी | ४.२२ | १,२१,६७,७०२ | ३,८६,८२,१६३ |
| | **कुल सञ्चालन आम्दानी** | | **७१,७४,२२,६४८** | **५६,९५,४७,२९४** |
| ६. | कर्मचारी खर्च | ४.२३ | १०,३६,८०,१७८ | ७,९३,८४,७८५ |
| ७. | अन्य सञ्चालन खर्च | ४.२४ | १७,५७,३५,३०० | ११,४८,१६,८८५ |
| ८. | सट्टी घटबढ नोक्सान | ४.२२ | – | – |
| | **सम्भावित नोक्सानी व्यवस्था अघिको सञ्चालन मुनाफा** | | **४३,८०,०७,१७०** | **३७,५३,४५,६२४** |
| ९. | सम्भावित नोक्सानी व्यवस्थाहरू | ४.२५ | ६,५३,२२,२२१ | ३,९८,४२,४४७ |
| | **सञ्चालन मुनाफा** | | **३७,२६,८४,९४९** | **३३,५५,०३,१७७** |
| १०. | गैर सञ्चालन आम्दानी/(नोक्सान) | ४.२६ | १,०८,५८,५७७ | – |
| ११. | सम्भावित नोक्सानी व्यवस्थाबाट फिर्ता | ४.२७ | – | ८८,५७,४६६ |
| | **नियमित कारोबारबाट भएको मुनाफा** | | **३८,३५,४३,५२६** | **३४,४३,६०,६४३** |
| १२. | असामान्य कारोबारहरूबाट भएको मुनाफा/(खर्च) | ४.२८ | – | ८८,५७,४६६ |
| | **सम्पूर्ण कारोबार समावेश पछिको खुद मुनाफा** | | **३८,३५,४३,५२६** | **३३,५५,०३,१७७** |
| १३. | कर्मचारी बोनस व्यवस्था | | ३,४८,६७,५९३ | ३,०५,००,२८९ |
| १४. | आयकर व्यवस्था (क+ख-ग) | | १०,७८,२८,१६४ | ८,७०,८७,०८० |
| | क. यस वर्षको | | १०,४९,१७,३९८ | ९,२३,४२,१३१ |
| | ख. गत वर्षसम्मको | | १३,६३,८१९ | – |
| | ग. स्थगन आम्दानी/(खर्च) | | (१४,४६,९४७) | ५२,५५,०५२ |
| **खुद नाफा/(नोक्सान)** | | | **२४,०८,४७,७६८** | **२१,७९,१५,८०८** |

## नाफा-नोक्सान हिसाब

(१ श्रावण २०६७ देखि ३२ आषाढ २०६८ सम्म)

| | विवरण | अनुसूची | यस वर्ष रु. | गत वर्ष रु. |
|---|---|---|---|---|
| १. | ब्याज आम्दानी | ४.१८ | २,६९,०२,९४,१४१ | २,०१,८२,९१,८१३ |
| २. | ब्याज खर्च | ४.१९ | १,९२,४२,४३,०९९ | १,४०,६४,८९,५७२ |
| | **खुद ब्याज आम्दानी** | | **७६,४०,५१,०४२** | **६१,१८,०२,२४१** |
| ३. | कमिशन तथा डिस्काउण्ट | ४.२० | ६,८०,४९,०४५ | ४,२७,५८,२८३ |
| ४. | अन्य सञ्चालन आम्दानी | ४.२१ | ६,२२,५२,२८२ | ५,०६,९४,४२२ |
| ५. | सट्टी घटबढ आम्दानी | ४.२२ | ३,८६,८९,७४१ | १,२१,६७,७०२ |
| | **कुल सञ्चालन आम्दानी** | | **९३,४०,४२,११०** | **७१,७४,२२,६४८** |
| ६. | कर्मचारी खर्च | ४.२३ | १४,५८,०३,४११ | १०,३६,८०,१७८ |
| ७. | अन्य सञ्चालन खर्च | ४.२४ | २६,२४,७७,१२४ | १७,५७,३५,३०० |
| ८. | सट्टी घटबढ नोक्सान | ४.२२ | – | – |
| | **सम्भावित नोक्सानी व्यवस्था अघिको सञ्चालन मुनाफा** | | **५१,२७,९१,५७५** | **४३,८०,०७,१७०** |
| ९. | सम्भावित नोक्सानी व्यवस्थाहरू | ४.२५ | ४,२६,२८,१५६ | ६,५३,२२,२२१ |
| | **सञ्चालन मुनाफा** | | **४७,०१,३३,४१८** | **३७,२६,८४,९४९** |
| १०. | गैर सञ्चालन आम्दानी/(नोक्सान) | ४.२६ | १४,३२,७१३ | १,०८,५८,५७७ |
| ११. | सम्भावित नोक्सानी व्यवस्थाबाट फिर्ता | ४.२७ | २,०८,७१,४४६ | – |
| | **नियमित कारोबारबाट भएको मुनाफा** | | **४९,२४,३७,९९८** | **३८,३५,४३,५२६** |
| १२. | असामान्य कारोबारहरूबाट भएको मुनाफा/(खर्च) | ४.२८ | – | – |
| | **सम्पूर्ण कारोबार समावेश पछिको खुद मुनाफा** | | **४९,२४,३७,९९८** | **३८,३५,४३,५२६** |
| १३. | कर्मचारी बोनस व्यवस्था | | ४,४७,९७,०५४ | ३,४८,६७,५९३ |
| १४. | आयकर व्यवस्था (क+ख-ग) | | १३,६२,५५,२४२ | १०,७८,२८,१६४ |
| | क. यस वर्षको | | १३,६१,३९,८२६ | १०,४९,१७,३९८ |
| | ख. गत वर्षसम्मको | | २०,४०,१२९ | १३,६३,८१९ |
| | ग. स्थगन आम्दानी/(खर्च) | | १९,२४,७०३ | (१४,४६,९४७) |
| **खुद नाफा/(नोक्सान)** | | | **३१,१४,१५,२९१** | **२४,०८,४७,७६८** |

**Appendix VI**

Profit and Loss Accounts of Laxmi Bank Ltd.

