

**A SUMMER PROJECT REPORT**  
**ON**  
**FINANCIAL ANALYSIS OF PRABHU BANK LTD ON THE**  
**BASIS OF INVESTMENT AND EQUITY**

(Koteshwor, Kathmandu)

*In the partial fulfillment of the requirement for the degree of*

**Bachelor of Business Administration (BBA)**

Submitted By:

**Sakib Akatar Rain**

BBA 6<sup>th</sup> semester

Symbol no.:14031008

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Submitted To:

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Faculty of Management (BBA)

December 9, 2016

**POKHARA UNIVERSITY**  
**FACULTY OF MANAGEMENT**  
**NOBEL COLLEGE**  
**RECOMMENDATION**

This is to certify that the Project Report

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**A REPORT ON FINANCIAL ANALYSIS OF PRABHU BANK LTD ON THE  
BASIS OF INVESTMENT AND EQUITY**

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has been prepared as partial fulfillment of the requirement for the Bachelor's degree approved by Nobel College, Faculty of Management. This project report is forwarded for examination to Pokhara University.

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The project report entitled “**FINANCIAL ANALYSIS OF PRABHU  
BANK LTD ON THE BASIS OF INVESTMENT AND EQUITY**”

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Submitted towards partial fulfillment of the requirement for the  
degree of **Bachelor of Business Administration (BBA)**

Has been approved by the following panel of examination:

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**POKHARA UNIVERSITY**  
**FACULTY OF MANAGEMENT**  
**NOBEL COLLEGE**

**DECLARATION**

I hereby declare that the work reported in this project work on “Financial Analysis of Prabhu Bank Ltd on the basis of Investment and Equity” submitted to Nobel College, Pokhara University is done in the form of partial requirement for the degree of **Bachelor of Business Administration (BBA)** under the supervision of Mr. Dipesh Shrestha, Head of The Department of management faculty of Nobel College.

.....

Signature

Name: Sakib Akatar Rain

Date: December 9, 2016

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## **ABBREVIATIONS**

ATM	:	Automated Teller Machine
BBA	:	Bachelor of Business Administration
BM	:	Branch Manager
BOD	:	Board of Director
CEO	:	Chief Executive Officer
CSD	:	Customer Support Department
FY	:	Fiscal Year
Govt	:	Government
IT	:	Information Technology
Ltd	:	Limited
NGO	:	Non-governmental Organization
NRB	:	Nepal Rastra Bank
OI	:	Operational In charge
PU	:	Pokhara University
PW	:	Project Work
RM	:	Relationship Management
ROA	:	Return on Assets
ROE	:	Return on Equity
Rs	:	Rupees
SWOT	:	Strength, Weakness, Opportunities and Threats

## **EXECUTIVE SUMMARY**

As a partial fulfillment of Bachelors degree of BBA, the university has assigned every students of BBA to conduct a summer project regard to an organization that can be of financing or non-financing organizations. So far as to conduct a summer project I have selected a Bank named Prabhu Bank Ltd

The major objective of this study is it is partial fulfillment of the requirement for the degree of Bachelor of Business Administration (BBA) as prescribed by Pokhara University. The general objective of the study is to access the theoretical knowledge in practical one. But the specific objective is to assess the position of the company in terms of profitability and identify the strength, weakness, opportunities, and threats of the proposed organization.

This organization is one of the lending finance company and has strong goodwill in the market. Its main focus is to deliver world class services and visionary management to achieve sound financial health with sustainable value addition to all their stakeholders. It has its branches in many areas inside and outside the valley and have further planning to expand it.

In my project I have introduced the Prabhu Bank Ltd and dedicated the first phase for its general background and applied the methodology to conduct this study. The second phase of the project is done on analysis of financial industry in Nepal. The third phase of the project done on the study of the organization and their different departments. In the fourth phase, presentation and analysis of data through the SWOT analysis is portrayed and findings are also included. Finally, in the fifth phase the I have done conclusion and recommendation are included.

# **CHAPTER 1**

## **INTRODUCTION AND METHODOLOGY**

### **1.1 Introduction**

Nepal adopted the multi-university concept in 1983. The idea of Pokhara University (PU) was conceived in 1986; however, it was established only in 1997 under the Pokhara University Act, 1997. Pokhara University has adopted Semester system. All Bachelor's degrees are of four years course extended in eight semester and Master's degrees are of two years extended in four semesters. M. Phil & MBA degree is of one and half years extended in three semesters. There are Four Faculties such as: Faculty of Science and Technology, Faculty of Management Studies, Faculty of Humanities and Social Sciences and Faculty of Health Sciences. Pokhara University is located in Lekhnath Municipality of Kaski district, thirteen kilometer east to the heart of the Pokhara city. It has already built its academic complex in the serene and scenic location of seven lake city, Lekhnath, in the lap of the beautiful Himalayan range and peaks such as Mt. Machhapuchhre and Mt. Annapurna. In addition, Begnas lake and Rupa lake are walking distance of its academic complex and central office.

Nobel College was established in 2001 AD as an extension of the Nobel Academy that had already acquired an enviable reputation for the quality of its education at junior and higher secondary levels. The College, affiliated to Pokhara University, provides a value based education at the bachelor level. Nobel College is located in Sinamangal; Kathmandu. Nobel College is committed to the provision of the quality education relevant for Nepal's future managers, entrepreneurs, IT specialists, and health professional. The undergraduate level instruction offered by the college is designed specifically to meet such a need. Nobel College is successfully implementing several programs at the bachelor's level in the fields of Business Administration, Computer Information System, Health Care Management, Public Health, Nursing, Medical

Laboratory Technology, Medical Biochemistry, and Medical Microbiology in affiliation with Pokhara University.

The students of BBA under Management faculty are required to carry out a summer project for the partial fulfillment of the Bachelor. In 6<sup>th</sup> semester of Bachelor of Business Administration (BBA) program, the Pokhara University has kept a subject of 3 credit hours known as a summer project. It helps to blend the theoretical knowledge with practical experience. It is an individual subject and graded as individually and separately. Summer project explores the skill and abilities of management students. Pokhara University undertakes the summer project assignment to BBA students. Students are required to submit their report based on a survey of particular organization for their evaluation. So I would like to conduct my project in Prabhu Bank Ltd

## **1.2 Background of the Study**

The Bank has gone through the various phases of its growth trajectory over a short period of its existence. Growth of Prabhu Bank was phenomenal, especially after merger of Grand Bank Nepal Limited, Kist Bank Ltd, Prabhu Bikash Bank Ltd, Gaurishankar Development Bank Ltd and Zenith Finance Ltd in, 2016, attaining the status of “A” class financial institution licensed and regulated by the central bank of Nepal, Nepal Rastra Bank. The Bank has completed years of journey since the inception and has accommodated seven different financial institutions in its making. The bank has a network of 136 branches and 122 ATMs across the country, making it premier private bank in terms of geographical reach and clientele segments with customer base of 850,000 among the private sector commercial banks in Nepal. As the leading banking and financial services group in Nepal, the Bank will be there where growth is, connecting customers to the opportunities, enabling business to thrive and economies to prosper and ultimately helping people to fulfill their hopes and realize their ambitions. The Bank offers the full range of banking and investment services for personal and corporate customers, backed by the team of highly motivated, young and dynamic professionals. One of the bank’s primary objectives is to reach out to the common people with a host of helpful products and services that will assure their future prosperity. Over a very short period of time, the bank has achieved a significant degree of success in executing this

objective thereby creating a substantial base of loyal customers. Personalized service, prompt transactions, wide networks, mobile Banking and real-time account credit are few of the core strength of the bank. It has been undertaking activities such as variety of deposit schemes, loans and advances, Foreign exchange facilities, Trade financing, Inward/outward remittances, market maker for government securities, Non-Fund based service like issuing guarantees, letter of credits etc. While ensuring adequate finance is a vital part in the setting up and running of any business, it alone does not guarantee success. Success depends on the other factors such as quality consultation and counseling. So the bank has given due priority in developing human resources capable enough to understand the need of customer and meet their requirements. The bank keeps its customer at the center of all it does. Prabhu Bank believes that a bank is only successful when its customers are successful.

### 1.3 Literature Review

The top 4 challenges facing banks and financial institutions are: not making enough money, consumer expectation, increasing competition from financial technology companies and regulatory pressure. So according to my perspective not making enough money is one of the most critical problem among that problem. Despite all of the headlines about banking profitability, banks and financial institutions still are not making enough return on investment, or the return on equity, that shareholders require. Investment is the commitment of money or capital to purchase financial instruments or other assets in order to gain profitable returns in the form of interest, income, or appreciation of the value of the instrument. Equity is also known as common. It is the value of the shares issued by a company. It is one of the methods to collect the fund from the public or organization by a fixed rate of amount to generate the capital. After the organization or person invests the money in anywhere then they calculate benefit i. e. profit after certain period of time by calculation of Return on Investment (ROI). Similarly, after the organization or person collects the amount or fund from anywhere then they calculate capital position it's also after certain period of time by calculation of Return on Equity (ROE). ROI simply means that the organization wants to know utilization of their assets after earn the profit from that. ROE indicates how well a company's management is deploying the shareholders' capital. In other word, Return on investment or ROI is a profitability that calculates the profits of an investment as a percentage of the original cost. Investors not only use this ratio to measure how well an investment performed, they also use it to compare the performance of different investments of all types and sizes like Short-term Investment and Long-term Investment. Return on equity (ROE) is a measure of profitability that calculates how many rupees of profit a company generates with each rupees of shareholders' equity. In other words, the higher the ROE is the better. Falling ROE is usually a problem. So I would like to analyze the financial statement by the help of either financial ratio techniques or DuPont analysis techniques.

Source:



- <http://finance.mapsofworld.com/investment>
- <http://www.digitalistmag.com/industries/banking/2015/08/27/4-top-challenges-facing-banking-industry-right-now-03352186>
- <http://www.myaccountingcourse.com/financial-ratios/return-on-investment>
- <http://www.investinganswers.com/financial-dictionary/financial-statement-analysis/return-equity-roe-916>

## **1.4 Statement of the Problems**

### **Financial Analysis of Prabhu Bank Ltd on the basis of Investment and Capital**

The main vision of the Prabhu Bank Ltd is that “To support individuals, families and businesses to attain financial independence and improve their financial wellbeing”. However, there are many banks and financial institutions still are not making enough return on investment, or the return on equity, that shareholders require. It’s all about banking profitability. So I want to analyze the Profitability ratio of Prabhu Bank Ltd by using DuPont Analysis methodology tools under descriptive research design method. Because I’ll know that where the problem is more or less occurred and how I can manage that or what could be the solution of this problem to develop the strategies to make enough money or minimize the problems.

## **1.5 Purpose and Objectives**

The purpose of conducting the summer project is partial fulfillment of the requirement for the completion of Business Administration which includes the following:

- To understand the working environment in Banking Sector, Prabhu Bank Ltd as a model.
- To emphasize and understand the theoretical knowledge into real working environment.

## **Generic Objectives**

- “To generalize the financial position of all the commercial bank in Nepal through the analysis of the information obtained from sample’s data.”

## **Specific Objectives**

- To understand about the financial statements of the Prabhu Bank Ltd
- To analyze the financial statements of the Prabhu Bank Ltd on the basis of investment and Capital

## **1.6 Research Methodology**

### **Research Design**

Research design is one of the methods of collecting data. Research design describes about the framework or a guideline that should be followed while conducting research activities. There are different types of research design used in research as exploratory, analytical, descriptive, comparative, experimental, qualitative, quantitative, empirical, conceptual research design etc. Among I’ll apply the descriptive research design to collect the data. Descriptive research design can be define as the comparison of past data with current data and find current or present situation of the company.

### **Sample and Sampling**

Sample is the units that are collected from the statistical population. There are two methods of sampling as Probability Sampling and Non-probably Sampling method. I’ll use the past three year’s data in the forms of sample to analyze and compare with current data. Similarly, I’ll use convenience sampling method under non-probability sampling method to find out the sample data. Convenience sampling method refers to the researcher selects those units that are available, nearby and willing to participate or has relationship. It is also known as accidental sampling method because samples can be selected from anywhere else.

## **Data Collection**

Data collection is the process of gathering the information from different sources such as primary and secondary sources of data collection. A primary source of data collection includes Interviews, Questionnaires, and Observations. Similarly, a secondary source of data collection includes Internet, Newspaper, Magazine, Government Agencies, Organizational Past Documents, Journals, Records, Computerized database etc. Here, I will use secondary sources of data collection to analyze the problems and find out the solution of the problems.

## **Data Presentation**

The graphically or symbolically representation of data to understand and communicate easily is known as data presentation. In other words, data presentation is the method by which people summarize, organize and communicate information using a variety of tools, such as diagrams, distribution charts, histograms and graphs. I will present the data by the help of pie chart, table, bar diagram and time series.

## **1.7 Data Analysis**

Data analysis is the process of analyzing the collected data by using this step as editing, coding, tabulating, presenting the data in a graphical form, and finally summarizing the data. There are different mathematical and statistical tools for analyze the data. I will measure the profitability ratios by the help of DuPont analysis tool, SWOT analysis, Porters Five Force Model (Industry Analysis) and other all related data.

## **1.8 Findings, Conclusion and Critical Observation**

### **Findings**

The important findings of my study will have presented as below:

- Findings of Net Profit/ (Loss)
- Findings of Total Assets
- Findings of Share Capital
- Findings of Financial Leverage (Equity Multiplier)
- Findings of Assets Turnover

- Findings of Net Profit Margin
- Findings of Return on Assets
- Findings of Return on Equity

## **Conclusion**

When I will use the DuPont Analysis tool or techniques by analyze the financial statement of Prabhu Bank Ltd on the basis of Investment and Equity to find the ROA and ROE under Profitability ratio analysis then I'll recommend the solution of the problems to make enough money from investment and equity.

## **Critical Observation**

There are following aspects of the organization that I will observe to make the conclusion as:

- Financial Aspect
- Environment Aspect
- Industry Aspect

## **1.9 Scope of the Study**

The summer project proposal helps in studying in the following areas:

- **Organization:** The student can prepare the summer project to fulfillment of the requirement of BBA by choosing any types of organization such as Banks, Travel, Ministry, Manufacturing Company, Merchandise Company etc.
- **Society:** The student can also study about the society to prepare the summer project by finding the problems in the society and how to solve those problems which he/she studied.
- **College:** The student can study about the school and college as well as educational institute to prepare the summer project by also finding the problems and recommend the solution of those problems to the institution.

## **2.0 Limitation of the Study**

This study is partial fulfillment of the requirement for BBA 6<sup>th</sup> semester. So it does possess some limitation of its own. There are as follows:

- Through there are 28 commercial banks, this study covers only one; Prabhu Bank Ltd
- Being a student time and resources are consistent
- Limited sample data have been selected
- A simple techniques has been used in analysis
- Two factors (ROA & ROE) have only analyzed

## 2.1 Comparative Gantt chart

### Pre Gantt chart

Activity/Time	Week 1	Week 2	Week 3	Week 5	Week 6
Summer Project					
Proposal Final					
Chapter 1					
Chapter 2 & 3					
Chapter 4 & 5					
Chapter 6					

Figure 1: Pre Gantt chart

### Post Gantt chart

Activity/Time	Week 1	Week 2	Week 3	Week 5	Week 6	Week 7
Summer Project						
Proposal Final						
Chapter 1						
Chapter 2						
Chapter 3 & 4						
Chapter 5 & 6						

Figure 2: Post Gantt chart

## **CHAPTER 2**

### **INTRODUCTION AND ANALYSIS OF THE FINANCIAL INDUSTRY IN NEPAL**

#### **1. Study about the Financial Industry in Nepal**

##### **1.1 Introduction**

The financial sector is the interaction of markets and all therein, within a regulatory framework. This interaction usually entails lending and borrowing both long and short term. This is accomplished through financial intermediaries (banks and other financial institutions) providing a link between households, firms and governments in transferring funds from savers to borrowers, for consumption and investment purposes.

In Nepal, growth of the formal financial services sector had commenced only in 1937 with the establishment of Nepal Bank Limited. Nepal Bank Limited, The first bank of Nepal was established in November 15, 1937 A.D (Kartik, 30, 1994). It was formed under the principle of Joint venture (Joint venture between govt. & general public). NBL's authorized capital was Rs. 10 million & issued capital Rs. 2.5 million of which paid-up capital was Rs. 842 thousand with 10 shareholders. The bank has been providing banking through its branch offices in the different geographical locations of the country. Nepal Bank Limited is providing services to its customers from its 118 branches. It provides deposit facility, various loan facilities, advanced ABBS services from 110 branches, Internet Banking along with the ATM facilities all over the country.

Nepal Rastra Bank (NRB), the Central Bank of Nepal, was established in 1956 under the Nepal Rastra Bank Act, 1955, to discharge the central banking responsibilities including guiding the development of the embryonic domestic financial sector. Since inception, there has been a significant growth in both the number and the activities of the domestic financial institutions. The Board of Directors, chaired by the Governor, is the apex body of policy making and the Governor also discharged his duty as the chief executive of the Bank. A central bank is a public institution that manages a state's currency, money

supply, and interest rates. Central banks also usually oversee the commercial banking system of their respective countries. In contrast to a commercial bank, a central bank possesses a monopoly on increasing the nation's monetary base, and usually also prints the national currency, which usually serves as the nation's legal tender. Examples include the Nepal Rastra Bank (NRB), Reserve Bank of India (RBI), European Central Bank (ECB), Bank of England, Bank of Japan, Federal Reserve of the United States, People's Bank of China etc.

A commercial bank is a type of financial institution that provides services such as accepting deposits, making business loans, and offering basic investment products. Nepal Bank Ltd is the first commercial bank established in 1937 AD. As of Mid-July 2016, there are 28 Commercial Banks in Nepal.

