

CHAPTER –I

INTRODUCTION

1.1 Back Ground of Study:

Banking sector plays a vital role for the country's economic development. Bank is a resource mobilizing institution, which accepts deposit from various sources, and invest such accumulated resource in different sector like trade, commerce, industry etc. The commercial bank has its own role and contribution and it is an agent of economic development.

Although most people are familiar with financial institution like bank, but it is still difficult to define them accurately. The oxford dictionary defines "bank as an establishment for the custody of money". This definition is very limited as modern banks are not confined only to the custody of money. The theory of credit defines a bank not as an institution that borrows and lends out money but an institution for creation of credit. Banking sector plays an important role of intermediary between the deficit and surplus of financial resources.

Banks provides opportunity to people for participation in the development process of the country's via issuing share which will be owned by them, collecting deposit and investing such resources in the field of agriculture, trade, commerce, industry, hydro-electricity projects etc, which helps to build industrial environment, creates employment and investment opportunities for people. In this way, sustainable growth is possible by developing banking business and good banking system is essential for industrial and economic development of the country .Banks are the financial mediator of depositor and borrower.

"The developed financial system of the world characteristically falls into three part of bank: the central bank, commercial bank and other financial institution. They are also known as financial intermediaries" (*sayers; 1976:16*).

Now financial institutions are mushrooming in our country with the helps of open door policy adapted by the government. They are in keen competition among the Financial institution in accepting as much deposits as possible. Nepal has seen the deregulated and expanded financial systems widely participated by the private sector over the years. This has resulted in substantial growth in deposit mobilizations and loan disbursement. The competitiveness among the bank due to the autonomy given to them in the later years has led to varied activities that increased risk on the part of the depositors.

The liberal financial policies pursued after the restoration of democracy in Nepal brought a big change as well as challenges in the financial sector. In the past, Nepal's financial system was limited by the existence of one central bank and two commercial banks (Nepal Bank Ltd and Rastriya Banijya Bank). Presently, the financial system consists of a number of joint venture commercial banks, finance companies, insurance companies, employee's provident fund corporation, co-operatives and even NGO's, that are taking limited banking activities. Nevertheless, despite of the hung growth in the number of financial institution, Nepalese financial system is heavily dominated by the commercial banks. At present, twenty five commercial banks are run in Nepalese financial sector. And Agricultural development bank is also converting itself A-class commercial bank. It is one of the banks which are directly related with agriculture development and grassroots level people. Nepal is agro- based country and our economic growth is depending on agro industries. In this way ADBN play a vital role to develop agriculture sector.

1.1.1 Brief History on Development of Bank:

The history of modern banking was started from 7th century B.C. There was a reference the activities of moneychangers in the temple of Jerusalem in the New Testament. In ancient Greece the famous temples of Delphi and Olympia served as the great depositors for people's surplus funds and these were the centers of money lending transaction. Indent the trace of "Rudimentary Banking" were found in the Chaldean, Egyptian & Phoenician history. The development of banking in ancient Rome roughly followed the Greek pattern. Banking suffered oblivion after the fall of the Roman Empire after the

death of Emperor Justinian in 565 A.D. and it was not until the revival of trade and commerce in the middle ages that the lessons of finance were learnt a new from beginning. Moneylenders in the middle ages was however largely confined to the Jews since the Christians were forbidden by the Canon Law to indulge in the sinful act of lending money to other in the interest. However as the hold of the church loosened with the development of trade and commerce about the thirteen century. Christians also took the lucrative business of money lending, thereby entering into keen competition with the Jews who had hitherto monopolized in the business. . In this way, previous day goldsmiths, merchant and moneylenders were the ancient bankers of the world as will as of Nepal. The first formal banking institution was established in 1157 AD “the bank of Venice” in Italy .Then after that “the bank of Barcelona” was established in 1401 AD in Spain. The banks of Bombay in India in 1840 AD, The bank of Bengal 1843 AD, The bank of madras in 1843AD were established. They were known as presidency bank and later on were established as “The imperial Bank of India” in1921AD.in 1955AD the imperial Bank of India was converted to ‘State Bank of India’ (SBI). This way the modern banking system was developed from individual money changer to associated firm.

1.1.2 Evolution of Bank in Nepal:

In the country, the development of banking is very recent. Some crude bank operation were in practice even in the ancient time In Nepalese history it was recorded that the Nepalese era known as Nepal Sambat was introduced by “Shankhadhar Sakhwa” a sudra merchant of Kantipur in 880AD after having paid all the outstanding debts in the country. This shows the existence of money lending practice in ancient Nepal. Towards the end of 11th century during Malla regime there was an evidence of professional money lenders and bankers. It is further believed that money lending business particularly for financing the foreign trades with Tibet become quit popular during reign of Mallas. Also in the end of 8th century, “Gunakama Dev had borrowed money to rebuild the Kathmandu valley. According to historical records, in the 14th century Malla king, “Jayasthiti Malla classified the people in 4 class and 64 castes by their occupation. Among those castes “Tankadhari “was engaged in the occupation of money lending .They used to lend money

against personal securities or merchandise. This is considered as evidence to the existence of professional money lender and banks during the medieval period of Nepal. Late in 1933 B.S Rana Prime Minister “Ranodip Singh” has established “Tejarath Adda” With an aim to provide easy and cheap credit to the public particularly to civil servant. In this way the first step that was led to the institutional development of banking system in Nepal .In the overall development of banking system in Nepal “Tejarath Adda” may be regarded as the primary step towards modern banking institution .At the same time Nepal started trade with India and Tibet. But lack of banking institution safely money transfer was main problem .Hence the need of banking institution was realize. This was even strongly support by the situation caused during 1934AD’s earthquake where there was a need of finance for the reconstruction of works. Review of this situation provided the basis for establishment of first commercial bank in Nepal. In 1994B.S Nepal Bank Ltd was established as the first commercial bank. “At that time this bank had authorized capital of Rs.10million and paid up capital of Rs.842 thousands” (*Neupane; 2049 B.S: 329*).

While one writes about banking, nobody can forget the Nepal’s first bank, the Nepal Bank Ltd. It was established on government initiatives. Right from the very beginning it has been functioning as a semi- government organization. The bank’s activities being limited to money lending .About 19 years from its establishment it used to do the central bank’s work. Nepal Rastra Bank was establishes in 2012B.S as a central bank of Nepal .It has been functioning as the government’s bank and has contributed to the growth of financial sectors. Nepal Rasta Bank has some limitation so to cope up with the limitation Rastriya Banijya Bank was established in 2022B.S. Before the establishment of Rastriya Banijya Bank, Nepal bank ltd was an authorized agent of Nepal Rasta Bank. It undertakes a number of activities including the foreign exchange (selling & buying) business. Besides its historical importance, its importance in mobilizing resource for development of the country has been quite significant from its establishment.

1.1.3 Introduction of Agricultural Development Bank:

“A development bank is an institution that provides the missing ingredients in the process of agricultural development industrial development or overall economic development of a country” (*Shekhar & Shakhar;1998 :13*).

If we peep in the history we can see that from then very stage of development of human being, agriculture was chosen as a main profession because at that time food was their primary & basic need. In that stage food was their first problem that comes out after development of human beings. So development of human beings took place along with development of agriculture .Our country Nepal, being an agricultural country, agriculture was given primary importance but our agriculture system was traditional which led more cost and less yield. Later on 1984 B.S an agricultural school was established to being the skilled manpower and utilizes them in production of farming.

During 2013 B.S the first co-operative society was established in Chitwan district to make flow of loan .which name was “Bhakanpur co-operative organization”. Then after that around 2014B.S the “industrial development center” was established in ruler areas for investing the money in agricultural sector. The name was altered in 2016 B.S & it became ‘industrial Development Corporation’. As per co-operative bank Act 2019, co-operative bank was established in 2020B.S.But the facility of loan was only provided to co-operative society and not to individuals. Thus the scope and role of co-operative bank was very limited and inadequate from the viewpoint of meeting the requirements that comes in development of agricultural sector. Land Reform Saving corporation established in 1966 was also active to handle the compulsory savings collected under the land reform program .But later on these institutions couldn’t mark their identity up to the expectation due to limited agricultural financing scopes. To have an organization with broader & more adequate financial, institutional & operational frame work was indispensable; this resulted to development of agriculture development bank (ADB\N). Consequently the co-operative bank was converted in to Agricultural Development Bank. Agricultural development bank ltd was established in 2024 under the agricultural

development Act 2023 incorporating all assets & liabilities of the co-operative bank with broader scope of extending credit to co-operative individuals and corporate bodies engaged in agricultural activities and agro- based enterprise. Later in 1973 the Land Reform saving corporation was also merged with the ADB\N, ADB\N is only the institution that is specialized in field of agricultural financing & it has broader scope & responsibilities. ADB\N started to function as commercial bank in the year 2040B.S presently, ADB\N has there responsibility as commercial bank, small farmer development project and agricultural development.

Now ADBN as a commercial bank with “A” class license is meant to execute its activities with the market-driven approach setting its new vision mission and objective.

-) **Vision:** - ADBN aims to be the pre-eminent bank, providing banking services through out Nepal.
-) **Mission:** - To deliver comprehensive banking and financial services capitalizing on its extensive network with particular reference to the development of the rural economy.

1.1.3.1 Main Function of ADB\N: (CTI Annual Report F\y 2006\07)

The only institution being engaged in the field of agricultural financing in Nepal is ADB/N. So ADB/N functions cover a wide range of activities. The main functions of the bank are as follows:

-) To provide a full and balanced range of financial products and services that satisfies the need of the customers on a profitable and sustainable basis.
-) Strive consistently to provide improved products and services to its clients at reasonable price using modern unified banking communication and information technology.
-) Execute full phase commercial banking function using the concept of unified banking operation.
-) To provide short, medium and long term credit to individual, corporate bodies and co-operative societies.

-) To provide project financing for industries alternative energy sectors based on feasibility study.
-) To develop mutually acceptable relationship with government in the pursuit of improvement in living standards in rural areas while respecting best financial practices.
-) To provide credit to support the poverty alleviation program of government of Nepal.
-) To develop competent and professional human resources.

On the way of executing its main function in the financial market, the bank gives its top priority on building reputation for professionalism, competitive pricing, reliability and quality service and innovation. In addition the bank fosters its operation in accordance with the best banking practice, acting with financial prudence and keeping in mind the need to balance profitability with asset preservation and liquidity and to safeguard depositor's funds.

1.1.3.2 Organization and Management of ADB|N:

The board of Directors (BOD) is the apex body of the bank. The major functions of BOD are to formulate policies, strategies, rules and regulation of the institution. The General Manager executes day to day operation of the bank. Deputy General Managers, Division Chiefs, Directors and board secretary closely assist the General Manager. Policy decisions made by the board are put into operation by the field offices under the supervision of Regional offices. At present the board consists of eight members including chairperson of the ADBN. Other members include a representative each from the ministry of finance, ministry of Land Reform and management, ministry of Agriculture and Co-operatives, the expert from the banking sector from the list of NRB, two members as per MOU of the bank and General Manager of ADBN.

Over the years, the bank has accelerated the pace of its activities & has been successful to establish itself as a specialized agricultural financing institution as well as commercial bank. The bank lends in terms of credit disbursement, loan recovery & expansion of field

level offices. The bank has financed in co-operative, village development committee, corporate bodies & individuals involved in agricultural, agro- industry & allied fields. The bank has been serving farmers & entrepreneurs.

At present the bank has adopted a ‘three- window system’ to carry out it’s activities and it is only the one of the development bank of Nepal to do so. Under three- window system, ADB|N operates its activities in the following areas:

-) Development financing sector
-) Target group sector through small farmer development program
-) Commercial banking sector

The theme of the bank is that Development financing sector must independently survive & commercial banking sector should cross subsidy target group sector through SFDP. Development financing sector & commercial Banking sector focuses on Agro- business sector & target group sector through SFDP focuses on poverty alleviation.

1.1.3.3 Branch network of ADB|N (CTI, Annual report 2007\08):

With the implementation of the restructuring branches are categorized on the basis of the business volume (Loans, Advances and Outstanding) and offices are currently categorized as follows:

Table:-1.1
Categories of Branches

S.N	Branch Categories	Credit Outstanding
1	Main Branch	Excess of 400million
2	Type A Branch	Between Rs.200-400 million.
3	Type B Branch	Between Rs.100-200 million.
4	Type C Branch	Between Rs.50-100 million.
5	Type D Branch	Less then Rs. 50 million.

Branch Rationalization:-Presently the bank operates under the unified banking system. In the past, there is a dual banking system offering its commercial banking services

separately from its development banking wing in some cases in very close proximity to each other. As the bank has opted for commercialization under the bank and financial institution Act legislation with its wider objective to provide the entire banking services for Small and Medium Entrepreneurs(SME) and rural households, the rationale for the separation of commercial and development banking activities no longer exists. The bank plans to provide all those banking services required to satisfy the entire banking needs of its customers. Accordingly, the bank plans to introduce deposit, lending remittance and other services from its each branch, where even it is practical to do so to the extent that it is feasible financially. In the F\Y 2007\08 ADB/N consists of 240 offices including one Head office, 10 Regional office, 1 Main Branch office,63 Development Branch offices ,106 Sub-Branch office, 5 Regional Training Centers,11 Banking Main Branch office and 43 Banking Branch offices are run and in this period the total permanent employee are 3442.

1.1.3.4 Capital Structure of ADBN (*Annual report of ADB\N 2008*):

In the beginning it started with about Rs.70.5 million (CBS)of authorized capital up to July 1999 the banks authorized capital was Rs. 2000 million and the paid up capital stood at Rs.1420 million. Now up to Nov 2006 the bank's authorized capital Rs.12 billion (In this capital @ Rs.100 ordinary share Rs.3 billion and Remaining Rs. 9 billion was preference share).

Issued Capital Rs.11.2 billion.

- -Ordinary share: Rs. 2.5 billion.
- -Preference share: Rs. 8.7 billion.

Paid- up capital

- -Ordinary share: Rs. 1.625 billion.
- -Preference share: Rs. 5.9 billion.

1.1.3.5 Performance of the Bank for Last Five Years (*ADB\N Annual Report 2007\08*):

Following is the five years financial summary from (059\60 to 63\640), which give a clear picture of the performance of the organization for the last five years.

Table 1.2**Performance Highlights of ADB\N**

Particular	Fiscal years				
	059\60	060\61	061\62	062\63	063\64
Share capital	15436901	1574567	1677615	6478000	7528000
Total Deposit	23949956	26244145	27223046	29631817	32416358
Total investment	2688621	2847080	1467505	1623002	3286293
Total loan & Advance	21105968	18953315	21635075	22815746	25980369
Total income	3755646	3245964	4336965	4910600	6715581
Total expenditure	3740028	11246188	4415598	4557075	5657132
Operating income	-154809	-8313028	-457728	2803658	1362885
After tax profit	15618	-8000224	-78633	353525	1058449
Ideal Loan	5647121	5567554	6003993	6858994	6185295
Non Banking Assets	1360297	1278383	1138969	1005125	939022

Source: Annual Report

Above discretion shows that the performance of ADB/N is increment trend. In 060\61 the Bank were promulgated to refocus on ADB/N's core business functions especially targeted on strengthening organizational flexibility, enhancing skill and knowledge of its management and operational staff. In this context, the Asian Development Bank was technical assistances supported. In 060\61 the bank was written loan loss provision and other provision are expenses for clean financial statement than the bank was getting loss 8 Billion. But in reach 063\64 the bank reduce this loss 95 million 42 thousand and this year the bank success to earn after tax profit 1billion 5 million 84 lakes 49 thousand. In this way, the Bank plans completely reduce this loss in 068\69 and object to run profit.