## Profit and Loss Account

For the period Shrawan 1, 2065 to Ashad 31, 2066 (July 16, 2008 to July 15, 2009)

(In NPR)

| PARTICULARS | SCHEDULE | THIS YEAR | PREVIOUS YEAR |
|---|---|---|---|
| 1. Interest Income | 4.18 | 1,098,985,452 | 711,006,319 |
| 2. Interest Expenses | 4.19 | 712,348,311 | 421,871,791 |
| **Net Interest Income** | | **386,637,141** | **289,134,528** |
| 3. Commission and Discount | 4.20 | 29,634,632 | 20,943,463 |
| 4. Other Operating Income | 4.21 | 70,917,293 | 25,482,082 |
| 5. Exchange Income | 4.22 | 51,004,554 | 46,637,081 |
| **Total Operating Income** | | **538,193,620** | **382,197,155** |
| 6. Staff Expenses | 4.23 | 86,407,247 | 63,994,813 |
| 7. Other Operating Expenses | 4.24 | 112,972,785 | 83,848,664 |
| 8. Exchange Loss | 4.22 | - | - |
| **Operating Profit before provision for Possible Loss** | | **338,813,588** | **234,353,677** |
| 9. Provision for Possible Losses | 4.25 | 41,360,065 | 36,407,480 |
| **Operating Profit** | | **297,453,523** | **197,946,197** |
| 10. Non Operating Income /(Loss) | 4.26 | (7,594,833) | (7,995,173) |
| 11. Loan Loss Provision Written Back | 4.27 | 7,105,053 | 11,808,737 |
| **Profit from Regular Operations** | | **296,963,743** | **201,759,761** |
| 12. Profit/(Loss) from Extra-Ordinary Activities | 4.28 | (4,413,129) | (7,636,567) |
| **Net Profit after Considering all Activities** | | **292,550,614** | **194,123,194** |
| 13. Provision for Staff Bonus | | 26,595,510 | 17,647,563 |
| 14. Provision for Income Tax | | - | - |
| * Current Tax | | 80,983,152 | 55,458,170 |
| * Deferred Tax Expense/ (Income) | | (4,026,685) | 986,114 |
| **Net Profit/Loss** | | **188,998,637** | **120,031,347** |

## Profit and Loss Account

For the period Shrawan 1, 2066 to Ashad 32, 2067 (July 16, 2009 to July 16, 2010)

(In NPR)

| PARTICULARS | SCHEDULE | THIS YEAR | PREVIOUS YEAR |
|---|---|---|---|
| 1. Interest Income | 4.18 | 1,787,692,540 | 1,098,985,452 |
| 2. Interest Expenses | 4.19 | 1,135,609,890 | 712,348,311 |
| **Net Interest Income** | | **652,082,650** | **386,637,141** |
| 3. Commission and Discount | 4.20 | 46,866,912 | 29,634,632 |
| 4. Other Operating Income | 4.21 | 60,031,631 | 70,917,293 |
| 5. Exchange Income | 4.22 | 47,563,308 | 51,004,554 |
| **Total Operating Income** | | **806,544,500** | **538,193,620** |
| 6. Staff Expenses | 4.23 | 122,405,630 | 86,407,247 |
| 7. Other Operating Expenses | 4.24 | 142,169,232 | 112,972,785 |
| 8. Exchange Loss | 4.22 | - | - |
| **Operating Profit before provision for Possible Loss** | | **541,969,638** | **338,813,588** |
| 9. Provision for Possible Losses | 4.25 | 28,766,525 | 41,360,065 |
| **Operating Profit** | | **513,203,114** | **297,453,523** |
| 10. Non Operating Income /(Loss) | 4.26 | 1,325,486 | (7,594,833) |
| 11. Loan Loss Provision Written Back | 4.27 | 3,644,550 | 7,105,053 |
| **Profit from Regular Operations** | | **518,173,150** | **296,963,743** |
| 12. Profit/(Loss) from Extra-Ordinary Activities | 4.28 | (4,366,416) | (4,413,129) |
| **Net Profit after including all Activities** | | **513,806,734** | **292,550,614** |
| 13. Provision for Staff Bonus | | 46,709,703 | 26,595,510 |
| 14. Provision for Income Tax | | - | - |
| * Provision for Current Year's Tax | | 141,441,317 | 80,983,152 |
| * Provision for Previous Years' Tax | | - | - |
| * Deferred Tax Expense/ (Income) | | (1,381,327) | (4,026,685) |
| **Net Profit/Loss** | | **327,037,041** | **188,998,637** |

## Profit and Loss Account

For the period Shrawan 1, 2067 to Ashad 32, 2068 (July 17, 2010 to July 16, 2011)

*(in NPR)*

| PARTICULARS | SCHEDULE | THIS YEAR | PREVIOUS YEAR |
|---|---|---|---|
| 1. Interest Income | 4.18 | 2,233,332,791 | 1,787,692,540 |
| 2. Interest Expenses | 4.19 | 1,503,851,025 | 1,135,609,890 |
| **Net Interest Income** | | **729,481,766** | **652,082,650** |
| 3. Commission and Discount | 4.20 | 67,795,886 | 46,866,912 |
| 4. Other Operating Income | 4.21 | 69,514,877 | 60,031,631 |
| 5. Exchange Income | 4.22 | 63,127,874 | 47,563,308 |
| **Total Operating Income** | | **929,920,403** | **806,544,501** |
| 6. Staff Expenses | 4.23 | 157,662,248 | 122,405,630 |
| 7. Other Operating Expenses | 4.24 | 169,294,370 | 142,169,232 |
| 8. Exchange Loss | 4.22 | - | - |
| **Operating Profit before provision for Possible Loss** | | **602,963,785** | **541,969,639** |
| 9. Provision for Possible Losses | 4.25 | 13,634,832 | 28,766,525 |
| **Operating Profit** | | **589,328,953** | **513,203,114** |
| 10. Non Operating Income /(Loss) | 4.26 | 873,687 | 1,325,486 |
| 11. Loan Loss Provision Written Back | 4.27 | 798,406 | 3,644,550 |
| **Profit from Regular Operations** | | **591,001,046** | **518,173,150** |
| 12. Profit/(Loss) from Extra-Ordinary Activities | 4.28 | 2,348,347 | (4,366,416) |
| **Net Profit after including all Activities** | | **593,349,393** | **513,806,734** |
| 13. Provision for Staff Bonus | | 53,940,854 | 46,709,703 |
| 14. Provision for Income Tax | | - | - |
| * Provision for Current Year's Tax | | 161,482,469 | 141,441,317 |
| * Provision for Previous Years' Tax | | - | - |
| * Deferred Tax Expense/ (Income) | | 2,780,975 | (1,381,327) |
| **Net Profit/Loss** | | **375,145,095** | **327,037,041** |

