

**FINANCIAL PERFORMANCE OF AGRICULTURE
DEVELOPMENT BANK LIMITED**

By

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RECOMMENDATION

This is to certify that the Thesis

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*has been prepared as approved by this Department in the prescribed format of
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DECLARATION

I, hereby, declare that the work reported in this thesis entitled “**Financial Performance of Agriculture Development Bank Limited**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done for the partial fulfillment of the requirement for the Masters of Business Studies (MBS) under the supervision of Prof. Dr. Bal Krishna Shrestha of Central Department of Management.

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Finally, due to limitations of resources constraint and others the study may be shortcoming. So I do not heart to declare that the study is comprehensive. I hereby, take responsibility of any defects of analysis or error in this thesis.

Shiva Hari Timilsina

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ABBREVIATIONS

AD	Anno Domini
ATM	Automatic Teller Machine
B.S.	Bikram Sambat
C.V.	Coefficient of Variation
CA	Current Assets
CDM	Central Department of Management
CEO	Chief Executive Officer
CL	Current Liabilities
d.f.	Degree of Freedom
EBIT	Earning Before Interest and Taxes
et al.	and others
Fy	Fiscal Year
ICR	Interest Coverage Ratio
i.e.	that is
Ltd.	Limited
ADBL	Agriculture Development Bank Ltd.
No.	Number
NPAT	Net Profit After Tax
NRB	Nepal Rastra Bank
PE	Probable Error
Pvt.	Private Limited
r	Correlation Coefficient
r^2	Coefficient of Determination
S.D.	Standard Deviation
TU	Tribhuvan University

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Nepalese economy is different in its character from the regional economies. Poverty, less developed geographical situation, technological backwardness, landlockedness and dominated by two large economies etc are the main features of Nepalese economy. Most of the population of the country is in the rural areas, where there is no access of banking facilities. Due to lack of awareness and guidance to the poor, the poor are still in severe condition at many places. From the beginning of the 1970s same programs have been introduced focusing on rural and poverty stricken areas people. But these programs did not achieve significant results in the area of the poverty reduction. The population below the poverty line is still 25.4% by the end of the Three Year Interim Plan (*www.npc.org.np*).

Nepal has short history of banking sector as compared to other developed country in the world. Bank is the lifeline of a nation and its people. In regard of commercial banks they are internal parts of the economy in all countries. Outside the commercial banking realm, there are several financial institution that affects financial operation in a country. The place of commercial banks in financial system is more significant to play increasingly dynamic and vital role in the economy of the least developed likes ours, which provides economic and financial intermediation in the economy (*NRB, 2012*).

Speaking of priority to the establishment of Nepal Bank limited, there was no organized financial institution in Nepal. During the Primeministership of Ranodip Singh around 1877 AD a number of economic and financial reforms were introduced. The establishment of the Teejarath Adda was the outcome of that reform. Adda may be regarded as the father of modern banking institution

and for quite a long time intended a good service to government servant as well as to the general public. However, the installation of Kausi Tosha Khana as a banking agency during the regime of king Prithivi Nayaran Shah could also claim to be regarded as the first step towards initiating banking development in Nepal. The inception of Nepal Bank Limited in 1937 was a landmark in the field of banking and financial sector in Nepal. It was established under special banking act 1936 having elementary function of commercial bank a semi-government organization. The Central Bank named as Nepal Rastra Bank which was established in 26th April 1955 with the objective of supervising, protection and direction. The function of commercial banking activities by the government named as Rastriya Banijya Bank was established in 1966. Later on large number of commercial banks have been come into operation till date (*Chaudhary, 2066*).

Government involvement in business, trade and transit was indispensable and the end of the 18th century through few sole trading were also in existence during that pursued Adam Smith through his popular Wealth of National advocated minimum government intervention in business in 1776 AD through his first treatise on economic development. He suggested government to develop adequate infrastructure to promote the business rather actively participate in it. Major economic in the world followed Smith fill they approached great depression in 1929 AD. The year 1929-30 proved smith theory's of invisible hand's to be unsuccessful and left the growing economic of the world at crossed. To overcome the sudden and unexpected disaster in the economy, Keyn's theory of multiplier came which redefined the role of government and suggested it to invest a lot in business to mitigate the problems of unemployment and scarcity of affective demand in the market. Thus adoption of Keynesian theory once again the world economy moved towards mixed economy. The USSR started to use the concept of planned economic development from the same time (*Chaudhary, 2066*).

