

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. The term is also used as a general measure of a firm's overall financial health over a given period. Analysis and investors use financial performance to compare similar firms across the same industry or to compare industries or sectors in aggregate. There are many ways to measure financial performance, but all measures should be taken in aggregate. Line items, such as revenue from operations, operating income, or cash flow from operations can be used, as well as total unit sales. Furthermore, the analyst or investor may wish to look deeper into financial statements and seek out margin growth rates or any declining debt (Bhandari, 2008).

Performance Analysis provides the athletes and coaches with objective information that helps them understand performance. This process is underpinned by systematic observation, which provides valid, reliable and detailed information relating to performance. Performance Analysis can help enhance the coaching process by providing statistical and video information (Gupta, 2009).

Commercial banks play an important role in affair of the economy in various ways. The operations of commercial banks record the economic pulse of the economy. The size and composition of their transaction mirror the economic happening in the country. They are essential instruments of accelerated growth in a developing economy, by mobilizing community savings and diverting them into productive channels commercial banks expand and appreciate the value of aggregate economic activity in the economy. It has been witnessed that the Nepalese economy has been passing through very difficult times over the decade. Agriculture and Non-agriculture production has remained constant so far over the decade after the restoration of democracy in Nepal. Foreign aid in the form of grants now has been turned into loans that have to be repaid within the stipulated time period with certain interest. As a

result we see that debt payment is eating up the huge portion of annual budget of the government (Joshi, 2008).

It is the harsh reality that the development of economics conditions cannot be improved without the help of banking industry. After the implementation of the policy of privatization and economic liberalization policy by the government, it is seen that there is remarkable growth in the banking industry in Nepal. The financial system in Nepal has evolved from a narrow, repressed regime till the eighties to a dynamic expanding sector in the nineties. This constitutional network and the volume of operations of financial system have expanded and diversified with the number of increased in commercial banks.

1.1.1 Profile of the Organization

a) Nabil Bank Limited

Nabil Bank Limited is the nation's first private sector bank, commencing its business since July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 118 points of representation. In addition to this, Nabil has presence through over 1500 Nabil Remit agents throughout the nation.

Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business. Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes international standard banking software that supports the E-channels and E-transactions.

Nabil is moving forward with a Mission to be "1st Choice Provider of Complete Financial Solutions" for all its stakeholders; Customers, Shareholders, Regulators, Communities and Staff. Nabil is determined in delivering excellence to its stakeholders in an array of avenues, not just one parameter like profitability or market

share. It is reflected in its Brand Promise “Together Ahead”. The entire Nabil Team embraces a set of Values “C.R.I.S.P”, representing the fact that Nabil consistently strives to be Customer Focused, Result Oriented, Innovative, Synergistic and Professional.

Table 1.1 Schedule of Capital Structure of Nabil Bank Limited

Particular	Rs.
1.Authorize capital	
100,000,000 ordinary shares of Rs 100 each	10, 000, 000, 000
2.Issued capital	
90,118,544 ordinary shares of Rs 100 each	9,011, 854, 400
3.Paid up capital	
90,118,544 ordinary shares of Rs.100 each	9,011, 854, 400

Source: (www.nabilbank.com.np-2076/77)

b) Nepal Investment Bank Limited

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one of the largest banking group in the world.

Later, in 2002 a group of Nepalese companies comprising of bankers, professionals, industrialists and businessmen acquired the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd., and accordingly the name of the Bank also changed to Nepal Investment Bank Ltd.

Table 1.2 Schedule of Capital Structure of Nepal Investment Bank Limited

Particular	Rs.
1.Authorize capital	
150,000,000ordinary shares of Rs 100 each	15,000,000,000
2.Issued capital	
128,697,491 ordinary shares of Rs 100 each	12,869,749,100
3.Paid up capital	
128,697,491 ordinary shares of Rs.100 each	12,869,749,100

Source: (www.nibl.com.np-2076/77)

1.2 Statement of the Problem

Financial performance analysis is a relatively new concept in Nepalese. Many companies still have no awareness towards it. The study proposes to the investors' awareness about the financial performance analysis of the financial institutions while investing. Investors can be classified into three categories on the basis of risk and return. First type of investors is risk seeker who becomes ready to face high risk in the hope of high return. The second type of investors is risk averters who try to avoided risk and ready to be satisfied in the low return. The third type of investors comes along in between these two investors called risk neutral. These investors are ready to bear medium sized risk and have medium sized return.

The major problem in almost all underdeveloped countries and Nepal is no exception, is that of capital formation and proper utilization. In such countries, the commercial banks have to shoulder more responsibilities and acts as development banks, due to the lack of other specialized institutions. Thus, in this scenario of Nepalese Commercial banking sector, this study mainly seeks the answers of the following specific problems related to financial performance analysis of Nabil Bank Ltd. and Nepal Investment Bank Ltd. This study has tried to answer the following statement problems:

- i. What is the liquidity management, asset management efficiency, profitability position, risk position, investment practices of aforesaid Banks?

