FINANCIAL PERFORMANCEOF NEPALESE COMMERCIAL BANKS
(With reference EBL and NBL)

A Thesis Proposal

Submitted

By

Shashi Nepal

Central Department of Management TU

Roll No: 820/2016

Registration No: 7-2-162-10-2011

In partial fulfillment of the Requirements for the degree of

Masters of Business Studies(MBS Semester)

In the

Faculty of Management

Tribhuvan University

Kathmandu

1

TABLE OF CONTENTS

1.1 BackgroundoftheStudy

Banking sector is the backbone for the economic development to developing country like Nepal which collects the small unit of amount to huge and accelerates them to productive sector. Complex geographical region, lack of infrastructure development, lack of industrialization development, poor political situation of country, increasing unemployment rate has forced Nepal to be listed under LDCs. Nepal is one of the poorest countries in the world where 31 percentages of the people live below the poverty line. Nepal's GNP is very low and has produced an average per capital income of us $ 1004. Nepal is an agrarian country. It remains as the backbone of the country's economic development. The majority of the country's population is dependent of agriculture. Since this sector is the basis of income and employment generation and the major sources of population.

Liquidity means allocation of funds in close relation to their respective sources.Liquidity is the status and part of the assets which can be used to meet the obligation inthe commercial banks. Liquidity can be viewed in terms of liquidity stored in thebalance sheet and in terms of liquidity available through purchased funds.Liquidity is the ability of a bank to pay cash to depositors on demand. It is thearrangement and the allocation of funds in such a way that can be drawn immediatelywithout any loss of principle.At present, there is no secured investment opportunity for the Nepalese commercialbanks. The banks are facing the problem of vague liquidity in term of monetary firm.The idle money does not make any return. Therefore, the high liquidity may cause oflow profitability and inefficient performance of the overall Banking sector. It maycause failure of banking performance in long term (Pandey, 1999).

Industrialization is an important factor to achieving the basic objective of country's economic and social progress. Industrialization not only provides necessary products and services to the community but also create employment opportunities. If facilitates an effective mobilization of resources of capital and skill, which might otherwise remain unutilized. It also acts as achieve for fostering innovation and technological improvement. Industrial development thus has a multiplier effective on the economy.Bankingindustries is also regarded as one component of economy. It

transfers the scattered funds collected from saving of the public into various productive sectors. Economic activities remains halt in absence of banking industries. It plays the role of catalyst for economic development of the country in the developing country where there prevail unorganized transactions.

It helps to enhance economic activities of the country by providing capital funds for the smooth operation of business activities, create employment opportunities, investing agriculture industry. At present there are altogether twenty eight commercial banks operating in the country among which Nepal bank limited (NBL) and RastriyaBanijaya Bank RBB) has occupied wide range of the business due to access to most of the corner of the country. Slowly private banks are also initiating to move toward every corner of the country but due to prevailing political crisis they are not being able to meet their objects to reach to every corner of the country. Due to increasing competition banks are forced to innovate new products to their customer and they are also shifting from traditional services like Automatic Teller Machine (ATM) cards, debit cards housing loan education loans, vehicle financing.

People deposits their saving in trust of banks repays their deposits promptly when they demand for it. If one bank fails to repay the deposited amount to the public then there will be run in the banks and it leads to insolvency of the banks. So as the regulator, supervisor and inspector NRB always dictate the activities of the banks in the country. It chances its directives from time to time in order to have fair competition between the banks and to safeguards the deposits of the public. As number of banks in the country increase NRB has to be more active towards its regulative and supervising role.

To depict the performance of any firm financial analysis is essential. Past performance often use a good indicator of future performance. Therefore, all parties are interested know the trend of past variable such as sales, expenses, net income, cash flow and return on investment and so on. Financial analysis is the process of critical judgment of detail accounting information given in the financial statement.Financial analysis is the process of determining the significant operation and financial characteristics of a firm accounting data. It shows the relationship between the various components, which can be found in balance sheet and profit and loss statement. The analyze statement contain those information which is useful for management, shareholder, creditors, investor, depositors etc.

1.1Brief profile of sample banks

Everest Bank Limited (EBL)

Everest bank limited was established in 1994 in joint venture with pan jab national bank limited of India. Despite the cut-throat competition in the Nepalese banking sectors, Everest bank has been able to maintain a lead in the primary banking activities loans and deposits. Legacy of Everest lives on in an institution that is known throughout Nepal for its innovative approaches to merchandising and customer services. Products such as premium saving account, EBL proprietary card and millionaire deposit scheme besides services such as ATM and Tele banking were first introduced by EBL. Therefore, the banks stand for the innovations that we bring about in this country to help our customers besides modernizing the banking sector. Hence, it is celebrating its 15 th anniversary successfully in the competitive market.