During the 1970's, the economic development come to be redefined in terms of reducing the rate of poverty and unemployment. In order to boost up the economy of any country both public and private firm most play vital role. Concept of public enterprise was emerged in the USA during the regime of Roosevelt through his view deal although other countries is also followed this concept that public enterprise couldn't run smoothly while arriving in 70's decade (*Chaudhary, 2066*).

Their productivity decline and ultimately they resulted in heavy loss. The oil price hike of 1973 forced even developed countries to flash back there economic structure. This wave of privatization slowly speeded up all over the world. Ending year 1980's and beginning of 90's are characterized by the political change. Germany unified USSR split up and changed its socialist pattern of economy. Centralized economy of china slightly directed towards liberalization in 1990's led to global economy (*Chaudhary, 2066*).

Developed countries have opened their market not only scare raw material from developing countries but also finished good with economic quality. Economic development in Nepal is really started only after Rana Regime. In the late period of Rana Regime some positive attempts were made .as a result dog perished for in existent in 1935AD, Biratnagar Jute Mill in 1936AD and Raghupati Jute Mill in 1946AD. Before the break of Second World War a twenty-year plan was announced and national planning committee was set up in 1949AD (*Chaudhary, 2066*).

Thus the present study focused on the financial performance analysis of Agriculture Development Bank Limited. For this purpose an evaluation of position of the Bank with respect to liquidity, leverage, capital adequacy, turnover and profitability and the relationship between various variable are made. This study assumes the hypothesis that the performance of sampled banks does not differ significantly (*ADBL, 2068/69*).

1.1.1 Commercial Banking and Activities

1.1.1.1 Origin of the Banks in World

In the past bank used just to accept deposit from the savers of money and give loans to the user of money. Savers of money are those units whose earning exceeds expenditure on real assets (land, building, cloth, food etc) and users of money are these units whose expenditure on real assets exceeds their earnings. In such a situation deficit units sell their security/IOWs (I OWE YOU) to surplus units. These securities are financial assets. If entire income of units matches with investment on real assets no financial are created. The evolution of banking can be traced back to the era, when the use of metallic coins as the media of exchange of good and service began storage of metallic coins was a serious problem for the common people. Because of the danger of thief and robbery people started leaving gold and silver and metallic coins in the custody of some reputed person a wealthy merchant or a moneychanger. The custodian had strongbox and other means of safe keeping. He offered this service as favor for his friend or made a charge for it. The depositor had to go personally to custodian for the withdrawal of his money. But this practice was found to be inconvenient (*Khadka and Singh, 2066/67*).

How did the use of word Bancus become popular? The origin of Bank is traced to Latin word Bancus which means a bench. European money lender and money changers used to transit their business at bench at benches or tables. They followed the practice of receiving gold and other metals as deposit and issuing receipts. The bench or table used by the trader in money was the symbol of the business of banking or dealing in money. The success of failure in trading was associated with his bench when a banker railed his bench used to be destroyed by the people (*Khadka and Singh, 2066/67*).

1.1.1.2 Origin and Growth of Banks in Nepal

The growth of banking in Nepal is not so long in comparison with other developing or developed country. The institutional development in banking system of Nepal is far behind Nepal had to wait for long time to come to the present banking position. The stepwise development of banking in Nepal can be narrated as follows: (*NRB, 2009*):

Nepal Bank Ltd.

Nepal Bank Ltd (1994,30th Kartik) and was established under the Nepal bank act 1994BS. Its initial authorized capital was 10 million rupees and issued capital was 25 lakh and paid up capital was 8 lakh 42 thousand.

Nepal Rastra Bank

The Nepal Rastra Bank act 2012 Nepal Rastra Bank was established in 2013 BS, Baishakh 14th but this act has been replaced and the Nepal Rastra Bank act 2058 is coming very soon.

Rastriya Banijya Bank

Rastriya Banijya Bank was another important Bank established in Nepal. The bank was established in the government sector in 2002BS. After connection the commercial bank act 2031 both the Banijya Bank act 2020 and the Rastriya Banijya Bank act 2021 were replaced.

Agriculture Development Bank

Under the Agriculture Development Bank act 2024 the Agriculture Development Bank (ADB) was established on 2024 7th Magh. Prior to the establishment of ADB cooperative Bank was established to meet requirement of found in the agriculture sector. But later on this cooperative Bank was converted into Agriculture Development Bank.

