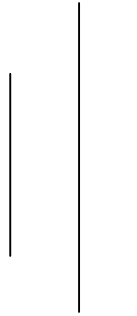


# **A Thesis Proposal on**

Financial Performance Analysis of Nepal bank limited



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## **1. Background of the Study**

Financial institution plays vital role in the economic growth of the country. Financial infrastructure of an economy consists of financial intermediation, financial institution and financial markets. Financial institutions mainly facilitate the development of Nepalese trade, industry and commerce.

Nepal has adopted mixed economy system, which is known to be combination of good aspects of socialistic and capitalistic economic system, in this economic system both government and private sector are active for the industries since 1990, Nepal has adopted more liberal and open economic system with high emphasis on private sector led growth in the early years of development the government had taken the leadership for industrial development by establishing industries under its ownership.

Bank is one of the financial institutional which provides to public borrowing and lending. Now a day the banking sector has reached to the most remote areas of the country and has gain a good experienced in the growth of the economy. The present structure of the financial institution is based on commercial banks. The banking sector is largely responsible for collecting household saving in terms of different types of deposits and regulating them in the society by lending in different sectors of economy.

Financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account. Quality governance is impossible without effective analysis and evaluation of financial information. In financial analysis a ratio is used as an index for evaluation the financial position and performance of a firm. Analysis and interpretation of various ratios should given an experience and skilled analyst a better understanding of financial condition and performance of a firm than he/she would obtain from analysis of the financial data alone. So, financial analysis depends to a very large extent on the use of ratio through other equally important tools of such analysis.

In developing country commercial banks are very important of the financial approach. They always concern about how to make funds and how they lending and investing to their

borrowers. Financial institutions provide capital to the entrepreneurs for the development of industry, trade and business by investing saving collected as deposits. They also providing good services to their customers, facilitating their economic activities, thus, integrated and speedy development of the country is only possible. When competitive and reliable banking services are developed and carried to every hook and corner of the country.

One of the basic objectives of establishing a commercial bank is to earn optimal profit by proper utilization of fund. By mobilizing public money and channeling the same to various business and production activities. Commercial banks contribute to the development of the country. In a developing country like Nepal, saving is low and scatters in small amounts which individuals residing in different corners of the country. Mobilization of such savings is made by commercial banks through their branches established in different parts of the country.

### **1.1 Banking History of Nepal**

Although the first step towards the establishment of a modern bank was taken as late as in 1937 AD, it does not mean that banking in Nepal is of recent origin. "Historically the banking system is traceable far back into dim ages of the past although the old chronicles contain at places obscure details, inaccurate figures and even impossible facts" (*Pant; 1980:117*). However, "the history of banking and currency in the country becomes definite only from the fifth century that is in the Lichhavi period, when the first coins were minted" (*Pant; 1980: 940*).

In the history of Nepal, banking activities in ancient time can be inferred. Guna Kam Dev did rebuilding of Kathmandu in 723 from borrowing. In the Nepalese chronicle, it was recorded that Shakhadhar and Sudra merchant of Kathmandu introduced a new era known as Nepal Sambat in 879 or 880 AD after having paid all the outstanding debts in the country. This is considered to be an adequate basis for a logical inference that the money lending operations were in practice during that period.

The reign of Jayasthiti Malla is recognized as the glorious age for codifying the law relating to commercial transaction and immovable property. This reform "has left a lasting impression upon the Nepalese Nation of even today; and it is from about Raja Jayasthiti Malla reign

onward that the granting of loans against immovable property must have more commonly, if not newly, practiced in the country” (*Pant; 1980: 8*). He also classified the people in 64 classes on the basis of their occupations, which included a class called "Tanka dhari" meaning money dealers. This is lenders and bankers during the medieval period of Nepal. It is believed that money lending business, particularly for financing the foreign trade with Tibet, became quite popular during the reign of Mallas. Advance for commercial transactions against personal security or merchandise, remittance service for foreign trade (with India and Tibet) and loans for personal use were common with the increases in demand for these services. A large number of people took to this business, demoralization crept in the profession and consequently, several types of malpractice became their favorable technique. Thus, cheating and fraud were common in the absence of any regular measure during the Malla period and onward. The unscrupulous money was known to have charged exorbitant rates of interest and other extra dues on loans advanced. Also people were facing great inconveniences in obtaining loans at reasonable terms.