Development banks are specialized financial institutions. They provide medium and long-term finance to the industrial and agricultural sector. They do term lending, investment in securities and other activities. They even promote saving and investment habit in the public. NIDC Development Bank Ltd is the first development bank established in 1959 AD. As of Mid-July 2016, there are 66 Development Banks in Nepal.

Finance Company is an organization that originates loans for both businesses and consumers. Much like a bank, a typical finance company acts as a lending entity by extending credit. A finance company may extend credit to individuals for various consumer purchases, as well as to corporations for commercial use. A finance company may also specialize in providing financing for a variety of installment plan sales. Nepal Finance Ltd is the first finance company established in 1993 AD. As of Mid-July 2016, there are 42 Financial Banks in Nepal.

A microfinance institution is an organization that offers financial services to low income populations. Almost all give loans to their members, and many offer insurance, deposit and other services. The Micro Finance Institutions (MFIs) accesses financial resources from the Banks and other mainstream Financial Institutions and provide financial and support services to the poor. Nirdhan Utthan Bank Ltd is the first Micro finance company



established in 1999 AD. As of Mid-July 2016, there are 42 Micro Finance Financial Institutions in Nepal.

Savings and Credit Co-operative (SACCO) also called Limited Banking is a type of co-operative whose objective is to pool savings for the members and in turn provide them with credit facilities. In other words, a financial organization owned and controlled by its members, who can borrow at low interest rates from an amount of money they have saved as a group. Shree Nabajivan Co-operative Ltd is the first Saving and Credit Co-operative established in 1993 AD. As of Mid-July 2016, there are 15 Savings and Credit Cooperatives in Nepal.

A non-governmental organization (NGO) is a not-for-profit organization that is independent from states and international governmental organizations. They are usually funded by donations but some avoid formal funding altogether and are run primarily by volunteers. Chartare Yuba Club is the first non-government organization established in 2000 AD. As of Mid-July 2016, there are 25 NGOs in Nepal.

It includes those organizations which has established and licensed by NRB for the purpose of hire purchase. As of Mid-July 2016, there are 8 other institutions in Nepal.

## **1.2 Functions of Financial Industry**

The main functions of the financial industry or sectors are:

- **Mobilization of savings:** Financial intermediaries allow individuals to save money in a secure place, which when accumulated are lent to firms and individuals.
- **Risk management:** Financial Intermediaries manage risk by lending to a large number of borrowers. They are able to cover risk and absorb the defaults through interest earned on other loans.
- **Expert advice:** Financial Intermediaries are able to acquire information about competing investment opportunities and relay the information to individuals, reducing their information cost. This also aids in ensuring capital are allocated efficiently and to the right projects.
- **Monitoring borrowers:** Financial intermediaries monitor the performance of firms, individuals and other borrowers.

- **Facilitating the exchange of goods and services:** This is accomplished via the ability of financial intermediaries to reduce information and transaction costs, which spurs an increase in transactions.

### 1.3 Roles of Financial Industry

There are following roles of financial industry are as:

- **Reallocating capital:** Capital allocation describes how businesses divide their financial resources and other sources of capital to different processes, people and projects. Overall, it is management's goal to optimize capital allocation so that it generates as much wealth as possible for its shareholders. The process behind making a capital allocation decision is complex, as management virtually has an unlimited number of options to consider.
- **Credit Provision:** The provision for credit losses (PCL) is an estimation of potential losses that a company might experience due to credit risk. The provision for credit losses is treated as an expense on the company's financial statements as expected losses from delinquent and bad debt or other credit that is likely to become default and unsatisfied (default probability). If, for example, the company calculates that accounts over 90 days past due have a recovery rate of 40%, it can make a provision for credit losses based on 40% of the balance of these accounts.
- **Liquidity Provision:** Liquidity describes the degree to which an asset or security can be quickly bought or sold in the market without affecting the asset's price. Liquidity provision has specific rules and guidelines that are set out in terms and conditions.
- **Risk Management Services:** Risk Management Services assists the operating units and staff of the university to protect against or mitigate losses to the people, facilities, and other assets of the campus community.

### 1.4 Contributions of Financial Industry

There are following contributions of Financial Industry are as:

- Taking, managing and transferring deposits
- Providing flexible payment mechanisms such as debit cards
- Making loans or other investments

- Offering financial advice or other business services

### 1.5 Firms under the Financial Industry

There are following banks and financial institutions are licensed by the NRB as of Mid-July 2016 shown in the following figure as:

S.N.	Categories of Bank	Class	No. of Banks
1	Commercial Banks	A	28
2	Development Banks	B	66
3	Finance Companies	C	42
4	Micro Finance Financial Institutions (Grameen Banks)	D	42
5	Saving and Credit Cooperatives	Non-Classified	15
6	Non-Government Organization	Non-Classified	25
7	Others	Non-Classified	8

Table 1: Banks and Financial Institution in Nepal

## 2 Analysis of Financial Industry

### 2.1 Policies related to Financial Industry

Banks & financial institutions are responsible for comply these directives according to NRB Act 2058.

- **Directive No.1 Capital Adequacy:**

Capital Adequacy should maintain on the basis of total risk weighted assets. The logic behind the capital adequacy is to protect the interest of public deposit as well as safeguard the banks in their critical financial position.

Institution	Minimum Capital Adequacy on RWA	
	(Percentage)	
A, B & C Class	6.0	12.0
D Class	4.0	8.0

Table 2 Capital Adequacy

- **Directive No.2 Loan Classification and Provisioning:**

To mitigate risk in default of any loan and advance provided by banks, they should be maintained some provision according to the due date. Provisioning amount should maintain on the basis of classification of loan.

	Classification	Provision	Criteria of Provisioning
Pass Loan	Good	1%	Not overdue and overdue up to 3 months
NPL (Non-Performing Loan)	Sub-standard	25%	Overdue by 3 to 6 months
	Doubtful	50%	Overdue by 6 to 12 months
	Bad	100%	Overdue by 1 year & above

Table 3 Classification of Loan and Provision

Financial institutions have to be maintained the provision as per classification of loan. It measures the quality of assets in reference of loan and advances and contraction of profit as well. Quality of assets is decreases, when the credit of financial institutions diversifies in to NPA. Such losses, from quality of assets, can be compensated by debiting the profit and can be harmonized the financial strength of those financial institutions.

- **Directive No.3 Credit Concentration and Single Obligor Limit:**

All the eggs in a basket may be high Risk. So, this directive does not allow investing all the resources in one sector of economy. This directive diverts the loan and advances of financial institutions in different portfolios. To minimize the

concentration risk, single borrower limit has been determined as per the primary capital of the Financial Institutions.

- **Directive No.4 Accounting Policies and Formats of Financial Statements:**

Financial statements and accounting policies are to be presented as prescribe by this directive. For the purpose of uniformity, supervision and monitoring, all the financial institutions should comply this guideline. This directive consists of:

- Definition of fiscal year, compulsion of acceptance of as statutory form to NRB's prescribed forms and formats, compliance of NAS (Nepal Accounting Standard) & ISA (International Standard in Accounting), disclosure of financial statements.
- Major accounting policies Depreciation, Tax, Credit, exchange gain/loss, non-banking assets (NBA) accounting, assets which is not capitalized, income expensed accounting, loan loss provisioning and NPA write off etc.
- Notes to the Accounting, Short explanation of the heads/items of Balance Sheet, Profit and loss account, Profit & Loss appropriation accounts.
- Statement of Change in Equity/Ownership, and
- Cash flow statement etc.

- **Directive No.5 Minimization of Risk:**

Risks are associating in all the banking activities. In banking business risk minimization is to be taken very challenging work. Risk has been classified in four categories and directed to manage and minimize the inherent risk according to the nature of the product based on time interval.

- Liquidity Risk
- Interest Rate Risk
- Forex Risk
- Credit & Investment Risk

- **Directive No.6 Corporate Good Governance:**

The objectives of corporate Good Governance are effectiveness, efficiency, productive, accountability, transparent and reliability. Some international agencies' standard guide on the corporate good governance as like:

- Code of Good Practice & Fiscal Transparency (IMF)
  - International Accounting Standards (IAS)
  - Principle of Corporate Governance (OECD)
  - Basel Core Principles
  - Principles and Guidelines for effective inventory and creditor Right System (World Bank)
- **Directive No.7 Policies related to compliance with directives issued after the inspection and Supervision:**  
 To make effective supervision, inspection and its implementation;
    - Board of Directors should react and perform the remarks and suggestions within 30 days of inspection report of supervision Dept.
    - Special consideration will be given the heading such as: Loan Loss Provision, Loan portfolio improvement plan, Capital adequacy plan, Assets Liabilities management, Internal Audit & control, Implementation of planning, Policies, procedures and progress report.
- **Directive No.8 Investment Policies:**  
 To mobilize the financial resources bank should prepare its investment policy under this directive.
    - Investment Policy should be implemented after getting NRB Approval.
    - Special Directives issued regarding to investment on NRB Board and Government Board.
    - Provision regarding to investment on shares & securities of organized institutions.
    - Review of Investment.
    - Valuation of shares & debentures.
- **Directive No.9 Submission of Statistics to the concerned department of NRB (Reporting Requirement):**  
 Time frame is given to BFIs to submit the statistics
    - CRR 1 week after the end of the week

- Journal off assets & liabilities (9.1) and loan & Advances to Gov. Entps. (9.7) within 15 days after transaction.
  - P/L A/c (9.2), Sector wise loan & Advance statements (9.3), collateral wise loan & advance statement (9.4), deposit statement (9.8), Foreign Assets Statement (9.10) are to be submitted in monthly after the 15 days of transaction with the consolidated of their branch.
  - On the quarterly basis, Priority Sector & Deprive Sector loan statement (9.5), Insider lending (9.6), statement of fixed deposit with interest rate and Amount wise (9.11), outstanding with Big Borrower (9.12), overdue Loan & Advance with overdue period (9.13) are to be submitted within the 15 days of transaction including consolidated of their branches.
  - If not submitted within specified time penalty will be charged Rs 10 to 50 thousand on the basis of class
- **Directive No. 10 Provision regarding Transfer or Sale of Promote Share:**  
In case of death of any promoter or shareholder of promoter group, share should be transferred to his succeeding right holder of his nominees and informed NRB within 15 days. It also applies to all those others who transfer or purchased the promoters or group of promoter's shares. If any promoter sale of transfer his share against provision of this directive, then he is not qualify to be a promoter of another licensed institution within the 5 years.
  - **Directive No. 11 Consortium Financing:**  
  
In consortium financing, two or more financial institutions are participated to finance in a project/firm/client/group upon their mutual agreement. One is lead bank and others are member of that consortium-financing group. The provisions regarding consortium financing have stated as under:
    - Definition of consortium finance
    - Necessary condition for participation in consortium finance
    - Restriction to lending and account opening other than consortium member group.
    - Time frame for lending decision.

- Selection of participating Banks
  - Group formation of consortium banks
  - Selection of lead bank
  - Loan disbursement and recovery through lead banks.
  - Role and duties, rights and responsibilities of leading banks as well as participating banks etc.
  - Leaving from consortium group
  - Appointment Auditor and consultant.
  - Statement related with consortium finance to be submitted quarterly in NRB within the 30 days of each quarter end.
- **Directive No. 12 Credit Information & Blacklisting:**

Credit Information Centre is formed under the NRB act 2058, section 8 and NRB Credit Information Regulation, 2059 (3).

    - Credit Information is compulsory.
    - Quarterly report of lending from BFIs to CIC.
    - Customer details to be taken on credit facility of Rs 25 lacs are above.
    - Process of blacklisting.
    - Classification of borrower: willful and non-willful defaulter.
    - Restriction on lending to Blacklisted borrower.
    - Provision regarding valuator of security collateral.
    - Provision regarding Auditor.
    - Forfeiture of Passport.
    - Conditions of inclusion in and removal from black list.
    - Provision regarding blacklisting if issued cheque will dishonor.
  - **Directive No. 13 Statutory Reserve:**

**Cash Reserve and Liquidity**

    - A class= 5 % of total deposit liability



- B and C Class =2% of total deposit and borrowing liability (If B and C class operate the current A/C, they have to maintain 5 % or equal to A class)
- D class=0.5% of total saving and borrowing funds (group, personal, special saving)
- D class should also maintain LIQUIDITY at minimum 2.5% of the total deposit liability.
- The “liquid Assets” means in case of D Class, cash in vault, investment in Gov bonds and NRB bonds and deposit in A class banks
- In case of non-compliance, they are subject to penalize as equal to current market rate at first time, double in second time and triple in third or more time on the shortfall amount.

- **Directive No. 14 Branch Expansion:**

Prior approval is needed to open, close or merger, transfer of branch offices

- Business plan should submitted to open a new branch
- For A, B and C Class: one branch in KTM can be opened after opened one in outside the KTM valley.

- **Directive No. 15 Interest Rate:**

All BFIs are free to quote their interest rate on deposit and lending. But cannot quote flat rate

- D Class institutions are free to quote Flat Rate
- Interest policy and procedures should be written form and decided by responsible authority
- Interest Spread on deposit should not exceed 0.5 % than published rate.
- Lending and deposit rate should be reported in NRB in quarterly within a week of each quarter end and should be published in national media
- Interest income should be accounting in Cash Basis not in Accrual Basis

- **Directive No. 16 Financial resources generation:**
  - A Class: No limit
  - B Class: 20 times of primary capital
  - C Class: 15 times of primary capital
  - D Class: 30 times of primary capital
  - Single Depositor Limit (SDL):

For 2062/63	30% of total deposit
For 2063/64	25% of total deposit
Then after	20% of total deposit
  - If SDL is crossed than limit, then it should take in limit within 3 month

Source: <http://anju.page.tl/NRB-Directives-And-Compliance.htm>

### **3 Contribution by the Financial Industry: Economic, social, Cultural, and technological**

The following contributions of Financial Industry which has done in different sectors are explained as bellows:

#### **(i) Economic Sectors:**

A deep and efficient financial system can contribute robustly to sustained economic growth and lower poverty. GDP composition and breakdown by sector

Agriculture: 31.7%

Industry: 15.1%

Services: 53.2% (FY 2014/15 est.)\*

The contribution of financial institutions in the GDP of Nepal is 11 percent. It is an important source of employment and about eighty thousand people have been employed in this sector. The development of financial institutions is helpful in minimizing capital scarcity. It helps to mobilize scattered capital for the development of industry and commerce. The following articles explained about the economic condition of Nepal by the contribution of Financial Industry are as:

- **Effects of Credit Risks on the Performance of Nepalese Commercial Banks- Article for Year 2016 Vol. 28-1:** This study has examined the effect of credit risk on performance of Nepalese commercial banks. In addition to credit risk indicators, bank size has positive effect on bank performance. Capital adequacy ratio and cash reserve are not considered as the influencing variables on bank performance. This study concludes that there is significant relationship between bank performance and credit risk indicators.
- **Bank Credit and Economic Growth in Nepal- Article for Year 2014 Vol. 26-2:** This study examines the impact of commercial bank credit to the private sector on the economic growth in Nepal from supply side perspectives. The empirical results show that bank credit to the private sector has positive effects on the economic growth in Nepal only in the long run. Nevertheless, in the short run, it has been observed a feedback effect from economic growth to private sector credit.
- **Determinants of Stock Market Performance in Nepal- Article for Year 2014 Vol. 26-2:** This paper empirically examines the determinants of the stock market performance in Nepal using monthly data for the period of mid-August 2000 to mid-July 2014. The impact of major changes in politics and Nepal Rastra Bank's policy on lending against share collateral has also been assessed. More importantly, stock market has been found to respond significantly to changes in political environment and the policy of Nepal Rastra Bank. These findings help to design policies to stabilize or stimulate the share market in Nepal.
- **The Bank Lending Channel of Monetary Policy in Nepal- Article for Year 2013 Vol. 25-2:** This paper examines the bank lending channel of monetary policy transmission in Nepal using data during 2003-2012. The main results suggest that banks play a role in Nepal's monetary transmission mechanism. Empirical result shows that the bank lending decreases after a monetary tightening. Bank size is found to have significant impact on loan supply in Nepal.
- **Remittance and Trade Deficit Nexus in Nepal: A VECM Approach- Article for Year 2013 Vol. 25-1:** The co-integration equation show that there is a long-run positive unidirectional causality from remittance to import as well as remittance to

trade deficit implying that remittance causes merchandise import and deteriorates trade balance.

- **Investing in Shares in Commercial Bank in Nepal: An Assessment of Return and Risk Elements- Article for Year 2002 Vol. 14:** The correlation coefficients between the returns on individual shares and the return on market portfolio have been analyzed with the objective of decomposing the total risk into systematic and unsystematic components. The analysis of the individual stock's beta coefficient helps determine the minimum rate of return required by the investor to compensate for systematic risk. Statistical results suggest that the analyzed shares here are not in equilibrium with most of the shares being less risky than the market.

Source: <https://www.cia.gov/library/publications/the-world-factbook/fields/2012.html>

## **(ii) Social and Cultural Sectors:**

Finance plays a critical role for society at large, serving individuals, families, businesses, governments and civic institutions. The financial sector performs indispensable functions such as enabling saving and investment, providing protection from risks and supporting the creation of new jobs and enterprises. It is critical that the sector operates to provide these functions for society in a stable, sustainable way.

The following need of society has provided by the financial industries which are as follows:

- Promote financial and economic resilience
- Safeguard savings and the integrity of financial contracts
- Facilitate efficient allocation of capital to support economic growth
- Provide broad access to financial service products and services
- Enable smoothing of cash flows and consumption over time
- Enable payments
- Provide financial protection, risk transfer and diversification
- Collect, analyze and distribute information for better economic decision-making

- Provide effective markets

**(iii) Cultural Sectors:**

- People beliefs that easy way to exchange the currency either Nepalese or Foreign directly from the banks
- People's attitudes has changed they are now lending the money from the bank not from any Mahajan (rich person of the Village)

**(iv) Technological Sectors:**

The technology sector is the category of stocks relating to the research, development and/or distribution of technologically based goods and services. The Technology economic sector consists of companies engaged in manufacturing semiconductors, communications equipment, computer hardware and technology-related office equipment, as well as providers of consulting and IT services. The following technological service has provided by Financial institutions to its customers are as:

- ATM: The use of ATM and Internet Banking has allowed 'anytime, anywhere' banking Facilities.
- Credit Card Facilities: It has encouraged an era of cashless society The banks have now started issuing smart cards or debit cards to be used for making payments. These are also called electronic purse.
- IT Services & Mobile Banking: Today banks are also using SMS and Internet as major tool of promotions and giving great utility to its customers. For example SMS Functions through simple text message sent from your mobile. Technology advancement has offer 24X7 banking even giving faster and secured service.