The Modern Phase of Banking Development

The process of the Development of Banking system in Nepal was not satisfied up to 2040. Not a single Bank was opened during this period except expanding the branches of the banks, which were established in the earlier period. Nepal was observing the event that taking places in the world also.

Nepal was deeply studying and searching what sorts of programs, policies, law and regulation should be brought into the practice. The country can't change its status by using only its own capital in the country without importing the new technology from foreign country. Accordingly, law, and policy have been enacted by the state to encourage the foreign investment on banking sector. As a result of it the Development of the Banking system started in Nepal. The competition began to grow the banks began to offer their valuable service to the people through new technology. This was the great significant event. Thus some Banks were opened on the joint investment basis brief accounts of such banks are as follows:

S.N.	Names	Head Office
1	Nepal Bank Limited	Kathmandu
2	Rastriya Banijya Bank	Kathmandu
3	Agriculture Development Bank Ltd.	Kathmandu
4	NABIL Bank Limited	Kathmandu
5	Nepal Investment Bank Limited	Kathmandu
6	Standard Chartered Bank Nepal Limited.	Kathmandu
7	Himalayan Bank Limited	Kathmandu
8	Nepal SBI Bank Limited	Kathmandu
9	Nepal Bangladesh Bank Limited	Kathmandu
10	Everest Bank Limited	Kathmandu
11	Bank of Kathmandu Limited	Kathmandu
12	Nepal Credit and Commerce Bank Limited	Siddharthanagar, Rupendehi
13	Lumbini Bank Limited	Narayangadh, Chitwan
14	Nepal Industrial & Commercial Bank Limited	Biaratnagar, Morang
15	Machhapuchchhre Bank Limited	Pokhara, Kaski

16	Kumari Bank Limited	Kathmandu
17	Laxmi Bank Limited	Birgunj, Parsa
18	Siddhartha Bank Limited	Kathmandu
19	Global Bank Ltd.	Birgunj, Parsa
20	Citizens Bank International Ltd.	Kathmandu
21	Prime Bank Ltd	Kathmandu
22	Sunrise Bank Ltd.	Kathmandu
23	Bank of Asia Nepal Ltd.	Kathmandu
24	Development Credit Bank Ltd.	Kamaladi, Kathmandu
25	NMB Bank Ltd.	Babarmahal, Kathmandu
26	KIST Bank Ltd.	Kathmandu
27	Janata Bank Ltd.	Kathmandu
28	Mega Bank Ltd.	Kathmandu
29	Nepal Trust and Commerz Bank Ltd.	Kathmandu
30	Civil Bank Limited	Kathmandu
31	Century Bank Ltd.	Kathmandu
32	Sanima Bank Ltd.	Kathmandu

Source: *NRB, Mid-July, 2012.*

Hence, there are so many commercial banks in operation in Nepal till date operating with their main objectives of carrying out activities under the Commercial Bank Act 2031, Nepal Rastra Bank Act 2058 the Company Act 2053.

After the restoration of democracy in Nepal, there is tremendous development in banking sector. Different types of banking activities are being operated. It has played positive role in economic activities. Till now apart form commercial banks have five rural development banks are in operation in Nepal. They are as follows.

Eastern Rural Development Bank Ltd.

Far Western Rural Development Bank Ltd.

Western Rural Development Bank Ltd.

Mid Western Rural Development Bank Ltd.

Middle Rural Development Bank Ltd.

The main objectives of these Bank is to uplift the living standard of the people by without security group basis to operate an income generating business these bank established according to the Rural Banks system by the government of Bangladesh with the objectives of providing loan to the poor people who are derived from the institutional loan facilities due to the lack of reasonable security and guarantee. The Rural Development Banks have their own fundamental concept every man has own characteristics and skill. The Rural development Banks have a concept, it can bring the poor mass of people in the level of respectable living standard providing the opportunity to the rented people and oppressed to increase the income and create the productive poverty.

Before the introduction of Nepal Development Bank Act 2052 the Nepal Industrial Development Corporation and Agricultural Development Bank were established but after this Act various Development Banks Have been opened in the different place of Nepal. They are performing their function according their objectives. These Banks have given benefits to their owners and they are also helping, the people and the nation in the process of economic development directly of indirectly. It is clear that the establishment of the different mentioned Banks is also the development of banking field in Nepal

1.1.1.3 Profile of ADBL

The Agricultural Development Bank-"ADB" (as we know it today) has had its roots firmly entrenched in the annals of the history of Trinidad and Tobago. The Bank's history dates back to the 1800s then the "Agricultural Bank" was established as a mortgage lending institution in the wake of a disastrous hurricane. Its immediate objective was to assist plantation owners to replant their estates. Thereafter it continued to operate on a small scale due to restricted legislation and limited financial resources.