1.1.2Nepal Bank Ltd. (NBL)

Nepal Bank Ltd. (NBL), 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 of 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 has focus on building positive net worth and minimum capital requirement over the coming five years, focus on increasing the sustainable profit and maximize the efficiency of bank staff.

The Mission of Nepal Bank Limited is use bank's network to increase its reach all over the country from urban areas and help in improving the lifestyle of rural population and in turn become the bank of choice of corporate, medium business and rural market .The bank provide for customers many Services like Safe Deposit Vaults, NBL Smart Mobile Banking, Any Branch Banking Services, Internet Banking, ATM /Debit Card, ASBA Service, Trade Finance and etc. (Website-nepalbank.com.np

1.2 Statement of the problem

Thisapplication in not able to contributethe socio-economic development of the country wherearound80%peopleliveinruraland75%ofthepopulationdepends uponagriculture.Thesebanks shouldexpandtheir operationinrural areas.NRB,asthecentralbankhas rulethatjoint venturebanksshouldinvest10%oftheirtotalinvestmentintheruralareas.Thesebanks areinclined to pay finesrather than investingtheirresources to such less profitablesector. The mainobjective of the bankiscollectedepositsasmuchaspossiblefromthecustomer andto mobilizeintothem mostprofitableandpreferable sector.Thepresentstudy basically focused on the financial performance ofNBL andEBL. InNepal many banksandfinancial companieshaveopenedupwithina span of fewyears.Althoughjointventure bankshave managedtoperform better othercommercialbankswithintheshortperiodof time they have been facing a neck competition against one another. Therefore, it is necessary toanalyzetheprofitabilitypositionofNBLandEBL.Thusthepresentstudy seeks to explore the efficiencyand comparativefinancial performanceofNBLandEBL.

Liquidity management therefore involves the strategic supply or withdrawal from the market or circulation the amount of liquidity consistent with a desired level of short-term reserve money without distorting the profit making ability and operations of the bank. It relies on the daily assessment of the liquidity conditions in the banking system, so as to determine its liquidity needs and thus the volume of liquidity to allot or withdraw from the market. The liquidity needs of the banking system are usually defined by the sum of reserve requirements imposed on banks by a monetary authority.

InNepal,theprofitability rate,operatingexpensesanddividenddistributionrateamong the shareholders hasbeenfounddifferentinthefinancialperformance ofthetwojoint venture banksindifferent periodoftime.Theproblemof the study willultimatelyfindoutthe reasonaboutdifferenceinfinancialperformance.Acomparativeanalysis of financial performanceofthe bankswouldbehighly beneficialforpointingouttheirstrengthand weakness.Althoughjointventure banks are considered efficient, but howfarare they efficient Thisquestion doesemergingbanking sector. At presentwehavetwenty-six eight commercialbanks.Inspireof rapidgrowth, someindicatorsshowperformance isnot much encouragingtowards theservicecoverage.Insuchasituationthestudy tries analyzethe present performance ofbanks, whichwouldgive the answers of following queries.

I.   Whatis theliquidity position ofNBLandEBLbanks?

II.   What is the leverage situation of NBLandEBLbanks?

III. What is theprofitabilityperformance of NBL and EBLbanks?

IV.   What are the impactof liquidity, leverage, activitieson profitability of NBL and EBLbanks?

1.3 Purpose of the Study

Themainobjectiveof the study istoevaluateandanalysisthefinancialperformanceof thesetwobanks .NBL andEBL andto recommendthesuitablesuggestion for improvement.

i.   To analyze the liquidity position   of NBL andEBLbanks.

ii.   To explore the   situation ofNBL and EBL banks.

iii. To analyze the profitability performance of NBL and EBL banks.

iv.   To explore the impact of liquidity, leverage, activities on profitability of NBL and EBL banks.