**4 Porters Five Force Model (Industry analysis)**

Porter regarded understanding both the competitive forces and the overall industry structure as crucial for effective strategic decision-making. In Porter's model, the five forces that shape industry competition are shown by the help of following figure as:

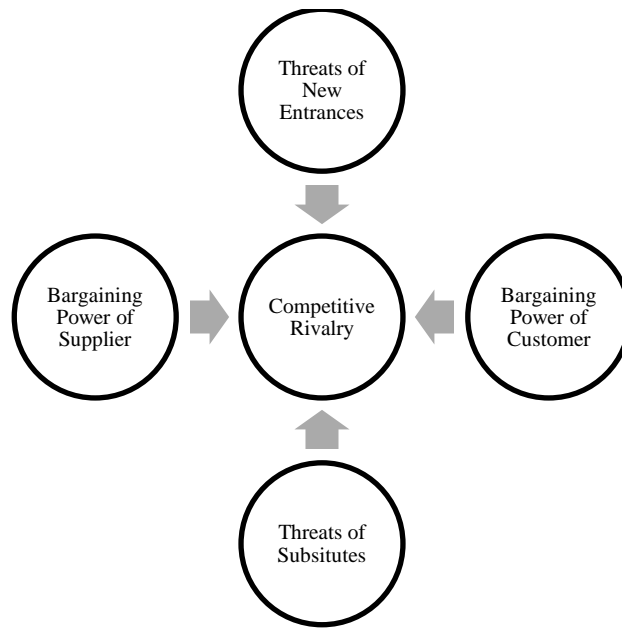


Figure 3 Porter Five Force Model

- i. **Threats of New Entrances:** This force examines how easy or difficult it is for competitors to join the marketplace in the industry being examined. The easier it is for a competitor to join the marketplace, the greater the risk of a business's market share being depleted. Threats of New Entrance is low due to following reasons:
  - Licensing Requirement are Very difficult <sup>1</sup>
  - High paid-up capital requirement <sup>2</sup>.
  - Highly Skills Manpower <sup>3</sup>
  - Protected intellectual Property Right <sup>4</sup>
  - The entry of foreign banks <sup>5</sup>
  - Accessing distribution channel is difficult <sup>6</sup>
- ii. **Threats of Substitutes:** The threat of substitution in an industry affects the competitive environment for the firms in that industry and influences those firms' ability to achieve profitability. The availability of a substitution threat affects the profitability of an industry because consumers can choose to purchase the substitute instead of the industry's product. The availability of close substitute products can make an industry more competitive and decrease profit potential for the firms in the

industry. On the other hand, the lack of close substitute products makes an industry less competitive and increases profit potential for the firms in the industry. The threats of substitutes is high due to following reasons:

- Substitute performance is equal or superior to industry product performance <sup>7</sup>
- Consumer switching costs are low <sup>8</sup>
- Substitute product is cheaper than industry product <sup>9</sup>

**iii. Bargaining Power of Customer:** In respect of loans and advances, borrowers are customers. (When depositors avail of loans, they become customers for this purpose). This force looks at the power of the consumer to affect pricing and quality. Consumers have power when there aren't many of them, but lots of sellers, as well as when it is easy to switch from one business's products or services to another. Buying power is low when consumers purchase products in small amounts and the seller's product are very different from any of its competitors. The bargaining power of customer is high due to following reasons:

- Consumer switching costs are low <sup>8</sup>
- Customer purchases large volumes of standardized products from the seller <sup>10</sup>
- The buyer is price sensitive and educated regarding the product <sup>11</sup>
- Substitute products are available in the marketplace <sup>12</sup>

**iv. Bargaining Power of Supplier:** In respect of Deposits, Depositors are suppliers. But, if borrowers keep deposits also with banks, in respect of their deposits, they are suppliers. This force analyzes how much power a business's supplier has and how much control it has over the potential to raise its prices, which, in turn, would lower a business's profitability. In addition, it looks at the number of suppliers available: The fewer there are the more power they have. Businesses are in a better position when there are a multitude of suppliers. The bargaining power of supplier is high due to following reasons:

- There are few suppliers and many buyers <sup>13</sup>
- Consumer switching costs are high <sup>8</sup>
- The consumer is not price sensitive and uneducated regarding the product <sup>11</sup>

- Substitute products are unavailable in the marketplace <sup>9</sup>
- v. **Competitive Rivalry:** This force examines how intense the competition currently is in the marketplace, which is determined by the number of existing competitors and what each is capable of doing. The following factors that high competitive rivalry among existing firms include:
  - Products are undifferentiated <sup>9</sup>
  - Industry growth is slow <sup>14</sup>
  - Competitors have equal market share (Competitors are more) <sup>15</sup>
  - High Fixed Cost <sup>16</sup>
  - Exit barriers are high <sup>17</sup>

## Conclusion

When conducting Porter's 5 forces industry analysis, a low threat of new entrants makes an industry more attractive and increases profit potential for the firms already competing within that industry. High threat of substitute products makes an industry less attractive and decreases profit potential for the firms in the industry. High buyer bargaining power makes an industry less attractive and decreases profit potential for the seller. High Supplier bargaining power makes an industry more attractive and increases profit potential for the seller. High intensity of rivalry makes an industry less attractive and decreases profit potential for the firms already competing within that industry.

Note: Superscript (small number above the line of text) shows that the reasons of above all factors which has mentioned in Porter Five Factors. If you want to further know about it, please go to Appendix page.



## **CHAPTER 3**

### **ORGANIZATION UNDER STUDY**

#### **1. History of Prabhu Bank Ltd**

Initially it was established as Class ‘C’ Finance Company in 2003 with a paid up capital of Rs 30 million, 17 promoters and 7 staff. Sep 16, 2014-Prabhu Bank, formed after the merger between four financial institutions—Kist Bank, Prabhu Bikas Bank, Gaurishankar Development Bank and Zenith Finance—officially started its operation from Monday. The bank has a paid-up capital of Rs 3.20 billion. Speaking at the inaugural programme, Prabhu Chairman Devi Prakash Bhattachan said they would focus on expanding their investment in big projects. “For the purpose, we are ready to join hands with other commercial banks to work in consortium,” he said. In March 2013, Kist Bank had signed an MoU to merge with Vibor Bikas Bank. However, the merger fell apart after seven months. Prabhu Bikas Bank was formed through the merger of Prabhu Finance Company, Sambriddhi Bikas Bank and Bhaibhav Finance Company on July 14 last year. With promoters of the Prabhu group acquiring bigger stake at Kist, the name of the new bank was decided to be changed. It is one of the biggest mergers in Nepali financial sector’s history. Prabhu Bank now has 112 branches and 108 ATM counters across the country. Its deposit collection stands at Rs 32.39 billion, while credit disbursement is Rs 23.78 billion. It has 1,135 staffers and 631,000 customers. Bhattachan said the newly formed bank would now go for acquisitions. Inaugurating the merged entity, Nepal Rastra Bank Governor Yubaraj Khatiwada said all the banks have to concentrate on long-term sustainability. “It is not important how bigger a bank has become after a merger, but the quality services it would provide to its customers,” he said. “Merger is just like keeping financial institutions in the rehabilitation centre that gives them proper direction.” Khatiwada stressed on the need for banks to have their financial conditions properly assessed time and again. He urged bankers to change their mindset that banks would not fail at any cost. He said merger alone might not solve all the problems. “We have to compare the returns to alternative earnings of the capital after the merger,” said Khatiwada, asking banks to focus more on providing quality financial services rather than

focusing on quantitative growth. Amid banks being attracted towards debt financing, Khatiwada urged bankers to switch to the equity financing. Stressing on the need for banks to be more competitive compared to foreign banks, he asked bankers to make banking business more entrepreneur friendly.

## 2. Promoters of Prabhu Bank Ltd

The Bank is promoted by individuals representing different segments of the society like businessman, professionals, technocrats, bankers, industrialists, professors, teachers and intellectual persons. The following table shows the Share ownership i.e. promoters of Prabhu Bank Ltd at the end of 2072 Asadh as:

<b>Share Ownership</b>		
<b>Share Ownership</b>	<b>Percentage</b>	<b>Share Capital</b>
<b>1. National Ownership</b>	100.00	<b>3,208,885,224</b>
1.1 Nepal Government	-	-
1.2 'A' Class institutions licenced by NRB	-	-
1.3 Other institutions licenced by NRB	-	-
1.4 Other institutions	18.47	592,579,941
1.5 General	81.53	2,616,305,283
1.6 Others	-	-
<b>2. International Ownership</b>	-	-
<b>Total</b>	<b>100.00</b>	<b>3,208,885,224</b>

Table 4 Share Ownership Structure

The following figure shows the promoters of the Prabhu Bank Ltd:

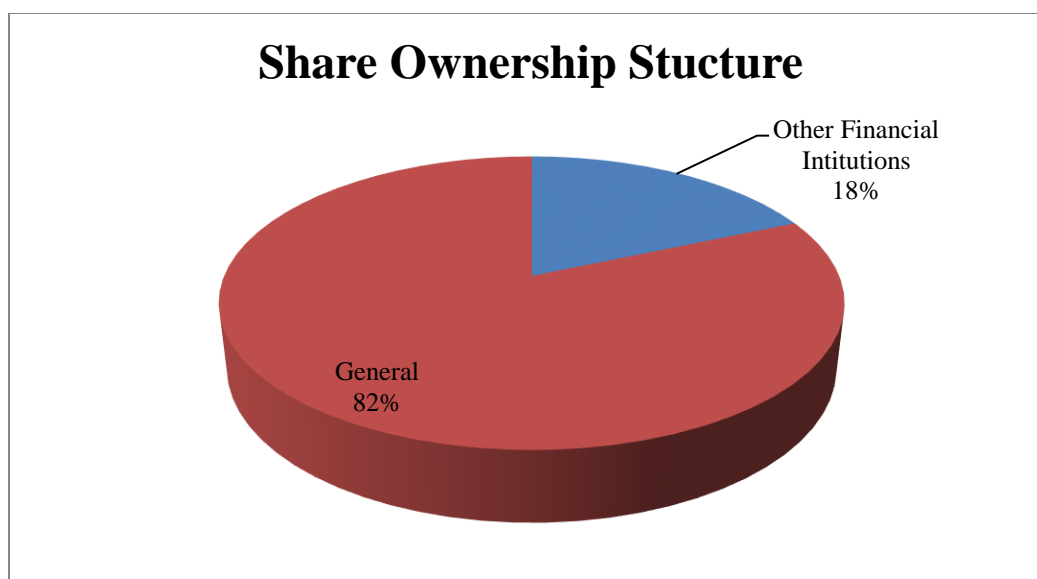


Figure 4 Promoters

### 3. Management (Composition of Trust/Society/Governing Board/Executive Board) of Prabhu Bank Ltd

#### 3.1 Board of Directors (BOD)

S.N.	Member	Position
1	Mr. Devi Prakash Bhattchan	Chairperson
2	Mr. Rishi Ram Gautam	Managing Director
3	Mr. Pushp Bahadur Pradhan	Director
4	Ms. Ambika Sharma Lamichhane	Director
5	Ms. Kusum Lama	Director
6	Mr. Daksh Paudel Subhash	Director

Table 5 Board of Directors

### 3.2 Management Team

S.N.	Name	Position
1	Mr. Ashok Sherchan	The Chief Executive Officer
2	Mr. Tara Manandhar	The Deputy Chief Executive Officer
3	Mr. Sachin Jung Rayamajhi	The Chief Operating Officer
4	Mr. Bhesh Raj Khatiwada	The Chief Credit Officer
5	Mr. Rajgopal Rajbhandari	The Chief Project Officer
6	Mr. Bhola Pathak	The Coordinator
7	Mr. Maniram Pokharel	The Chief Marketing Officer
8	Mr. Ashok Khadgi	The Chief General Administration Officer

Table 6 Management Team

## 4. Philosophy/Vision/Mission and objectives of Prabhu Bank Ltd

### 4.1 Vision

“To support individuals, families and businesses to attain financial independence and improve their financial wellbeing”

### 4.2 Mission

To become the leading commercial bank in Nepal by providing the finest quality financial products and services to our customer; enhance our shareholders’ value, contribute to the economic prosperity of the country and to create continuous learning and growth opportunities for our People.

## 4.3 OBJECTIVES

### 4.3.1 Primary Objective

“To reach out to the common people with a host of helpful products and services that will assure their future prosperity”

### 4.3.2 Secondary Objectives

The following secondary objectives of this bank are as follows:

- Promotion of national economy, society and individuals.
- Enhance the market share.
- Building healthy future for Bank employees.
- Providing attractive return to stakeholders.
- Upholding honesty and sincerity.
- Embracing extra-curricular activities for refreshments and fun at work.
- Providing quality services to the customers.
- Participation in social issues.

### **5. Locations of Prabhu Bank Ltd**

The total branches of this Bank are 138 among them 49 branches are in inside valley (i.e. Kathmandu, Lalitpur, and Bhaktapur) and 89 branches are in outside valley (i.e. except above 3 districts).

The following districts show outside valley branches of this Bank which are listed as follows:

1. Arghakhachi	2. Lamjung	3. Sirha
4. Baglung	5. Mahottari	6. Sunsari
7. Banke	8. Makwanpur	9. Surkhet
10. Bara	11. Morang	12. Syangja
13. Bardiya	14. Mustang	15. Tanahun
16. Bhojpur	17. Myagdi	
18. Chitwan	19. Nawalparasi	
20. Dailekh	21. Nuwakot	
22. Dang	23. Palpa	
24. Dhading	25. Parbat	
26. Dhanusha	27. Parsa	
28. Dolakha	29. Rasuwa	
30. Gorkha	31. Rautahat	
32. Gulmi	33. Rupandehi	
34. Ilam	35. Sarlahi	
36. Jhapa	37. Lamjung	
38. Kailali	39. Mahottari	
40. Kanchanpur	41. Makwanpur	
42. Kaski	43. Morang	
44. Kavre	45. Mustang	

Table 7 District wise list of branches of the Prabhu Bank

## 6. Organogram of Koteswor Branch of Prabhu Bank Ltd

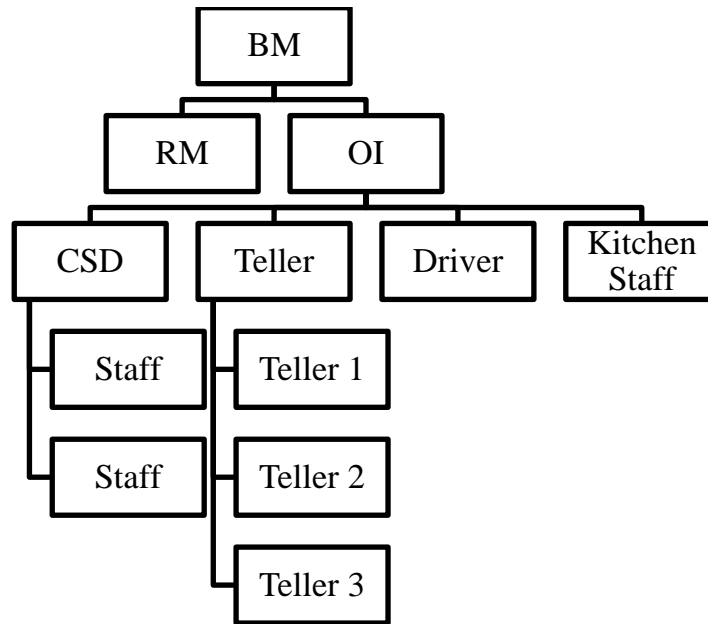


Figure 5 Organogram of Koteswor Branch of Prabhu Bank

## 7. Services Rendered of Prabhu Bank Ltd

The following services rendered of this Bank are as follows:

### 1. Deposit Schemes

- **Saving:** The Savings account is meant for those individuals who have a habit of saving money from their earnings so that they can use it when they require. It is a transactional interest bearing account wherein a deposit is placed with the Bank for an unspecified period, which can be withdrawn whenever required through different means. The current deposit amount in this account is 70% of total deposits i.e. Rs. 6, 00,000,000 as per Officiating Branch Manager. Prabhu Bank offers wide range of Savings Accounts as below:

- Prabhu Smile Savings
- Prabhu Aashirbad Savings
- Prabhu Normal Savings
- Prabhu Student Savings

- Prabhu Khutruke Savings
  - Prabhu Foreign Savings
  - Prabhu Senior Citizen Savings
  - Prabhu Shareholders Savings
  - Prabhu Salary Savings
  - Prabhu Paurakhi Bachat
  - Prabhu Naranari Savings
  - Prabhu Special Savings
  - USD Savings
- **Call:** A Prabhu Call Account is ideal for carrying out day to day business transactions by the corporate on which corporate have the privilege of earning interest. The current deposit amount in this account is 15% of total deposits i.e. Rs. 128,571,492 as per Officiating Branch Manager.
  - **Current:** A Current Account is ideal for carrying out day-to-day business transactions. It is a transactional non-interest bearing account wherein a deposit is placed with the Bank for an unspecified period, which can be withdrawn whenever required through different means. The current deposit amount in this account is 5% of total deposits i.e. Rs. 42,857,143 as per Officiating Branch Manager.