During the depression years of the early 1940s, at a time when the major thrust of the agricultural sector was export, prices fell drastically. This coincided with the devastation of much of the standing seedling cocoa by witch broom disease.

This double disaster resulted in many of the plantation owners going into bankruptcy and several properties were transferred to the Government through the Agricultural Bank.

The Birth of the Agricultural Credit Bank

In 1945, One of the many West Indies Royal Commission Reports suggested that credit be extended for purchase of land and to the Agricultural Credit Societies. This marked the birth of the Agricultural Credit Bank. The Agricultural Credit Bank however suffered from the same financial legislative constraints as its predecessor.

History repeated itself in 1963 with hurricane "Flora" which wreaked havoc on the Agricultural sector in Trinidad and Tobago. Following this catastrophe, the first branch of the Agricultural Credit Bank was established in Tobago to administer credit on the advice of a reconstructed committee set up by Government.

Restructuring Leads to New Agricultural Development Bank

In 1965, a Finance Institution Committee was set up and charged with the responsibility of preparing a design for the Agricultural Credit Bank. Based on this committee's recommendations, the Agricultural Development Bank Act of 1968 was drafted.

The statute was enacted on 25th January 1968 and assets and liabilities of the Agricultural Credit Bank were transferred to the Agricultural Development Bank. The Bank was mandated to encourage and foster the development of agriculture, commercial fishing and industries connected therewith and to mobilize funds for the purpose of such development.

A. Status of Entity

) Agricultural Development Bank of Nepal (ADBN) was founded under the Agriculture Development Bank Act of 1967. In 1968, ADBN assumed the assets and liabilities of the Cooperative Bank and in 1973 absorbed the Land Reform Savings Corporation.

-) As a part of Nepal's financial sector reform initiative, a financial and operational review of ADBN was undertaken in 2003 under an Asian Development Bank technical assistance project. The objective was to prepare action plans for institutional development at ADBN. Of the three strategic options considered - status quo, privatization and commercialization - the study found and restructuring the most suitable option and developed strategies for the commercialization and restructuring of ADBN. The review report has been approved by Government of Nepal and ADBN is now in the process of implementing the action plans for its restructuring.
-) With the enactment of Bank and Financial Institutions Ordinance of 2004 (BFIO), the ADBN Act 1967 was repealed and the operation of ADBN is now governed by the BAFIO. Concurrently, ADBN was incorporated and registered as Agricultural Development Bank Limited (ADBL) on 15 July 2005 in accordance with the provisions of the Companies Act of 1997. On 16 the central bank - in accordance with the provisions of BFIO.
-) At present, ownership of ADBL is fully held by Government of Nepal. Although it has equity capital base of NRs. 1.7 billion, it has huge negative net worth (NRs. 6 billion) as of mid- July 2005 mainly due to large accumulated loss. At part of the restructuring plan, it is in the process of recapitalization.
-) ADBL has the largest rural financial institution and the extensive branch network throughout the country. ADBL's main product is development banking loans to farmers and rural poor. On 15th July 2005, development banking loan constituted 68% of the loan portfolio. Amongst the development banking load products, loan for marketing agricultural products (23%), livestock (19%) and agro industry (15%) dominated the portfolio. On the basis of tenure of development banking loan products, short-term loan (less than a year) and medium term loan (1 to 5 years)

constituted 48% and 47% respectively as of 15th July 2005. Deposit products were dominated by savings deposits (56%) followed by fixed deposits (37%) as of 15 July 2012.

B. Management and Control

) The seven-member ADBL Board has two representatives from Ministry of Finance including the chairperson; one from Ministry of Agriculture; one from Ministry of Land Reform; and two individual directors nominated by the Government of Nepal. The Board is yet to appoint a professional director out of the roaster maintained by Nepal Rastra Bank (NRB) in accordance with the provisions of BFIO. The general manager (the chief executive officer) has been promoted from the position of deputy general manager of the Bank.