1.2 Statement of the Problem:

The open and liberal economic policy toward the banking sector of Nepal initiated many joint venture banks, finance companies, rural banks and co-operative societies to open up in Nepal. They are being operated in urban and suburban regions of the country and they seem to achieve a remarkable market share in the Nepalese financial sector within a short span of time. However, the rapid growth of financial institutions has led to a sharp

Competition among each other. The growing competition among these institutions, recent increase in transactions of security and capital market as well as the taxation lay on higher deposits in banks is affecting the bank's deposit collection.

In Nepalese context the government owned banks have been contributing to wards the overall development of the country but those banks are lacking efficient management of its resources (i.e. human and monetary resources). In order to overcome the drawback of government owned banks such as over staffing which subsequently lead to higher operational cost thus making a negative impact on the profit. In this situation ADB\N, which was started as Development Bank under the government ownership and which is at present has converted itself into performing both development function and commercial function. But the performance of the Bank seems to be not satisfactory. So under this proposed this study following Questions will try to be answered.

-) How far ADB\N has been able to accumulate deposits and utilize deposit so accumulated.
-) Whether or not the existing budgeting system of ADB\N is efficient?
-) Whether or not the funds are utilized in most profitable way?

1.3 Objective of the Study:

The main objective of this study is to evaluate the profitability position of ADB\N. Besides the main objective following are the other important objectives of the study.

-) To evaluate existing budgeting system.
-) To study the types of Deposits collected.
-) To analyses the use of deposits in various activities.
-) To find out the profitability trend of the Bank.
-) To find out the relation ship between lending activities and profit.
-) To find out the relationship between deposit and profit.

1.4 Significance of the Study:

The population is increasing day by day in our country. People expect also increase same way in this situation they want better, quicker, easier and special facilities from financial institution. Especially in our country, the commercial banks are not providing the required amount of such facilities, which are expected by the customers. Lack of proper investment policies in different sectors and unnecessary rules and regulations of central Bank harass the customers. Above all this, the number of commercial banks in Nepal is in an increasing trend and at present ADB\N also A- class commercial bank.

This study is multi-dimensionally significant to:-

-) Management.
-) Shareholders.
-) General public (depositors, prospective customers, investors).
-) Policy formulators.

1.5 Limitations of the Study:

This study is conducted for the partial fulfillment of MBS degree in this purpose this study is analysis to the profitability position of ADB\N. So it possesses some limitations of this study are as follows:

-) So many banks are operating in Nepalese financial environment but our study is only confine to ADB\N\N because of time and resource constraints.
-) This study is mostly based on the published financial statement of concerned banks and other related journals, newspaper, magazines, bulletins, textbooks, and unpublished thesis etc.
-) This study covers the span of only five years from 2002\03 to 2006\07.

1.6 Organization of Research:

This study will be classified in to the five chapters and each chapter is divided in to subheadings to describing related subject.

CHAPTER - I INTRODUCTION:

This chapter is introduction chapter which includes that background of the study, evolution of bank in Nepal, introduction of ADB\N, main function, vision, mission and objective of ADB/N, organization management and capital structure of ADB\N, statement of problem, important of the study, objective of the study, limitation of the study and organization of research.

CHAPTER - II REVIEW OF LITERATURE:

In this chapter review related books, journal, Annual report and past research work for find out research gap. For this purpose conceptual review of Profit plan and financial analysis and also review of related thesis.

CHAPTER –III RESEARCH METHODOLOGY:

In third chapter deals with the research design , selection of the bank , sources and types of data, data gathering instruments and procedures and methods of analysis or tools and techniques of analysis.

CHAPTER-IV DATA PRESENTATION & ANALYSIS:

This chapter is presenting data and analysis these data for achieving desire objective of the study and presents the major finding of the study.

CHAPTER – V SUMMARY, CONCLUSION & RECOMMENDATION:

In this present Summery of the whole study, conclusion of major finding and give some recommendation on the basis of the study for improvement of the bank in coming future.

CHAPTER- II

REVIEW OF LITERATURE

Review of literature is an essential part of thesis writing which helps to found out the path of research work. First of all, this study review related book, journal News paper for conceptual review of profit plan and financial analysis, and also review of related thesis.

2.1 Conceptual Review:

Conceptual means to know about the theme of the subject matter. For the purpose we review difference writer's book, journal, article, and related publication.

2.1.1 Concept of Profit Plan

Profit is the ultimate goal of every business organization as well as bank which is based on effectiveness and efficiency business activities. Before we go further managerial process of profit planning, we are important to understand the concept of profit. Profit just does not happen, profit are managed. Profit is the primary measure of business in any economy. Before we go further the managerial process of profit planning it is important to understand the concepts of profit. There are several definition of profit. An economist will define that profit is the reward for the entrepreneurship for taking the risk and An accountant will say the excess of firm's profit over the expenditure of producing revenues in given fiscal year(*Lynch and Williamson; third edition :99*).

Planning is the first essence of management and all other functions are performed within the framework of planning. Planning means designing in advance what is to do in future. Planning is start from forecasting and predetermination of future event. The primary propose of planning in business is to increase the chance of making profit. The budget is primary operation- planning document. Committed performance budget are called profit plan. Each manager and subordinates has the authority in varying degrees to make the decisions, the result of which will nearly accomplish of better his budgetary targets (*Garry and Joston; 1993, 7th Edition: 27*). Therefore Profit plan refers to the planning of

revenue and planning of cost. It is the systematic way to accomplish managerial goal and it is also the method of evaluate profitability position of business organization.

Comprehensive profit planning and control is viewed as a process designed to help management effectively perform significant phase of the planning and control functions. Profit planning and control model involves following activities which directly related to determine profitability position of business organizations (*Glenn ,Ronald and Paul; 2000, 5th edithio.;31*):

-) Development and application of broad and long rang objective for the enterprise.
-) Specification of goals.
-) Development of strategic of long range profit plan in broad terms.
-) Specification of tactical short- range profit plan detailed by assigned responsibilities (Divisions, department, projects).
-) Establishment of a system of periodic performance report detailed by assigned responsibilities.
-) Development of follow-up procedures.

Basically following three main plans (or Budget) are preparing in manufacturing enterprise for the purpose of profit plan and control.

a) Sales Budget:

Sales plan (or budget) is the first important step of profit plan, which displays the projected sales units and rupees also. The sales plan is the foundation for periodic planning of the firm because practically all other enterprise's planning is built on it. Every enterprise's primary source of cash is sales and all other important operational aspects (i.e. production level, manpower requirement, plan of expenses and need of capital addition) are depends on the volume of sales. Sales plan provides based for management decision. If sales plan is not realistic and relevant, all the other parts of overall profit plan are not realistic and it is really impossible to assess the future revenue of a business firm therefore sales plan is means of profit plan and ends of

profit plan. Sales plan helps to reduce uncertainty about future revenues and it is incorporate management judgment and decision into the planning process.

b) Production Budget:

The production budget is second initial step in budgeting of manufacturing enterprise. Production budget is an estimation of quantity of goods to be produce during budget period, which is prepared after approval of sales budget. The production plan is an important tool of planning, coordination and control in an organization because it interlinks the activities such as material planning, labor planning and overhead planning etc. Production budget is necessary to meet sales needs and for the desire ending inventory.

c) Overhead Budget:

Planning and control of expenses are necessary to maintain reasonable expense levels to support the objectives and planed program of the enterprise. Better utilization of limited resources expenses planning is necessary. It should focus on the relationship between expenditures and benefits derived from those expenditure. Cost allocation essential for financial accounting and control purpose. Basically, we found three types of overhead cost; variable costs, fixed cost and semi variable cost.

- i. Variable Cost:** A variable cost mean this cost which is vary in direct proportion and same direction to change in some other measures of volume or cost driver.
- ii. Fixed Cost:** fixed cost means this cost which does not vary in the volume of output or relevant range of activities.
- iii. Semi Variable:** This cost which is neither perfectly variable nor absolutely fixed in relation to volume changes, are called semi variable cost.

And similarly in Service sector includes following Budget

a) Capital Expenditure Budget

First of all capital expenditure means expenditure for expansion and contraction of investment in the fixed assets like, land, building, furniture and fixture etc. so capital

expenditure budget means the process of planning and controlling of above capital expenditure for long term strategic and short term tactical profit plan.

b) Evaluation of Investment Budget:

There are several methods are available to evaluate capital investment decision such as Net present value, Internal rate of Return, payback period, and average rate of return of total investment method.

c) Administrative Expenses Budget:

Administrative Expenses means non-manufacturing expenses which is directly related to daily operating and distribution activities. This expense should be classified as fixed and variable.

d) Cash Budget:

Cash is the heart of business organization therefore cash management is important function of an organization. Cash budget is necessarily prepared near the end of annual planning cycle along with planned income statement and balance sheet. Cash budget is prepared basis of previous year profit and loss, sales and capital expenditure budget.

2.1.2 Concept of Financial Analysis:

Financial analysis is the process to determine the financial strength and weakness of business operations. It also provides a framework for financial planning and control. Financial managers need the information provided by analysis both to evaluate the firm's past performance and to map future plans. Financial analysis concentrates on financial statements and the significant relationships that exist between them (*khan and Jain; 1992: 79*). This highlights the key aspects of firm's operation. It is undertaken by various interest groups of a firm and the nature of analysis differs depending on the purpose of the analyst. Generally management of the firm is interested in every aspect of financial analysis because they have responsibility of effective and efficient utilization of scarce resources and sound financial position of the firm.

We find two types of financial analysis that is vertical analysis and horizontal analysis. When a financial statement like a balance sheet and profit & loss A\C of certain period are only analyzed that called vertical analysis. That determines a position of business at a pointed time. And when a series of statements relating to a number of years are reviewed and analyzed that called horizontal analysis. That is known as a dynamic analysis because it determined the change of position or trend of the business over a number of years. Therefore this study is mainly based on horizontal analysis and there are three steps of financial analysis.

-) Selection of relevant information under consideration from the total information.
-) Arrangement of selected information in systematic way.
-) Interpretation and drawings of inferences and conclusions.

Ratio Analysis:

Ratio analysis is a powerful tool of financial analysis. A ratio is defined as the indicated quotient of two mathematical expression an as the relationship between two or more things. In financial analysis, a ratio is used as an index or yardstick for evaluating the financial position and performance of a firm.

The yardstick frequently used is a ratio or index relating two pieces of financial data to each other. Analysis and interpretation of various ratios should give an experienced skilled analyst a better understanding of a financial condition and performance of the firm than the individual would obtain from analysis of the financial data alone. So, financial analysis depends to a very large extent on the use of ratios though there are other equally important tools of such analysis. Thus, a direct examination of the magnitude of two related items is somehow informative but the comparison is greatly facilitated by expressing the relationship as a ratio.

Ratio is simply one number expressed in terms of another, it is an expression or relationship spelt out by dividing one figure into the other. The relationship between two accounting figures expressed mathematically is known as a ratio. A ratio helps the analyst to make qualitative judgment about the firm's financial position and performance.

However quantitative relations of the kind represented by ratio analysis are not an end in them but are a means to understanding a firm's financial position. Quantitative ratio analysis is not capable of providing precise answers to all the problems faced by a financial manager or a potential fund supplier unless several ratios often related to one another, are computed. And then the ratio analysis acquires some significance from the point of view of its users.

So a financial analysis through ratio analysis assists in identifying the major strengths and weaknesses of the Bank. It indicates whether the bank has enough cash to meet its obligations and ability to utilize their available resources properly. Whether the bank has adequate capital structure to tackle financial risk and overall efficiency of the bank in terms of profit all of which are necessary if the firm is to achieve the goal of maximizing shareholder's wealth. Financial analysis can also be used to assess the bank's viability as an ongoing enterprise and determine whether a satisfactory return is being earned for the risk taken.

Many types of financial ratio, calculated from the accounting data can be grouped into various classes according to financial activity or function to be evaluated. "Weston and Brigham have classified six fundamental types of ratio (Weston *and. Brigham;* 1984:138);

-) Leverage ratio
-) Liquidity ratio
-) Capital structure ratio
-) Activity ratio
-) Profitability ratio
-) Growth ratio
-) Valuation ratio

Among these types of ratios, the first four types are popular and widely used. For our purpose, some selected financial ratios and tools applied in this study are as follow;

a) Liquidity Ratio:

Liquidity ratios measure the ability to meet the short-term obligations and reflect the short-term financial strength and solvency of any bank. Since the depositors of the banks are interested in the short-term solvency of liquidity of the firm, it is regarded as one of the most important ratios.

b) Leverage Ratios: -

The relationship between insider's fund and outsiders funds are evaluated under the leverage ratio in order to evaluate the long term solvency of the bank.

c) Activity Ratio:

Activity ratios are calculated to evaluate the efficiency with which the bank manages and utilizes the funds. The relationship between the sources and resources of the firms are measured through activity ratio. Activity ratios indicate the degree of efficiency in asset management, hence they are often referred to as efficiency ratios.

d) Profitability Ratio: -

Profit is the difference between total revenue to total expenses over a period of time. Profit plays a vital role for their survival and future growth. The profit ability ratio reflects the operating efficiency. The relationship between profit and various assets of the organization is measured to analyze their operating strength of the company. Therefore, the financial manager continuously evaluates the efficiency of the bank in terms of profits.

The ratios, which are relevant and suitable for this study are defined, calculated and analyzed in the fourth chapter.

2.2 Review of Journals and Articles

2.2.1 Review of International Articles

Mabey, (2008) published an article “*Management Development and Firm Performance in German, Narway, Spain and the U.K.*” Where he has explained that management development means development of goal achieving capacity and it lead success of the organization. For this purpose he presents comparative study about multinational companies and domestic companies, which are located in same countries. But the key difference is that domestic companies are focused exclusively upon the local marketplace and have no international strategies, where as the multinational companies patently do. In our context our domestic companies are not give emphasized to management development program and they did not success to captive multinational companies. So management development is most importance for any successful organization and it is a determinant of business performance.

James.D, (1960) published an article “*The Curing House*” Where he has explained that two major factor of improving profit margin and goes profitable way of the organization. In this article he tell about the meat packing business which is usually bank net profit of less than a penny on each sales dollars yet their profit margins are improving. In the fist half of fiscal 1960 most packers reported higher earning in spite of sales decline. The two major reasons of improving profit margin was Modernization of plan and reduce pig problem and gradual shift from slaughtering to processing for reduce operating cost.

2.2.2 Review of Nepalese Journals and Articles

Shrestha,(2064), published an article “*SWOT Analysis of ADB/N*” where he has explained that SWOT analysis is an effective method of identifying strengths and weakness of any organization therefore ADB\N need to evaluate its better performing strength with high importance and develop its strategies on basis of those strengths whereas needs to make effort to improve the major weaknesses with high importance that hampers the business. Similarly it needs to tap the opportunities with high attractiveness and probability of success in enhancing its business and make certain contingency plan for the threats with high seriousness and probability of occurrence. For the fulfillment of

the desire objective, after SWOT analysis this article give recommended to capitalize its following major strengths and improve the following major weaknesses.