लक्ष्मी बैंक लिमिटेड
Laxmi Bank Limited

## नाफा-नोक्सान हिसाब

१ श्रावण २०६८ देखि ३१ आषाढ २०६९ (१७ जुलाई २०११ देखि १५ जुलाई २०१२ सम्म)

| | विवरण | अनुसूची | यस वर्ष रु. | गत वर्ष रु. |
|---|---|---|---|---|
| १. | ब्याज आम्दानी | ४.१८ | २,२८,९३,५९,५३४ | २,२३,३३,३२,७९१ |
| २. | ब्याज खर्च | ४.१९ | १,६४,५७,१८,०१८ | १,५०,३८,५१,०२५ |
| | खुद ब्याज आम्दानी | | ६४,३६,४१,५१६ | ७२,९४,८१,७६६ |
| ३. | कमिशन तथा डिस्काउण्ट | ४.२० | १४,९८,१७,८६८ | ६,७७,९५,८८६ |
| ४. | अन्य सञ्चालन आम्दानी | ४.२१ | ५,६३,९०,७८० | ६,९५,१४,८७७ |
| ५. | सटही घटबढ आम्दानी | ४.२२ | १०,७९,५०,६२५ | ६,३१,२७,८७४ |
| | कुल सञ्चालन आम्दानी | | ९५,७८,००,७८९ | ९२,९९,२०,४०३ |
| ६. | कर्मचारी खर्च | ४.२३ | १७,८२,८४,८०४ | १५,७६,६२,२४८ |
| ७. | अन्य सञ्चालन खर्च | ४.२४ | १९,४८,४२,५६३ | १६,९२,९४,३७० |
| ८. | सटही घटबढ नोक्सान | ४.२२ | - | - |
| | सम्भावित नोक्सानी व्यवस्था अघिको सञ्चालन मुनाफा | | ५८,४६,७३,४२२ | ६०,२९,६३,७८५ |
| ९. | सम्भावित नोक्सानी व्यवस्थाहरु | ४.२५ | ३,०८,०८,४२१ | १,३६,३४,८३२ |
| | सञ्चालन मुनाफा | | ५५,३८,६५,००१ | ५८,९३,२८,९५३ |
| १०. | गैर सञ्चालन आम्दानी / (नोक्सान) | ४.२६ | ५८,३४,०२२ | ८,७३,६८७ |
| ११. | सम्भावित नोक्सानी व्यवस्थाबाट फिर्ता | ४.२७ | - | ७९८,४०८ |
| | नियमित कारोबारबाट भएको मुनाफा | | ५५,९६,९९,०२३ | ५९,१०,०१,०४६ |
| १२. | असामान्य कारोबारहरुबाट भएको मुनाफा / (खर्च) | ४.२८ | - | २३,४८,३४७ |
| | सम्पूर्ण कारोबार समावेश पछिको खुद मुनाफा | | ५५,९६,९९,०२३ | ५९,३३,४९,३९३ |
| १३. | कर्मचारी बोनस व्यवस्था | | ५,०८,८१,७२९ | ५,३९,४०,८५४ |
| १४. | आयकर व्यवस्था | | - | - |
| | • यस वर्षको | | १५,४६,२६,०४४ | १६,१४,८२,४६९ |
| | • गत वर्षको | | - | - |
| | • स्थगन कर खर्च / (आम्दानी) | | (२१,९९,०९२) | २७,८०,९७५ |
| खुद नाफा / (नोक्सान) | | | ३५,६३,९०,३४२ | ३७,५१,४५,०९५ |

**Appendix VII**

Equity Statements of Siddhartha Bank Ltd.

## Statement of Changes in Equity as at 15 July 2008

| PARTICULARS | SHARE CAPITAL | ACC. P & L A/C | GENERAL RESERVE | CAPITAL ADJUSTMENT FUND | SHARE PREMIUM | EXCHANGE FLUCTUATION FUND | OTHER RESERVES | PROPOSED BONUS/ DIVIDEND | TOTAL AMOUNT |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 17 July 2007** | **600,000,000** | **-** | **46,167,586** | **56,190,572** | **-** | **1,351,781** | **-** | **90,000,000** | 793,709,939 |
| Changes in Accounting Policy | - | - | - | - | - | - | - | - | - |
| **Restated Balance** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Surplus on Revaluation of Properties | - | - | - | - | - | - | - | - | - |
| Deficit on Revaluation of Investments | - | - | - | - | - | - | - | - | - |
| Currecy Translation Difference | - | - | - | - | - | - | - | - | - |
| **Net Gains & Losses Not Recognised in the Income Statement** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Net Profit for the Period | - | 143,172,989 | - | - | - | - | - | - | 143,172,989 |
| Transfer to General Reserve | - | (28,634,598) | 28,634,598 | - | - | - | - | - | - |
| Declaration of Bonus Share/ Dividend(Proposed) | - | (74,546,270) | - | (56,190,572) | - | - | - | 124,200,000 | (6,536,842) |
| Bonus share Issued | 90,000,000 | | | | | | | (90,000,000) | - |
| Issue of Share Capital | 138,000,000 | - | - | - | - | - | - | - | 138,000,000 |
| Deficit on Revaluation of Properties | - | - | - | - | - | - | - | - | - |
| Surplus on Revaluation of Investments | - | - | - | - | - | - | - | - | - |
| Exchange Fluctuation Fund | - | (2,314,680) | - | - | - | 2,314,680 | - | - | - |
| Capital Adjustment Fund | - | (36,555,158) | - | 36,555,158 | - | - | - | - | - |
| Tax Related Movement | - | - | - | - | - | - | - | - | - |
| **Balance at 15 July 2008** | **828,000,000** | **1,122,283** | **74,802,184** | **36,555,158** | **-** | **3,666,461** | **-** | **124,200,000** | 1,068,346,086 |