) ADBL is supervised and regulated by NRB, under BFIO and the Nepal Rastra Bank Act of 2000. NRB has issued Directives of the banks and financial institutions under the power conferred to it by Nepal Rastra Bank Act, 2000. Under BFIO, no one other than a bank or financial institution established under BFIO may conduct financial transactions. The Bank's first Board was appointed in May 1970 under the chairmanship of George Jarvis Fuller. In 1977, Frank Thompson became the first appointed General Manager. There have since been other General Managers: Roy Phillips, Albert Vincent, Terence O'Neil Lewis, S.W.K. Knott (as Chairman), followed by Chief Executive Officer - Patrick Musaib-Ali and Hubert Alleyne as Chairman. Today, the Bank's operation is led by Jacqueline Rawlins, its first female Chief Executive Officer and Board of Directors that is chaired by Noel Garcia.

1.2 Statement of the Problem

In response to the liberal economic policy adapted by the Nepal government, so many private owned commercial banks, development banks, finance companies, co-operatives and insurance companies has been established. But

most of the financial institutions like commercial banks are concerned at urban area of the country. These types of establishment cannot contribute to the socio-economic development of the country where 90% of the population lives in rural area and about 80% population depends upon agriculture. So, it is necessary that, these commercial banks should extend their operation to the rural area of the country. But these banks ignored the aspect of Nepal Rastra Bank. Which is compulsory investment of 12% of the total investment in the rural area; these banks are inclined to pay fines rather than investing their resources in the less profitable sectors. This problem remains to be solved, if they follow NRB's introduction then the small investors in the rural area will be benefit able from the service of such bank. Besides these problem, resources are not properly utilized due to some reasons i.e. not able to perform the activities for which they have been established. Out of 32 many commercial banks, only one commercial bank i.e. ADBL is selected as sample to analysis the problem associated with these banks in terms of their financial ratio.

Other most of the business organization along with banks are facing different problems due to the lack of political stability and unrest. Bank has been facing the considerable pressure to lower the lending rates, which affects the profitability adversely. The problem of the study refers the study of strength and weakness of the ADBL. Although the study is not compressive as expected, attempts are made to sort out the answer for the following question.

1. How far the Agriculture Development Bank Limited is able to maintain its sound financial position?
2. What is financial growth condition of this Agriculture Development Bank Limited?
3. Is there correlation between financial variables?

1.3 Objectives of the Study

The main objective of the study is to analyze the financial performance of Agriculture Development Bank Limited. It tries to evaluate the overall

financial performance of Agriculture Development Bank Limited by using various tools such as statistical tools and financial tools.

The specific objectives of the study are as follows.

-) To make the study on the financial performance of Agriculture Development Bank Ltd.
-) To examine the growth condition of this Agriculture Development Bank Limited.
-) To forecast the financial performance for coming seven years and find out the correlation coefficient between financial variables.

1.4 Significance of the Study

The study evaluates the financial performance of Agriculture Development Bank Limited. The study highlights financial performance by using ratio analysis, which helps the concerned companies to formulate strategies to face the increasing competition and to achieve the targeted objectives.

Similar the aim of the study is to identify the financial problems. It provides a useful feedback, remedial actions, and good financial planning and takes appropriate decision to the policy-makers to the selected bank, government and also the other concerned field.

Likewise the research will provide required information to the persons and parties such as general readers, decision makers, brokers, traders, stockholder financial agencies, businessman and general public and also useful for teacher and students of the particular subjects and the other those having interested on financial management.

1.5 Limitations of the Study

Following are the limitations of the study made:

-) The study covers the analysis of only seven years data (Fy 2005/06 to Fy 2011/12).

-) This study is limited to only Agriculture Development Bank Limited.
-) This study is mostly based on the secondary data.
-) Having the limited time and limited resources, this study does not examine the factor affecting the financial performance in different sectors

1.6 Organization of the Study

This research has been divided into five parts which are as follows.

CHAPTER I: First part deals and includes the background of the study, introduction of the study, focus of the study, statement of the problems, objectives of the study, significant of the study, limitation of the study and plans of the study.

CHAPTER II: Second chapter includes review to the literature, which was obtained during the library research, theoretical review, and review of related studies.

CHAPTER III: Chapter third contents research design, population and sample, sources of data, data collection and processing techniques analysis of tools.

CHAPTER IV: This part of the study includes a presentation and analysis of data.

CHAPTER V: Last part of the study deals together with summary of finding conclusion and recommendation.

At the end of the chapters bibliography and appendices are included.