1.3 Objective of the Study

The main objective of the study is to compare the financial performance analysis of Nabil Bank Ltd. and Nepal Investment Bank Ltd. However the specific objectives will be as follows:

- i. To analyze the liquidity management, asset management efficiency, profitability position, risk position, investment practices of aforesaid Banks.

1.4 Significance of the Study

Commercial banks in the developing countries like Nepal have the greatest responsibility towards the economic development of the country. In modern times, since credit or bank money establishes majority is of the economy's aggregate money supply, it mostly changes the volume of bank money or credit rather than changes in

the total supply of the high -powered money issued by the reserves held by the bank against their deposit liabilities that account for changes in the aggregated money supply.

The main goal of the bank as a commercial organization is to maximize the surplus by the efficient use of its funds and resources. In spite of being a commercial institution, it too have a responsibility (obligation) to provide social service oriented contribution for the social economic upliftment to the country by providing specially considered loans and advances towards less privileged sectors.

Hence, the study is needed to examine the overall performance of Nabil and NIBL especially in collection of deposits and its utilization. The study will have to know the overall performance of Nabil and NIBL. So, it will be useful for the different stakeholders.

1.5 Limitations of the Study

This study has the following limitations:

- i. The study is based on secondary data collected from the commercial bank. Research based on secondary data may be far from accuracy due to inherent character.
- ii. A whole study is based on the data of five years period i.e. from fiscal year 2072/73 to 2076/77 and hence the conclusion drawn confines only to the above period.
- iii. The scope of the studies limited within the sampled commercial banks.
- iv. Among many factors affecting investment decision, only certain factors i.e. liquidity, profitability, diversification, growth, etc. have been considered.

1.6 Literature Review

Review of Books and Unpublished Thesis

Peter (2013) study is based on systematic risk with capital assets pricing model (CAPM). The CAPM states that the expected return on asset is the sum of the return on risk free asset and the return commensurate with the assets market risk. There are many assumptions underlying the CAPM which are beyond this study but the basic premise is that investor hold diversified portfolios of all market securities and the return on a given investment is determined by the risk free rate and the assets co-

variance with the market portfolio. This study found the greater the beta, the more sensitive are the returns on the stock to changes in the returns on the market as a whole.

Chhetry (2013) has submitted a thesis "A study of application of portfolio theory in financial institutions of Nepal" for the fulfillment of master's degree. The study is based on the secondary data analysis. Necessary data was taken from the NEPSE. Chhetry has made this research with the fifteen financial institutions. The main objectives of Chhetry's research work were shown below:-

- i. To examine the application of portfolio theory in financial institution of Nepal.
- ii. To examine whether the risk can be diversified by investing in portfolio of assets.
- iii. To examine the differentiation of riskness inherent in any single asset held in portfolio from the riskness of that held in isolation.

The study used statically as well as ratio analysis to analysis the data in this research work to fulfill this study's objectives. The study pointed out various findings based on the analysis of data and information. There are some major findings are given below:-

- i. The portfolio risks of fifteen financial institutions were diversified.
- ii. The portfolio of risk of fifteen financial institutions was less than the average risk of the fifteen financial institutions
- iii. The relationship between the risk and return was negative for insurance and finance company where as Banking industry shows the positive relationship between the risk and return.

Mustafa (2014) has conducted a research about "Portfolio Management of listed joint venture banks in Nepal. This study used the secondary data analysis with four joint venture banks. The main objectives of Mustafa's are given below:-

- i. To examine the riskness of Nepalese joint venture banks.
- ii. To analysis the risk return ratio of commercial banks.
- iii. To evaluate the financial performance of joint venture banks.

This study used the statistical tools to analysis the data in this research work to fulfill the above objectives. This study found various finding based on the analysis of data. There are few major findings which are given below:

- i. The mean investment of joint ratios of Everest Bank Limited is higher among the other banks.
- ii. Everest Bank Limited is the highest risky among the four joint venture banks.
- iii. Standard Chartered Bank Nepal Limited is the best among the sample banks.

Shrestha (2015) has studies on "Optimal portfolio investment in Nepal ". The main theme of this study is to analyze rationalities of portfolio theory in context of Nepalese Security Market. Always investor tries best to make sure return is not cent percent sure or investment will not ruin. The study mainly focused on the specific sector of market currently listing in NEPSE for last 6 years and this study mainly based on the different categories. This study is based on secondary data as well as primary data of 6 years collected by small survey of 25 investors main objectives of this study are to find out and analyze the major problem of investor regarding the selection of optimal portfolio, by developing the understanding for the portfolio investment. This study tries to analyze the risk and return market sensitivity, composition of risk and pricing status of securities, and to suggest the measure for the improvement of investment rationalities. The investor should be aware of risk and return. This research helps the investors to find out the degree of risk associated with the stock systematic and unsystematic risk estimation of stock.