Prabhu Bank offers the following Current Accounts:

- Individual Current Accounts
  - Institutional Current Accounts
- **Fixed Deposit:** A Fixed Deposit Account is meant for those individuals and corporate houses, who would like to earn higher interest on the fund, where a fixed amount is held at fixed interest rate and is repayable (principal/interest) at a fixed future date as agreed at the time of placement of the Deposits. The current deposit amount in this account is 10% of total deposits i.e. Rs. 85,714,286 as per Officiating Branch Manager.



Prabhu Bank offers the following Fixed Deposit Accounts:

- Individual Fixed Deposit Accounts
- Institutional Fixed Deposit Accounts

## **2. Loans and Advances (Consumer Banking)**

- **Hire Purchase Loan:** Our Vehicle Loan with its attractive features and simplicity in processing has been designed with a view to fulfill the dreams of professionals, self-employed, business executives and business houses/individuals who wish to own a vehicle of their own. Under this product, we provide loans facility to purchase new/used vehicles as well as for commercial purpose. It's fast, convenient and hassle-free.
- **Housing Loan:** Owning a house is a dream for many and Prabhu Bank is always there to help you realize your dream under Prabhu home loan (Prabhu Ghar Karja) scheme. Prabhu Home Loan is a term loan, developed to cater the personal financing needs of salaried individuals, self-employed, professionals, and owners of small family businesses.
- **Education Loan:** Prabhu Education loan has been designed to meet the aspirations of students for completion of their studies both in and out of the country. Prabhu's education loan scheme provides loan for those students who demonstrate ability, drive and ambition but do not have the financial resources to achieve their goals.
- **Agriculture Loan:** Based on the viability of the agriculture project/proposal, Agriculture Loan to finance the short/long-term financing need of an individual/firm/company may be made available to purchase tractor, seeds, fertilizers, insecticides etc and to do the farming on Coffee, herbal products, poultry farming, vegetables, cereals, rainbow trout, etc.
- **Individual Revolving Plan:** "Prabhu Individual Revolving Loan" an overdraft natured loan has been developed to provide meet the personal financing requirement

of salaried individuals, self-employed, professionals, and owners of small family businesses.

- **Salary Solutions:** Prabhu Salary Solutions is an extension of KIST Uddhmshil Karja. It has been designed to provide free salary distribution to the staff of educational institutions and finance for meeting the working capital requirement of the educational institutions.

### **3. SME Banking:**

Prabhu Bank's SME Banking Division offers a wide-array of financial products to Small & Medium Enterprises to support their business. Whether you are already running or starting a new venture or expanding your business, Prabhu Bank strives to provide the entire spectrum of solutions. Our Products and Services under SME Banking include:

#### **Funded Facilities**

- Overdrafts (including revolving credits and short term advances)
- Short Term / Demand Loans
- Importer's Loan / Trust Receipt
- Pre-shipment and Post-shipment financing
- Purchase / discount / negotiation of inward and outward bills.
- Project/Term Loan
- Hire Purchase Loan, which is taken to finance on the vehicles to be purchased by firm/company for business use in line with PPG of Auto/Hire purchase loan.

#### **Non-Funded Facilities**

- Letters of credit – sight & usance,
- Guarantees – bid, performance, advance payments, supplier credit, others as per the need
- Negotiation of clean & documentary bills under LC/Non LC (subject to availability of bank & country limit; discrepant documents may be negotiated subject to exposure not exceeding the total funded lines and availability of bank & country limit)

- LC transfers
- Export LC Confirmation
- DAP(Documents against payment)/DAA(Documents against Acceptance)
- CAD (Cash against Documents)

#### **4. Corporate Banking:**

It includes basically three types of banking are as:

- **Business Banking:** At Prabhu Bank, we understand the financial needs of Large Corporates, in their ambitious growth plans towards building globally competitive companies. With a primary focus on clients who are in need of bank finance above Rs. 50 million. Our strategy is to actively engage in providing capital and operating solutions through teams of highly experienced and responsive bankers. From manufacturers to service providers, we help our clients achieve their goals through our competitive interest rates. Our Popular Products and Services under Business Banking include:

##### **Funded Credit Facilities:**

- Working Capital Financing
- Term Loan
- Hire Purchase
- Import Loan
- Export Loan
- Short Term Loan
- Microfinance – Wholesale
- Loan against Share

##### **Non Funded Credit Facilities:**

- Letter of Credit
- Bank Guarantees
- Bills Purchase/Discounting/Negotiation/Collection
- Foreign Exchange
- Forward Contract

- **Consortium & Project Financing:** Consortium & Project Finance Department of Prabhu Bank offers funded and non-funded facilities required to the large corporate operating in the nation for their new projects, expansion and renovation. We offer different credit facilities such as Term Loan, Working Capital, Letter of Credit, Bridge Gap Loan etc. and the credit facilities are designed accordingly to match project/business requirement and cash flow of the project/business. With our expertise in diverse field of business, we are capable of arranging consortium finance / loan syndications and also take over the loans.
- **Trade Finance & Services:** We deliver comprehensive solutions to companies engaged in international and domestic trade transactions. We offer a suite of trade finance solutions including Letters of Credit, Documentary Collections, Bank Guarantees, Standby Letters Of Credit, Forward Contracts, Discounting of Bills, Open Account transactions and so forth. We can further enhance acceptability of your business propositions and financial obligations by our issuance of Bank Guarantees or Standby Letters of Credit to back up your financial and performance obligations between your good company and your counterparty.

## **5. Transactional Banking:**

- **Prabhu Rupaiya Debit Card:** Rupaiya Debit Card is a smart alternative to withdrawal cash from ATMs. Rupaiya Debit Card enables wider access to more than 122 ATM terminals of Prabhu Bank in Nepal. With Prabhu Bank Rupaiya Debit Card you can access your account 24-hours a day, 7 days a week and enjoy greater convenience to facilitate your banking and financial needs.
- **Prabhu Visa Credit Card:** VISA Credit Card is a payment card with the option of making purchase on credit as ‘Spend Now and Pay Later’. With the Prabhu Bank VISA Credit Card you can avail of wide range of privileges. Prabhu Bank VISA Credit Card enables wider access to more than 400,000 ATMs and 2.5 million Point of Sales (POS) terminals in Nepal, India & Bhutan. You shall have the excess of Prabhu Bank VISA Credit Card 24-hours a day, 7 days a week and enjoy greater convenience to facilitate your banking and financial needs.

- **International Visa Card:** Prabhu Bank International VISA Card is prepaid card which is accepted at all VISA Merchant outlets and VISA ATMs worldwide. This card provides easy payment option while travelling abroad. Prabhu Bank International VISA Card can be issued to a foreign currency accountholder and person travelling abroad using their passport facility (Foreign currency facility against Passport).
- **Prabhu Visa Debit Card:** VISA Debit Card is a smart alternative to cash and meant to make shopping more convenient. With the Prabhu Bank VISA Debit Card you can avail of wide range of privileges. Prabhu Bank VISA Debit Card enables wider access to more than 400,000 ATMs and 2.5 million Point of Sales (POS) terminals in Nepal, India & Bhutan. With Prabhu Bank VISA Card you can access your account 24-hours a day, 7 days a week and enjoy greater convenience to facilitate your banking and financial needs.
- **Mobile Wallet:** Prabhu Mobile Wallet (mWallet) service is an easy and handy method of doing banking transaction from mobile phones without having to visit bank. Prabhu mWallet provides you a secure connection to access to your bank account through a SMS based application that needs to be installed in to your Mobile Phone. You can directly access Google play store to download Android application and App Store to download Prabhu mWallet application for iPhone. But application for JAVA based mobile set is available only on the Bank's website. Customers having other mobile phones which do not support mWallet Application are required to refer to the list of syntax available under downloads option of the Bank's web site. However, customers are always encouraged and suggested to use Prabhu mWallet service only through mobile phones which can run Prabhu mWallet application.
- **Prabhu E-Banking:** Prabhu e-Banking Services is an internet based Service offered by the Bank to its valued customers. e-Banking, being an Internet-based service is available anytime at your finger tip, with the flexibility to take care of many financial transactions. Prabhu e-Banking provides secure communications using 128-bit encryption security that assures you of secure transactions made with the

Bank. Prabhu e-banking has dual factor authentication with the features of One Time Password (OTP) for fund transfer.

- **Locker Service:** Prabhu Bank's Safe Deposit Locker provides you with a safe and convenient place to keep your valuables. Customers can access the locker any time during the Bank's business hours. Each locker has a separate number and is fitted with a double key lock, which ensures the safety of your lockers. You can keep your jewelries, important documents and other valuables in the safe deposit locker with appropriate size. We have different range of locker sizes in our different branch location that suits your requirement.
- **Prabhu Banc assurance:** Prabhu Banc assurance provides a one-stop solution for you by guaranteeing convenience and security with a wide range of life and non-life insurance products available for all your financial needs. The Bank has business tie-up with the top insurance companies of Nepal for Banc assurance:

**Life Insurance:**

1. National Life Insurance Company
2. Prime Life Insurance Company
3. Rastriya Beema Sansthan

**Non- Life Insurance:**

1. NLG- Insurance Company
2. Sagarmatha Insurance Company
3. Siddhartha Insurance Company
4. Lumbini General Insurance Company
5. Prabhu Insurance
6. Prudential Insurance Company
7. Premier Insurance Company
8. Neco Insurance Company
9. Nepal Insurance Company
10. Shikhar Insurance Company

- **Prabhu Employee Banking:** In the process of enhancing value added products, Prabhu Bank has launched a scheme as ‘**Employee Banking**’ which is designed for payroll management of the various organizations which may be governmental or non-governmental institutions, firms, companies, corporate/business houses, NGO/INGOs, schools/colleges/universities, hotel/restaurants etc. which are operating in a formalized way across the country.
- **Prabhu Credit Life Insurance:** Prabhu Bank offers “**Credit Life Insurance**” service to its valued customers especially in consumer sector like Home Loan or Auto Loan from the Bank. Bank has made an arrangement of term life insurance in collaboration with Prime Life Insurance Company, to the individual customers who are willing to participate to this scheme

## 6. Others

- Prabhu Unantshil Deposit:
- Prabhu Money Transfer
- Wealth Management Services:
- **D-MAT Account:** By hold & Sell your shares as and when you like.
- Inward/Outward Remittance:
- Market Maker for Government Securities:

## 7. Financial Data of Prabhu Bank Ltd

Year (FY)	2069/70	2070/71	2071/72
Net Profit / (Loss)	(804,628,575)	(304,851,936)	1,018,245,374
Share Capital	2,000,000,000	2,000,000,000	3,208,885,224
Total Assets	23,431,331,809	21,190,965,731	46,510,125,756
Revenue	2,704,090,595	2,342,869,203	4,529,945,052
Sales	2,704,090,595	2,342,869,203	4,529,945,052
Total Cost	3,508,719,170	2,647,721,138	3,511,699,679
Fixed Assets	1,426,211,159	1,353,249,172	1,728,634,242
Current Assets	22,008,120,650	19,837,716,559	41,781,491,514
Account Receivable	197,850,000	100,000,000	1,000,775,000
Other Current Assets	835,232,703	1,084,947,264	2,225,588,089
Cash & Bank	3,382,089,673	1,959,999,131	9,315,995,443
Inventories	1,184,947,264	16,692,774,306	32,239,132,982

Table 8 Financial Data of Prabhu Bank Ltd

## 8. Future Plans of Prabhu Bank Ltd

As the Prabhu Bank has set its vision to be the best bank in terms of operational excellence and superior financial performance, it has action plan in place in order to accomplish it. The Bank has given prime focus in physical infrastructure and human resources development, acquiring of state of art information technology to equip the Bank in order to make it competitive, satisfy customers and have the most secured transactions, enhance the distribution outlet so that the Bank could reach to the un-banked area and serve the needy people and contribute to the economic development of the country. A few key future plans, which the Bank has, are:

- Develop own man power to take the higher responsibilities. Due to increase in number of players, lack of quality human resources has been felt in the market. The Bank has therefore planned to hire qualified individuals in large quantity and train the



staffs, in Prabhu Culture, both theoretically and practically and prepare them to take the responsibilities. For this, the Bank has established Training and Development Department at Head Office.

- Launch international Credit Cards, Master and others.
- Expand the remittance business making accessible to the large strata of people.
- Develop and launch innovative and customer friendly products to meet the actual needs of the people who are deprived of banking services. For this, the Bank has established Research and Development Department to carry out research and develop market oriented products and services.
- Support the investors to start large infrastructure development projects in the country. The bank also plans to promote micro finances to develop self-sustainable enterprises and self-reliant people to up lift the economic development of the country

## **CHAPTER 4**

### **STUDY OF DEPARTMENTS**

The internal structure of a typical commercial bank generally consists of 10 different departments. These include retail banking, loan servicing, wealth management, investment banking, deposit operations, wire transfer operations, cash management, electronic banking, commercial banking and mortgage banking.

Tellers, loan officers and customer service managers work within retail banking. These banking professionals help customers with savings and checking accounts, personal loans, credit cards, debit cards and mortgages. Loan servicing agents handle individual and business loan payments and collections, while wealth management professionals help the bank's customers with financial planning and investment portfolio management services.

Deposit operations managers handle account set-up and maintenance duties, while wire transfer operators ensure that paperless, computerized account transactions are adequately processed. The cash management department ensures the bank has enough liquid assets to meet scheduled obligations. They also select short-term investment opportunities that the bank can liquidate quickly for additional cash flow when necessary.

A bank's electronic banking department is responsible for the set-up and maintenance of the bank's online financial transactions. Some employees in this market are computer hacking specialists that protect the bank's databases from being accessed by unauthorized personnel.

The mortgage banking department of a bank helps borrowers secure loans for homes and investment properties. This department also manages all of the loan payments and provides customer service to the bank's mortgage customers.

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#### **4.1 Human Resources/Personnel Management (role, function, department under HRM)**

Human Resource Management is the process of consisting of the acquisition, development, motivation, and maintenance of the human resource.

The human resources department of a company is responsible for hiring employees, maintaining employee well-being and dismissing employees when necessary. The human resources department handles many tasks related directly to employment issues, such as payroll, insurance, benefits and taxes, and it is responsible for staying up-to-date on legal issues affecting employment.

The primary responsibility of the human resources department is to keep the associated company staffed appropriately at all times. This includes employee recruitment, selection and retention.

The human resources department also keeps track of changes in state and federal employment laws and applies them appropriately. These include tax regulations, health insurance requirements, overtime laws, unemployment restrictions, family and medical leave policies and safety regulations.

##### **4.1.1 Roles of Human Resource Management Department**

- **Application Screening:** Certain jobs do not really require a thorough background check, but any job in a bank definitely does. Human resource departments in banks must go the extra mile to uncover the criminal and financial history of job applicants, for the safety of their clients and their organization as a whole. Banks are highly unlikely to hire candidates with financial fraud on their records, for example, due to the sheer weight of temptation a position in a bank would place on someone with that kind of history.
- **Development:** Employee development activities help employees to enhance their skills and upgrade their existing knowledge for them to contribute more effectively towards the success of an organization. Trainings and employee development activities make individuals reliable resources for the organization and motivate them

to deliver their level best. Regular trainings prepare employees for unpredictable changes in the system or unforeseen adverse situations.

- **Bank Security:** Human resources departments must design and monitor work processes to reduce opportunities for internal theft and collusion. HR policies separate cash receiving, storage, processing and disbursement, and record all activities via video surveillance. In the event that an employee attempts to steal from a bank, the HR department must handle the legal paperwork and administrative processes required by court proceedings.
- **Pay Decision:** As with other industries, HR professionals in banks have a hand in making decisions for pay raises and promotions. Bank workforces are unique in that they often have two methods of paying employees: salaries for back-office and other personnel, and commissions for sales employees. Promotion decisions for salespeople selling loans and other financial products differ from decisions to promote administrative staff. Banks' HR departments must manage both equitably and strategically to develop the workforce.
- **Executive Recruitment:** The banking industry is highly competitive, and banks constantly navigate a legal minefield that can devastate companies that step out of line. Finding the right executives is crucial in any industry, but especially one in which competition is so fierce and legal compliance so important. Human resources professionals in banks must go the extra mile to recruit the best executive talent in the banking field, allowing their organizations to thrive and grow into the future. Human resources departments in corporations must gain approval of the board of directors before bringing someone in to fill an executive spot, as well.
- **Communication:** Various forms of communication from your human resources department are essential for workplace structure. Human resources communications include guidelines, policies, notices and procedures that help you manage your workforce. Communication between human resources and the employee base is important to sustain employee satisfaction and morale. When little or no communication between human resources and the workforce exists, you may see a decline in productivity and performance because employees feel they are unappreciated and undervalued.

- **Brain Storming Session:** Brainstorming is a group creativity technique by which a group tries to find a solution for a specific problem by gathering a list of ideas spontaneously contributed by its members. Brainstorming with a group of people is a powerful technique. Brainstorming creates new ideas, solves problems, motivates and develops teams. Brainstorming motivates because it involves members of a team in bigger management issues, and it gets a team working together. However, brainstorming is not simply a random activity. Brainstorming needs to be structured and it follows brainstorming rules. The brainstorming process is described below, for which you will need a flip-chart or alternative.
  - Define and agree the objective.
  - Brainstorm ideas and suggestions having agreed a time limit.
  - Categories/condense/combine/refine.
  - Assess/analyze effects or results.
  - Priorities options/rank list as appropriate.
  - Agree action and timescale.
  - Control and monitor follow-up.

#### **4.1.2 Functions of Human Resource Management Department**

##### **1. Acquisitions**

- **Human Resource Planning:** It is a process that identifies current & future human resource needs for an organization to achieve its goals.
- **Recruitment:** It is a developing a pool of qualified candidates to select right people to right job at the right time.
- **Selection:** It is the process of selecting the right people to right job at the right time from pool of candidates.
- **Employees Socialization:** It is also known as organizational socialization, refers to the mechanism through which new employees acquire the necessary knowledge, skills, and behaviors to become effective organizational members and insiders.