# इक्वीटीमा भएको परिवर्तन सम्बन्धि विवरण

(आ. व. २०६५/६६)

रुपैयाँमा

| विवरण | शेयर पुँजी | सञ्चित नाफा/(नोक्सान) | साधारण जगेडा कोष | पुँजीगत जगेडा कोष | शेयर प्रिमियम | सटही घटबढ कोष | अन्य जगेडा तथा कोष | प्रस्तावित बोनस शेयर | स्थगन कर कोष | ऋणपत्र भुक्तानी कोष | कुल रकम |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **शुरु मौज्दात** | **८२,८०,००,०००** | **११,२२,२८३** | **७,४८,०२,१८४** | **३,६५,५५,१५८** | **–** | **३६,६६,४६१** | **–** | **१२,४२,००,०००** | **–** | **–** | **१,०६,८३,४६,०८६** |
| लेखा नीतिमा परिवर्तन | – | – | – | – | – | – | – | – | – | – | – |
| **पुनस्र्थापित मौज्दात** | **८२,८०,००,०००** | **११,२२,२८३** | **७,४८,०२,१८४** | **३,६५,५५,१५८** | **–** | **३६,६६,४६१** | **–** | **१२,४२,००,०००** | **–** | **–** | **१,०६,८३,४६,०८६** |
| सम्पत्ति पुनर्मूल्याङ्कनमा वचत | – | – | – | – | – | – | – | – | – | – | – |
| सम्पत्ति पुनर्मूल्याङ्कनमा घाटा | – | – | – | – | – | – | – | – | – | – | – |
| मुद्रा रुपान्तरण भिन्नता | – | – | – | – | – | – | – | – | – | – | – |
| आय विवरणमा समावेश नगरिएको खुद नाफा/घाटा | – | – | – | – | – | – | – | – | – | – | – |
| यस वर्षको खुद नाफा | – | २१,७९,१५,८०८ | – | – | – | – | – | – | – | – | २१,७९,१५,८०८ |
| साधरण जगेडा कोष | – | (४,३५,८३,१६२) | ४,३५,८३,१६२ | – | – | – | – | – | – | – | – |
| नगद लाभांश/प्रस्तावित बोनस शेयर | – | (११,३७,९२,२१०) | – | (३,६५,५५,१५८) | – | – | – | १४,२८,३०,००० | – | – | (७५,१७,३६८) |
| बोनस शेयर जारी | १२,४२,००,००० | – | – | – | – | – | – | (१२,४२,००,०००) | – | – | – |
| शेयर पुँजी निष्काशन | – | – | – | – | – | – | – | – | – | – | – |
| सम्पत्ति पुनर्मूल्याङ्कनमा वचत | – | – | – | – | – | – | – | – | – | – | – |
| सम्पत्ति पुनर्मूल्याङ्कनमा घाटा | – | – | – | – | – | – | – | – | – | – | – |
| सटही घटबढ कोष | – | (३०,०७,५७०) | – | – | – | ३०,०७,५७० | – | – | – | – | – |
| पुँजी समायोजन कोष | – | (७९,४९,३६०) | – | ७९,४९,३६० | – | – | – | – | – | – | – |
| व्याजदर अन्तर कोष | – | – | – | – | – | – | – | – | – | – | – |
| स्थगन कर कोष | – | – | – | – | – | – | – | – | – | – | – |
| ऋणपत्र भुक्तानी कोष | – | (३,२५,३८,५७१) | – | – | – | – | – | – | – | ३,२५,३८,५७१ | – |
| अन्तिम मौज्दात | ९५,२२,००,००० | १,८१,६७,२१८ | ११,८३,८५,३४६ | ७९,४९,३६० | – | ६६,७४,०३१ | – | १४,२८,३०,००० | – | ३,२५,३८,५७१ | १,२७,८७,४४,५२६ |

# इक्वीटीमा भएको परिवर्तन सम्बन्धि विवरण

(आ. व. २०६६/६७)

रुपैयाँमा

| विवरण | शेयर पुँजी | सञ्चित नाफा/(नोक्सान) | साधारण जगेडा कोष | पुँजीगत जगेडा कोष | शेयर प्रिमियम | सटही घटबढ कोष | प्रस्तावित बोनस शेयर | स्थगन कर कोष | ऋणपत्र भुक्तानी कोष | लगानी समायोजन कोष | कुल रकम |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **शुरु मौज्दात** | **९५,२२,००,०००** | **१,८१,६७,२१८** | **११,८३,८५,३४६** | **७९,४९,३६०** | **–** | **६६,७४,०३१** | **१४,२८,३०,०००** | **-** | **३,२५,३८,५७१** | | **१,२७,८७,४४,५२६** |
| लेखा नीतिमा परिवर्तन | - | - | - | - | - | - | - | - | - | | - |
| **पुनर्स्थापित मौज्दात** | **९५,२२,००,०००** | **१,८१,६७,२१८** | **११,८३,८५,३४६** | **७९,४९,३६०** | **–** | **६६,७४,०३१** | **१४,२८,३०,०००** | **-** | **३,२५,३८,५७१** | | **१,२७,८७,४४,५२६** |
| सम्पत्ति पुनर्मूल्याङ्कनमा बचत | - | - | - | - | - | - | - | - | - | | - |
| सम्पत्ति पुनर्मूल्याङ्कनमा घाटा | - | - | - | - | - | - | - | - | - | | - |
| मुद्रा रूपान्तरण भिन्नता | - | - | - | - | - | - | - | - | - | | - |
| आय विवरणमा समावेश नगरिएको खुद नाफा/घाटा | - | - | - | - | - | - | - | - | - | | - |
| यस वर्षको खुद नाफा | - | २४,०८,४७,७६८ | - | - | - | - | - | - | - | | २४,०८,४७,७६८ |
| साधारण जगेडा कोष | - | (४,८१,६९,५५४) | ४,८१,६९,५५४ | - | - | - | - | - | - | | - |
| नगद लाभांश/प्रस्तावित बोनस शेयर | - | (१३,१४,५६,६३२) | - | - | - | - | - | - | - | | (१३,१४,५६,६३२) |
| बोनस शेयर जारी | १४,२८,३०,००० | - | - | - | - | - | (१४,२८,३०,०००) | - | - | | - |
| शेयर पुँजी निष्काशन | - | - | - | - | - | - | - | - | - | | - |
| सम्पत्ति पुनर्मूल्याङ्कनमा बचत | - | - | - | - | - | - | - | - | - | | - |
| सम्पत्ति पुनर्मूल्याङ्कनमा घाटा | - | - | - | - | - | - | - | - | - | | - |
| सटही घटबढ कोष | - | - | - | - | - | - | - | - | - | | - |
| पुँजी समायोजन कोष | - | - | - | - | - | - | - | - | - | | - |
| लगानी समायोजन कोष | | (३,००,०००) | | | | | | | | ३,००,००० | |
| व्याजदर अन्तर कोष | - | - | - | - | - | - | - | - | - | | - |
| स्थगन कर कोष | - | (१६,२०,२७१) | - | - | - | - | - | १६,२०,२७१ | - | | - |
| ऋणपत्र भुक्तानी कोष | - | (३,२५,३८,५७१) | - | - | - | - | - | - | ३,२५,३८,५७१ | | - |
| कल इन एडभान्स | २१,५४,०६,४४५ | - | | | | | | | | | २१,५४,०६,४४५ |
| **अन्तिम मौज्दात** | **१,३१,०४,३६,४४५** | **४,४९,२९,९५८** | **१६,६५,५४,८९९** | **७९,४९,३६०** | **–** | **६६,७४,०३१** | **-** | **१६,२०,२७१** | **६,५०,७७,१४३** | **३,००,०००** | **१,६०,३५,४२,१०७** |