Acharya (2016) has studies on "Portfolio Management in Financial Institutions of Nepal. The study is based on the secondary data. This study uses the sample of various selected commercial banks, financial companies and insurance companies. The objectives of this research work have been briefly given below:-

- i. To examine the risk and return of Nepalese Financial Institutions.
- ii. To evaluate the financial performance in terms of portfolio risk and return of Nepalese financial Institutions.
- iii. To examine the risk can be diversified by investing portfolio.

The study used the various statistical tools for the analysis of the data in the research work for achieving its objectives. The study found various finding based on the analysis of data. Some of the major findings of this research work have been given below:-

- i. Annapurna Finance Company has better financial performance on the basis of the return of assets.

- ii. Ace Finance Company has highest return with highest risk on the basis of the return on equity.
- iii. On the basis of return on equity, as the number of securities increased the standard deviation or risk decreased.

1.8 Research Methodology

The main objective of this topic is to identifying the tools to analyze, examine, highlight and compete the portfolio managements and recommend suggestions for improvements. This chapter looks into the research designs, nature and sources of data, data collection, procedures and tools and techniques of analysis.

1.8.1 Research Design

For the purpose of this study, a quantitative research design has been followed. Quantitative method are used which focuses on gathering the numerical data. Descriptive and analytical research design are used to generalize the study to find out the financial performance analysis practices of Nabil Bank Limited and Nepal Investment Bank Limited.

1.8.2 Population and Sample

The study is focused on 'A' graded commercial Banks, the total number of commercial banks currently 27 bank are operating in Nepal. Nabil Bank Limited and Nepal Investment Bank Limited are selected as sample by using convenience sampling method for the evaluation. Similarly, financial statements of five years F.Y. 2072/73 to 2076/77 are used for the evaluation of the study.

1.8.3 Nature and Sources of data

The data for the study will be collected from secondary sources. It will be makes the study more realistic and meaningful because of the use of historical and secondary data. The secondary source of data will be used to compare the situation of banks before and after merger. This study will merely base on secondary data. Some of the sources of the data will be as follows:

- i. Annual reports of commercial banks.
- ii. Materials published in magazines.
- iii. Related Websites
- iv. Course books etc.

1.8.4 Data Collecting Procedures

As mentioned above all the data's for the study will be collect from the secondary source. The annual report, websites and other information of Nabil Bank Ltd and Nepal Investment Bank Ltd will be obtains from the commercial banks. Similarly NRB publications will be collect from the website of NRB. First of all, necessary data will be extracts from the audited financial statements which will record in the master sheet to work out the financial ratios and prepare the necessary figures. Finally, different financial ratios will work out with the help of computer programs like Microsoft Excel, Microsoft Word and SPSS.

1.8.5 Tools and Techniques used

The analysis of data consists of organizing, tabulating, and performing statistical analysis. In this study, various financial and statistical tools will be used to achieve the objective of the study. According to the pattern of data available, the analysis of data will be done. The various tools applied in this study will be briefly presented as under:

1.8.6 Financial Tools

Portfolio Management is analyzed through the use of two important tools. The financial tool is one of the most important tool, which includes ratio analysis and the other one financial statement analysis will be used in this study. Financial tools will be used to examine the financial strength and weakness of commercial banks. Although there are many financial ratios, only selected ratios will be used in this study.

A) Liquidity Ratios:

1. Current Ratio

- i. Cash and Bank Balance to Total Deposit Ratio:
- ii. Cash and Bank Balance to Current Assets Ratio:

2. Assets Management Ratios:

- i. Total Investment to Total Deposit Ratio:

4. Profitability Ratios:

- i. Interest Income to Total Income Ratio:
- ii. Interest Expenses to Total Expenses Ratio:

- iii. Return on Assets (ROA):
- iv. Return on Equity (ROE):

1.8.7 Statistical Tools

Under this heading some statistical tool such as coefficient of correlation analysis between different variables, trend analysis of deposit, loan and advances, net profit and EPS are used to achieve the objective of the study.

- i. Arithmetic Mean
- ii. Standard Deviation
- iii. Coefficient of variation
- iv. Trend Analysis

1.9 Organization of the Study

The whole study has been divided into five chapters as:

Chapter I. Introduction: This Chapter deals with the background of the study, focus of the study, introduction of banks under study, statement of the problem, Objective of the study, Significance if the study, Limitations of the study, and organization of the study.

Chapter II. Review of Literature: This chapter includes the conceptual review and review of related studies.

Chapter III. Research Methodology: This chapter includes the research design, sources of data and data analysis tools.

Chapter IV. Presentation and Analysis of Data: This chapter includes the liquidity ratios, assets management ratios, activity ratios, profitability ratios, growth ratios, correlation coefficient analysis, trend analysis, and major findings of the study.

Chapter V. Summary, Conclusions and Recommendations: This chapter includes Summary, Conclusions, and Recommendations of the study.