1.4. Significance of the study

Commercialbanksarenotoneofthemajorcorecomponentsofmoderneconomy.They   givegreater contribution   toGDPtoo.   Theproductionoffinanceandreal–estate   subsector isincreasinglycomparatively.Theslowdown in theeconomicsegments has definite impact onthe bankingsector too. Theslowdown in theeconomicssegmentshasadefiniteimpactonthebanking sector too. Globalizationand accessiontoWTO, SouthAsia FreeTrade Area (SAFTA)andBay of Bengal Initiative for Multi-sect oral Technical and Economic Cooperation (BIMSTEC) membershiphas invited more challenges as well asopportunities. In addition, Branches of foreigncompanies willbe allowed insuranceservicesandwholesale bankingafter January1, 2010. Atthissituation,   thecommercialbanksshouldbemorecompetitive.They   should   become financiallystrength/healthyandmusthavegrowthpotentially.Andtheyhavetoshape

theirplansandstrategiesaccordingly.Insucha   situation,   ,this   studytried   toanalyzeand

indicatetheoverall financialhealthwhether theyare capable tocompete thechallengesand grip to opportunities or not.

So, the study basicallycoveredthecommercial banksfallinginthesamestrategicgroupto bemoremeaningfull.Nosinglemeasurecantellmuch.Thus, a casestudywasconducted onbasedontopfiveprivate–sectorcommercialbanksrankingbyNEPSEaccordingto theirmarketcapitalizationratio.Thusthestudymaybemorefruitfulandrationaletotheir stakeholdersat presentsituation, wherethecommercialbankbecomesadvancingthroughIT –integration.

1.5. Limitationofthestudy

The following are thelimitations of the present study:-

a) Thisstudyislimitedtothecomparativestudyof financialperformanceofjointventureand Government banks NBL andEBL.
b) This studyis based on secondarydata.
c) Thisstudyhasanalyzedandevaluatedofdatatothelatestfiveyearsperiodi.e. since2010/20011 to 2014/2015
d) This study follows with specific tools: - such as ratio analysis, Profitability ratios,statistical tools etc.
e) This study is concerned with fulfilling in partial requirement in MBS.

2. Literature Review

This chapter deals with the review of empirical studies associated with banking financial performance analysis. The available empirical literature is surveyed in to two category as theoretical review & empirical review.

Harsheh and Alkhatib, (2012) Examined the financial performance of five palestinain commercial bank listed on Palestine securities exchange. In this paper financial performance is measured by Tobin's model (price/book value of equity)and economic based performancemade by the data of 5 years to capture the impact of bank size, credit risk, operational efficiency . And found that there is insignificant relationship of bank size, credit risk, and operational efficiency

on financial performance of commercial bank of palest an.

Ally (2013) Analyzed the financial performance of the commercial banking sector in Tanzenia for the period of 7 years from 2006 to 2012. Different financial ratios were employed to measure the profitability of banks in addition analysis of variance (ANOVA) was used to test the significance difference of mean value of the profitability among the banks. The study found that there is no a significant means difference of profitability among the banks in terms of ROA, however a significance differences among banks group is existed in term of ROE and NIM.

Haidary and Abbey, (2018) examined that banks plays vital role in a countries economic system but they are only able to operate on a going concern basis if they are managed effectively and efficiently. For the result generation researcher have used descriptive statistics and multivariate regression analysis to determine the parameters. The findings shows that the banks internal factors have significant impact over its profitability.

3. Theoretical Framework

The theoretical framework is the structure that can hold or support a theory of research study. The theoretical framework introduces and describes the theory that explains why the research problem under study existis . So theoretical framework is a representation of our beliefs on how certain phenomena (or variable or concepts) are related to each other(model)and an explanation of why we believe that these are associated with other (theory).
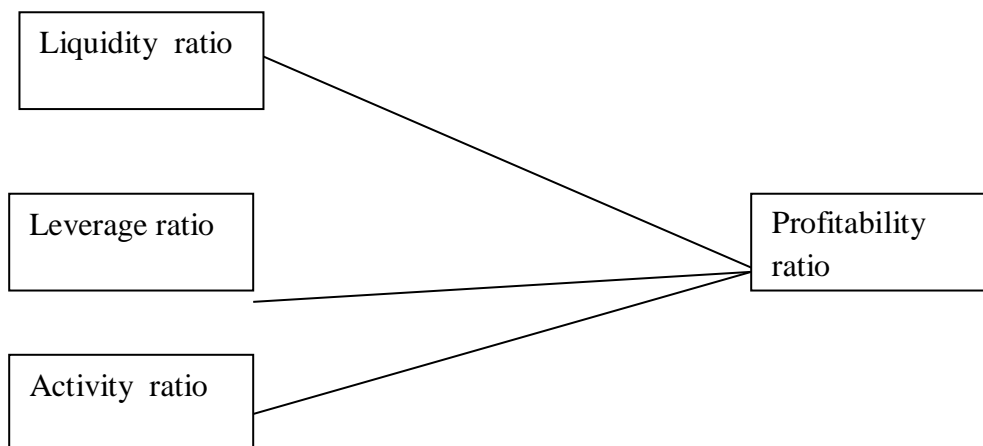
Independent variables   Dependent variables

4Research Methodologies

Therationalebehindthestudy analyze,examineandcomputefinancialperformance ofNBLandEBL.Thus, thischapterincludesthosemethodsandtechniquesusedfor findingout before saidobjectives.