# इक्वीटीमा भएको परिवर्तन सम्बन्धि विवरण

(आ. व. २०६७/६८)

रुपैयामा

| विवरण | शेयर पुँजी | सञ्चित नाफा/(नोक्सान) | साधारण जगेडा कोष | पुँजीगत जगेडा कोष | शेयर प्रिमियम | सटही घटबढ कोष | प्रस्तावित बोनस शेयर | स्थगन कर कोष | ऋणपत्र भुक्तानी कोष | लगानी समायोजन कोष | कुल रकम |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **शुरु मौज्दात** | **१,३१,०४,३६,४४५** | **४,४९,२९,९५८** | **१६,६५,५४,९००** | **७९,४९,३६०** | **–** | **६६,७४,०३१** | **–** | **१६,२०,२७१** | **६,५०,७७,१४३** | **३,००,०००** | **१,६०,३५,४२,१०८** |
| लेखा नीतिमा परिवर्तन | - | - | - | - | - | - | - | - | - | | - |
| **पुनर्स्थापित मौज्दात** | **१,३१,०४,३६,४४५** | **४,४९,२९,९५८** | **१६,६५,५४,९००** | **(७९,४९,३६०)** | **(१,३६,९३,१४०)** | **६६,७४,०३१** | **–** | **१६,२०,२७१** | **६,५०,७७,१४३** | **३०,००,००** | **१,६०,३५,४२,१०८** |
| शेयर प्रिमियम | – | ९,३६,९३,१४० | - | - | - | - | - | - | - | | ९,३६,९३,१४० |
| पुँजी समायोजन कोष | – | ७९,४९,३६० | - | - | – | - | - | - | - | | (१,३६,९३,१४०) |
| मुद्रा रूपान्तरण भिन्नता | – | – | - | - | – | - | - | - | - | | - |
| आय विवरणमा समावेश नगरिएको खुद नाफा/घाटा | – | – | - | - | – | - | - | - | - | | - |
| यस वर्षको खुद नाफा | – | ३१,१४,१५,२९१ | - | - | – | - | - | - | - | | ३१,१४,१५,२९१ |
| साधारण जगेडा कोष | – | (६,२२,८३,०५८) | ६२२,८३,०५८ | - | – | - | - | - | - | | - |
| नगद लाभांश/प्रस्तावित बोनस शेयर | – | (२०,०९,३९,२५८) | - | - | – | - | – | - | - | | (२०,०९,३९,२५८) |
| बोनस शेयर जारी | – | (४,७१,३३,९००) | - | – | – | - | ४,७१,३३,९०० | - | - | | – |
| शेयर पुँजी निष्कासन | २६,०६,९३,५५५ | – | - | - | १,३६,९३,१४० | - | - | - | - | | २७,४३,८६,६९५ |
| सम्पत्ति पुनर्मूल्याङ्कनमा वृद्धि | – | – | - | - | – | - | - | - | - | | - |
| सम्पत्ति पुनर्मूल्याङ्कनमा घाटा | – | – | - | - | – | - | - | - | - | | - |
| सटही घटबढ कोष | – | (६,६५,०३६) | - | - | – | ६,६५,०३६ | - | - | - | | - |
| लगानी समायोजन कोष | | – | | | | | | | | | |
| व्याजदर अन्तर कोष | – | – | - | - | – | - | - | - | - | | - |
| स्थगन कर कोष | – | (१९,२४,७०३) | - | - | – | - | - | १९,२४,७०३ | - | | - |
| ऋणपत्र भुक्तानी कोष | – | (३,२५,३८,५७१) | - | - | – | - | - | - | ३,२५,३८,५७१ | | - |
| कल इन एडभान्स | – | - | | | | | | | | | |
| **अन्तिम मौज्दात** | **१,५७,११,३०,०००** | **३,२५,०३,२२३** | **२२,८८,३७,९५८** | **–** | **–** | **७३,३९,०६७** | **-** | **३५,४४,९७४** | **९,७६,१५,७१४** | **३,००,०००** | **१,९८,८४,०४,८३६** |

**Appendix VIII**

Equity Statements of Laxmi Bank Ltd.