## 2. Developments

- **Employees Training:** It is the process of learning, a sequence of programmed behavior. It is an application of knowledge. It gives people an awareness of the rules and procedures to guide their behavior. It attempts to improve employees' performance on the current job or prepare for an intended job.
- **Management Development:** It is the process by which managers learn and improve their management skills.
- **Career Development:** It is the lifelong process of managing learning, work leisure, and transition (change) in order to move toward a personally determined and involving prefer future.

## 3. Motivation

- **Job Design:** Job design is the process of structuring work and designing the specific work activities of an individual or group to achieve certain organizational objectives.
- **Performance Appraisal:** It means deciding the value of the work done by an individual. It is the process of evaluating the performance and qualifications of the employees in terms of the requirement of the job, administration of HR, and providing financial rewards, etc.
- **Job Evaluation:** It is an orderly and systematic process of determining the wage (worth) for the job in relation to other job.
- **Compensation/Benefits:** Compensation means all form of financial reward received by employees which occupies importance place in life of employees.

## 4. Maintenance

- **Health & Safety:** It refers to absence of accidents. In other words, it safety refers to the protection of workers employees from the danger of accidents.
- **Employees/Labor Relations:** The complex of inter-relations among workers, managers, and government is known as employees/labor/relation. It is also called industry relation.

#### 4.1.3 Departments under Human Resource Management Department

The Human Resources Management Department is committed to ensuring that the Bank attracts recruits, develops, retains and sustains a high performing, diverse work force by developing and implementing progressive human resource management policies and strategies. The following figure shows the departments under Human Resource departments which is assumed because these sub departments generally kept in the banking sectors.

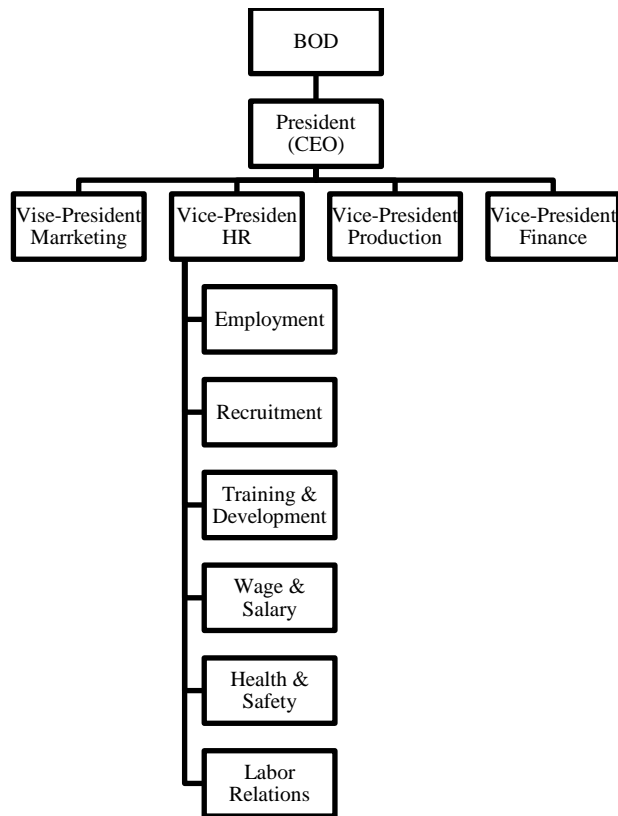


Figure 6 Departments under Human Resource

## **4.2 Finance (role, function, department under Finance)**

"Finance" is a broad term that describes two related activities: the study of how money is managed and the actual process of acquiring needed funds. Because individuals, businesses and government entities all need funding to operate, the field is often separated into three sub-categories: personal finance, corporate finance and public finance. All three categories are concerned with activities such as pursuing sound investments, obtaining low-cost credit, allocating funds for liabilities, and banking.

The finance is the art and science of managing money. The business functions of a finance department typically include planning, organizing, auditing, accounting for and controlling its company's finances. The finance department also usually produces the company's financial statements.

### **4.2.1 Roles of Finance Department**

- Ensure that there are adequate funds available to acquire the resources needed to help the organization achieve its objectives
- Ensure costs are controlled
- Ensure adequate cash flow
- Establish and control profitability levels

### **4.2.2 Functions of Finance Department**

1. **Executive Finance Functions:** It includes all crucial decision areas of finance management. Therefore, this function, the finance manager that must be equipped with administrative skills in their planning, execution, and control. The basic executive finance functions are as under:
  - **Investment Decision:** Finance manager is concerned with investment decisions. Investment decisions most commonly known as capital budgeting decisions or long-



term assets mix decisions. Capital investment is the allocation of capital to investment proposal whose benefits are to be realized in future. Because the future benefits are not known with certainty, investment proposal necessarily involves risk. Consequently, they should be evaluated in relation to their expected return and risk.

- **Financing Decision:** Finance manager is concerned with financing decisions. Financial manager must decide when, where and how to acquire funds to meet the firm's investment needs. Financial manager must find the best financing mix or optimum capital structure for the firm, which maximizes the market value of share. Financing decision is one of the important functions of finance. Financing is concerned with the identification of the need of funds and collection of the funds from the right sources, in the right time in order to achieve the goal of shareholders value maximization. It is because shareholder's value maximization is the one and most important goal of financial management.
- **Dividend Decision:** Finance manager is concerned with dividend decisions. The financial manager must decide whether the firm should distribute all profits, retain them, or distribute a portion and retain the balance. The financial manager must determine the optimum dividend payout ratio, which maximizes the firm's value. Distribution of profit among shareholders is known as dividend decision. Dividend decision is closely related with financing decision. Dividend decision includes the decision regarding the retention of profit and profit is retained to meet the need of fund. Therefore dividend decision is also considered as internally financing decision. Retention of profit is also made with a view to prevent the fluctuations in dividend. Critical part of dividend decision is to decide the dividend payout ratio. Dividend payout ratio is the portion of retained earnings and dividend out of firm's net profit. If the dividend is decided below the earning rate, then certain portion of profit is retained in the business. If the earning is expected below the cost, dividend distribution is desirable.

- **Working Capital Decision:** It is also known as liquidity decision. Financial manager should manage the liquidity position of the firm. Current assets should be managed efficiently for safeguarding the firm against the dangers of illiquidity and insolvency. If the firm does not invest sufficient funds in current assets, it may become illiquid. But current assets are non-profit generating assets. Therefore the financial manager estimate firm's need for current assets and make sure that funds would be made available when needed. The working capital decisions of a financial manager cover the following areas:
    - Determination of levels of investment in inventory
    - Determination of levels of investment in receivables
    - Determination of levels of cash and marketable securities
    - Determination of management of current assets
- 2. Incidental Finance Functions:** Clerical types of routine work, which are carried out by junior employees under financial department and which is a regular nature of works are known as incidental finance functions. These functions also known as routine functions. Such functions are listed as under:
- Supervision of cash receipts and disbursements and the safeguarding of cash balances:
  - Custody and safeguarding of securities, insurance policies and other valuable documents:
  - Taking care of the mechanical details of financing:
  - Record keeping and reporting:
  - Supervision of fixed and current assets:

#### **4.2.3 Departments under Finance Department**

The Finance Department (FIN) is responsible for mobilization and administration of the Bank's financial resources, both the assets and liabilities, and for the management of the Bank's liquidity, accounting and financial records, and the relations with financial markets and intermediaries. FIN is divided in the Treasury Division and Accounting

Division. The following figure shows the departments under Finance departments which is assumed because these sub departments generally kept in the banking sectors.

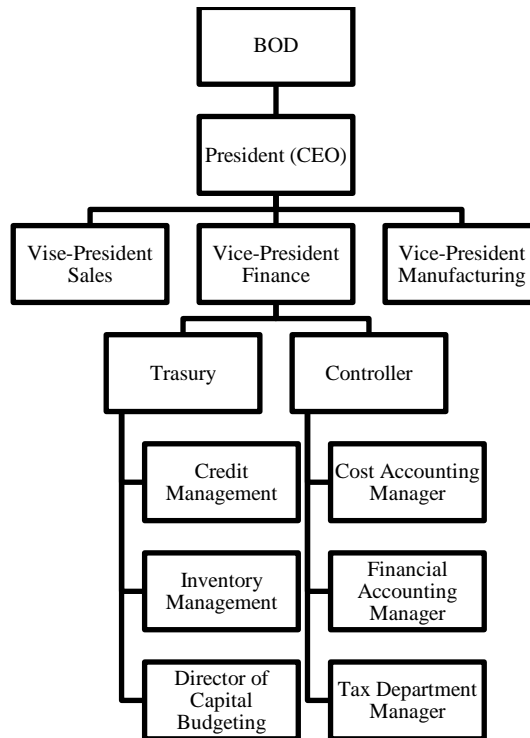


Figure 7 Departments under Finance

#### 4.3 Marketing (role, function, department under Marketing)

Marketing is the process of introducing and promoting the product or service to the market and encourages sales from the buying public. Marketing can be defined as a process of creating and increasing customer's value, selling of goods, and maintaining long-run profitable relationship with the key customers.

The Department of Marketing is a research-intensive department that has produced many papers in leading refereed journal. Academic staff in the department holds positions on a number of boards and have expertise in range of research methodologies and approaches.

#### 4.3.1 Roles of Marketing Department

- Defining and managing your brand
- Conducting campaign management for marketing initiatives
- Producing marketing and promotional materials
- Creating content providing search engine optimization for your website
- Monitoring and managing social media
- Producing internal communications
- Serving as media liaison
- Conducting customer and market research
- Overseeing outside vendors and agencies

#### 4.3.2 Functions of Marketing Department

There is no right or wrong answer and your functions will change over time. As your bank grows, marketing often takes on more functions—either in-house or by outsourcing some of them. Let's look at typical functions within a bank marketing department:

- **Marketing Planning and Strategy:** You should start with a good basic marketing plan, which identifies how marketing will support the bank's business goals and provides an overview of significant marketing initiatives for the year. It's important to set goals and measure your progress against them.
- **Branding:** It's important to define your bank's brand and brand personality in order to build your identity and use your marketing and communications to reinforce it at every opportunity. Your brand is built and reinforced by everything you do in marketing, but also by everything your management and employees do. It encompasses your bank's philosophies and values, your top exec's management style, the look and feel of your facilities, your products, your customer service, your advertising and community outreach, your reputation, the events you do...you get the idea. Just about everything affects your brand. Marketing should be overseeing and protecting the bank's brand.
- **Advertising:** Advertising is the most visible element of your marketing program. Many banks do traditional advertising (print, radio, TV, outdoor)—both image and

product advertising—and more are venturing into online advertising. It is likely that you will have at least some responsibility for advertising compliance, and you probably have responsibility for advertising compliance record keeping. Most banks have a compliance person who reviews and approves all of your public materials.

- **Promotion:** Promotions are usually product-focused campaigns and may or may not include advertising support. Some promotions are only conducted within the bank or are targeted to very specific groups through direct marketing. They usually entail special offers for a limited period of time and an employee sales component. Also included in this category: branch and drive-up merchandising such as digital boards, posters, counter cards, banners, brochures, handouts, displays, promotional giveaways and more. In most banks, marketing manages product promotions, but may or may not manage sales campaigns.
- **Direct Marketing:** In banking, this usually means direct mail pieces and marketing emails, but it can also include targeted telemarketing campaigns, or a combination of the three. A few banks are doing targeted text messaging. As more banks can send targeted messages and offers within online and mobile banking, new direct marketing opportunities will begin to open up for marketers.
- **Online Communications:** Online communications is the fastest-growing function within many marketing departments. While some small banks are still treating their websites like static brochures, more banks are using their websites as a way to become a real resource for customers. Online encompasses several areas, but you may not be involved in all of them, yet.
  - Website (bank and product information, financial resources and content, online applications, product recommendations, online offers, personal financial management, etc.)
  - Search engine optimization (SEO/helping your bank be found in online search)
  - Online advertising (banner ads, pay-per-click, QR codes, mobile SMS text messages and advertising within social media)
  - Social media communications (Facebook, Twitter, LinkedIn, Pinterest, YouTube, etc.)

- **Product and Services:** Marketing should be involved in the development and introduction. In some banks, you will actually manage the new product process, but at the very least you should be a part of the product development team. Less often marketing will be involved in the ongoing management of your bank's products and services. Areas where marketing can make significant contributions:
  - Product research and analysis including competitive analysis and assessing your customers' needs
  - New product development (monitoring trends, conducting surveys, managing new product intros, producing product materials, conducting new product training, tracking new product performance, etc.)
  - Product promotions to build awareness and cross sell new products
- **Delivery Channels:** We used to think of ATMs, phone banking and online banking as banking services, but they are now considered to be banking channels since they are simply another way for customers to access their accounts and manage their money. Other channels include branches, mobile banking, remote deposit capture, digital wallets, etc. It is just as important for marketing to be involved in the design and promotion of your bank's delivery channels as your products and services. Your role may be as a task force member or you may be responsible for channel development, but often ongoing product management is handled by other areas of the bank (or not at all).
- **Sales and/or Sales Support:** Often in smaller community banks, marketing doesn't manage sales for the bank, but most marketing departments are involved in supporting sales efforts. Sales support includes product brochures and sales materials (paper and electronic), employee sales contest and incentives, product campaigns and promotions, sales prospect lists, promotional giveaways for calling officers, online product info, product and sales training, new customer onboarding programs, as well as product-focused direct mail, email and advertising/campaigns.
- **MCIF/Customer Segmentation and Lead Generation:** An MCIF (marketing customer information file) system is used to pull all of a customer's accounts and services into one file in order to get a complete picture of the customer/family relationship. This helps employees better understand the customer's value to the bank

and find opportunities to suggest additional products. At a more macro level, an MCIF helps the bank evaluate customer and product profitability. It can be used to develop many types of lists for direct marketing and cross selling efforts.

If your bank has an MCIF (or a Customer Relationship Management/CRM system), it's probably managed by marketing. In some banks, the data side is managed by accounting or IT and the system is used by marketing. Smaller banks often have to make do with custom core system reports to segment customers and develop lists.

- **Bank and Market Research:** If your bank conducts research, it is probably a responsibility of marketing. Common bank customer satisfaction research includes shopper surveys, comment cards, phone interviews, how are we doing surveys, online forums, etc. You may also conduct research to assess hours changes, policy changes, product enhancements and more. Tracking (product, new account, closed account, cross sell ratio, etc.) may or may not be handled by marketing. Employee satisfaction surveys may be handled by marketing or HR. Community banks often hire outside research firms to conduct more complex studies such as image/brand research, new location assessments, local bank satisfaction/propensity to switch surveys and more. When outside vendors are hired, it is often marketing who directs their work.
- **Public Relation:** Public relations enable you to build relationships and trust with your key publics, or stakeholders. Because a good reputation and strong relationships are so important to the success of community banks, most are very involved in public relations. In small banks, some of this work may be done by areas outside of marketing, such as the exec area, but most commonly, it is handled within the marketing/communications department, sometimes with help from a PR firm. The primary areas of public relations in community banks are under:
  - **Community relations:** donations, sponsorships, community events, employee volunteerism
  - **Media relations:** news coverage on your bank and its employees, providing information to the media and responding to their requests, media training for top staff
  - **Customer relations:** advising bank management on key customer issues, drafting communications, handling crisis communications, image advertising

- **Employee communications:** written materials, events and meetings, brand engagement
  - **Investor relations:** Communications and financial reports (if you are a publicly-traded bank)
  - **Other:** You may also be responsible for other communications, speech writing and managing special events for all of these key groups.
- **Internal Marketing:** Internal marketing is regularly communicating with your employees; listening and informing them about key issues; engaging them in your marketing efforts; and giving them the tools they need to excel in your marketing initiatives, campaigns, product promotions, etc. If you aren't doing internal marketing, you're missing a huge opportunity to make your branding and marketing more effective. As a marketer, you benefit by having employees who believe in the bank's mission, understand the bank's goals, support the bank and serve as brand ambassadors. In some banks, this is handled by HR, but it is important for marketing to make internal marketing a priority.
  - **Customer Service:** Community banks often make customer service a big part of their branding and positioning. If service is a critical part of your bank's market position, it's important for marketing to be involved. This includes ensuring that there are clear service expectations for employees, communicating the bank's commitment to service, monitoring service performance, managing complaints, training employees and helping management recognize top achievers. In some banks, the customer service function is managed by retail banking, operations or the executive area rather than marketing.
  - **Customer Experience:** Customer experience is related to service; it's about managing the whole experience your customer has from the first contact, through account opening and then at all the touch points after that (in-person, by phone, by mail, online, email and mobile). Regardless of who has responsibility for managing customer service and the customer experience at your bank, it will have a major impact on your ability to market effectively, build your brand and retain customers.



- **Defining Your Key Marketing Functions:** That wraps up the key functions most commonly found in a community bank marketing department. I recommend that you start with the chart at the beginning of this post. Use it to help you define what marketing is and isn't responsible for at your bank. Modify the chart and make it your own. Defining your key functions will help you make sure all of your bank's marketing functions are covered, either by marketing staff or by someone else in your bank.

When you have defined your marketing functions and your bank execs have signed off, make sure you communicate the information to the other officers in your bank. If you have marketing staff, it is also helpful to develop a breakdown of functions by position. By communicating the full scope of what marketing is responsible for at your bank, you'll develop respect for your marketing department's role within your bank.

#### 4.3.3 Departments under Marketing Department

The following figure shows the departments under Marketing departments which is assumed because these sub departments generally kept in the banking sectors.