☐Research design

☐Population and sample

☐Sources of data

☐Methods ofdata analysis

4.1 Research Design

4.2 Populations and Sampling

The number of the population of this research is 6 joint venture commercial banks operating in Nepal during the data collection period. In selecting the most reliable and representative samples, stratified sampling technique will be used .The population of the commercial banks can be stratified as joint venture banks will taken into consideration while collecting data .population size of the bank has been depicted by the table presented among them EBL and NBL are taken in account for the study purpose.

Population and Sample size.

Nature of the banks	Name of the banks(population)	Sample size
Joint Ventures Government Bank	1.Nabil Bank Limited	1.Everest Bank Limited
	2.Nepal SBI Bank	2.Nepal Bank Limited
	3.Everest Bank Limited	
	4.Himalayan Bank Limited	
	5.Standard Chartered Bank Limited	

	6. Nepal bank limited	

4.3 Nature and Sources of Data

The main sourcesofdataforthisstudyaresecondary data.Besides, informal discussionnecessary suggestionare takenfromvariousexperts both inside and of the banks when everrequired. Other sources of data are:-

☐Bulletins and reports

☐Annual report of NBLandEBL

☐Discussion with financialofficers,experts, customers, Lecturers and students with direct and indirect way .

4.4 Data Collection and Processing Procedure

Required data will be collected through, the annual reports,websites of respective banks to see the financial performances.

The statistical association is tested through Pearson product-moment correlation (r) using SPSS, computer software used to analyze statistical data. Cornbach Alpha is calculated to confirm the reliability of the data.

4.5 Data Analysis Tools andTechniques

Financialperformance isanalyzed throughthe use of twoimportanttools.The firstmost important tool is the financial toolthat includes ratio analysis.

Statistical tools

Various statistical tools related to this study will be drawn to make the conclusion more reliable according to the available financial data. For this, following statistical tools are used.

1.   Arithmetic Mean or Average

2.   Standard Deviation

3. Coefficient of Correlation

4.   Least Square Linear Trend

5.Research Gap

Since there are more study about this matter but this study purely consider as population to the joint venture banks and making the comparative study of the sample banks to generate the purpose that are predetermined.

6. Chapter Plan

The Research paper is divided in to five chapters. Chapter one is introduction part, second is Review of literature and chapter third is concerns with Research methodology. Chapter four deals with result and discussion, Chapter five is major findings, summary, conclusion and recommendation.

REFERENCES

Abbey B. and Haidary Q. (2018). Financial Performance of Commercial Banks in Afganisthan. *International Journal of Economics and Finance .Vol 8 (1)242-249.*

Agrawal, GovindaRam, (2002), *Dynamics of Business Environment in Nepal,*Kathmandu: M.K. Publisher and Distributors.

Ally (2013) Analyzed the financial performance(Said and Tumin, 2011)and researches focused to single and specific countries conducted includes those for Greece

Ally Z. (2013). Comparative Analysis of Financial Performance of Commercial Banks in Tanzania. *Research journal of Finance and Accounting .Vol (4),19133-143.*

Bajracharya, Pushkar, OjhaKhagendra, GoetJoginder, Sharma Sagar. (2004), *Managerial Accounting*, Vol-2, Kathmandu: Asmita Books Publisher & Distribution.

Bhandari,DilliRaj.(2003),*BankingandInsurance,*3rdedition,Kathmandu:AayushPublication.

Chakraborty,HrishikeshandChakraborty,Srijit,(1997),*ManagementAccounting*.2ndEdition, New Delhi: Oxford UniversityPress.

Dahal,BhuvanandDahal,Sarita(2000).*AHandBooktoBanking,*Kathmandu:AsmitaBooks and StationaryPvt.Ltd.

Harsheh M. and Alkhatib (2012).Financial Performance of Palestinian Commercial Banks .*International Journal of Business and social Science.Vol (3)175-184.*