## Statement of Changes in Equity

Fiscal Year 2065/66

(in NPR)

| PARTICULARS | SHARE CAPITAL | ACCUMULATED PROFIT/LOSS | GENERAL RESERVE | PROPOSED BONUS SHARE | CAPITAL RESERVE FUND | SHARE PREMIUM | EXCHANGE FLUCTUATION FUND | DEBENTURE REDEMPTION FUND | DEFERRED TAX RESERVE & FUND | OTHER | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Opening Balance at 1 Shrawan 2065 | 913,196,300 | 5,509,849 | 51,788,849 | 183,000,000 | - | - | 2,880,810 | - | - | - | 1,156,375,808 |
| **Adjustments** | | | | | | | | | | | |
| Adjustments in Retained Earnings | | 408 | | | | | | | | | 408 |
| **Restated Balance** | **913,196,300** | **5,510,257** | **51,788,849** | **183,000,000** | - | - | **2,880,810** | - | - | - | **1,156,376,216** |
| Net profit for the period | - | 188,998,637 | - | - | - | - | - | | | - | 188,998,637 |
| Transfer to General Reserve | - | (37,799,727) | 37,799,727 | - | - | - | - | | | - | - |
| Capital Adjustment Fund | - | - | - | - | - | - | - | | | - | - |
| Proposed Bonus Shares | - | (76,866,027) | - | 76,866,027 | - | - | - | | | - | - |
| Proposed Dividend | - | (4,045,580) | - | - | - | - | - | | | - | (4,045,580) |
| Exchange Fluctuation Fund | - | (3,401,883) | - | - | - | - | 3,401,883 | | | - | - |
| Bonus share and Right share collection | 184,889,800 | - | - | (183,000,000) | - | - | - | | | - | 1,889,800 |
| Debenture Redemption Fund | - | (50,000,000) | - | - | - | - | - | 50,000,000 | | - | - |
| Deferred Tax Reserve | | (1,125,168) | | | | | | | 1,125,168 | | - |
| **Closing Balance At 31 Ashad 2066** | **1,098,086,100** | **21,270,508** | **89,588,576** | **76,866,027** | - | - | **6,282,693** | **50,000,000** | **1,125,168** | - | **1,343,219,072** |

## Statement of Changes in Equity

Fiscal Year 2066/67

*(in NPR)*

| PARTICULARS | SHARE CAPITAL | ACCUMULATED PROFIT/LOSS | GENERAL RESERVE | PROPOSED BONUS SHARE | INVESTMENT ADJUSTMENT RESERVE | SHARE PREMIUM | EXCHANGE FLUCTUATION FUND | DEBENTURE REDEMPTION FUND | DEFERRED TAX RESERVE | OTHER RESERVES & FUND | TOTAL AMOUNT |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Opening Balance at 1 Shrawan 2066** | **1,098,086,100** | **21,270,508** | **89,588,576** | **76,866,027** | - | - | **6,282,693** | **50,000,000** | **1,125,168** | - | **1,343,219,072** |
| Adjustments | | | | | | | | | | | |
| Adjustments in Retained Earnings | | 192,089 | | (182,485) | | | | | | | 9,604 |
| Restated Balance | 1,098,086,100 | 21,462,597 | 89,588,576 | 76,683,542 | - | - | 6,282,693 | 50,000,000 | 1,125,168 | - | 1,343,228,676 |
| Net profit for the period | - | 327,037,041 | - | - | - | - | - | | | - | 327,037,041 |
| Transfer to General Reserve | - | (65,407,408) | 65,407,408 | - | - | - | - | | | - | - |
| Capital Adjustment Fund | - | - | - | - | - | - | - | | | - | - |
| Proposed Bonus Shares | - | - | - | - | - | - | - | | | - | - |
| Proposed Dividend | - | (209,757,665) | - | - | - | - | - | | | - | (209,757,665) |
| Exchange Fluctuation Fund | - | (3,370,437) | - | - | - | - | 3,370,437 | | | - | - |
| Bonus share and Right share collection | 515,434,400 | - | - | (76,200,000) | - | - | - | | | - | 439,234,400 |
| Debenture Redemption Fund | - | (50,000,000) | - | - | - | - | - | 50,000,000 | | - | - |
| Share Premium | | | | | | 13,071,581 | | | | | 13,071,581 |
| Investment Adjustment Reserve | | (1,540,667) | | | 1,540,667 | | | | | | |
| Deferred Tax Reserve | | (1,381,327) | | | | | | | 1,381,327 | | - |
| Fracional Bonus shares carried over | | | | (483,542) | | | | | | | (483,542) |
| **Closing Balance at 32 Ashad 2067** | **1,613,520,500** | **17,042,134** | **154,995,984** | - | **1,540,667** | **13,071,581** | **9,653,130** | **100,000,000** | **2,506,495** | - | **1,912,330,491** |

## Statement of Changes in Equity

Fiscal Year 2067/68

*(in NPR)*

| PARTICULARS | SHARE CAPITAL | ACCUMULATED PROFIT/LOSS | GENERAL RESERVE | INVESTMENT ADJUSTMENT RESERVE | SHARE PREMIUM | EXCHANGE FLUCTUATION FUND | DEBENTURE REDEMPTION FUND | DEFERRED TAX RESERVE | TOTAL |
|---|---|---|---|---|---|---|---|---|---|
| **Opening Balance at 1 Shrawan 2067** | **1,613,520,500** | **17,042,134** | **154,995,984** | **1,540,667** | **13,071,581** | **9,653,130** | **100,000,000** | **2,506,495** | **1,912,330,491** |
| **Adjustments** | | | | | | | | | |
| Adjustments in Retained Earnings | | - | | | | | | | - |
| **Restated Balance** | **1,613,520,500** | **17,042,134** | **154,995,984** | **1,540,667** | **13,071,581** | **9,653,130** | **100,000,000** | **2,506,495** | **1,912,330,491** |
| Net profit for the period | - | 375,145,095 | - | - | - | - | | | 375,145,095 |
| Transfer to General Reserve | - | (75,029,019) | 75,029,019 | - | - | - | | | - |
| Capital Adjustment Fund | - | - | - | - | - | - | | | - |
| Proposed Bonus Shares | - | (80,676,025) | - | - | - | - | | | (80,676,025) |
| Proposed Dividend | - | (174,098,862) | - | - | - | - | | | (174,098,862) |
| Exchange Fluctuation Fund | - | (1,716,210) | - | - | - | 1,716,210 | | | - |
| Bonus share and Right share collection | 80,676,025 | - | - | - | - | - | | | 80,676,025 |
| Debenture Redemption Fund | - | (50,000,000) | - | - | - | - | 50,000,000 | | - |
| Share Premium | | | | | - | | | | - |
| Investment Adjustment Reserve | | (1,899,530) | | 1,899,530 | | | | | |
| Deferred Tax Reserve | | 2,506,495 | | | | | | (2,506,495) | - |
| Fracional Bonus shares carried over | | | | | | | | | - |
| **Closing Balance at 32 Ashad 2068** | **1,694,196,525** | **11,274,078** | **230,025,003** | **3,440,197** | **13,071,581** | **11,369,339** | **150,000,000** | **(0)** | **2,113,376,723** |