-) Retain good reputation\ public image among customers delivering efficient services and continuing penetration in rural market.
-) Maintain access to domestic resources as well as support from ADB.
-) Capitalize comparative advantage of wide distribution outlets of credit delivery and long experience in rural business.
-) Improve portfolio structure diversifying business and adopt market driven strategy with competitive cost service delivery.
-) Conduct competitors analysis in urban market periodically and adjust the pricing accordingly.
-) Raise profitability minimizing operating cost and cost of capital borrowed from local market and raising productivity of staff motivating then through proper performance appraisal.
-) Set organization structure being based on business potentiality and plan human resources properly.

Jha, (2064,) published an article “*Assets and Liability Management – Imperative for Bank Risk Management*” where he has explained that asset- liability Management can be termed as a risk management technique designed to earn an adequate return while maintaining a comfortable surplus of assets beyond liabilities. It takes into consideration interest rates, earning power and degree of willingness to take on debt and hence is also known as surplus management. However, in the last decade the meaning of assets – liability management has evolved. It is now used in many different ways under different contexts. ALM, which was actually pioneered by financial institution and banks, are now widely being used in industries too. In a modern context, ALM is the on – going process of formulating, implementing, monitoring and revising strategies related to assets and liabilities in an attempt to achieve financial objectives for a given set of risk tolerances and constraints.

ALM is based on funds management. Funds management represents the core of sound bank planning and financial management. Fund management is the process of managing the spread between interest earned and interest paid while ensuring adequate liquidity. Therefore fund management has following three components: liquidity management, asset management and liability management.

Nepalese financial market needs to be more matured in terms of carefully managing their balance sheets from the ALM's perspective, if they are to become successful in a long run. Some of the players have already burnt their figures due to not-managing their gaps in an efficient manner. With increasing volumes and also due to large swing in local and foreign currency interest rates, prudent ALM practices are becoming increasingly important.

Keshar j, Baral (2005) “ *Health Check- up of commercial bank in the framework of CAMELS*” in this article, he has explain about CAMELS framework, which is the technique of performance evaluation of the commercial bank and NRB adopted this technique in 1990. In this framework system basically looks at six major aspect of a financial institutions: Capital adequacy, assets quality, management soundness, earning, liquidity and sensitivity to market risk.

Capital adequacy: The first component capital adequacy ultimately determines how well financial institutions can manage with shocks to their balance sheet. Thus , it tracks capital adequacy ratio that take into account the most important financial risks- foreign exchange, credit and interest rate risks- by assigning risk weightings to the institution's assets. For the purpose of capital adequacy measurement, bank capital is divided into Tier I and Tier II. Tier I capital is primary capital and Tier II capital is supplementary capital. In Nepalese context, Tier I capital includes paid up capital, share premium, non-redeemable preference share, general reserve fund, accumulated profit, capital redemption reserve, capital adjustment fund and other free reserve. Among of the goodwill, fictitious assets, investment in the financial instrument issued by an organized organization in excess to the limit specified by NRB, and investment in the financial instruments issued by the organizations having the own financial interest is deducted

from the sum of all elements of the primary capital to arrive at the core capital . similarly, Tier II capital comprises of general loan loss provision, assets revaluation reserve, hybrid capital instruments, subordinated term loan, exchange equalization reserve, excess loan loss provision, and investment adjustment reserve. Thus the total capital of commercial bank is the sum of core capital and supplementary capital.

Leverage ratio can be used to measure the capital adequacy of a bank. This is the ratio of bank's book value of core capital of its assets. The higher ratio shows the higher level of capital adequacy.

Assets quality: credit risk is one of the factors that affect the health of an individual financial institution. The extent of the credit risk depends on the quality of assets held by an individual FI. The quality of assets held by and FI depends on exposure to specific risks, trends in non- performing loans and the health and profitability of bank borrowers – especially the corporate sector. We can use a number of measures to indicate the quality of assets held by FI. ADB Suggests these measures- loan concentration by industry, region, borrower and portfolio quality; related party policies and exposure on outstanding loan, approval process of loan, check and balance of loans; loan loss provision ; portfolio in arrear; loan loss ratio; and reserve ratio of checking the quality of assets of an FI.

Management quality: Sound management is key to bank performance but is difficult to measure. It is primarily a qualitative factor applicable to individual institution. Several indicators, however, can jointly serve as an indicator of management soundness. Expenses ratio, earning per employee, cost per loan average loan size and cost per unit of money lent can be used as a proxy of the management quality. ADB recommends cost per unit of money lent as a proxy of management quality. But this can not be used as an indicator of management quality in Nepal

Earning performance: Earning capacity or profitability keeps up the sound health of an FI. Chronically unprofitable FI risks insolvency on one hand and on the others, unusually high profitability can reflect excessive risk taking of an FI. There are different indicators

of profitability. Return on assets, return on equity, interest-spread ratio, earning –spread ratio, gross margin, operating profit margin and net profit margin are commonly used profitability indicators. NRB uses return on total assets as an indicator of profitability of a commercial bank. In addition, it uses the absolute measures such as interest income, net interest income, non interest income, net non interest income, non- operating income, net non – operating income and net profit, to evaluate the profitability of a commercial bank.

Liquidity: liquidity risk threatens the solvency of FIs. In the case of commercial bank, first type of liquidity risk arises when depositors of commercial banks seek to withdraw their money and the second type does when commitment holders want to exercise the commitments recorded off the balance sheet. Commercial banks have to borrow the additional funds or sell the assets at fire sale price to pay off the deposit liabilities. They become insolvent if sale price of the assets are not enough to meet the liability withdrawals. The second type of liquidity risk arises when demand for unexpected loans can not be met due to the lack of the funds. Commercial bank can raise the funds by running down their cash assets, borrowing additional funds in the money markets and selling off other assets at distressed price. Both liability side liquidity risk (first type risk) and asset side liquidity risk (second type risk) affect the health of commercial banks adversely. But maintaining the high liquidity position to minimize such risks also adversely affects the profitability of FIs.

Sensitivity to market risk: commercial banks are increasingly involved in diversified operations such as lending and borrowing, transaction in foreign exchange, selling off assets pledged for securities and so on. All these are subject to market risk like interest rate risk, foreign exchange rate risk and financial assets and commodity price risk. The health of an FI more sensitive to market risk is more hazardous than that of less sensitive. Foreign exchange risk, interest rate risk, equity price risk and commodity price risk are the indicators of sensitivity to market risk.

In this way above components are evaluated for the health check up of commercial bank in the framework of CAMEL system.

2.3 Review of Related Studies:

So far as the analysis of profitability position of ADB/N, some studies have been undertaken by the management experts and students of Masters Degree, describing the lending policy, deposit utilization, financial performance of ADB/N, JVBs and other commercial banks. Some of studies relating to the study are presented in brief as below.

Bajracharya, (2057B.S), She conducted a study on “*Investment Policy of Commercial Banks in Priority Sector*” with the following research objectives:

-) To analyze the trend of investment in private sector for 10 years from 2047 to 2056.
-) To analyze the trend of repayment in private sector.
-) To measure the effectiveness of the program in terms of the investment and repayment in rural and urban sector.
-) To evaluate the banking procedures and service in disbursing loan in this sector.
-) To provide package of suggestion based on this study.

Major finding of the study were as follows:

-) The target of 12% investment of total outstanding liabilities in priority sector and 3% out of which has been invested in deprived sector has been met by RBB.
-) Investment on agriculture is higher than investment on industry and service sector.
-) Regression analysis shows positive relation between investment and repayment.
-) Trend analysis of repayment has increased in the following years.
-) The study revealed that the procedure of loan disbursement is complicated for the borrowers to understand it.
-) In fact if the supervisor's make the scheduled supervision and inspection and the frequent contact with the borrowers the change of misuse of the loan can be minimized.

Chhetri, (2002), made a study on “*Profitability Position of NABIL Bank*” for the purpose of fulfillment of MBS. A comparative case study between NABIL bank and SCB bank has point out.

The main objective of the study:

-) To evaluate the trend of deposit and loan & advance of Nabil and SCB.
-) To evaluate the liquidity, profitability, capital structure, activity and capital adequacy position of Nabil and SCB
-) To study the strength and weakness of Nabil and SCB. To study the opportunity and threats in terms of financial tools.
-) To suggest and recommend some measures for the improvement of financial performance of Nabil and SCB in the future.

Major finding of the study:

-) Nabil's deposits utilization rate is higher than that of SCB in all the F\Y's during the study period.
-) Nabil's liquidity position is better than that of SBI.
-) On the other hand "Total Income Generating Assets to Total Assets Ratio" and "Total Income Generating Assets to Total Debt Ratio" of both banks are in increasing trend.
-) Average Return on Risky Assets Ratio and Average Return to Total Assets Ratio of SCB are higher than those of Nabil.
-) In conclusion, SCB's profitability position is better than the same of Nabil.

Finally, she suggested that provide incentives for attracting new fixed depositors, simplify present complication and lengthy depositing process. Follow liberal lending policy.

Khanal, (2006), He carried out a study on "*Reform Program of ADB/N*" for the purpose of fulfillment of M.B.S.

The main objective of this study

-) To know the financial performance of ADB\N after reform program.
-) To evaluate the trend of loan & advance and deposit of ADB|N after reform program.
-) To evaluate the activity and capital adequacy position of the bank.
-) To give suggest ion and recommend based on this study.

Major finding of this study:

-) Reform program has been playing the catalytic role in improving the financial performance of ADB/N.
-) It has succeeded to increase the amount of loan, investment, principal collection without external assistance.
-) Bank reduced the operating cost ratio despite increment of outstanding loan.
-) ADB/N has higher capacity of utilizing its deposit in disbursement thus it has consistent improvement in investing funds and increase in income through reduction in non-performing loan.
-) This above positive result indicted ADB/N's better financial position as compared to the post.

Further recommendation:

-) He has strongly recommended ADB\N to utilizing risk assets and shareholders funds to gain highest profit margin and reduce it expenses and collect cheaper fund for more profitability.
-) He has recommended investing its fund indifferent sector of investment and administering various deposit schemes
-) He has suggested the bank to be careful in increasing profit in real sense to maintain the confidence of shareholder, depositors and customers.

Adhikari (2006), He conducted “*A Comparative Study of the Profitability of Nepal SBI Bank & Nepal Bangladesh Bank*” for the purpose of fulfillment of MBS. He has find out the following major finding which are summarized as below.

-) The mean ratio of return on equity of NB Bank is nearly too five times of SBI Bank. The variability of return on overall equity of NB Bank is very higher than that of SBI. It shows the inconsistency in return on equity.
-) The mean ratio of return on total assets NB Bank is less than SBI Bank. It shows the inconsistency in return on assets.
-) The ratio of net profit margin of NB Bank is remarkably low compared to SBI Bank. The bank is not able to control operating expenses and other leakage. The

mean ratios of the both banks show that SBI Bank has higher mean ratio of net profit margin 7.4 than that of NB Bank 6.09.

-) The C.V of SBI Bank is higher than that of Nepal Bangladesh Bank.
-) It can be concluded that the profitability position of NB Bank is comparatively worse than that of SBI. The bank must maintain its high profit margin for the well being in future.
-) Average cash and bank balance to total deposit ratio of SBI Bank remained greater than that of NB Bank. It indicates the better liquidity position of SBI Bank.

Further Mr. Adhikari has recommended that,

-) Both banks should be established after proper diagnosis of the root causes of unsatisfactory liquidity. In this regard, NB Bank should be more serious than SBI Bank.
-) Both banks should attract more non interest bearing amount deposit for increase profit margin. The share of fixed deposit on its total deposit is very high. So it is recommended to reduce its fixed deposit.
-) Both banks must formulate the strategy to control unnecessary expenses using modern technology, computer networks and experts, and well trained personnel which also increase the operating efficiency of the bank.
-) The earning per share and dividend per share attract the investors. So higher cash dividend strategy should be adapted for the better growth of shareholders worth.
-) Need to invest on small entrepreneurs development programs.
-) NB Bank and SBI Bank are suggested to make modern banking technologies accessible to there all kinds of depositors as far as possible.
-) An emphasis should be given on planning, research and development for the proper planning and controlling purpose. Proper and regular internal audit system can help the management in regards the cost control strategy and avoid unnecessary leakage in the expenses.

Lama (2008), She has conducted a study of “*Profitability of NABIL Bank Ltd with Comparison to other JV Banks*”. From the analysis of difference financial ratio, the major findings of the ratio are as follows:

- J Profitability reveals the degree of success in achieving desire profit. From Return on Equity of NABIL Bank it is found that the operating efficiency of the bank is in increasing trend. It is due to increase in income and decrease in non performing loans.
- J The Earning per share of NABIL Bank is very good during the period which shows the better position of bank in the market. It increases the value of the firm.
- J The Net profit Margin ratio has been increasing till FY 2061\62 and then slightly decreased. Though there is low fluctuation, NABIL bank has been able to mobilize the resources generated from the operation.
- J The interest payout ratio of NABIL Bank is lower. The main reason of low ratio is low volume of NPAs and high cost deposit.
- J NABIL Bank has lowest loan loss provision to total income. It means it has low volume of NPAs and is successful in mobilizing the loans.
- J The operating expenses of NABIL bank has been remained comparatively low consistently over the years. The management of the operating expenses in NABIL Bank should be said to be highly efficient.

Further Gita Lama has recommended that:

- J The sincere effort of the management is to be concentrated in the NPA management if the bank is to sustain and perform well in the forthcoming day.
- J The bank seems to be lacking in the conduct of detailed and proper credit appraisal and monitoring process. The bank needs the facilities to make detailed analysis about various aspects.
- J The human resource is the most important component in a service industry. Thus, effective program should be initiated to improve the productivity of the staff. Which should be introduced other commercial bank for the staffs to increase their morale.

-) Bank should try to correct their market prices according to the net worth, earning per share and other profitability indications. The banks are recommended to decrease their price-earning ratios to a reasonable level.
-) NABIL Bank seems to have complied to the directive in literary terms rather than its meaning. So, although it has a negative impact on profit of the bank, it has to assess the real threat of NPAs in a prudential manner and make additional provisions wherever necessary. For a bank that is in dire straits, it would be a good option for the long- term sustainability of the bank rather than looking to maximize the short- term profit.

Dangol (2008), entitled “*Non Performing Assets and its Effect on Profitability of Nepalese Commercial Banks*”. On the basis of presentation, analysis and interpretation of the data, the major finding of the study can be summarized as follows:

-) Banks are desire higher average return on assets ratio; this study obtained the average return on assets of SCBNL, NABIL and HBL Bank, which seems that the ratios were low for all banks as regards to the investment in assets made by them. Despite, the assets of HBL were generating lowest return or profit as compared to the other two, NABIL, seemed stronger in earning profit than the other two banks. However, the fluctuation of the ratios of NABIL, over the average return was the highest of all. The profitability of SCBNL is second highest among the three but was the best as regards to consistency in earnings.
-) The average return on equity ratios of the banks SCBNL, NABIL, and HBL, over the five year period were obtained as 36.68%, 20.73% and 22.62% with the coefficients of variations of 4.85%, 40.10% and 16.40% respectively. Through the return on assets ratios were low for all the banks, the profit earned over equity or ownership capital of the banks seemed too high. Among the three, SCBNL has the higher ratio and hence the best profit earnings bank over equity or ownership capital. The second leading position was that of NABIL. And HBL came to the least of the three. The ratio was again lowest for the HBL, with the second highest volatility among the three.