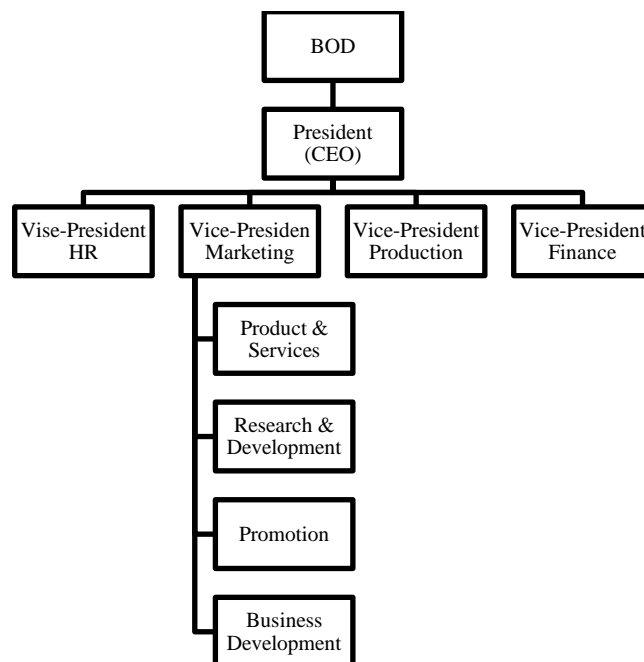


Figure 8 Departments under Marketing

## CHAPTER 5

### ANALYSIS AND FINDINGS

#### 5.1 Analysis of Financial Data of Prabhu Bank Ltd

The Du Pont Analysis, also known as the Du Pont Identity or DuPont Analysis, is a representation that splits Return on Equity (ROE) into three segments:

- Financial Leverage (calculated using an equity multiplier)
- Asset use efficiency (calculated using asset turnover)
- Operating efficiency (calculated using the profit margin)

Based on these three performances measures the model concludes that a company can raise its ROE by maintaining a high profit margin, increasing asset turnover, or leveraging assets more effectively.

**1. Equity Multiplier:** The equity multiplier is a financial leverage ratio that measures the amount of a firm's assets that are financed by its shareholders by comparing total assets with total shareholder's equity. In other words, the equity multiplier shows the percentage of assets that are financed or owed by the shareholders. Conversely, this ratio also shows the level of debt financing is used to acquire assets and maintain operations.

Like all liquidity ratios and financial leverage ratios, the equity multiplier is an indication of company risk to creditors. Companies that rely too heavily on debt financing will have high debt service costs and will have to raise more cash flows in order to pay for their operations and obligations.

Both creditors and investors use this ratio to measure how leveraged a company is.

The equity multiplier formula is calculated by dividing total assets by total stockholder's equity.

$$\text{Equity Multiplier} = \frac{\text{Total Assets}}{\text{Share Capital}}$$

Where,  $\text{Total Assets} = \text{Current Assets} + \text{Non-Current Assets}$   
 $\text{Share Capital} = \text{total no. of share } 32,088,852 @ \text{Rs. } 100 \text{ each}$

The equity multiplier is a ratio used to analyze a company's debt and equity financing strategy. A higher ratio means that more assets were funded by debt than by equity. In other words, investors funded fewer assets than by creditors.

When a firm's assets are primarily funded by debt, the firm is considered to be highly leveraged and more risky for investors and creditors. This also means that current investors actually own less of the company assets than current creditors.

Lower multiplier ratios are always considered more conservative and more favorable than higher ratios because companies with lower ratios are less dependent on debt financing and don't have high debt servicing costs.

The multiplier ratio is also used in the DuPont analysis to illustrate how leverage affects a firm's return on equity. Higher multiplier ratios tend to deliver higher returns on equity according to the DuPont analysis.

**2. Assets Turnover:** Total asset turnover is a financial efficiency ratio that measures the ability of a company to use its assets to generate sales. The total asset turnover ratio is calculated by dividing the net sales by the average total assets.

Unlike other turnover ratios, like the inventory turnover ratio, the asset turnover ratio does not calculate how many times assets are sold. Instead, it looks at how efficiently assets are used.

Since company assets require a great deal of investment, management spends much of its time deciding what assets to purchase and when assets should be purchased or leased. Assets play a crucial role in a business' ability to earn and generate income. For instance, a manufacturing plant wouldn't be able to manufacture products without proper machinery and manufacturing equipment.

$$\text{Assets Turnover} = \frac{\text{Sales}}{\text{Total Assets}}$$

Where, Sales = Direct income

3. **Profit Margin:** Profit margin, also called return on sales, is a financial ratio that measures the profit percentage that each sales dollar generates by comparing net income to net sales. In other words, this ratio calculates the amount of net income that will be generated from one dollar of sales revenue.

The profit margin ratio formula is calculated by dividing net income by net sales. Investors, creditors, and internal management use this calculation to analyze how efficient the business is at producing profits. The results are often looked at from two different perspectives. Analyzers can focus on revenues or expenses. For instance, increasing total revenues can create a more favorable figure. On the other hand, decreasing expenses can accomplish the same favorable figures. That's why; this is a good calculation of efficiency and profitability. It shows how well the company utilized its resources (expenses) to generate sales.

Since the ratio is stated as a percentage, small and large companies across all industries can be compared.

$$\text{Profit Margin} = \frac{\text{Net Profit}}{\text{Sales}}$$

Where, Net Profit = Total Revenue – Total Expenses

#### A. DuPont Analysis:

1. **Return on Assets:** Return on assets, often called return on total assets, is a financial ratio that measures how efficiently and profitably a company can manage their income producing assets. The return on assets formula is calculated by dividing net income by the average total assets during the period. This shows the income that each dollar invested in assets produces during the period. Managers can use this

information to see what assets are producing the most return and steer the focus of the company to those types of operations.

$$\text{Return on Assets} = \text{Assets Turnover} * \text{Net Profit Margin}$$

- 2. Return on Equity:** Return on equity, sometimes abbreviated as ROE, is a financial ratio that measures how profitably a company can use the money it gets from equity investors. In other words, it shows how well the company can make profits from the investments from shareholders. The return on equity ratio formula is calculated by dividing net income by shareholder's equity for a period.

The ratio shows the net income as a percentage of equity. In other words, it measures the amount of net income that was generated from the shareholder's equity.

This is a particular important ratio for both investors and creditors. Investors are looking for companies that can take their money, invest it, and create even higher levels of net income. Creditors, on the other hand, want to make sure that the company is properly capitalized and running efficiently. Ultimately both groups want the same thing. They want to see the company use equity financing to produce greater profits to give investors an adequate return while meeting all of their current obligations to creditors.

$$\text{Return on Equity} = \text{Equity Multiplier} * \text{Assets Turnover} * \text{Net Profit Margin}$$

<b>Year (FY)</b>	<b>2069/70</b>	<b>2070/71</b>	<b>2071/72</b>
Equity Multiplier	11.7156659	10.59548287	14.49416932
Assets Turnover	0.115405245	0.110559813	0.097396964
Net Profit Margin	-0.297563327	-0.130119059	0.224780955
Return on Assets	-3.43%	-1.44%	2.19%
Return on Equity	-40.23%	-15.24%	31.73%

Table 9 DuPont Analysis Summary Table

## B. Data Presentation

The diagrammatically representation of the table data is called data presentation.

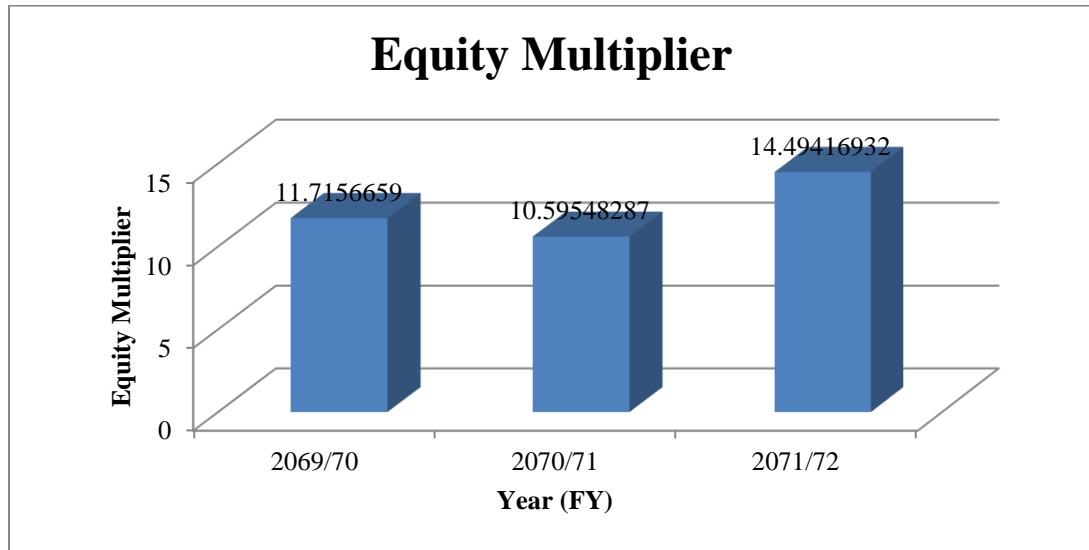


Figure 9 Equity Multiplier

In this graph, the equity multiplier about 11.72 in the FY 2069/70 is greater than in the FY 2070/71 i.e. about 10.60. Similarly, in the FY 2070/71 is about 10.60 is less than FY 2071/72 is about 14.49. That means the equity multiplier is greater than in the FY 2071/72.

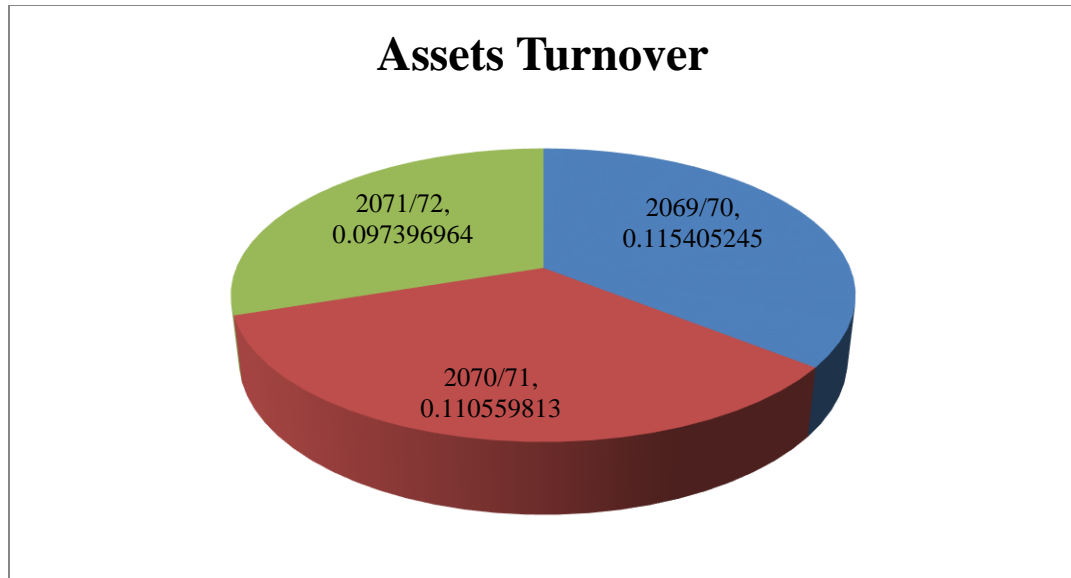


Figure 10 Assets Turnover

In this pie chart, the assets turnover is 36% in the FY 2069/70 is less than in the FY 2070/71 i.e. 34%. Similarly, in the FY 2070/71 is 34% is greater than FY 2071/72 is 30%. That means the assets turnover is greater than in the FY 2069/70.

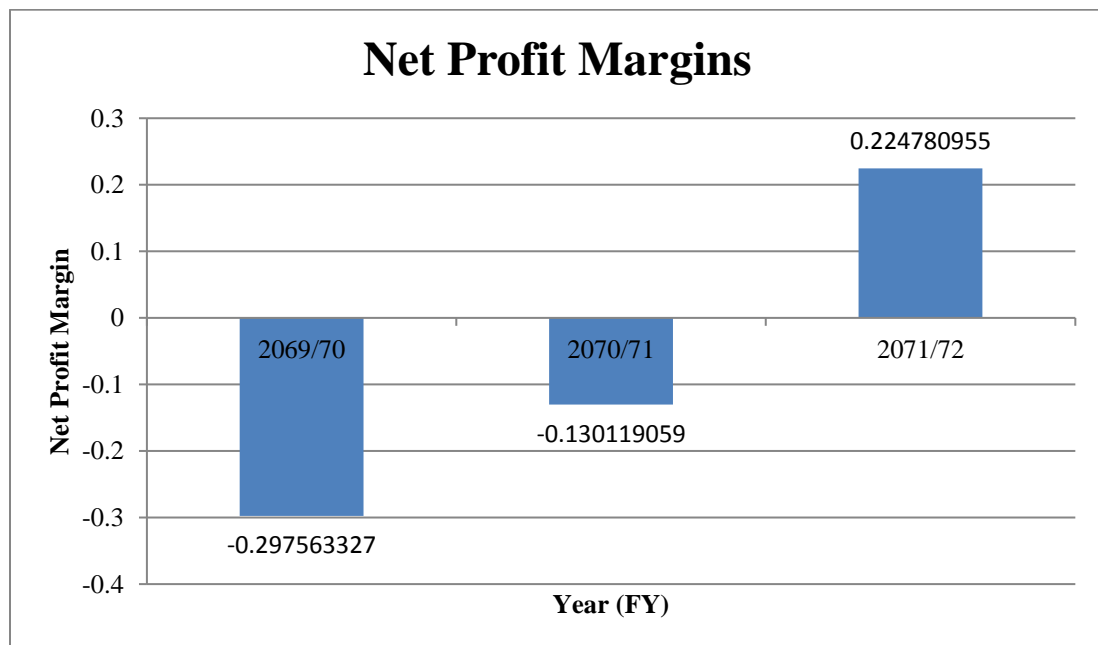


Figure 11 Net Profit Margins

In this graph, the net profit margin about -0.30 in the FY 2069/70 is greater than in the FY 2070/71 i.e. about -0.13. Similarly, in the FY 2070/71 is about -0.13 is less than FY 2071/72 is about 0.22. That means the net profit margin is greater than in the FY 2071/72.

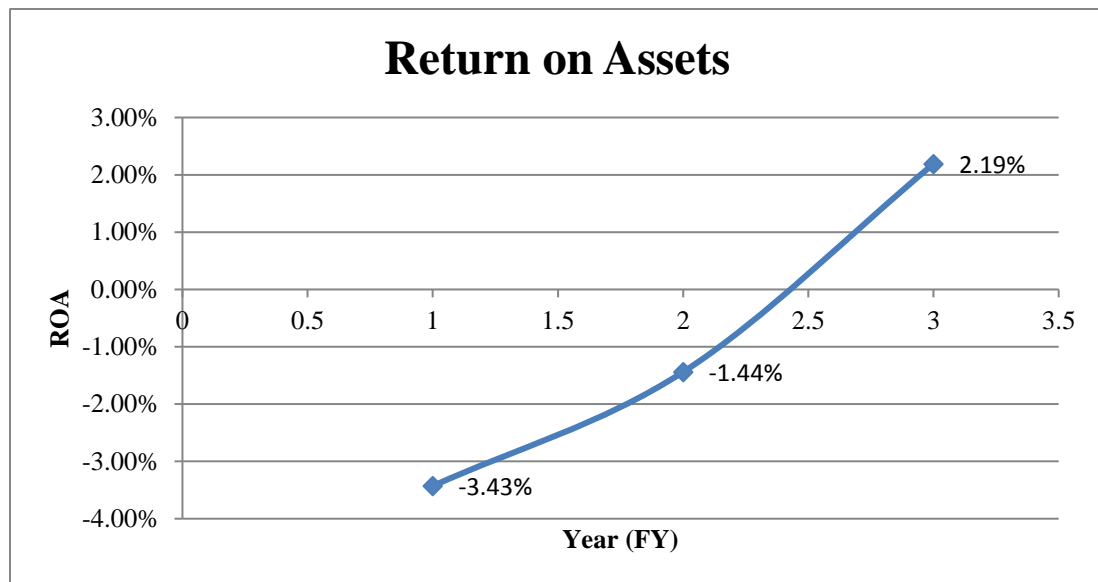


Figure 12 Returns on Assets

In this graph, the return on assets is -3.43% in the FY 2069/70 is greater than in the FY 2070/71 i.e. -1.44%. Similarly, in the FY 2070/71 is -1.44% is less than FY 2071/72 is 2.19%. That means the return on assets is greater than in the FY 2071/72.



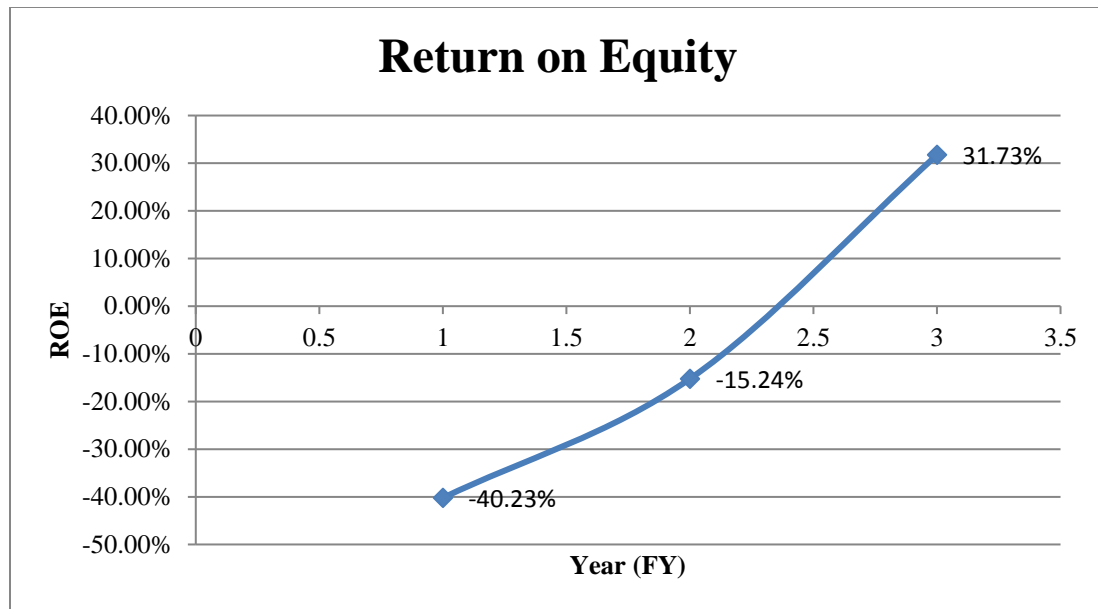


Figure 13 Returns on Equity

In this graph, the return on equity is -40.23% in the FY 2069/70 is greater than in the FY 2070/71 i.e. -15.24%. Similarly, in the FY 2070/71 is -15.24% is less than FY 2071/72 is 31.73%. That means the return on equity is greater than in the FY 2071/72.