Ranodip Singh, the Prime Minister for 8 years from 1877-1885, took a concrete step by establishing a government institution called "Tejarath" for supplying easy and cheap credit 5% interest to the public on the security of gold and silver ornaments. At the same time government servants also had the privilege of taking loans from this newly established office, repayable in investment from their salaries at source.

In the overall development of banking system in Nepal, the "Tejarath Adda" may be regarded as the father of modern banking institutions, and for quite a long time it rendered a good service to general public as well as to the government servants. Later on, with the evolution of some kind of systematic banking the government's cashier office had the primary responsibility of handling government accounts but not the public account.

Only in 1937, during the time of Juddha Shamsheer, even with the non-existence of a central bank, the first commercial bank of the country, Nepal Bank Limited (NBL) was established on November 15 (Kartik 30; 1994 BS). This marked the beginning of an era of formal banking in Nepal, thus "Tejarath" was replaced by a commercial bank. The establishment of NBL solved to the great extent the problem of commercial banking in Nepal. It made available facilities for depositing and borrowing money for commercial and agricultural pursuits. It also provided remittance facilities for settling internal and external transactions to

create banking habit of the people, widening monished area and helped the government and business community in various ways.

Despite the above fact, the lone NBL was not in opposition to cope with all problems due to its limitation in respect of financial position and scope of business. "The credit needs of the people are still predominantly met by in dangerous money lenders and a very large portion of the productive activity of the community banking system" (*Pant; 1980:115*). In order to overcome these difficulties the government establishment in 1956, the first Central Bank, "Nepal Rastra Bank" under the NRB Act of 1954. The setting up to this Central Bank marked another milestone in the history of growth of banking.

While the Nepal Bank Ltd. was facing the problem of utilization funds mobilized by it, the government came forward with a proposal to set a new commercial bank in public sector. Accordingly, to spread banking habits and to fulfill the growing credit requirements, state commercial bank, known as Rastriya Banijya Bank was set up on July 23, 1966. It contributes to the development of banking system, particularly in the remote areas lying in the hilly regions.

But these institutions could not properly fulfill the demand of public. There is a great needed of other commercial banks. So, Nepal has adopted the policy of economic liberalization to develop the economic condition through the participation of private sector equally on in the market on the area of industry, trade, business and banking. The government did amend the commercial banking Act 1974 in 1984 to increase competition between commercial banks, to develop their working capacity and also to open the foreign joint-venture banks. As per the provision made in this act, private sector, including foreign investor was given freedom in opening commercial banks.

## **1.2 Introduction to Nepal Bank Limited (NBL)**

As mentioned earlier Nepal Bank Limited is the first commercial bank of Nepal established in Kartik 30,1994 B.S in the regime of Juddha Shumsher JBR. It was established before the establishment of Central Bank. It was established on that time too with public private partnership. At that time it had authorized capital of Rs 10 million, issued capital of Rs 2.5 million of which paid up capital of Rs 8,42,000 with 10 public shareholders. Out of share composition 40% was owned by Nepal Government and remaining by public shareholders.

Now too bank has the share composition of 40% by government and 60% by public shareholders and banks and financial institutions.

Nepal Bank establishes the banking in Nepal and it teaches public how their funds are safeguarded by banks safely with interest and how they can obtain loans from bank for to meet their requirements. It slowly attracts public towards banking channel instead of local lenders and creditors. The total deposits it collects for the first year was NRs. 17,02,025 where current deposits was about NRs. 12,98,898 fixed was about NRs. 3,88,964 and saving was NRs. 14,163. Loan disbursed and outstanding at the end of the first year was NRs. 1,985,000(source [www.nepalbank.com.np](http://www.nepalbank.com.np)). With increase in its branches and services, now same deposit has been increased to 4,200 crores and loans and bill purchases to 2,500 crores with 110 branches all over the nation.