-) The average net profit margin ratios of the banks SCBNL, NABIL and HBL over the five year period were obtained as 34.37%, 29.46% and 28.39% with the coefficient of variations of 4.49% 25.76% and 14.90% respectively. SCBNL had been able to earn the highest average profit after taxes from total income generated by the bank with the highest consistency over the period. In case of NABIL, though the ratio of profitability over total income secured the second leading position among the three its profit margin ratio was found the most volatile over the period.
-) The average return on loan and advances ratios of the banks SCBNL, NABIL and HBL over the five year period were obtained as 8.24%, 4.93% and 2.51% with the coefficients of variations of 11.97%, 16.15% and 15.90% respectively. The data presented above indicated that the loans and advances of SCBNL earned the highest income over the period with the minimum fluctuation in the ratios. NABIL had the second highest earnings generated by loans and advances with the highest fluctuation in the ratios over the period. As HBL has the lowest return on loans & advances, it can be said that HBL's loan & advance were not lent in qualitative and lucrative sectors.

With the helps of whole study, Mr. Suroj can be provided following suggestion:

-) The profitability in terms of return on assets and profit margin of all the banks seemed too low in comparison to the huge amount of investment made by them. Therefore, all the banks are recommended to increase their net income, reduce their operating expenses and try to increase profitability ratios.
-) Despite having higher credit to total deposit ratio, HBL had the highest non performing credit to total loans, which is one of the major factors that reduces profitability. Therefore, HBL should try to decrease its non- performing credit to total loans ratio. Other two banks should also strive to eliminate their non-performing loans ratio.
-) Banks should try to correct their market prices according to the net worth earnings per share and other profitability indicators. The banks are recommended to decrease their price earnings ratios to a reasonable level.

Research Gap:

Main business of commercial banks is investing their deposits in different profitability project according to the investment regulatory framework and guidance issued by Nepal Rasta Bank as well as the bank's own investment policy. Financial analysis of such investment and profitability of a bank is always useful to the stakeholders. So the information of profitability on banks would be a great advantage of the researcher, the bank concerned and public also who has any kind of stake in that organization. In this purpose this study covers latest financial data and analysis by using financial as well as statistical tool.

The previous research only focus on management account practices in Nepalese companies mainly service sectors. These studies only define financial tool and use financial ratio to evaluate the effect on profitability position of the bank. They can not define about budget and they can not evaluate budgeted target and actual achievement of the bank. So the fulfill these gaps, this study has been done. This study has suggested and recommended, financial as well as statistical tools are apply to find out financial strength and weakness at right time and improve financial performance in future.

So, this study details analysis of financial performance and position of ADB\N. This study tries to fulfill the prevailing research gap on profitability of ADB\N financial position.

CHAPTER – III

RESEARCH METHODOLOGY

The main objective of this research is to analyze, examine and interpret the profitability position of ADB\N. In accordance with the basic objective other sub objective are also formulated and the research methodology is following to achieve the objective of this research paper. Main research methodologies applied in the course of this study are as follows.

3.1 Research Design:

The research design is an overall frame works for the activities to be undertaken this study. Research design serves as a frame work for the study, guiding the collection and analysis of the data, research tools to be utilized. The research design of this study is analytical as well as descriptive approach. This research involve the systematic collection and presentation of data, which give a clear picture of a particular situation and which is generally conducted to assess the opinions, behaviors or characteristics of a given population and to describe the situation and events occurring at present ,So this study is focus on financial performance of ADB\N. Besides quantitative data presentation in the research and qualitative aspect are discussed in detail according to their necessity.

3.2 The Selection of the Bank:

Since this research work is design to study of profitability position of ADB\N. There are 25 commercial banks and many other finance companies are operating in our financial environment .So these all are population of this study, ADB\N has been randomly chosen for the case study. This was one of the agriculture development banks of Nepal. Now ADB\N as A-class commercial banks

3.3 Time Duration:

This study covers the time duration of five years financial statement from F\Y 2059\60 to 2063\64 for the purpose of analysis of profitability position.

3.4 Nature and Sources of Data:

For this study data, statistics information has been collected from secondary sources. So the secondary data have taken from published financial statement of ADB\N such as annual report of same bank, periodically published financial bulletin of government bodies, web site, publication in bankers review articles, book, booklet and magazines etc.

Beside, primary data are also collected to some extent through dialogues and other direct communication with the executives and other staffs of this bank.

3.5 Tool and Techniques of Data Collection and Analysis:

In this study required information and data collected from primary and secondary sources are arranged, analyzed and presented in proper table and formats. Such table and formats are interpreted and explained as and where necessary. The analyses of data are performed by the help of financial and statistical tools. The financial tools mainly used are ratio analysis, variance analysis and flexible budget. Similarly the statistical tools used are correlation, regression, coefficient of variance, mean, stander deviation etc.

Accounting Tool:

This study is explain the budgeting system of ADB\N and comparatives analysis between actual and budget amount of loan & advance, total deposit, interest income and interest expenses.

Financial Tool:

In this study calculated and interpreted following financial ratio with respective formulas.

Liquidity Ratio:

Liquidity ratio is used to measure a firm's ability to meet its current obligations as they came due

Profitability Ratio:

Profitability ratios measure the ability of firms to earn profit from proper utilizing available resources in changing environment.

Utilization Ratio: Utilization ratios are used to measure a firm’s ability to utilize their resource (deposit, assets etc.) and earn profit.

Statistical Tool:

This study is applied karlpearson’s correlation coefficient method to find out the relation between total deposit and loan & advance and loan &advance and interest income.

Correlation Coefficient:

There is several mathematical method of measuring correlation. Among them kalpearson’s method is most widely use in practice. In this method following formula is use to calculate correlation coefficient in direct method.

$$r = \frac{N\sum XY - (\sum X)(\sum Y)}{\sqrt{[N\sum X^2 - (\sum X)^2][N\sum Y^2 - (\sum Y)^2]}}$$

Where,

N= Number of pairs of X and y observed.

X= Value of first variable.

Y= Value of second variable

r= correlation coefficient.

Average:

The quantities which are the representative of the huge mass of quantities are known as average. The most popular mean is Arithmetic mean or average, which is calculating the sum of all observations divided by the number of observations. Arithmetic mean is also known as the arithmetic average.

Formula;

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

Where, $\sum X$ = the sum of all observations

N = Number of observations

\bar{X} = Average

Percentage:

“Percentage” mean per hundred. In other words, the fraction with 100 as its denominator is known as a percentage and the numerator of this fraction is known as rate percent.

Ratio:

Ratio tells a relation between two quantities of the same kind determined by the number of times one is contained in the other.

CHAPTER- IV

PRESENTATION AND ANALYSIS OF DATA

This chapter mainly related with presentation analysis and interpretation of relevant and available data of ADB\N for the fulfillment the objective of this study and obtains best result. In this purpose the data have been analyzed according to the research methodology and presenting suitable table and Figures.

4.1 Budgeting System of ADB/N:

Preparation of revenue budget is the most important step in the development of budget in a financial institution as revenue is the main basis for budgeting other functional budget like budget of deposit, loan and advance, interest income, interest expenses and overhead therefore all business operation are directly linked with the budget of revenue.

There is some factor which affects the bank's business:

1. The declining trend in lending rates coupled with sluggish credit off take is putting constant pressure on the profitability of the bank. The recent decision of the central Bank to grant autonomy to the commercial banks in quoting interest rates on advance to their client is likely to further intensify the stiff competition among banks to get good clients to their books. The interest spreads will be under immense pressure.
2. The continued unrest and disturbed political climate in the country have adversely affected the trade and industry in general and hotel and tourism industry in particular, thereby impeding the recovery efforts and interest realization.
3. The central Bank's recent guidelines to banks on provisioning and blacklisting are mandatory in nature and are bound to have impact on the profitability of the banks, particularly in the short run.
4. Fund management has assumed significant importance on account of extremely limited options available for profitable investments.

5. Continued slackness of economic activities and the lack of new projects may not only affect the growth in quality lending but also the recover of investments.

Budgeted revenue is the foundation of periodic planning in a financial institution. Revenue budget are prepared on the basis of previous revenue figures and general economic trend of the country along with an expected return by the shareholders.

ADB\N has been preparing short run as well as long run budget. Account Department is the heart of every business organization same as ADB\N, which is busy in formulating budgets for the forthcoming years. The budget plan is prepared to all the branches on the basis of months. So although a short term budget is prepared a slight different method is used. The budget target is provided to all the branches and all the branches should be able to meet the given targets. Branch managers are fully responsible for meeting the given targets. The effort made by individual branches helps the bank to raise its profit.

The overall responsibility of preparing budget mainly lies with the General Manager and Assistant General Manager who sets a target to the managers of credit department as well as Manager of various Branches which offers credit facilities taking in view the general direction of the industry. According to this Budget various other budget are framed in accordance to the guideline issue by Nepal Rastra Bank. In this way ADB\N prepared it's short-term as well as long term budget.

The following tables are present budgeted and actual amount of different title and also shows succeed to achieve the target of the bank.

Table: 4.1
Budgeted and Actual Total Deposit

(“Rs. in Million”)

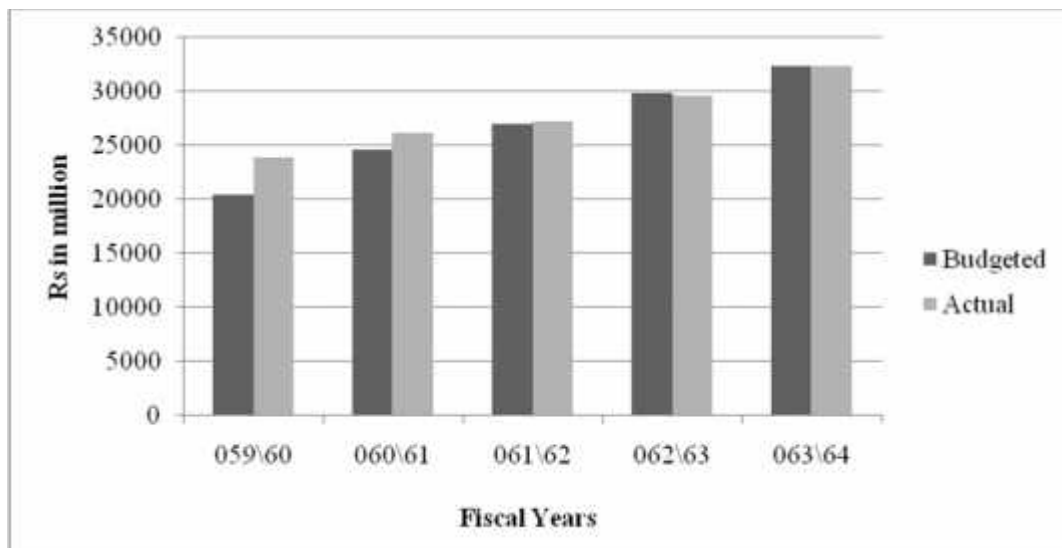
F/Y	Budgeted deposit	Actual deposit	Achievement
059\60	20454	23949	117.08%
060\61	24700	26244	106.25%
061\62	27031	27223	100.33%
062\63	29888	29631	99.14%
063\64	32406	32416	100.03%

Source: Annual Report (059/60 to 2063/64)

Above table present budgeted and actual total deposit of the bank and also present the achievement of the bank, which was 117.08% in 059\60, 106.25% in 060\61, 100.33% in 061\62, 99.14% in 062\63 and 100.03% in 063\64. Above data shows the t achievement of bank was highly fluctuating as well as decreasing trend. After analysis this trend the main reason of fluctuation was that many commercial banks are intern in Nepalese financial marker and the bank face unhealthy competition during this period. But the bank is able to achieve almost 100% of the targeted total deposits. This indicates that the bank succeeded in obtaining the targeted result and the above total deposit is shown in below Figure.

Figure No: 4.1

Budgeted and Actual Total Deposit



To finds out the variability of actual and budgeted total deposit of different year, we should calculated Mean, Standard deviation and coefficient of variation. The detail calculation of these variables is presented in appendix 1.

Table : 4.2
Summarized Results

	Budgeted total deposit	Actual total deposit
Mean	26895.8	27892.6
S.D.	4138.89	2905.21
C.V.	15.38	10.41

Source: appendix 1

The above analysis shows that the mean of actual deposit was higher than budgeted total deposit which indicated that the deposit collection position of the bank was good. The standard deviation of actual deposit is lower than budgeted deposit and it also indicated that the bank was able to achieve target properly. Finally coefficient of variation is lower in actual total deposit than that of budgeted total deposit which shows that the actual total deposit have consistency than that of budgeted total deposits.

Now an attempt had been to find out the trend analysis of total deposit by using trend analysis method by least square:

Table : 4.3
Trend Analysis of Total Deposit

F/Y	Y	X = x - \bar{X}	x²	XY
059\60	23949	-2	4	-47898
060\61	26244	-1	1	-26244
061\62	27223	0	0	0
062\63	29631	1	4	29631
063\64	32416	2	1	64832
Total	139463	0	10	20321

Source: Annual Report (059/60 to 2063/64)

Hence year 061\62 is taken Mean year.

$$Y_c = a + bx$$

$$\text{Now } a = \frac{\sum Y}{N}$$

$$= \frac{139463}{5}$$

$$= 27892.6$$

$$\text{And } b = \frac{\sum XY}{\sum X^2}$$

$$= \frac{20321}{10}$$

$$= 2032.1$$

Now substituting the value of a and b

We've

$$Y_c = 27892.6 + 2032.1x$$

Now total deposit for the year 064\65 is calculated as follows:

N= 3 for year 064\65

$$Y_c = 27892.6 + 2032.1 \times 3$$

$$= 33988.9$$

Thus the total deposit of ADB\N will be Rs. 33988.9 million in coming year 064\65.