**C. Sample of DuPont Analysis Chart of FY 2071/2072**  
**DuPont Analysis 2072**

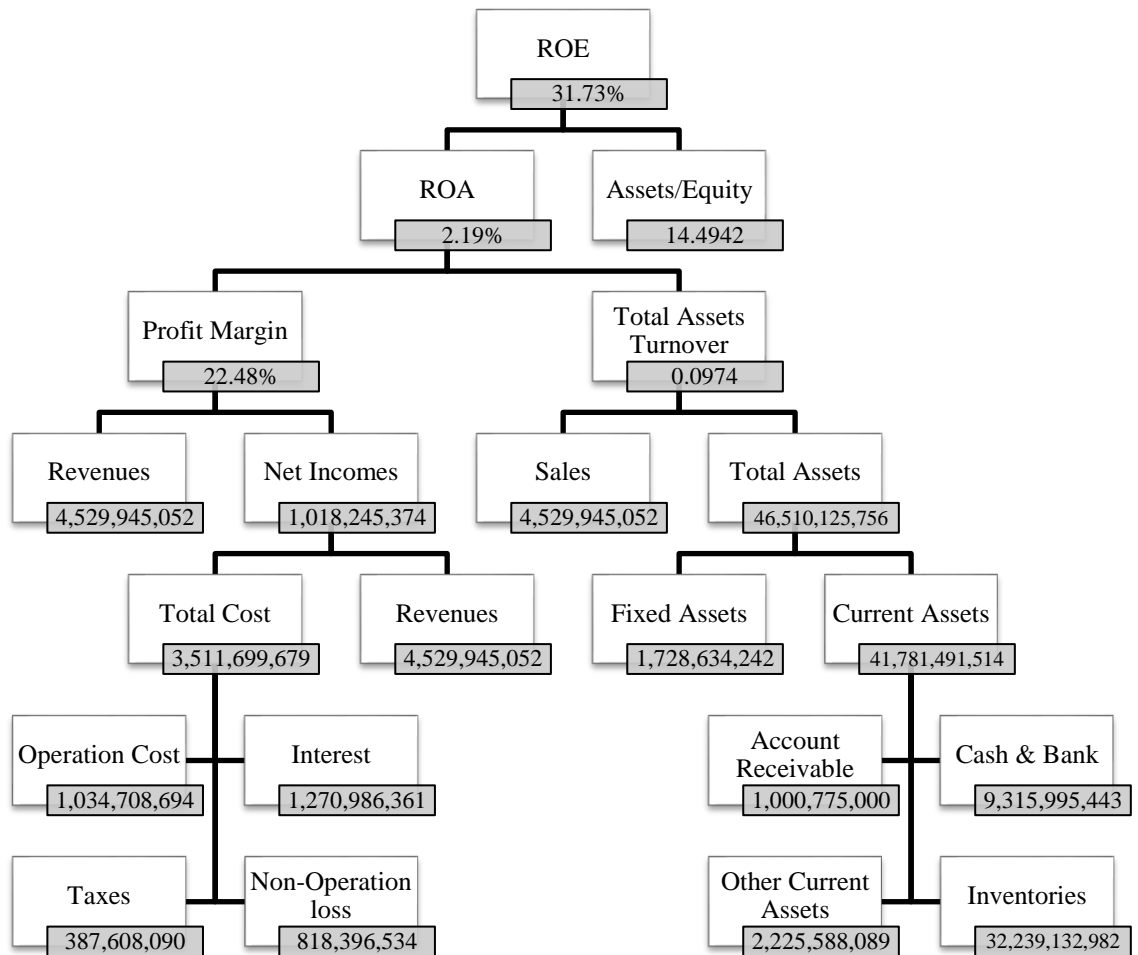


Figure 14 DuPont Chart 2072

## 5.2 SWOT Analysis

SWOT Analysis identifies and analyses the main internal and external factors which influence the future direction and success of a business. It comprises strengths and weaknesses which are the internal factors and opportunities and threats which are the external factors that affect the organization. Such analysis helps managers in strategic planning.

**Strengths:** It refers to a good or beneficial quality or attribute of a person or thing. It is one of the internal environment factors of the organization or company. It shows the situation inside the organization or company. It also shows the factors that tend to be in the present.

**Weakness:** The state or condition of lacking strength is known as weakness. It is also one of the internal environment factors of the organization or company. It shows the situation inside the organization or company. It also shows the factors that tend to be in the present.

**Opportunities:** A set of circumstances that makes it possible to do something is known as opportunity. It is one of the external environment factors of the organization or company. It shows the situation outside the organization or company. It also shows the factors that tend to be in the future.

**Threats:** It refers to a statement of an intention to inflict pain, injury, damage, or other hostile action on someone in retribution for something done or not done. It is also one of the external environment factors of the organization or company. It shows the situation outside the organization or company. It also shows the factors that tend to be in the future.

### **SWOT matrix (2x2 matrix using internal/external categories)**

Here is a typical extension of the basic SWOT analysis grid into a useful 'action-based' 2 x 2 SWOT matrixes. Here the 2x2 matrix model automatically suggests actions for issues arising from the SWOT analysis, according to four different categories:

<b>Strength (Internal)</b>	<b>Weakness (Internal)</b>
<ul style="list-style-type: none"> <li>• High market coverage</li> <li>• Well experienced management team</li> <li>• Dedicated, experienced and well trained employees</li> <li>• Diversified product and services provided to customers</li> <li>• Adequate number of branches all over Nepal</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of Friendly working environment</li> <li>• Quick and efficient service delivery is not proving to be effective</li> <li>• Frequent problems in the ATM</li> <li>• Lack of quick customer response</li> <li>• The customer service department is not able to operate efficiently</li> </ul>
<b>Opportunities (External)</b>	<b>Threats (External)</b>
<ul style="list-style-type: none"> <li>• It can provide better training to their employees to be able to adept themselves with the new technology</li> <li>• It can further increase its spread with the provision of new schemes</li> <li>• It can establish links with the foreign banks to provide extra facilities</li> <li>• It can come up with new innovative products and services</li> </ul>	<ul style="list-style-type: none"> <li>• Political problems ongoing in the country</li> <li>• Lack of stable government</li> <li>• Rapid increase in the number of commercial banks</li> <li>• Various rules and regulations imposed by the governments/NRB</li> <li>• Highly informed customers pose a challenge for the bank to provide better service</li> </ul>

Table 10 2X2 SWOT Matrix

### 5.3 Findings

The important findings of my study are presented as below:

- **Findings of Net Profit/ (Loss):** In year 2070, the situation of Prabhu Bank Ltd was in loss by 804,628,575. Similarly, in the year 2071, the situation of Prabhu Bank Ltd was also in loss by 304,851,936. But in the year 2072, the situation of Prabhu Bank Ltd was in profit by 1,018,245,374.
- **Findings of Total Assets:** In year 2070, the total assets of Prabhu Bank Ltd were greater than 2071 by 2,240,366,078. But in the year 2072, the total assets of Prabhu Bank Ltd were greater than 2071 by 25,319,160,025. So the good situation of total assets was in the year 2072.
- **Findings of Share Capital:** In year 2070 and 2071, the share capital of Prabhu Bank Ltd was 2,000,000,000 but in the year 2072, the share capital of Prabhu Bank Ltd was 3,208,885,224. It means the growth stage of Prabhu Bank Ltd was in the year 2072.
- **Findings of Financial Leverage (Equity Multiplier):** In year 2070, the equity multiplier was greater than 2071 by 1.21. That means there was unfavorable situation in 2070 than 2071. Similarly, in year 2071, the equity multiplier was less than 2072 by 3.899. That means there was favorable situation in 2071 than 2072. So the company should minimize the equity multiplier.
- **Findings of Assets Turnover:** In year 2070, the assets turnover ratio was greater than 2071 by 0.0048. That means there was favorable situation in 2070 than 2071. Similarly, in year 2071, the assets turnover ratio was also greater than 2072 by 0.0132. That means there was also favorable situation in 2071 than 2072. Because the higher assets turnover ratio generate higher revenue.
- **Findings of Net Profit Margin:** In year 2070, the profit margin in loss was greater than 2071. That means there was unfavorable situation in 2070 than 2071. Similarly, in year 2071, the profit margin was also in loss than 2072. So there was also unfavorable situation of Prabhu Bank Ltd But in 2072, there was favorable situation of Prabhu Bank Ltd
- **Findings of Return on Assets:** In year 2070, the return on assets was greater than 2071. That means there was unfavorable situation in 2070 than 2071. Similarly, in

year 2071, the return on assets was also in loss than 2072. So there was also unfavorable situation of Prabhu Bank Ltd But in 2072, there was favorable situation of Prabhu Bank Ltd

- **Findings of Return on Equity:** In year 2070, the return on equity was greater than 2071. That means there was unfavorable situation in 2070 than 2071. Similarly, in year 2071, the return on equity was less than 2072. So there was also unfavorable situation of Prabhu Bank Ltd But in 2072, there was favorable situation of Prabhu Bank Ltd

## CHAPTER 6

### CONCLUSION AND CRITICAL OBSERVATION

#### 6.1 Conclusion

Following conclusions are made from the Financial Analysis of the Prabhu Bank Ltd over the last three FY:

The situation of return on assets and return on equity of Prabhu Bank Ltd was good in the year 2072 than over last two years. Similarly the net profit margin of this bank was also good in the year 2072 than over last two years. The objectives of achieving high level of income seem to be attained by the bank's overall efforts. Increasing profitability ration shows that the bank has highly professional Management team, and committed staffs. The bank seems to have motivated its team members effectively.

The satisfactory level of Earning Spread (ES) of Prabhu Bank Ltd indicates that it has been capable to manage the appropriate gap between its interest income and interest expenses. This has led to a good level of operating income.

The other incomes of Prabhu Bank Ltd also indicate that it has been capable to manage the appropriate gap between its incomes (indirect income) and expenses (it includes selling and distribution expenses as well as office and administrative expenses).

The bank has more strengths and opportunities than weakness and threats.

#### 6.2 Critical Observation

There are following areas of the organization that I will observe to make the conclusion as:

- **Financial Statement Analysis:** Financial statement analysis (or financial analysis) is the process of reviewing and analyzing a company's financial statements to make better economic decisions. These statements include the income statement, balance sheet, statement of cash flows, and a statement of changes in equity. Financial statement analysis is a method or process involving specific techniques for evaluating

risks, performance, financial health, and future prospects of an organization. Financial ratios are very powerful tools to perform some quick analysis of financial statements. There are four main categories of ratios: liquidity ratios, profitability ratios, activity ratios and leverage ratios.

- **Environment Analysis:** The environmental factor (internal and external) has also been analyzed through using SWOT analysis, internal factors analysis summary (IFAS), External factors analysis summary (EFAS). Internal factors include Strength and Weakness of the Company. Similarly the external factors include Opportunities and Threats of the Company.
- **Industry Analysis:** The industry and competitors been analyzed by using Porter's five force model of analysis. The five factors include Threats of new entrance, Threats of Substitutes goods, Bargaining power of the Suppliers, Bargaining power of the Customers, and Competitive Revelry. From the major findings and conclusions made from the study, following suggestions can be made to Prabhu Bank Ltd:

#### **Additional critical observations**

- Prabhu Bank should introduce more and new services to its customers by increasing its operational efficiency.
- The bank seems to have achieved its profit goals. So it must focus on service and social responsibility goals to increase its goodwill.
- There seems to be lower level of liquidity position in the bank. It must constitute an efficient portfolio management committee to invest in short term more liquid securities.
- The bank must try to increase the proportion of equity in capital structure so as to minimize the solvency risk.
- The overall risk of the bank should be controlled by the management.
- The bank must seek for its branch expansion so as to diversify its level of activities and to maintain its market share.
- Employees should be trained as per the changes in the technological environment of the bank.



- The bank should minimize the weakness and threats to keep better position in the market.

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## **APPENDIX**

### **Details reasons about factors of Porter Five Force Model**

#### **1. Procedural aspects for establishing a Commercial Banks**

The following documents should be submitted sequentially while applying for the establishment of a Commercial Bank.

1. Following documents are required to be submitted along with the application to establish a commercial bank: -
  - 1.1 Application
  - 1.2 Bio-data of promoters
  - 1.3 Feasibility Study Report on the proposed commercial bank in the format prescribed by the Nepal Rasta Bank.
  - 1.4 Attested photocopies of the minutes within the promoters to organize the bank.
  - 1.5 Promoters agreement relating to operation of the bank
  - 1.6 Copies of Articles of Association and Memorandum in the prescribed format in the Company Act, 1996. The memorandum should compulsorily include, inter alia, the provision that no person, firm, company and related group of company will be allowed to hold beyond the 10 percent stake on the issued capital in one bank and altogether 15 percent stake in all the commercial banks.
2. Requirements in the case of participation of the firm established in Nepal:
  - 2.1 Photocopy of firm registration certificate
  - 2.2 Broad resolution stating the amount to be invested in the proposed bank
  - 2.3 Certified photocopies of Articles of Association and Memorandum of the INVESTING FIRM.
  - 2.4 List of Directors and proportion of their share ownership
  - 2.5 Tax clearance Certificate of the firm and its directors
3. Certified documents on prescribed amount deposited in the Nepal Rastra Bank

4. Commitment document of the collaborating foreign bank and financial institutions providing Technical Service Agreement in the case of proposed national level commercial bank to be established in the Kathmandu valley.
5. Additional requirements in the case of joint venture of foreign banks:
  - 5.1 Certified minute of the board of directors of the foreign bank with a commitment of the amount to invest on the proposed bank establishing in Nepal.
  - 5.2 Clearance letter from the regulatory authority or the central bank of the collaborating foreign bank.
  - 5.3 Last three year's audited balance sheet, profit and loss statement and cash flow statements.
  - 5.4 Certified copies of joint venture agreement with Nepalese promoters to invest in the proposed bank
  - 5.5 A statement, in the case of the joint venture foreign bank has a holding bank and financial institution or a branch office or a representative office or liaison office in Nepal.
  - 5.6 A justification, in the case of the joint venture foreign bank already has a joint venture in any bank or financial institution in Nepal.

Nepal Rasta bank will provide the letter of intent to the applicants to establish a bank within the four months of period the promoters of the proposed commercial banks have had submitted all the necessary documents and after the study and analysis of such documents only if it would be appropriate to incorporate the bank.

For this, to obtain a the Letter of Intent form the Nepal Rasta Bank, the certified document stating that the prescribed amount has been deposited, should be produced. If the bank is not appropriate to establish, the applicant will be notified by such information. The Nepal Rastra Bank will also provide the required period to make the bank operation while granting the letter of Intent. If the bank will not come into the operation within such time period, it can cancel the letter of intent provided to such bank.

Providing of letter of intent shall not be regarded as the approval to conduct the banking transactions.



After obtaining the letter of intent, following additional documents should be produced to the Nepal Rastra Bank seeking the approval to conduct banking transactions:

1. An Application
2. Technical service agreement in case of foreign joint venture
3. Certified documents stating that the committed amount by promoters has been deposited fully in the Nepal Rastra Bank.
4. The agreement document, if the bank premises are in rent, and the site plan of the bank building along with necessary layout required for bank operation.
5. Information on recruitments of Staffs
6. Statements on Software Application
7. Credit Policy Guidelines (CPG) of the Bank
8. Employees by-laws
9. Information on all the physical infrastructure that are required to operate a bank

The operating license will be provided only after the conformation that all the statements and documents are complete and on the basis of physical infrastructure inspection report submitted by physical inspection team comprising of members from Bank Operations Department, Inspection and supervision Department and Information Technology Department of this Bank.

(Source: <http://anju.page.tl/Commercial-Banking.htm>)

## **2. Minimum Paid-up capital requirements for Banks and Financial Institutions by NRB**

The following table shows the minimum paid-up capital requirements for the banks and finance companies by NRB as:

<b>Minimum Paid-up Capital Requirements</b>	
<b>Categories</b>	<b>Rupees in Million</b>
Commercial Banks	2000
Development Bank (National Level)	640
Development Bank (4-10 Districts)	200-300
Development Bank (1-3 Districts)	100-300
Finance Companies (National Level + 4-10 Districts)	300
Finance Companies (1-3 Districts)	100-300

Table 11 Paid-up Capital Requirements

### **3. Requirements of skills for Manpower (Candidates)**

The following qualifications and skills required for manpower are as follows:

- Citizens with strong interpersonal skills and pleasant personality.
- EXPERIENCE: MBA/ MBS or equivalent degree with specialization in Finance / Marketing/ Human Resources/ Accountancy from a recognized university securing at least 60% marks or 3.25 CGPA.
- MINIMUM REQUIREMENT FOR THE POSITIONS: Fluency in Nepali and English (oral and written)
- Computer Literacy with good working knowledge of Microsoft Office Application

### **4. Intellectual Property Rights**

Intellectual property (IP) refers to creations of the intellect for which a monopoly is assigned to designated owners by law. Intellectual property rights (IPRs) are the protections granted to the creators of IP, and include

- Patents.
- Copyright.
- Industrial design rights.
- Plant varieties.
- Trademarks.

- Trade dress.
- Trade secrets.
- Financial incentive.