# इक्वीटीमा भएको परिवर्तन सम्बन्धि विवरण

(आ. व. २०६८/६९)

रुपैयाँमा

| विवरण | शेयर पुँजी | सञ्चित नाफा/(नोक्सान) | साधारण जगेडा कोष | लगानी समायोजन कोष | शेयर प्रिमियम | सटही घटबढ कोष | डिबेन्चर फिर्ता कोष | स्थगन कर कोष | अन्य सञ्चित तथा कोष | कुल रकम |
|---|---|---|---|---|---|---|---|---|---|---|
| शुरु मौज्दात | १,६९,४१,९६,५२५ | १,१२,७४,०७८ | २३,००,२५,००३ | ३४,४०,१९७ | १,३०,७१,५८१ | १,१३,६९,३३९ | १५,००,००,००० | (०) | - | २,११,३३,७६,७२३ |
| **समायोजन :** | | | | | | | | | | |
| सञ्चित मुनाफामा समायोजन | | १५,३७७ | | | | | | | | १५,३७७ |
| **समायोजित मौज्दात** | १,६९,४१,९६,५२५ | १,१२,८९,४५५ | २३,००,२५,००३ | ३४,४०,१९७ | १,३०,७१,५८१ | १,१३,६९,३३९ | १५,००,००,००० | (०) | - | २,११,३३,९२,१०० |
| यस वर्षको खुद नाफा | - | ३५,६३,९०,३४२ | - | - | - | - | - | | - | ३५,६३,९०,३४२ |
| साधरण जगेडा कोष | - | (७,१२,७८,०६८) | ७,१२,७८,०६८ | - | - | - | - | | - | - |
| पुँजी समायोज कोष | - | - | - | - | - | - | - | | - | - |
| प्रस्तावित बोनस शेयर | - | - | - | - | - | - | - | | - | - |
| नगद लाभांस | - | (१६,९४,०८,११०) | - | - | - | - | - | | - | (१६,९४,०८,११०) |
| सटही घटबढ कोष | - | (५१,६५,८७४) | - | - | - | ५१,६५,८७४ | - | | - | - |
| फ्रयाक्सनल बोनस शेयर क्यारी ओभर | (१,१५,४२५) | - | - | - | - | - | | | - | (१,१५,४२५) |
| डिबेन्चर फिर्ता कोष | - | (५,००,००,०००) | - | - | - | - | ५,००,००,००० | | - | - |
| शेयर प्रिमियम | | | | | - | | | | | - |
| लगानी घपघट कोष | | (७,००,०००) | | ७,००,००० | | | | | | |
| स्थगन कर कोष | - | (१९,२४,६१२) | - | - | - | - | - | १९,२४,६१२ | - | - |
| अन्तिम मौज्दात | १,६९,४०,८१,१०० | ६,९२,०३,१३२ | ३०,१३,०३,०७२ | ४१,४०,१९७ | १,३०,७१,५८१ | १,६५,३५,२१३ | २०,००,००,००० | १९,२४,६१२ | - | २,३०,०२,५८,९०७ |

# APPENDIX IX

SiddharthaBank

## प्रमुख सूचकाङ्कहरू

अनुसूची ४.३१

| | विवरण | सूचकाङ्क | आर्थिक वर्ष | | | | |
|---|---|---|---|---|---|---|---|
| | | | २०६५/६६ | २०६६/६७ | २०६७/६८ | २०६८/६९ | २०६९/७० |
| १ | खुद नाफा/कुल आम्दानी | प्रतिशत | १५.७३% | १६.४१% | १०.८९% | १०.२५% | १४.८०% |
| २ | प्रति शेयर आम्दानी | रु | २१.८९ | २१.९९ | १९.८२ | २०.४१ | २९.८७ |
| ३ | प्रति शेयर बजार मूल्य | रु | १०००.०० | ८४४.०० | २७०.०० | ३४५.०० | ३००.०० |
| ४ | मूल्य आम्दानी अनुपात (PE Ratio) | अनुपात | ४३.७० | २०.९१ | १३.६२ | १६.९१ | १०.०४ |
| ५ | शेयर पुँजीमा नाफाको (बोनस बाहेक) | प्रतिशत | १५.७१% | १०.०१% | १५.७१% | ८.४१% | २२.१६% |
| ६ | शेयर पुँजीमा नगद नाफाको भुक्तानी | प्रतिशत | ०.७१% | १०.०१% | १२.७१% | ८.४१% | १०.१६% |
| ७ | ब्याज आम्दानी/कर्जा तथा सापट | प्रतिशत | ८.४१% | १०.८६% | १३.७१% | १३.२६% | ११.३१% |
| ८ | कर्मचारी खर्च/कुल सञ्चालन खर्च | प्रतिशत | ७.८८% | ६.१२% | ६.६४% | ६.७९% | ९.२७% |
| ९ | ब्याज खर्च/कुल निक्षेप तथा सापटी | प्रतिशत | ६.१२% | ७.६६% | ९.६३% | ५.८८% | ६.३२% |
| १० | गैरव्याजी आम्दानी/कुल आम्दानी | प्रतिशत | २.८०% | ०.५७% | १.३५% | ३.५९ | ४.६८% |
| ११ | कर्मचारी बोनस/कुल कर्मचारी खर्च | प्रतिशत | ३८.४२% | ३३.६३% | २८.७९% | २७.९३% | ३१.७७% |
| १२ | खुद नाफा/कर्जा तथा सापट | प्रतिशत | १.६३% | १.४३% | १.६७% | १.६०% | २.०३% |
| १३ | खुद नाफा/कुल सम्पत्ति | प्रतिशत | १.२२% | १.०६% | १.२८% | १.१२% | १.४३% |
| १४ | कुल कर्जा/निक्षेप | प्रतिशत | ८२.१८% | ८३.६५% | ८५.४३% | ७९.४२% | ८३.३५% |
| १५ | कुल सञ्चालन खर्च/कुल सम्पत्ति | प्रतिशत | ३.६४% | ४.३९% | ९.६१% | ८.६५% | ६.९४% |
| १६ | जोखिम सहित सम्पत्तिमा पुँजीकोषको पर्याप्तता | | | | | | |
| | क) प्राथमिक पुँजी | प्रतिशत | ८.२५% | ८.००% | ९.०३% | ८.१८% | ८.२१% |
| | ख) पूरक पुँजी | प्रतिशत | २.४२% | २.०१% | १.७१% | ३.८५% | ३.९१% |
| | ग) कुल पुँजीकोष | प्रतिशत | १०.६९% | १०.०१% | १०.७८% | ११.०३% | ११.७०% |
| १७ | तरलता | प्रतिशत | ६.३६% | ३.६६% | ४.६१% | ११.८६% | ९.६०% |
| १८ | निष्क्रियकर्जा/कुल कर्जा | प्रतिशत | ०.४३% | ०.५३% | ०.७९% | १.३२% | २.१९% |
| १९ | ब्याज दर अन्तर | प्रतिशत | ३.४३% | ३.९४% | ३.९४% | ३.८२% | ४.३९% |
| २० | बुक नेटवर्थ | रु | १३४ | १४६ | १२७ | १३१ | १३२ |
| २१ | कुल शेयर | सङ्ख्या | १४,२२,००० | १,०९,२०,३०० | १,२०११,२०० | १,११,९२,४४३ | १,११,९२,४४३ |
| २२ | कुल कर्मचारी | सङ्ख्या | १६८ | ३१९ | ३७५ | ३६३ | ३७० |