And the following table present the budgeted loans and advance from fiscal year 059\60 to 063 \64

Table: 4.4
Budgeted and Actual Loans and Advance

("Rs in million")

F/Y	Budget Loan & advance	Actual Loan and advance	Achievement
059\60	24253	21105	87.02
060\61	20921	18953	90.59
061\62	22638	21635	95.55
062\63	24900	22815	91.62
063\64	27252	25980	95.33

Source: Annual Report (059/60 to 2063/64)

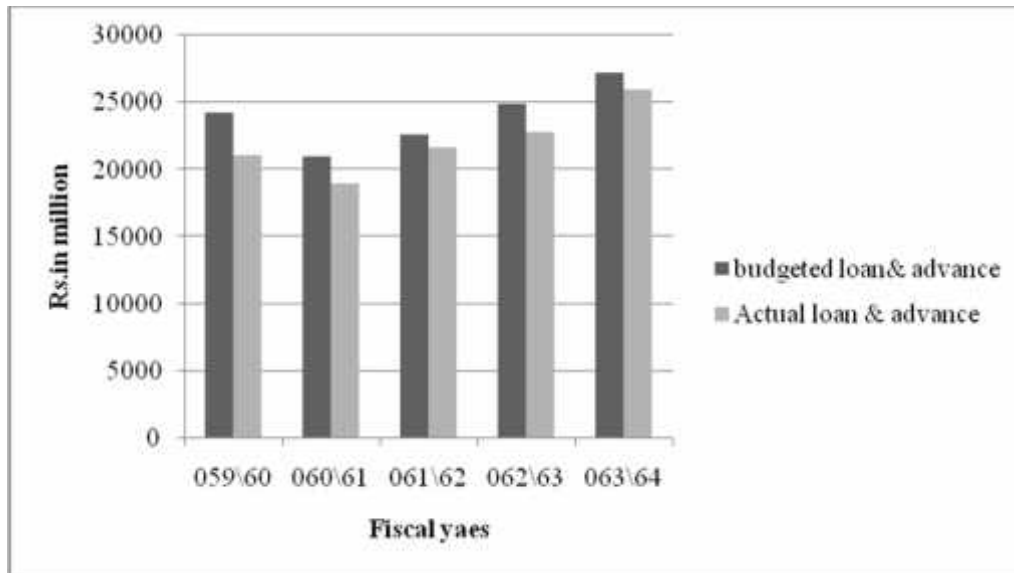
Above table shows that budgeted and actual loan & advance of the bank and also shows that the achievement of the bank target. The achievement of the bank was 87.02% in 059\60, 90.59% in 060\61, 95.55 in 061\62, 91.62% in 062\63 and 95.33%

in 063\64. Above data shows that the trend of achievement was fluctuating and main reason of this fluctuation was our whole domestic economy had gone down, industrial activities has been declined down and the whole economy was effected in this period. But the last four years the bank is able to achieve almost 90% of the targeted loan and advances. This indicates that the bank is successful enough to meet the targeted achievement and this shows that the bank is able to find the new field and areas of financing.

The above loans and advance is shown in the Figure below:

Figure : 4.2

Budgeted and Actual Loan & Advance



To find out the variability of actual and budgeted loans and advance of different years arithmetic mean, standard deviation and coefficient of variation should be calculated. The detail calculation of these variables are presented in appendix 2

Table :4.5

Summarized Result

	Budgeted Loan and advances	Actual loans and advance

Mean	23992.8	22097.6
S.D(σ)	2134.69	2309.78
C.V.	8.8	10.45

Source: appendix 2

The above analysis shows that the mean of budgeted loan and advance was higher than actual which indicated that the bank was not able meet lending target properly. The standard deviation of actual loans and advance was higher than budgeted and it also indicated that the bank did not achieve target properly. Finally the coefficient of variation is higher in actual loans and advances than that of budgeted loans and advances which show that the actual loans and advance has not consistency than that of budgeted loans and advances.

Now an attempt has been made to find the trend analysis of loans and advances by using trend analysis method by least square:

Table :4.6
Trend Analysis of Loans and Advances

FY	(Y)Loan and advances	X= 2(year – 058\59)	X ²	XY
059\60	21105	-2	4	-42210
060\61	18953	-1	1	-18953
061\62	21635	0	0	0
062\63	22815	1	1	22815
063\64	25980	2	4	51960
Total	110488	0	10	13612

Source: Annual Report (059/60 to 2063/64)

$$Y_c = a + bx$$

$$\text{Now } a = \frac{\sum Y}{N}$$

$$= \frac{110488}{5}$$

$$= 22097.6$$

And $b = \frac{\sum XY}{\sum X^2}$

$$= \frac{13612}{10}$$

$$= 1361.2$$

Now substituting the value of a and b

We've

$$Y_c = 22097.6 + 1361.2x$$

Now total loan & advances for the year 064\65 is calculated as follows:

N= 3 for year year 064\65

$$Y_c = 22097 + 1361.2 \times 3$$

$$= 26180.6$$

Thus the total loans and advances of ADB\N should be Rs. 26180.6 million in coming year 064\65 as according to trend analysis.

Interest income and interest expenses are the major income and expenditure source of banks thus the comparative analysis between budgeted and actual income and expenses of these items are present below.

Table: 4.7
Budgeted and Actual Interest Income

("Rs in million")

FY	Budgeted interest income	Actual interest income	Achievement
059\60	3940	3554	90.20
060\61	3145	2892	91.95
061\62	4165	3915	93.99
062\63	4316	4033	93.44%
063\64	4789	4623	96.53%

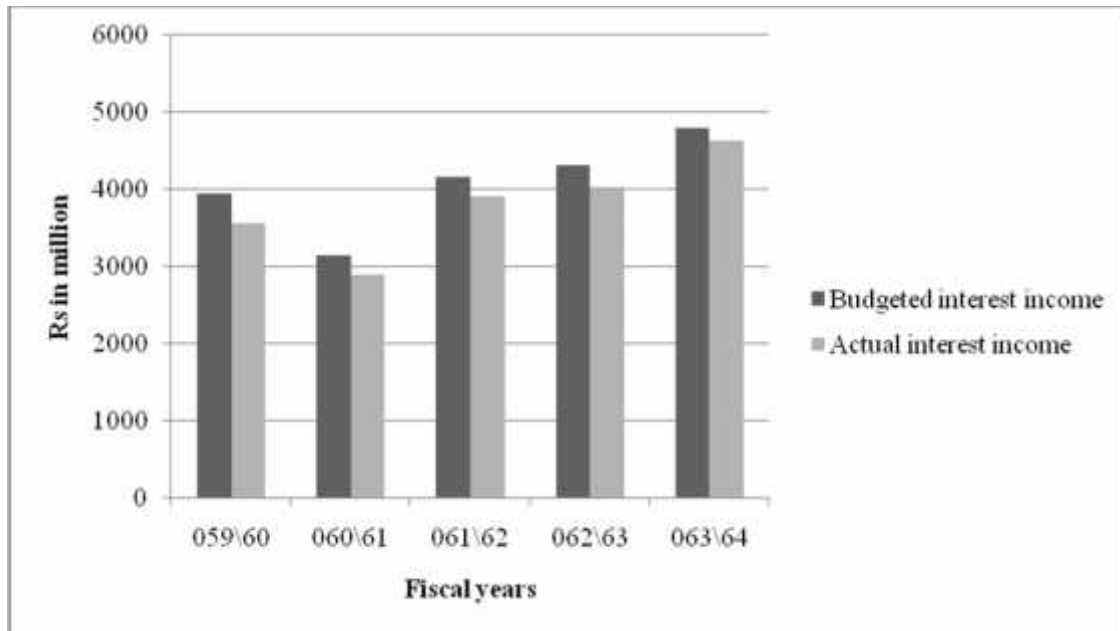
Source: Annual Report (059/60 to 2063/64)

The above table shows that actual interest income was Rs. 3554 in 059\60 which is 90.22% of budgeted interest income, same way Rs.2892 in 060\61 which is 91.95 %, Rs 3915 in 061\62 which is 93.99%, Rs 4033 in 062\63 which is 93.44 % and in 063\64 the bank has earned Rs. 4623million which is 96.53% of budgeted income. After analysis this achievement, it was increase trend and it is very fruitful for the organization. It also shows that the bank's achievement was almost 90% of the target which indicated that the bank's plan is near the accuracy.

The budgeted and actual interest income is shown in the Figure as below:

Figure No:4.3

Budgeted and Actual Interest Income



Now an attempt has been made to find out the trend analysis of interest incomes by using trend analysis method by least square:

Table:4.8

The Trend Analysis of Interest Incomes

F/Y	(Y) interest incomes	X= x-\bar{X}	X²	XY
059\60	3554	-2	4	-7108
060\61	2892	-1	1	-2892
061\62	3915	0	0	0
062\63	4033	1	1	4033
063\64	4623	2	4	9246
Total	19017	0	10	3279

Source: Annual Report (059/60 to 2063/64)

$$Y_c = a + bx$$

$$\begin{aligned} \text{Now } a &= \frac{\sum Y}{N} \\ &= \frac{19017}{5} \\ &= 3803.4 \end{aligned}$$

$$\begin{aligned} \text{And } b &= \frac{\sum XY}{\sum X^2} \\ &= \frac{3279}{10} \\ &= 327.9 \end{aligned}$$

Now substituting the value of a and b

$$Y_c = 3803.4 + 327.9x$$

Now total interest income for the year 064\65 is calculated as follows:

$$\begin{aligned} Y_c &= 3803.4 + 327.9 \times 3 \\ &= 4787.1 \end{aligned}$$

Thus the total interest income of ADB\N will be Rs. 4787.1 million in coming year 064\65.

Table: 4.9
Budgeted and Actual Interest Expenses

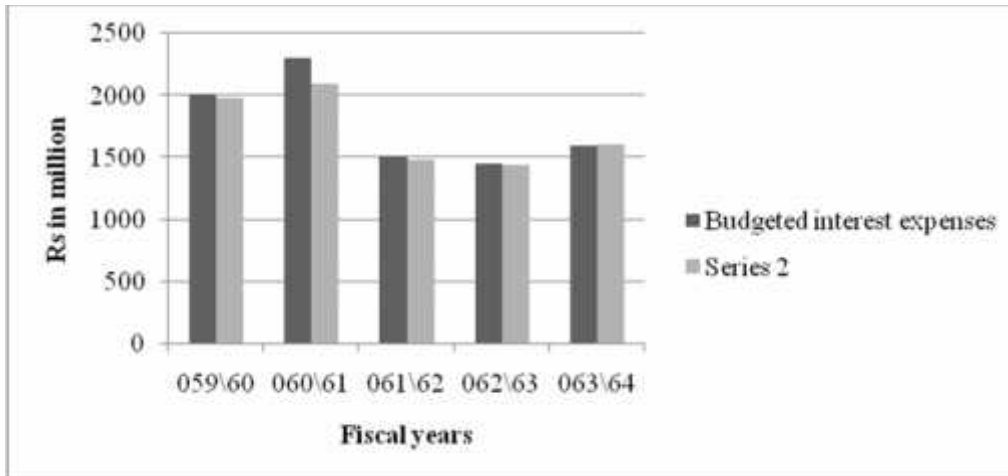
(“Rs in million”)

F/Y	Budgeted interest expenses	Actual interest expenses	Achievement
059\60	2016	1979	98.16%
060\61	2302	2093	90.90%
061\62	1515	1484	97.79%
062\63	1453	1439	99.03%
063\64	1602	1605	100.18%

Source: Annual Report (059/60 to 2063/64)

The above table shows that the bank’s actual interest expenses is Rs1979 in 059\60 which is 98.16% of budgeted interest expenses , same way Rs 2093 in 060\61 which is 90.90%, Rs 1484in 061\62 which is 97.79%, Rs 1439million in o62\63which is 99.03% and Rs. 1605 million in o63\64 which is 100.18% of budgeted interest expenses. After analysis this achievement, it was highly fluctuating trend because in 060\61 the bank started reform program and before this year the bank provided higher rate of interest to the depositors but after reform program the bank had also decreased the deposits rate and had been able to maintain the interest expenses. But the bank achievement was almost 90% which indicated that the bank plan was highly accurate.

Figure No:4.4
Budgeted and Actual Interest Expenses



Now trend analysis method is use to find out the interest expenses of ADB|N for the year 064\65.

Table :4.10

Trend Analysis of Interest Expenses

F/Y	(Y) interest expenses	X= x- \bar{X}	X ²	XY
059\60	1979	-2	4	-3958
060\61	2093	-1	1	-2093
061\62	1487	0	0	0
062\63	1439	1	1	1439
063\64	1605	2	4	3210
Total	8603	0	10	-1402

Source: Annual Report (059/60 to 2063/64)

$$Y_c = a + bx$$

$$\begin{aligned} \text{Now } a &= \frac{\sum Y}{N} \\ &= \frac{8603}{5} \\ &= 1720.6 \end{aligned}$$

$$\begin{aligned} \text{And } b &= \frac{\sum XY}{\sum X^2} \\ &= \frac{-1402}{10} \\ &= -140.2 \end{aligned}$$

Now substituting the value of a and b

$$Y_c = 1720.6 + (-140.2) x$$

Now total interest expenses for the year 064\65 is calculated as follows:

$$\begin{aligned} Y_c &= 1720.6 - 140.2 \times 3 \\ &= 1300 \end{aligned}$$

Thus the total interest expenses of ADB\N will be Rs. 1300 million in coming year 064\65.

The strength and weakness position of any commercial bank can't be judged from the basis of the single parameter. I.e. we can't find out the actual performance of the bank only with the help of amount the bank had earned from interest loans and advance total deposit collected and other. The major parameter to find out the strength as well as weaknesses of the bank are total capital employed, total assets held, total deposit mobilized etc. where as performance can be measured with operating profit ratio return to shareholder's equity, earning performance share, interest coverage ratio, growth in bank's advance, deposits operating profit etc.

4.2 Business Operation:

Banking business is an integral part of economic development as this has bestowed with many broad based economic development endeavor. In context of Nepal, the endorsement of Bank and financial institution Act (BAFIA) has tried to bring many dimension of banking activities in to a single and steady procedure. While taking a well deserved opportunity following the introduction of BAFIA, ADB\N's commercialization notices a full range of business prospect in the market. ADB\N hence is moving ahead by adopting market-driven approaches to execute its banking business.

4.2.1 Deposit of the ADB\N:

It was in the year 1984; Agricultural Development Bank started its commercial activities by collecting deposits from the customers to urban areas and mobilizing it in rural and sub urban sectors to increase credit access in these areas. With the completion of more than two decades, ADB\N commercial wing has become indispensable part of modern banking business. The overwhelming deposit response of the customers also directed in

the same line and as such its deposit collection stands to the tune of Rs. 31.67 billion (approx) as of mid July 2007 registering the third position among the largest commercial bank in the country.

4.2.2 Status of Deposit Mix:

Public deposit is the main source of fund mobilization for ADB\N. The image and goodwill of ADB\N in the financial market has created overwhelming response of the depositors and as such deposit has accounted with continuous growth trend. The Bank mainly accepts three types deposit from the customers.