Artistic works including music and literature, as well as discoveries, inventions, words, phrases, symbols, and designs can all be protected as intellectual property.

## **5. The Entry of Foreign Banks**

Nepal opened its doors to foreign investors like joint venture partners in the banking sector, which transformed commercial banking services in Nepal. Since then, a variety of private sector based financial institutions have developed.

Nepalese banking industry has considerable changes over past decades because of liberalization, deregulation, improving information technology and globalization. The financial sector liberalization resulted in the entry of new firms in the market, which also added more pressure on competitiveness of individual banks; deregulation widened the scope of activities and expanded the banking activities; advancement in technology resulted into new methods to perform banking activities. Furthermore, the banks, these days, are entering into non-banking markets while other financial institutions are entering into the banking markets that have conventionally been served by the banks. These changes have altered the structure and market behavior of Nepalese banking industry. Currently there are 26 commercial banks out of which 6 are joint venture banks, 63 development banks and 77 financial institutions in Nepal.

At present there is only one international bank operating in Nepal which is Standard Chartered Bank Limited. It started operation in Nepal since 1987 as a joint-venture operation and today it is a part of Standard Chartered Group having an ownership of 75% in the company and 25% shares owned by the Nepalese public. Nepal after its commitment to the World Trade Organization (WTO) during its accession in 2004, has allowed foreign banks to make their foray in Nepal to do only wholesale banking from Jan. 1, 2010. Initially before the agreement with WTO (GATS), the Central Bank regulation allowed foreign shareholders to acquire maximum of 51% shares. Later the

regulation changed which allowed foreign ownership of 75% and the recent regulation of 2010 allows 100% foreign ownership (i.e. allows a local entity to be a branch of a foreign company) in the banking industry.

Entering of foreign firms is likely to generate benefits to financial sector as well as the economy as a whole (Chau HB, 2003). The effects can be seen mainly through an increase in efficiency and technological advancements as mentioned above. Over the past decade, the Nepalese banking industry has been doing well and has a number of new firms entering into the market. However, there is only one foreign bank and 6 joint-venture banks in the banking sector, though the government has liberalized the financial sector and allowed foreign banks to have 100% foreign ownership. With limited number of foreign banks in Nepal, it is still unclear whether entering of foreign banks, including joint venture, helps to improve overall performance of banking sector as well as to spillover some benefit to domestic banks in Nepal.

## **6. Distribution channel of Banks**

The use of information technology by financial sector has changed the way and used new delivery channels (distribution channel) such as:

- Branches
- ATMs
- Internet Banking
- Mobile Banking
- Point of Sale (POI)

## **7. Substitute performance on the basis of Interest rate**

<b>S.N.</b>	<b>Categories</b>	<b>Interest Rate</b>
1	Commercial Banks	
2	Developments Banks	
3	Financial Companies	
4	Micro Finance Financial Banks	
5	Savings and Cooperatives	

6	NGOs	
7	Insurance	
8	Mutual Funds	

Table 12 List of Substitutes'

## 8. Consumer switching cost on the basis of Products and Services of Banks

The following products and services are available in banking system in Nepal as:

S.N.	Products & Services	Annual interest charge rate	
		Commercial Banks	Substitutes'
1	Cheque Book		
2	ATM		
3	M-wallet		
4	E-Banking		
5	SMS Banking		
6	Debit Card		
7	Credit Card		
8	Prepaid Card		
9	Employee Banking		
10	D-MAT Account		

## 9. Substitutes products and services and Industry products and services

S.N.	Substitutes' Products and services	Industry's Products and Services
1	Cheque Book	Stocks
2	ATM	Bond/Debentures
3	M-wallet	Govt. Securities
4	E-Banking	Fixed Deposits
5	SMS Banking	Life Insurances
6	Debit Card	Non-life insurances
7	Credit Card	Other insurances
8	Prepaid Card	
9	Employee Banking	
10	D-MAT Account	

Table 13 Substitutes' and Industry's Products & Services

## 10. Purchase (Uses) of products and services

The following figure represents the customer purchase or uses of products and services which has assumed not exact data of any financial industry or banks.

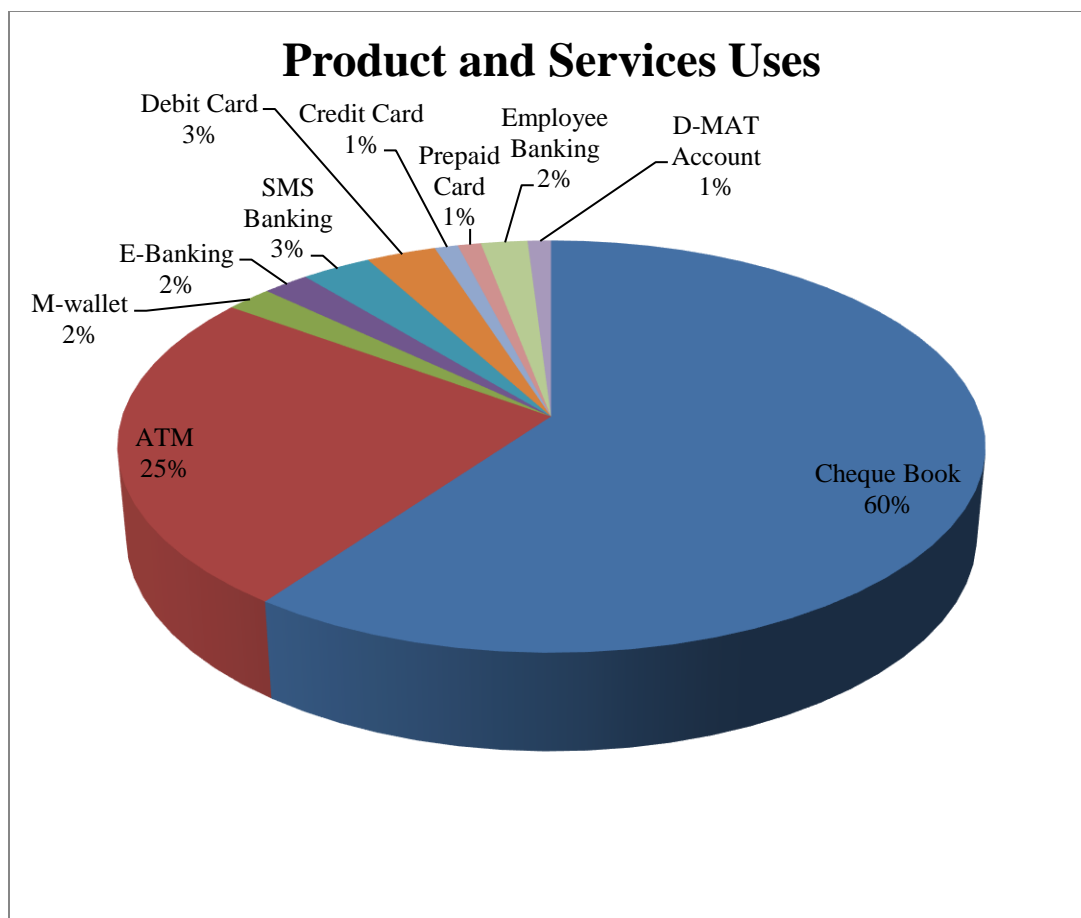


Figure 15 Purchase(uses) of products and services

## 11. Buyers or customer records

Literacy of population is just related to knowledge of buyers about products or services of either banks or other industries' products or services.

According to our estimates 12 179 075 persons or 64.9% of adult population (aged 15 years and above) in Nepal are able to read and write. Accordingly about 6 585 651 adults are illiterate.

Literacy rate for adult male population is 75.58% (6 788 126 persons). 2 193 728 are illiterate. Literacy rate for adult female population is 55.11% (5 390 949 persons). 4 391 923 are illiterate.

Youth literacy rates are 92.59% and 87.39% for males and females accordingly. The overall youth literacy rate is 89.88%. Youth literacy rate definition covers the population between the ages of 15 to 24 years.

Source: <http://countrymeters.info/en/Nepal>

## 12. The availability of Substitutes

Substitutes can be defined as those products or services that meet a particular consumer need but are available in another market.

The threat of substitution affects the competitive environment for the organizations in that industry and influences their ability to achieve profitability because consumers can choose to purchase the substitute instead of the industry's product.

- Largest threats of substitution are not from rival banks but from non-financial competitors, investors, and small co-operative banks and borrowing avenues
- No real threats of substitutes as far as deposits or withdrawals, however Insurance and mutual funds and fixed income securities-offered by non-banking companies
- Alternative banking service/NBFC-Big Ticket Items-Electronic, Jewelry, Cars

S.N.	Name of Substitutes Institutes	No. of Banks
1	Developments Banks	66
2	Financial Companies	42
3	Micro Finance Financial Banks	42
4	Savings and Cooperatives	15
5	NGOs	25
6	Insurance	26
7.	Mutual Funds	9



### 13. Data of Buyers in Nepal

The population of Nepal is estimated to be 26,494,504 people based on the 2011 Nepal census. Generally the age of buyer of any industry is 15-64 age groups people.

Age Group	Male	Female	Total	Percent
15-64	7,437,790	8,410,885	1,584,8675	59.81%

Table 14 No. of Buyers

The Nepal's buyers are 59.81% of total Nepal population and the Commercial Bank's sellers are 11% of total financial industry which means the buyer is greater than sellers.

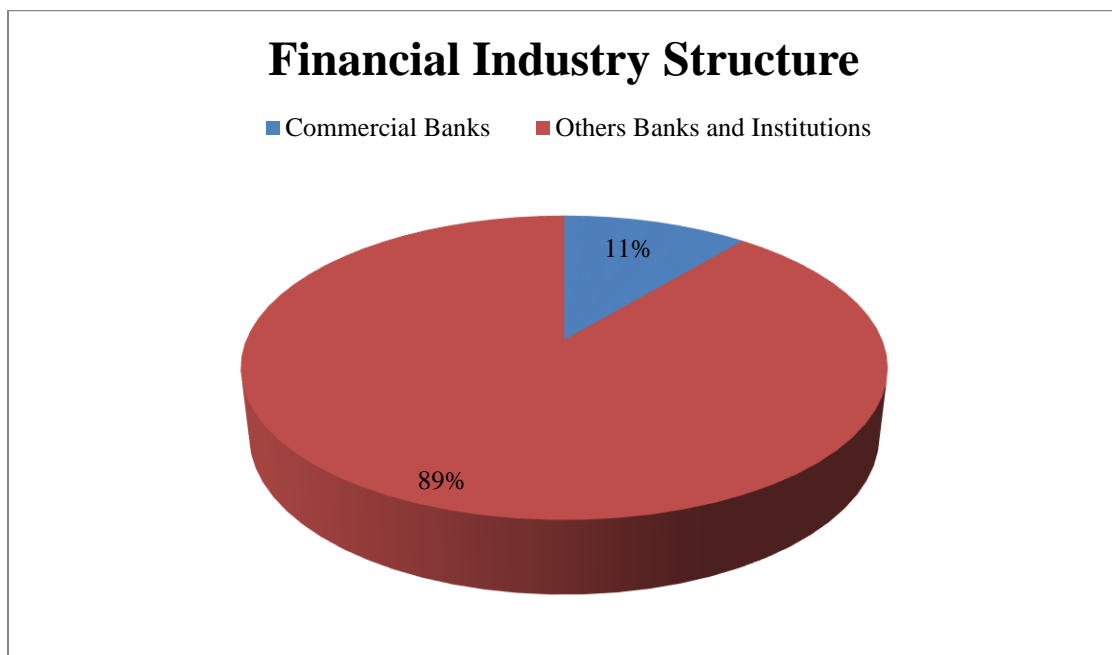


Figure 16 Financial Industry Structure

#### 14. Industry Growth

Financial liberalization is as a part of economic liberalization in Nepal, the number of banks and financial institutions has increased substantially. As of mid-July 2010, the number of commercial banks reached 27, which were 26 in the same date last year

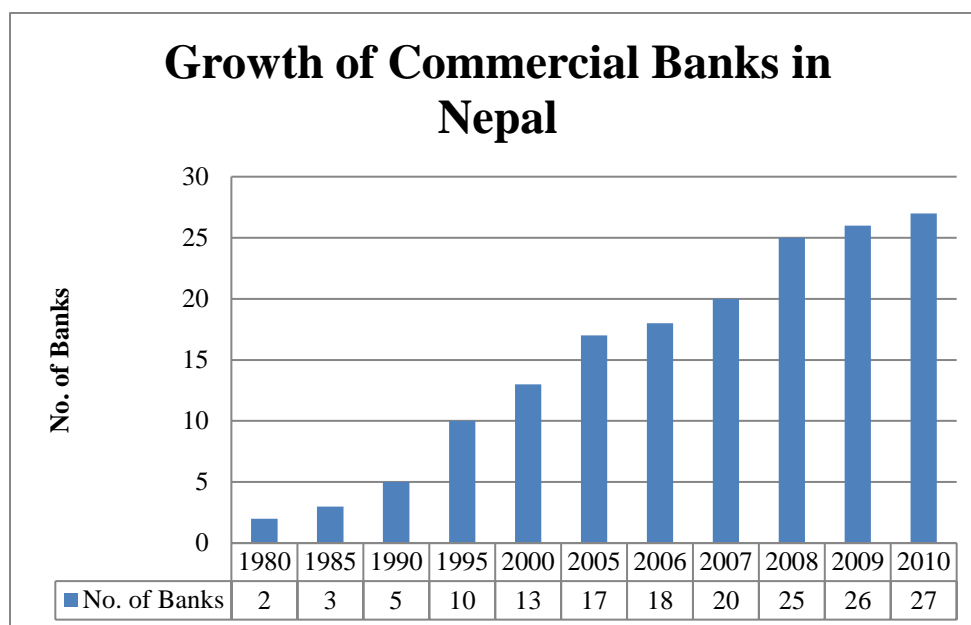


Figure 17 Industry Growth

(Source: [http://nrb.org.np/bsd/reports/Annual\\_Reports--Annual\\_Bank\\_Supervision\\_Report\\_2007-2010.pdf](http://nrb.org.np/bsd/reports/Annual_Reports--Annual_Bank_Supervision_Report_2007-2010.pdf) )

#### 15. Competitors Market Share

Net Profit:

Net Profit is the residual income of a company after adding total revenue and gains and subtracting all expenses and losses for the review period. During the review period (as of 4<sup>th</sup> quarter, 2067/68) compared to same period of previous year, banking industry able to see the growth rate on net profit of just a meager 2.28% which is satisfactory viewing the current problems in the financial system. The total net profit of banking industry is Rs.14.64 billion during the review period. Rastriya Banijaya Bank has able to earn highest net profit whereas Nabil Bank (excluding government bank) is ranked 1 in terms of Net profit during the review period.

(Figure in '000')

<b>Banks</b>	<b>Net Profit (Rs.)</b>	<b>Market Share</b>	<b>Rank</b>
Rastriya Banijaya Bank	1,759,255	12.79%	1
Agriculture Dev. Bank	1,608,081	11.69%	2
NABIL Bank	1,294,046	9.41%	3
Nepal Investment Bank	1,263,332	9.19%	4
Standard Chartered Bank	1,119,171	8.14%	5

Table 15 Net Profit of Top Five Commercial Banks

## 16. Fixed Cost

A fixed cost is a cost that does not change over the short-term, even if a business experiences changes in its sales volume or other activity levels. This type of cost tends to instead be associated with a period of time, such as a rent payment in exchange for a month of occupancy, or a salary payment in exchange for two weeks of services by an employee.

Here are several examples of fixed costs and their value at the end of 2072 of Prabhu Bank Ltd.

<b>Cost</b>	<b>Amount (Rs.)</b>
Amortization	-
Depreciation	644,930,978
Insurance	32,755,700
Interest Expenses	1,270,986,361
Property Taxes	46,89,665
Rents	7,740,514
Salaries	187,938,304
Utilities	41,360,900
<b>Total Fixed Cost</b>	<b>2,185,712,757</b>

Table 16 Fixed Costs

## **18. Suspension and cancellation of license**

1. If any licensed institution does an act in contravention of the Nepal Rastra Bank Act, 2058 (2002) or this Act or the rules or bye-laws framed thereunder or fails to comply with the orders or directives issued by the Rastra Bank or fails to do any act required to be done by it taking into account the interests of depositors, the Rastra Bank may, specifying a certain period, suspend the license obtained by the licensed institution to carry on the financial transactions pursuant to this Act, or fully or partially withhold or freeze the business of the bank or financial institution or of any of its offices.
2. The Rastra Bank may cancel the license obtained by a licensed institution to carry on the financial transactions pursuant to this Act in any of the following circumstances:
  - a) If the concerned licensed bank or financial institution requests for the cancellation of its license;
  - b) If it fails to carry on the financial transactions within six months from the date of receipt of the license;
  - c) If it stops carrying on the financial transactions since more than one month ago continuously;
  - d) If it carries on the financial transactions in such a manner as to be contrary to the rights and interests of depositors;
  - e) If it violates the Nepal Rastra Bank Act, 2058 (2002) or this Act or the rules and bye-laws framed thereunder;
  - f) If it violates the conditions prescribed by the Rastra Bank;
  - g) If it fails to comply with the orders or directives issued by the Rastra Bank;
  - h) If it becomes insolvent;
  - i) If the bank or financial institution is found to have obtained the license by submitting false details;
  - j) If the licensed institution is amalgamated with another bank or financial institution.
3. If any bank or financial institution duly makes an application for the cancellation of its license pursuant to Clause (a) of Sub-section (2), the Rastra Bank shall make a decision thereon within forty-five days from the date of such application.

4. A notice in writing of the decision referred to in Subsection (3) and the grounds of such decision shall be provided to the concerned bank or financial institution.
5. If a decision is made to cancel a license pursuant to this Section, the Rastra Bank shall publish a public notice thereof.

Source: <http://www.mocs.gov.np/uploads/Act%20list%20English/banks-and-financial-institutions-act.pdf>