# APPENDIX X



## PRINCIPAL INDICATORS

*(At least for previous 5 years)*

Schedule 4.31

| PARTICULARS | INDICATORS | F.Y. 2062/2063 | F.Y. 2063/2064 | F.Y. 2064/2065 | F.Y. 2065/2066 | F.Y. 2066/2067 | F.Y. 2067/2068 | F.Y. 2068/2069 |
|---|---|---|---|---|---|---|---|---|
| 1. Percentage of Net Profit/ Gross Income | % | 21.72% | 27.10% | 31.41% | 35.12% | 40.55% | 40.34% | 37.21% |
| 2. Earnings Per Share | NPR | 5.80 | 10.75 | 16.45 | 20.70 | 24.12 | 23.25 | 21.55 |
| 3. Market Value per Share | NPR | 368.00 | 690.00 | 1,113.00 | 1,062.00 | 570.00 | 340.00 | 340.00 |
| 4. Price Earning Ratio | Ratio | 63.44 | 64.18 | 67.66 | 51.31 | 23.63 | 14.62 | 15.78 |
| 5. Dividend on share capital (Bonus share + Cash dividend) | % | - | - | 21.05% | 5.26% | 13.00% | 15.79% | 10.00% |
| 6. Cash Dividend on share capital | % | - | - | 1.05% | 0.26% | 13.00% | 10.79% | 10.00% |
| 7. Interest Income/Loans & Advances and Investments | % | 8.30% | 7.84% | 7.85% | 8.76% | 9.97% | 12.11% | 11.77% |
| 8. Employee Expenses/Total Operating Expenses | % | 42.89% | 43.43% | 48.22% | 43.34% | 46.27% | 48.22% | 47.78% |
| 9. Interest Expenses on Total Deposits and Borrowings | % | 5.05% | 4.64% | 4.45% | 5.05% | 6.42% | 8.09% | 7.86% |
| 10. Exchange Fluctuation Gain/ Total Income | % | 5.79% | 8.64% | 12.20% | 9.48% | 5.90% | 6.79% | 11.27% |
| 11. Staff Bonus/ Total Staff Expenses | % | 11.86% | 16.39% | 21.62% | 23.54% | 27.62% | 25.49% | 22.20% |
| 12. Net Profit/Loans & Advances | % | 1.01% | 1.21% | 1.47% | 1.63% | 2.32% | 2.49% | 2.22% |
| 13. Net Profit/ Total Assets | % | 0.79% | 0.95% | 1.13% | 1.22% | 1.66% | 1.76% | 1.50% |
| 14. Total Credit/Deposit | % | 96.30% | 85.78% | 89.72% | 83.88% | 81.49% | 84.10% | 73.13% |
| 15. Total Operating Expenses/ Total Assets | % | 1.94% | 1.63% | 2.17% | 1.28% | 1.35% | 1.54% | 1.57% |
| 16. Adequacy of Capital Fund on Risk Weightage Assets | | | | | | | | |
| a. Core Capital | % | 13.71% | 11.33% | 10.10% | 8.47% | 11.17% | 9.79% | 9.52% |
| b. Supplementary Capital | % | 1.25% | 1.10% | 1.07% | 3.01% | 2.54% | 1.84% | 1.50% |
| c. Total Capital Fund | % | 14.96% | 12.43% | 11.17% | 11.48% | 13.71% | 11.63% | 11.02% |
| 17. Liquidity (CRR) | % | 5.67% | 5.65% | 5.65% | 8.61% | 7.24% | 9.22% | 19.60% |
| 18. Non Performing Loans/Total Loans | % | 0.78% | 0.35% | 0.13% | 0.08% | 0.12% | 0.90% | 0.62% |
| 19. Weighted Average Interest Rate Spread | % | 3.24% | 3.20% | 3.40% | 3.71% | 3.55% | 4.02% | 3.91% |
| 20. Book Net worth | NPR | 649,048,621 | 843,946,939 | 1,145,533,225 | 1,342,295,325 | 1,912,330,490 | 2,113,376,723 | 2,300,258,908 |
| 21. Total Shares | Number | 6,100,000 | 7,296,970 | 9,131,963 | 10,980,861 | 16,135,205 | 16,135,205 | 16,940,811 |
| 22. Total Employees | Number | 145 | 186 | 252 | 299 | 347 | 393 | 374 |