Table:4.11
Deposit Mix

(“Rs in Million”)

Fiscal Year	Deposit						Total	Growth index	% change
	Current	%	Saving	%	Fixed	%			
059\60	1273	5.5	12850	56.15	8761	38.28	22884	1	-
060\61	896	3.5	14682	57.72	9856	38.75	25434	1.11	11.14
061\62	1235	4.6	15189	57.29	10088	38.05	26512	1.15	4.23
062\63	1279	4.4	16225	56.08	11426	39.49	28930	1.26	9.12
063\64	2262	7.1	17311	54.64	12105	38.21	31678	1.38	9.49

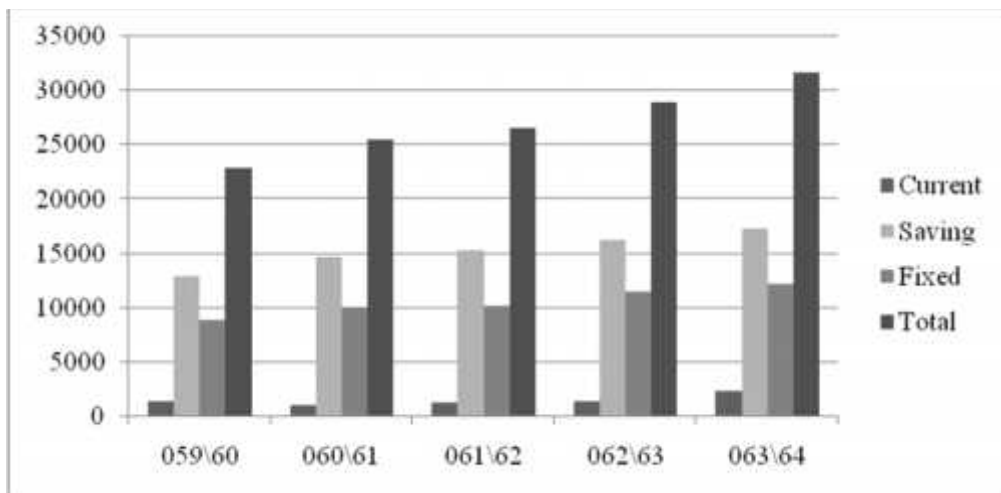
(Sources; CTI Annual Report 2006\07)

Data in that respect also reflects the same line and has changed 11.14% in 060\61, 4.23% in 061\62, 9.12% in 062\63 and 9.49% in FY 063\64. Analyzing the deposit mix, saving and fixed deposit was increasing trend but the percentage of these deposits was slowly fluctuated. Fixed deposit is long term deposit and bank can be mobilize them on investment, and loan & advance and above table shows that the bank’s fixed deposit was almost more than 35% which indicates higher liquidity position of the bank. Saving deposits are short term interest bearing deposit and it can be withdrawn with or without prior notice and after analysis this table the bank’s saving deposit was also almost more than 50% which is shows that better short term liquidity position of the bank. The current

account deposit is also registered steady growing trend while its volume is found nominal compare to others

While taking a well notice in the deposit mix, ADB\N has not yet been found successful in holding the non interest bearing deposit in the form of current account appropriately. The data strictly aver that only 7.1 percent of total deposit is ascertained to be current account fund where as the rest 92.85 percent fund are still relatively higher cost liability fund in the form of saving and fixed deposit.

Figure:4.5
Trend of Deposit Mix



4.2.3 Status of Credit Portfolio:

Credit portfolio in the financial institution comprising of three items such as lending, collection and loan outstanding explicitly states status of credit business in the market. These three items collectively address how effectively business has been oriented in the financial market. In fact, balanced and progressive trend of these items reflect plausibility in sustainable development of financial sector. As a part to analyze the business, all the three items have maintained consistent and progressive growth rate.

Table: 4.12**Trend of Credit Portfolio**

("Rs in million")

Particular	Fiscal Year					Annual	
	059\60	060\61	061\62	062\63	063\64	Trend	Percent
Lending	22945.6	23979.0	29076.4	30436.0	30609.0	2178.4	7.1
collection	20247.5	21746.9	26283.4	28579.3	29479.5	2529.6	8.6
outstanding	27142.7	29304.4	32159	33338.9	34440.4	1863.0	5.4

(Sources; CTI Annual Report 2006\07)

The lending activity effectively stresses linear trend with Rs. 22.95 billion (approx) in FY 059\60 to Rs. 30.61billion (approx) in FY 063\64 accounting an average growth rate of Rs. 2.18 billion per year. Observing closely the entire lending business, overall credit seems to focus on some major products such as agriculture credit, wholesale lending, service and consumption and production loans. These portfolios jointly cover 74 percent of the entire credit business and even more precisely a single product of wholesale lending constitutes 31.82 percent share.

Collection and credit flow are two major factors which need to be accounted for the overall credit portfolio. ADB\N's portfolio in that regard exhibit almost positive correlation which means credit flow and collection of ADB\N business is going in the same alignment. Stressing specifically, the credit flow is purely implausible until and unless

Figure: 4.6
Credit Portfolio

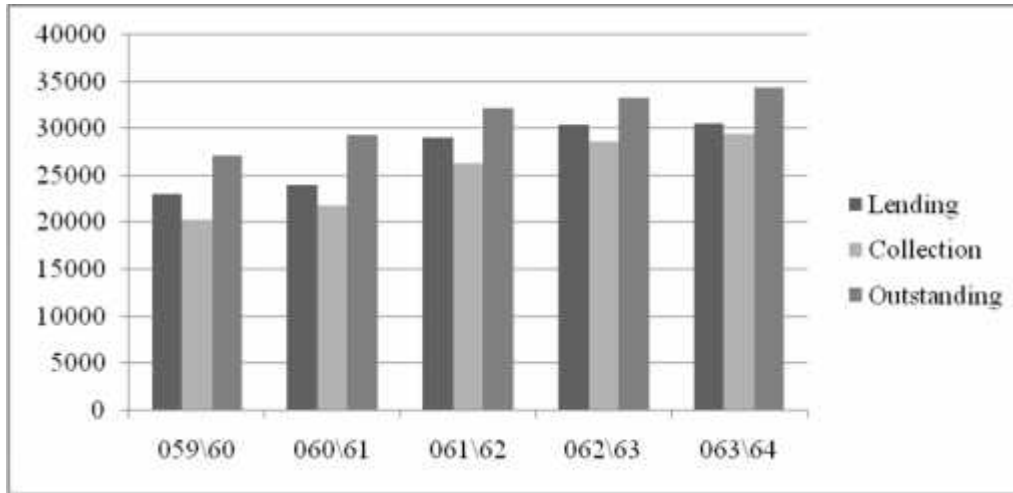


Table: 4.13
Product Wise Status of Credit Portfolio of Year 063\64

("Rs .in million")

Portfolios	Lending	Collection	Outstanding
Agriculture	4459.2	4924.399	9647.012
Mines	25.6	13.078	35.22
Production	2602.3	2583.833	4259.908
construction	561.89	319.017	1606.904
Metal production	169.52	165.838	407.318
Transport	41.74	44.333	96.986
Communication	142.36	212.654	525.732
Wholesale	9742.71	9036.451	9672.9
Financial Institution	635.02	583.991	926.012
Service	1171.36	1048.821	1553.173
Other service	1511.46	1284.172	1637.949
Consumption loan	1084.09	1914.624	358.218
Other	8461.68	7348.143	3713.037
Total	30608.93	29479.354	34440.369

(sources; CTI Annual Report 2006\07)

It is supported by proportionate collection in time. Like lending, collection activities also displays linear and progressive trend for the last five years. During that period, collection

has registered an annual growth of 2.53 billion (approx) or 8.6 percent (which shows by table- 15 data's). From collection point of view highly consistent products are agricultural, wholesale, production, service and consumption loans. In the meantime, the highest collection rate in the entire portfolio is registered for wholesale business followed by agricultural and production loan (which shows table- 16 data's). Other purposes also demonstrate positive indication but they are some where outlined by major volume of products.

Positive and consistent growth in business always result increment trend of loan outstanding. It also indicates how the business develops and flourishes over a period of time. ADB|N credit portfolio in terms of loan outstanding somewhat propagates a combination of improving and declining features of products. As far as the overall performance is concerned, the outstanding loan is likely to rise by Rs. 1.86 billion annually and is accompanied by a linear growth over the review period. The data strictly admits that wholesale, production, service and consumption loans are other major constituents in the credit portfolio of the bank.

Above all analysis helps to know about the use of deposit in various activities of lending and its collection trend of the bank.

4.2.4 Deposit Utilization of Loan and Advance:

“A bank is an institution, which deals with money by collecting various types of deposits, disbursing loan and rendering other financial services.” According to this definition we know, the main function of commercial bank is collection of deposits and mobilizing the deposits efficiently. Deposit collection position measures performance, and reliability & efficient mobilization of deposits are the indicator of success and income generation. Banks have to pay interest on deposits and pay dividends to their shareholder therefore income is necessary through deposits utilization. But it is very difficult task of bank in now comparative environment. Banks are utilizing their deposits in different sector like industry, trade, commerce and service business etc. So banks are the integral part of economic development. Thus deposits collection and its mobilization is the two side of

coin. Below table shows the deposit and its mobilization (on loan and advance) of ADB\N.

Table :4.14
Deposit Utilization on Loan and Advance

(“Rs. in million”)

F\Y	Loan & advance	Growth index	% change	Total deposits	Growth index	% change	Deposits utilization rate
059\60	21105	1	-	23949	1	-	88.12
060\61	18953	0.89	0.89	26244	1.09	9.5	72.21
061\62	21635	1.02	14.15	27223	1.13	3.7	79.47
062\63	22815	1.08	5.45	29631	1.23	8.8	76.99
063\64	25980	1.23	13.87	32416	1.35	9.3	80.14
Average: 79.22%							

Sources; ADB/N Annual Report 2059/60 to 63/64))

Above table shows the deposit utilization rate of ADB/N, this rate is decreased as will as fluctuating trend because during this period many commercial banks are intern in Nepalese financial market and the bank face unhealthy competition. The rate was highest in F\Y 059\60 (88.12%) and lowest in 060\61 (72.21%) because this year bank reforms itself. The average rate is 79.22% which is more than 50% and it indicates that the bank deposits utilization position is satisfactory.

Above description conclude that ADB/N is successful to mobilize of total deposit on loan and advance.

The significance relationship between above two variables (total deposits and loan & advance) can be tested by using Karl Pearson’s correlation coefficient formula. This is described in statistical tool

Table: 4.15

Calculation of Correlation Coefficient of Loan & Advance and Total Deposit
 (“Rs. in million”)

F\Y	X	X ²	Y	Y ²	XY
059\60	21105	445421025	23949	573554601	505443645
060\61	18953	359216209	26244	688744536	497402532
061\62	21635	468073225	27223	741091729	588969605
062\63	22815	520524225	29631	877996161	676031265
063\64	25980	674960400	32416	1050797056	842167680
N=5	X=110488	X ² =2468195084	Y=139463	Y ² =3932187083	XY=3110014727

Sources; ADB/N Annual Report 2059/60 to 63/64))

Where,

N=

5, $\sum X = 110488$, $\sum X^2 = 2468195084$, $\sum Y = 139463$, $\sum Y^2 = 3932187083$, $\sum XY = 3110014727$

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{[n \sum X^2 - (\sum X)^2]} \sqrt{[n \sum Y^2 - (\sum Y)^2]}}$$

$$= \frac{5(3110014727) - (110488 \times 139463)}{\sqrt{[5 \times 2468195084 - (110488)^2]} \sqrt{[5 \times 3932187083 - (139463)^2]}}$$

= 0.84

Calculation probable error

$$P.E = 0.6745 \frac{1-r^2}{\sqrt{n}}$$

$$= 0.6745 \frac{1-(0.84)^2}{\sqrt{5}}$$

$$= 0.088$$

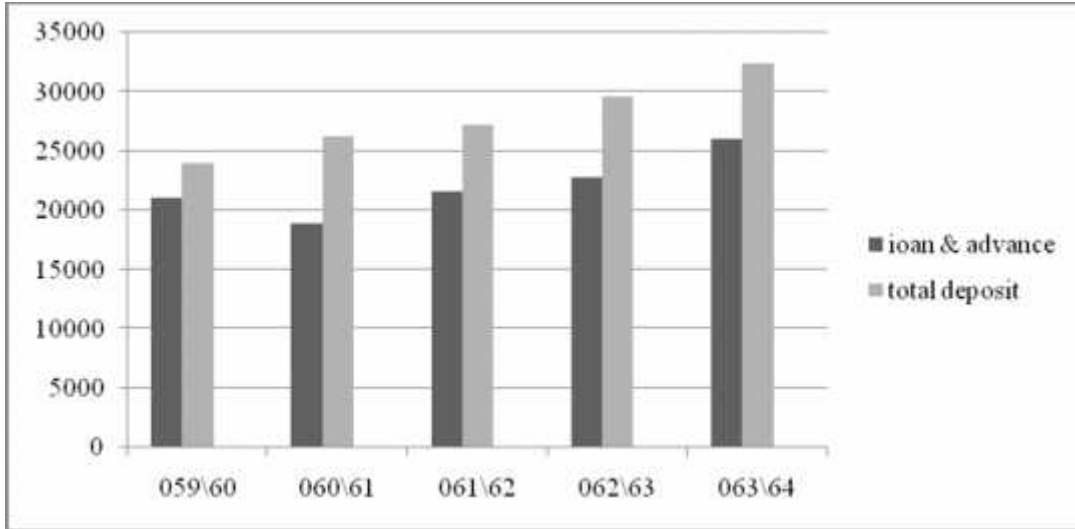
Now, above calculation shows that **r** is more than 0.5 and six time of probable error is also less than **r** therefore this correlation coefficient is significant and positive correlation between loan & advance and total deposit of ADB/N.

The Figure of loan & advance and deposit utilization of these banks are presenting below.

In this Figure X-axis shows study years and Y – axis shows Rs. in million.

Figure: 4.7

Trend of Loan & Advance and Total Deposit of ADB/N



Let's

Correlation analysis (r): correlation coefficient shows the significance relationship between two variables within certain time period. The formula for the calculation of Karl Pearson's correlation coefficient (r) is:

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}}$$

Table: 4.16

Calculation of Correlation Coefficient of Loan & Advance and interest

("Rs. in million")

FY	x	y	x- \bar{X}	y- \bar{Y}	X ²	Y ²	xy
059\60	21105	3554	-992.6	-249.4	985254.76	62200.36	247554.44
060\61	18953	2892	-3144.6	-911.4	9888509.16	830649.96	2865988.44
061\62	21635	3915	-462.6	111.6	213998.76	12454.56	-51626.16
062\63	22815	4033	717.4	229.6	514662.76	52716.16	164715.04
063\64	2598	4623	3882.4	819.6	15073029.76	671744.16	3182015.04
N=5	$\sum X = 110507$	$\sum Y = 19017$			$\sum X^2 = 2667509.76$	$\sum Y^2 = 1629000.16$	$\sum XY = 6408000.04$

Sources; ADB/N Annual Report 2059/60 to 63/64))

Where,

X= Value of loan and advances

Y= value of interest income

r = Correlation coefficient.

$$\text{Also } \bar{X} = \frac{\sum X}{N}$$

$$\bar{X} = \frac{110482}{5}$$

$$= 22097.67$$

$$\text{And } \bar{Y} = \frac{\sum Y}{N}$$

$$= \frac{19017}{5}$$

$$= 3803.4$$

$$\text{Now, } r = \frac{\sum XY}{\sqrt{\sum X^2 \sum Y^2}}$$

$$= \frac{6408646.8}{\sqrt{26675455.2 \times 1629765.2}}$$

$$= \frac{6408646.8}{6593536.87}$$

$$= 0.97$$

The correlation coefficient of the variable as loans and advance and interest income is 0.97 which is more than 0.5 therefore it shows that there is positive relation in between loan & advance and interest income.

Now calculation of probable error:

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

$$= 0.6745 \times \frac{1-0.97^2}{\sqrt{5}}$$

$$= 0.017$$

Six time of probable error is not greater than correlation coefficient which is considered significant relation between loan & advance and interest income.