The main vision of bank is “to remain the leading financial institution of country” and it has the following objectives:

- J Continue to maintain leading share of banking sector with a significant presence in all major geographical areas in the country.
- J Provide competitive and customer oriented banking services to all customers through competent and professional staff.
- J Reclaim leadership within the national financial community.

To fulfill its vision and objectives, bank is being competitive with newly established banks and financial institution with different services like ATM facility, ABBS facility, web remittance, online banking, internet banking. Bank is too providing services other than loan and deposits like L/C, bank gurantee, foreign exchange, remittance from abroad,

## **2. Focus of the Study**

Commercial banks play a vital role in the economic growth of the country. Likewise they are equally liable to the benefits of their shareholders, customers, and depositors and overall to the whole society. Amidst the unfavorable circumstances their success mainly depends on their financial decisions. This thesis focuses on the analysis of their financial performance to disclose the truth about their financial decisions, present problems and recommendations for corrections. For research purpose only one commercial bank has been chosen i.e. Nepal Bank Limited.

### **3. Statement of the Problems**

For each and every bank or financial institution it is very crucial to analyze the financial performance. Every banking sector cannot reach their objective without a good financial performance. The financial sector has not been responsive enough for them to meet the growing resources. In this competitive market each and every bank and financial institution need to analyze their financial situation to develop strategies and to identify the strengths and weaknesses. Similarly investors are also needed to evaluate the performance of the companies for secured investment. In the Nepalese capital market financial institutions have dominated to the other sectors. Many researchers have been made in the field of the performance evaluation of the commercial banks among the financial institutions.

The study aims to find out the answer to the following questions.

- ) Does the overall financial statement analysis and financial position indicate any specific strengths and weakness?
- ) What are the major factors effecting the financial performance of NBL?
- ) Is there is any relationship between net profit with investment and total deposit.
- ) What is the financial position of the bank in the market?

### **4. Objectives of the Study**

The main objective of this study is to analysis the financial performance of the Nepal Bank Ltd (NBL). The other specific objectives are as follows.

- ) To analyze the financial performance of Nepal Bank Ltd (NBL).
- ) To analyze the relationship between net profit with investment and total deposit.
- ) To see the trend of deposit, investment and net profit.
- ) To provide recommendation and suggestions on the basis of analysis the financial performance of Nepal Bank Ltd (NBL).

### **5. Limitations of the Study**

Limitations of the study are as follows:

- ) This research has been conducted on the requirement of partial fulfillment of Master Degree in Business Study.

- )] It has been conducted in the limited time and resources.
- )] The study mainly focuses with the financial performance of Nepal Bank Ltd (NBL).
- )] Generally it is based on secondary data like balance sheet, profit and loss account and other useful documents.
- )] It is covering the period of 5 years from 2005/06 to 2009/10 of NBL banks.

## **6. Organization of the Study**

This study has organized into the following five chapters:

### **Chapter – I: Introduction**

This chapter includes background of the study, focus of the study, statement of the problems, objectives of the study, significance of the study and limitations of the study.

### **Chapter - II: Review of Literature**

This chapter reviews the existing literature on the concept of financial performance analysis. It also contains reviews of journals and articles, and earlier thesis related to the subject.

### **Chapter - III: Research Methodology**

This chapter expresses the way and technique of the study applied in the research process. It includes research design, population and sample, data collection procedure and processing, tools and method of analysis.

### **Chapter - IV: Data Presentation and Analysis**

In this chapter collected and processed data are presented, analyzed and interpreted with using financial tools as well as statistical tools.

### **Chapter - V: Summary, Conclusion and Recommendations**

In this chapter, summary of whole study, conclusions and recommendations are made.

At the end of the study, Bibliography and Appendices have also been incorporated.