4.3 Financial Analysis:

Financial analysis covers wide range of business position, it helps to compute strength or weakness in various sector. Although this study is mainly focus on some specific

components, financial analysis is made covering those sectors, which include revenue, expenditure investment and liquidity etc.

4.3.1 Liquidity Ratio:

This ratio uses to measures short term liquidity position of the bank and it is one of the tool of measuring profitability position of the bank, through the calculation of following relevant liquidity ratios for evaluate the liquidity position of the bank:

4.3.1.1 Cash and Bank Balance to Current Deposits Ratio:

This ratio measures the ability of bank's to meet immediate funds .This ratio calculation by using following formula;

$$\text{Cash and bank balance to current deposits} = \frac{\text{Cash and bank balance}}{\text{total current deposits}}$$

The ratio of the bank is presented in below table.

Table :4.17
Cash and Bank Balance to Current Deposit Ratio

(“Rs. in million”)

Fiscal Year	C\B Bal.	Current Deposit	Ratio
059\60	619	1273	48.62
060\61	546	896	60.93
061\62	680	1235	55.06
062\63	746	1279	58.32
063\64	1687	2262	74.58
Total	4278	6945	61.59

Sources; ADB/N Annual Report 2059/60 to 63/64))

Above table shows that, the ratio of the bank is fluctuating as well as increasing trend because in FY 060\61 the bank started reform program and this year bank maintain more cash and bank balance. After this year the bank was able to increase current deposit which is non interest bearing deposit and it can be refund any time then the bank also increase cash and bank balance for able to meet demand. It is highest in 063\64 (74.58%) and lowest in 059\60 (48.62%) and average ratio of ADB/N (61.59%)

Above description conclude that the bank’s ratio always more than 50%, which indicates that the bank is success to fulfillment of unanticipated calls on current deposit.

4.3.1.2 Fixed Deposit to total Deposit Ratio:

Fixed deposit is long term deposit and banks are use this types of deposit for investment and loan & advance etc and this ratio measure the efficiency of the bank. The proportion of fixed deposit on total deposit is calculation by using following formula.

$$\text{Fixed deposit to total deposit} = \frac{\text{Fixed deposits}}{\text{Total deposits}}$$

The ratio of the bank is present in below table.

Table: 4.18

Fixed Deposit to Total Deposits

(“Rs. in million”)

F\Y	ADB\N		
	Fixed deposit	Total deposit	Ratio
059\60	8761	23949	36.58
060\61	9856	26244	37.55
061\62	10088	27223	37.05
062\63	11426	29631	38.56
063\64	12105	32416	37.37
average			37.45

Sources; ADB/N Annual Report 2059/60 to 63/64))

Above table shows, the ratio of the bank was slowly fluctuating as well as increasing trend. But the fixed deposit increasing trend is lower than total deposit increasing trend because during this period our whole economy had gone down and industrial activities also declined. It is highest in 062\63 (38.56%) and lowest in 059\60 (36.58%). and average ratio was 37.45%.

The above analysis shows that the ratio was always more than 35% and average ratio was 37.45% which indicated that ADB/N’s liquidity position is better because fixed deposit is

long term deposit, it can be return after shorten period then more investment opportunity on income generating assets.

4.3.1.3 Saving Deposit to Total Deposit Ratio:

Saving deposit is the short term deposit and in this deposit banks are paid certain percentage interest. This ratio is measure the efficiency and effectiveness of the bank. This ratio is calculation by using following formula.

$$\text{Saving deposit to total deposit} = \frac{\text{saving deposits}}{\text{total deposits}}$$

The ratio of the bank is presenting below table.

Table:4.19

Saving Deposits to Total Deposit Ratio

(“Rs. in million”)

F\Y	ADB\N		
	Saving deposit	Total deposit	Ratio
059\60	12850	23949	53.65
060\61	14682	26244	55.94
061\62	15189	27223	55.79
062\63	16225	29631	54.75
063\64	17311	32416	53.40
average			54.67

Sources; ADB/N Annual Report 2059/60 to 63/64))

Above table shows that the ratio of ADB\N is increasing in first year and after the ratio is slowly decreasing because during this period many commercial banks intern in Nepalese financial market and the bank face unhealthy competition. It is highest in 060\61 (55.94%) and lowest in 063\64 (53.40%) and average ratio ADB/N (54.67%).

Above analysis found that the ratio of the bank was more than 50% in each year and average ratio also 54.67% which indicated that ADB/N has better liquidity position because saving deposits are generally regarded as short term obligation as it can be withdrawn with or without prior notice or with short notice.

4.3.1.4 NRB Balance to Total Deposit Ratio:

Every commercial bank are deposit certain percentage of their deposit amount in Nepal Rasta Bank because NRB is the bank of the bank and with this NRB rate it control inflation of the money in the market and this ratio measure the capacity to perform of the bank. This ratio is calculation by using this formula.

$$\text{NRB balance to total deposit} = \frac{\text{NRB balance}}{\text{total deposits}}$$

This ratio of the bank is present below table.

Table:4.20
NRB Balance to Total Deposits Ratio

(“Rs. in million”)

F\Y	ADB\N		
	NRB balance	Total deposit	Ratio
059\60	1525	23949	6.36
060\61	1564	26244	5.95
060\62	1730	27223	6.35
062\63	3018	29631	10.18
063\64	2001	32416	6.17
average			7.05

Sources; ADB/N Annual Report 2059/60 to 63/64))

Above table shows that the ratio of ADB/N is fluctuating trend but this fluctuation is depend on NRB policy. It is highest in 062\63 (10.18%) and lowest in 060\61 (5.95%). and average ratio of ADB\N is 7.05%.

All above description reflect the liquidity position of banks and with the help of these analyses we found that ADB/N’s liquidity position is better.

4.3.2 Profitability Ratio:

Profit is the difference between total revenue to total expenses over a period of time. Profit plays a vital role for their survival an future growth. The profitability ratio reflects the operating efficiency.

4.3.2.1 Interest Coverage Ratio:

Bank is that financial institution which is involved in collecting the deposit from the public in small amount and investing the deposit to the needful person. While performing this activity the bank will earn the interest from the borrowers whereas it had to give interest to the depositors. Interest is received as income on investment made loan and advance, government securities etc. interest is paid to deposits liabilities except on the current deposit liabilities. Which means higher volume of deposit comes with higher interest obligation. Therefore the bank should be in position to meet its interest obligation at all times. So the capability to meet the interest obligation should be monitored from time to time.

Table :4.21

Interest Coverage Ratio

(“Rs. in million”)

FY	EBIT	Interest Expenses	Interest coverage ratio
059\60	2002	1979	1.01
060\61	(5706)	2091	-
061\62	1408	1487	0.94
62\63	2374	2305	1.02
63\64	2895	2799	1.03

Sources; ADB/N Annual Report 2059/60 to 63/64))

$EBIT = \text{Net profit} + \text{Tax provision} + \text{Interest Expenses}$

From the analysis of interest coverage ratio, two years (060\61 and 061\62) the bank didn't able to meet interest obligation because in this year the bank include loan loss excess and other excess in total expenses. After this year the interest coverage ratio is found to be always more than one that means the bank has enough capacity to meet the interest obligation.

4.3.2.2 Return to Shareholder Equity:

Return to shareholder equity can be termed as the percentage of return on shareholders fund, which include Net profit, revenue & surplus and Retained Earnings.

Table :4.22
Return to Shareholder Equity

("Rs. in Million")

FY	Net Profit	Shareholder's equity	In %
059\60	15	1970	0.76
060\61	-	1985	-
061\62	-	2088	-
062\63	353	6547	5.39
063\64	1058	7739	13.67

Sources; ADB/N Annual Report 2059/60 to 63/64))

Analysis of return on equity shows that the bank had face heavy loss in 060\61 and 061\62 and had only made a profit of Rs. 353 million in 062\63 and the profit is increasing in 063\64 and is able to maintain return on shareholder's equity 13.67%.

4.3.2.3 Earning per Share:

Earning per share in this case is the net amount earned for every NPR 100 invested in share, which is fully paid up i.e. NPR 100.

Table :4.23
Earning per Share

(" Rs in million")

FY	Net profit	Number of share	EPS
059\60	15	1546	0.97
060\61	-	1574	-
061\62	-	1677	-
062\63	353	6477	5.45
063\64	1058	7528	14.05

Sources; ADB/N Annual Report 2059/60 to 63/64))

From the analysis of EPS, we can say that it is increasing trend except in year 060\61 and 061\62 in these year the bank do not get any profit. Where as again it is showing positive trend from 061\62. Overly it can be said that the bank is able to make the good EPS in coming years.

4.3.2.4 Profitability Trend Analysis:

Profit means difference of revenue and expenditure in given fiscal year.

Table :4.24

Net Profit

(“Rs in million”)

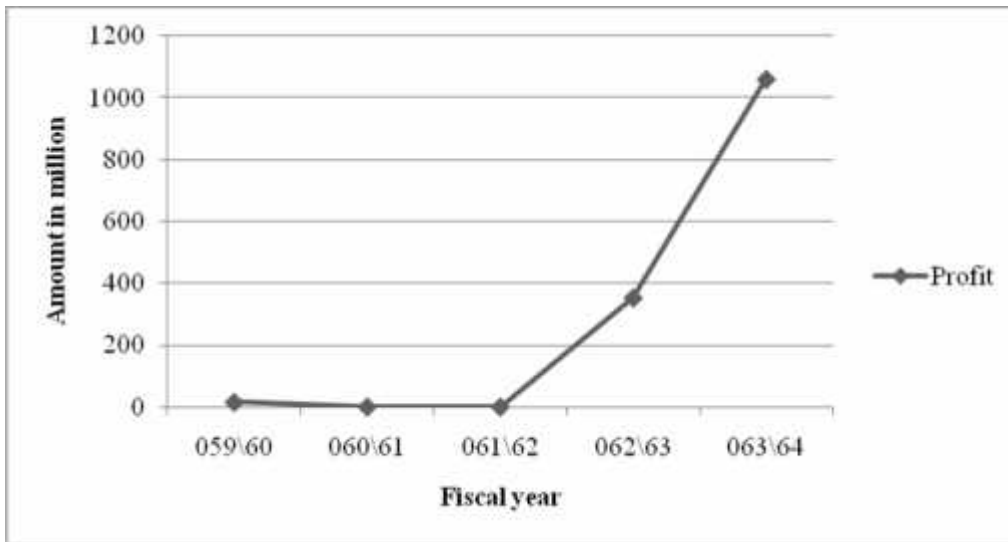
FY	Total revenue	Total expenses	Profit	Percent of total expenses
059\60	3755	3740	15	0.40
060\61	3245	11246	(8001)	-
061\62	4336	4415	(79)	-
062\63	4907	4554	353	7.75
063\64	6714	5653	1061	18.76

Sources; ADB/N Annual Report 2059/60 to 63/64))

Above table shows that the bank earn Rs. 15 million profit in 059\60 after then two years the bank gets net loss because the bank has restructure itself in 060\61 and other managerial excess are include in total expenses for clear financial statement. The bank gets net profit Rs. 353 million in 062\63 which is 7.75 % of total expenses and Rs. 1061 in 063\64 which is 18.76%.

Figure : 4.8

Profitability Trend



Above Figure shows the profitability position of ADB\N. The bank was not able to earn profit in FY 060\61 to 61\62 after then the bank profitability position was upward trend because the bank success to reduce staff expenses and increase total income from develop non fund business

4.3.2.5 Comparing Lending with Profit:

Lending is the main sources of income and profit is the difference between income and expenditure. So the compare lending and profit helps to find out profitability position of the company.

**Table :4.25
Comparing Lending with Profit**

(“Rs in million”)

FY	Lending	profit	ratio
059\60	22945.6	15	0.0065
060\61	23979	0	-
061\62	29076.4	0	-
062\63	30436	353	1.15
063\64	30609	1061	3.466

Sources; ADB/N Annual Report 2059/60 to 63/64))

Above table shows that the net profit ratio of the bank is very low with compare lending and it is nil in FY 060\61and 061\62 because this year bank started reform program and all other managerial excess are include in total expenses for clear financial statement. The bank was not able to invest more income generating sector also. In Closely observing the entire lending business, overall credit seems to focus on major products such as agriculture credit, wholesale lending, service and consumption and the bank is not able to provide non fund business. But at present the bank changes own lending strategies, which helps to positive and consistent growth in lending business that's result increment trend of profit.

Let's correlation analysis (r): correlation coefficient shows the relationship between two variables within certain period.

Table :4.26
Calculation of Correlation Coefficient of Lending and Profit

FY	x	y	x- \bar{X}	y- \bar{Y}	X ²	Y ²	XY
059\60	22945.6	15	-4463.6	-270.8	19923724.96	73332.64	1208742.88
06\61	23979	0	-3430.2	-285.8	11766272.04	81681.64	980351.16
061\62	29076.4	0	1667.2	-285.8	2779555.84	81681.64	-476485.76
062\63	30436	353	3026.8	67.2	9161518.24	4515.84	203400.96
063\64	30609	1061	3199.8	775.2	10238720.04	600935.04	2480484.96
N=5	$\sum X=137046$ 46	$\sum Y=1429$			$\sum X^2=5386979$ 1.12	$\sum Y^2=842146.$ 8	$\sum XY=43964$ 94.2

Sources; ADB/N Annual Report 2059/60 to 63/64))

Where, X= value of lending

Y= value of profit

r = Correlation coefficient.

$$\begin{aligned} \text{Also } \bar{X} &= \frac{\sum X}{N} \\ &= \frac{137046}{5} \\ &= 27409.2 \end{aligned}$$

$$\text{And } \bar{Y} = \frac{\sum Y}{N}$$

$$= \frac{1429}{5}$$

$$= 285.8$$

Now, $r = \frac{\sum XY}{\sqrt{X^2 Y^2}}$

$$= \frac{4396494.2}{\sqrt{53869791.12 \times 842146.8}}$$

$$= \frac{4396494.2}{6735448.92}$$

$$= 0.65$$

The correlation coefficient of the lending and profit is 0.65 which is more than 0.5 therefore it shows that there is positive relation in between lending and net profit.

Now calculation of probable error:

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

$$= 0.6745 \times \frac{1-0.65^2}{\sqrt{5}}$$

$$= 0.17$$

Probable error is not greater than correlation coefficient hence that is positive relation in between lending and net profit.

4.3.2.6 Comparing Deposit with Net Profit:

Deposit collection from the customers of urban areas and mobilizing it in rural and sub urban sector is the main business of ADB\N. Therefore public deposit is the main source of fund mobilization for ADB\N. so the comparing deposit with net profit helps to find out position of the bank.

Table :4.27
Comparing Deposit with Net Profit

(“Rs in million”)

FY	Deposit	Net profit	Ratio
059\60	23949	15	0.0062
060\61	26244	0	-
061\62	27223	0	-
062\63	29631	353	1.19
063\64	32416	1061	3.27

Sources; ADB\N Annual Report 2059/60 to 63/64))

Above table shows that the net profit ratio of the bank is very low with compare deposit because closely analyzing the deposit mix trend, ADB\N has not successes in holding the non interest bearing deposit in the form of current account. Above deposit mix data shows that only 7.3% of total deposit is ascertained to be current account fund where as the rest 92.7% fund are still relatively higher cost liability fund. So the bank paid higher interest. But now the bank had decreased the deposit rate and had been able to maintain the interest expenses and net profit is incremental trend.

Let's correlation analysis between deposit and net profit.

Table :4.28

Calculation of Correlation Coefficient of Deposit and Net Profit

("rs in million")

FY	x	y	$x-\bar{X}$	$y-\bar{Y}$	X^2	Y^2	XY
059\60	23949	15	-3943.6	-270.8	15551980.96	73332.64	1067926.88
060\61	26244	0	-1648.6	-285.8	2717881.96	81681.64	471169.88
061\62	27223	0	-669.6	-285.8	448364.16	81681.64	191371.68
062\63	29631	353	1738.4	67.2	3022034.56	4515.84	116820.48
063\64	32416	1061	4523.4	775.2	20461147.56	600935.04	3506539.68
N=5	$\sum X=13$ 9463	$\sum Y=14$ 29			$\sum X^2=4220140$ 9.2	$\sum Y^2=84214$ 6.8	$\sum XY=53538$ 28.6

Sources; ADB\N Annual Report 2059/60 to 63/64))

Where,

X= Value of deposit

Y= Value of net profit

r = Correlation coefficient

$$\text{Also } \bar{X} = \frac{\sum X}{N}$$

$$= \frac{139463}{5}$$

$$= 27892.6$$

And $\bar{Y} = 285.8$

$$\text{Now, } r = \frac{\sum XY}{\sqrt{\sum X^2 \sum Y^2}}$$

$$\begin{aligned}
&= \frac{5353828.6}{\sqrt{42201409.2 \times 842146.8}} \\
&= \frac{5353828.6}{5961525.11} \\
&= 0.89
\end{aligned}$$

The correlation coefficient of the variable as deposit and net profit is 0.89 which shows that there is positive relation in between deposit and net profit.

Now calculation of probable Error:

$$\begin{aligned}
PE &= 0.6745 \times \frac{1-r^2}{\sqrt{N}} \\
&= 0.6745 \times \frac{1-0.89^2}{\sqrt{5}} \\
&= 0.6745 \times 0.092 \\
&= 0.062
\end{aligned}$$

The probable error also less than r therefore this correlation coefficient is significant and positive correlation between deposit and net profit.

4.4 Major Findings of the Study:

The major findings of the above analysis are as follows:

Comparative analysis between actual performance and budgeted Performance of the bank helps to found that the all most actual performances more than 90% which indicates the actual performance have consistency than that of budgeted performance of the bank.

The degree of success in achieving desire profit is determined the profitability position of the companies. In 060\61 and 061\62 these two years the bank was not able to maintain total expenses with total revenue in this year the bank face huge loss after then the bank change lending & collection strategies and improve operating efficiency of the bank, which helps to earn more profit further years.

Loan & advance and total deposit of the bank is fluctuating trend. The highest increment of loan and advance is Rs. 3165 million in 063\64 and the total deposit is Rs. 2785

million in 063\64. Same way the highest increase percentage of loan & advance in 063\64 (13.87%) and total deposit is 9.5% in 060\61. The average deposit utilization rate is 79.22% which is very nice. There is positive correlation between total deposit and loan & advance of the bank which is 0.88.

Deposit collection trend was continuous growth. It has increased from Rs. 22.88billion in 059\60 to Rs.31.67 billion in 063\64 with an average annual growth of 2.9 billion or 8.9 percent.

The lending activity effectively stresses liner trend with Rs. 22.95 billion in 059\60 to Rs. 30.61 billion in 063\64 accounting an average growth rate of Rs. 2.18 billion per year. There is positive correlation between loan & advance and interest income of the bank which is 0.97.

After analyzing different liquidity ratio the bank's liquidity position is better. Deposit mix trend shows that saving and fixed deposit are registered as Rs. 1.57 billion (8.8%) and Rs. 982.6(8.1%) million respectively. Saving deposit are short –term obligation as it can be withdraw with or without prior notice and fixed deposit is long term deposit, it can be return after shorten time period. The fixed deposit ratio of the bank was always more than 35% and saving deposit ratio also more than 50% and these deposit indicates short – term liquidity position of a bank.

After analyzing interest coverage ratio is found to be more than one that means the bank has enough capacity to meet interest expenses.

After analyzing profit trend the bank was able to earn profit last two year and it is increasing trend. In first two year bank has clear its financial statement and restructure itself.

After comparing lending with profit, net profit is very low with comparing lending because the bank was not able to invest it fund in more income generating sector. But at

present the bank change own lending strategies which helps to growth lending business and result of net profit also increasing trend. The correlation of lending and net profit is 0.65 which shows positive correlation between lending and net profit.

After comparing deposit with net profit it is also shows same trend of lending with profit. The correlation of deposit with net profit is 0.89 which shows positive correlation between deposits with net profit.

Above all description helps to conclude that the bank was improve its performance in last two years. In profitability aspect the bank was able to increase net profit and success to reduce direct expenses.

CHAPTER – V

SUMMARY CONCLUSION AND RECOMMENDATIONS

This is the last chapter of the study. This chapter is presented shortcut summary of this study and some valuable suggestion & recommendation for improving their performance in coming periods.

5.1 Summary:

Nepal is developing country with agriculture-based economy, where more than 81% of populations are involve in agriculture sector but our farming system is traditional. It involves more cost & less yield and this sector is unable to provide full employment to the labor force. In this situation, industrialization is essential for national development and sound banking system is necessary for industrial development. Banks are an intuition, which collect various deposit from people and mobilize such resource in different income generating sector. These activities of banks help to build industrial environment, which creates employment opportunities and investment opportunities for the people. Therefore overall economic growth is particularly impossible with out considering the contribution of a sound banking system.

Now, twenty five commercial banks are operating in Nepalese financial market. But this study is concern only ADB\N to evaluate and analysis budgeting system, types of deposits, credit portfolio, liquidity and profitability position, and trend of total deposit and loan & advance by using various ratios. Finally with the helps of analysis and major finding gives some useful recommend for improvement their future performance.

Financial analysis is the process of identifying financial strength and weakness of the business firms. It also provides a framework for financial planning and control. Financial analysis is based on financial statements and significant relationship that exist between them. This study is relating to five years financial statement from F\Y 059\60 to 063\64 for the analyzed. Ratio analysis is most useful tool of financial analysis therefore this

study also concerned different financial ratios to evaluate the financial performance of the bank.

First of all, this study present detail about bank and banking system in Nepal. Then this study concerned to objective of the study, problem of the study and limitation of the study. In second chapter, review some relevant materials for identifying gap between past studies and take guideline of this study. In this purpose, some unpublished thesis are studies previously conducted about investment policy of commercial bank in Nepal, reform program of ADB/N, profitability position of NABIL bank and Non performing assets and its effect on profitability of Nepalese commercial Bank. Some relevant fact are found by these literature reviews, banks deposit collection was satisfactory but its utilization was not satisfactory, investment on agriculture was higher that investment on industry and service sector, after reform ADB/N has higher capacity of utilizing deposit in disbursement and reduce operating cost, banks has necessary to change lending policy and follow liberal lending policy and bank has successful to maintained sound liquidity position but the highest non performing credit to total loan is one of the major factor of reduces profitability .

This study follows descriptive research design. The population of the study is twenty five commercial banks, which are operating in Nepalese financial market among them ADB/N is selected as sample for the evaluation. The study is mainly based on secondary data, which optioned from various sources such as financial statement, annual report of relevant bank, Newspaper, bulletins, academic journal, magazines, and text books etc. these reviewing materials are collection from central library of T.U, library of Shanker Dev Campus, other public libraries, shareholders and personnel of banks etc. This collected data has been arrange in proper form and analyzed & interpreted through various financial and statistical tool such as ratio analysis, Karl Pearson's correlation coefficient simple average and standard deviation etc.

5.2 Conclusion:

On the basis analysis and interpretation of various ratios indicating the performance of ADB|N. following conclusion are derived from the major finding of the study.

ADB\N's average deposits utilization rate is 79.2% which implies that ADB/N is more active in creating investment opportunities and enhancing business activities.

Based on overall performance of lending, collection activities also displays linear and progressive trend for the last five year. ADB\N's credit portfolio in that regard exhibit almost positive correlation which means credit flow and collection of ADB\N business is going in the same alignment.

The image and goodwill of ADB\N in the financial market has created overwhelming response of the depositors and as such deposit has accounted with continuous growth trend.

The share of fixed deposit and saving deposit is 92.7% on total deposit. So the bank liquidity position is well and the bank gets more investment opportunities.

After analysis of profitability ratio the bank had utilize its resource more efficiently in last two years.

Therefore, it was conclude that ADB|N is performing well in last two year. The study's first two year the bank restructuring than it face huge loss. After then the bank was success to made new identity in financial market.

5.3 Recommendation:

All above presentation shows a clear financial picture of both banks. After this analysis some valuable and timely suggestion and recommendation are forward to indentifying weakness and inefficiency and to improving financial performance in coming future.

At present the number of commercial bank as will as finance companies are increasing trend. In this situation more competition for enhancing business activities therefore

ADB/N needs to restructure its banking service. Being one of the largest banks having many branches it should be able to develop its information technology and the bank must be able to increase its internet banking service, ATM services any branch services and online banking service. The bank should be able to get knowledge from newly established commercial banks. Which are able to make a revolutionary any branch banking in which any customer can perform banking transaction from any of the branches present inside the country? Also the bank set a more convenient minimum balance requirement to open an account and simplify present complicated and lengthy depositing process. The management of ADB/N seems to be lucrative towards the profit only they did not focus to reduce operating cost and problem of overstaffing. Where as the major subjects to be discussed are the different types to services to be provided to the customer. Internet banking ,letter of credit, FOREX, credit card and debit cards, ATM any branch banking and reduce operating cost are the major steps to be followed by ADB/N.

The recommendations to ADB/N are pointed out as follows:

-) The profitability in terms of return on assets and profit margin of the bank seemed to low in comparison to the huge amount of investment made by the bank. Therefore the bank is recommended to increase it's net income reduce it's operating expenses and try to increase profitability ratios.
-) ADB/N should have an in-depth analysis of the bank's strength and weakness. It should try and overcome its weakness by using its expertise opinion in risk analysis and loan recovery methods.
-) The clear objective and mission to be set and communicated to the middle level staffs which should be implemented in day to day operation.
-) The bank should develop specific schemes for customer as well as investor to face the competitions.
-) Effective programs should be initiated to improve the productivity of the staff. Which should be introduced other commercial bank for the staffs to increase their morale.

-) The system of periodic performance reports should be followed to be conscious towards poor performance and take corrective action timely.
-) Financial analysis helps to identifying the financial strengths and weakness and cause of weakness should be diagnosed timely. Controllable weakness should be controlled in time and relevant officers and subordinates should be made responsible and accountable for controllable weakness.
-) The bank should try to correct their market prices according to the net worth, earning per share and other profitability indicators. The bank are recommended to decrease it's price earning ratio to a reasonable level.
-) ADB\N should focus more on using non-fund business.
-) Finally, a systematic approach should be made towards the increase in profitability of the bank.
-) This study carries a lot of limitation. So a more comprehensive study needs to be carried from the concerned authorities and the further researchers to reach a more authentic conclusion depicting the picture of the bank.

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Appendix 1

Calculation of Mean, Standard Deviation and Coefficient of Variation of total

Deposit:-

FY	X	Y	U=X- \bar{X}	V=Y- \bar{Y}	U ²	V ²
059\60	20454	23949	-6441.8	-3943.6	41496787.24	15551980.96
060\61	24700	26244	-2195.8	-1648.6	4821537.64	2717881.96
061\62	27031	27223	135.2	-669.6	18441.64	448364.16
062\63	29888	29631	2992.2	1738.4	8953260.84	3022034.56
063\64	32406	32416	5510.2	4523.4	30362304.04	20461147.56
Total	$\Sigma X=134479$	$\Sigma Y=139463$			85652168.8	42201409.2

Suppose X is the budgeted total deposit and Y is the actual total deposits.

$$\text{Mean } \bar{X} = \frac{\Sigma X}{N}$$

$$\text{Coefficient of variation} = \frac{\sigma}{\bar{X}} \times 100$$

For Budgeted total deposit

$$\begin{aligned} \text{Mean} &= \frac{134479}{5} \\ &= 26895.8 \end{aligned}$$

$$\begin{aligned} \text{Standard deviation } (\sigma) &= \sqrt{\frac{U^2}{N}} \\ &= \sqrt{\frac{85652168.8}{5}} = 4138.89 \end{aligned}$$

$$\begin{aligned} \text{Coefficient of variation} &= \frac{\sigma}{\bar{X}} \\ &= \frac{4138.89}{26895.8} \times 100 = 15.38\% \end{aligned}$$

For actual total deposit

$$\begin{aligned} \text{Mean} &= \frac{139463}{5} \\ &= 27892.6 \end{aligned}$$

$$\begin{aligned} \text{Standard deviation } (\sigma) &= \sqrt{\frac{V^2}{N}} \\ &= \sqrt{\frac{42201409.2}{5}} = 2905.21 \end{aligned}$$

$$\begin{aligned} \text{Coefficient of variation} &= \frac{\sigma}{\bar{Y}} \\ &= \frac{2905.21}{27892.6} \times 100 \\ &= 10.41 \end{aligned}$$

Appendix 2

Calculation of Mean Standard Deviation and Coefficient of Variation of Loans and Advances:-

FY	X	Y	U=X- \bar{X}	V=Y- \bar{Y}	U ²	V ²
059\60	24253	21105	260.2	-992.6	67704.04	985254.76
060\61	20921	18953	-3071.8	-3144.6	9435955.24	9888509.16
061\62	22638	21635	-1354.8	-462.6	1835483.04	213998.76
062\63	24900	22815	907.2	717.4	823011.84	514662.76
063\64	27252	25980	3259.2	3882.4	10622384.64	15073029.76
N=5	$\sum X=119964$	$\sum Y=110488$			U ² =22784538.8	V ² =26675455.2

Suppose X is the budgeted loans and advance and Y is the actual loans and advance.

$$\text{Mean } \bar{X} = \frac{\sum X}{N}$$

$$\text{Coefficient of variation (C.V)} = \frac{\sigma}{\bar{X}}$$

For Budgeted loans and advances (X)

$$\begin{aligned} \text{Mean } \bar{X} &= \frac{119964}{5} \\ &= 23992.8 \end{aligned}$$

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{U^2}{N}}$$

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{22784538.8}{5}} = 2134.69$$

$$\text{Coefficient of variation} = \frac{2134.69}{23992.8} \times 100 = 8.8\%$$

For Actual loans and advances (Y)

$$\text{Mean } \bar{Y} = \frac{110488}{5} = 22097.6$$

$$\begin{aligned} \text{Standard Deviation } (\sigma) &= \sqrt{\frac{26675455.2}{5}} \\ &= 2309.78 \end{aligned}$$

$$\begin{aligned} \text{Coefficient of variation (C.V)} &= \frac{\sigma}{\bar{Y}} \\ &= \frac{2309.78}{22097.6} \times 100 \\ &= 10.45\% \end{aligned}$$