CHAPTER II

REVIEW OF LITERATURE

Review of literature comprises upon the existing literature and research related to the present study with a view to find out what had already been studied. This chapter has been divided into two parts:

- a. Conceptual Framework
- b. Review of Related Studies

2.1 Conceptual Framework

The modern financial evaluation has greatly affected the role and importance of financial performance. Nowadays, finance is best characterized as ever changing with new ideas and techniques. Only efficient manager of the company can achieve the set up goals. If a bank does not maintain adequate equity capital, it makes the bank more risky. If a bank has inadequate equity capital, it must be used more debt that has high fixed cost. So any firm must have adequate equity capital in their capital structure.

The main objectives of the banks are to collect deposits as much as possible from the customers and to mobilize into the most profitable sector. If a bank fails to utilize it's collected resources than it can not generate revenue. Resource mobilization management of bank includes resource collection, investment portfolio, loans and advances, working capital, fixed assets management etc. It measures the extent to which bank is successful to utilize its resources. To measure the bank performance in many aspects, we should analyze its financial indicator with the help of financial statements.

2.1.1 Financial Performance

Analysis of financial performance is a crucial part of financial decision making process of business enterprise. Poor financial management affects adversely on liquidity, turnover and profitability. It is required to measure the financial

position of the enterprise periodically in order to ensure smooth function of an enterprise. Financial analysis assists in identifying the major strengths and weakness of a business enterprise. It indicates whether a firm has enough funds to meet the obligation, a reasonable accounts receivable collection period, an efficient inventory management policy, sufficient plant property and equipment and adequate capital structure, all of which are necessary if a firm is to achieve the goal of maximizing shareholder's wealth. Financial analysis can also be used to assess a firm's viability as an ongoing enterprise and to determine whether a satisfactory return on investment is being earned for the risks taken.

“A subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm’s overall financial health over given period of time and can be used as a general to compare similar firms across the same industry or to compare industries or sectors in aggregation. Financial performance analysis focus on financial statements and the significant relationship that exist among the various contained in this regard. “Analyzing financial performance is a process of evaluating financial statements to obtain a better understanding of a firm’s positions and performance” (*Pandey; 1992: 30*).

“Financial performance means measuring the result of a firm’s policies and operations in monetary terms. These results are reflected in the firm’s return on investment, return on assets value added, etc. there are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operation operating income or cash flow from operation can be used, as well as total unit sales. Furthermore, the analyst or investor may wish to look deeper in to financial statement and seek out margin growth rates or any declining debt” (*Pandey; 1992: 31*).

Below are seven ways to measure the financial performance of a business:
([http://www.businessdictionary.com/Financial performance](http://www.businessdictionary.com/Financial_performance))

© **Profit**

The creation or consumption of wealth over a certain period of time is profit /loss. Other words for profit are earning, net income, and the bottom line. A full measurement of profit must include owner's compensation. More profit is good.

© **Cash flow**

The difference between the amounts of cash you end up with at the end of a certain period of time versus how much you started with. More positive cash flow is good.

© **Balance sheet strength**

Generally speaking, company's assets relative to its liabilities at a specific point in time indicate the balance sheet strength. More assets (what the company owns) and fewer liabilities (what a company owes) result in a stronger balance sheet. A stronger balance sheet is good.

© **Risk**

Business is risky, we might not get paid by a customer, and we might default on a debt. Our company might get sued, etc. risk is sometimes defined as probability times consequence. The likelihood of something multiplied by the damage it would cause. To earn the same dollar of profit with less risk is good or to earn more profit with the same amount of risk is good. Hence, there is a risk /reward relationship.

© **Owner's Time invested**

How many hours per day, week, month, and a year do you put in to business? To earn the same dollar of profit while investing less of your time is good.

© **Business owner's Net Worth**

Financially, the purpose of a business is to create wealth for its owners. Does the owner have substantial investments in retirement accounts, real estate, and other holdings? Has the owner's net worth increased as a result of money she /he

has taken out of the business? Look to the owner's personal balance sheet for a full understanding of a small business financial performance.

© **Valuation**

What is the fair market value of your business? Is it rising or falling? In addition to providing current income, business creates wealth for their owners by having a resale value when it comes time for you to execute your exit strategy, a higher business valuation is better. This last way to measure financial health is outside the company realm altogether.

The steps of analysis are as follows

1. Selection of relevant to the decision.
2. Arrangement of the selected information to highlight the significant relationship of the financial yardsticks.
3. Interpretation and drawing of inferences and conclusion.

Ratio analysis is the systematic way of financial indicator, which can achieve the information of the firm's strength and weakness as its historical performance, and current financial condition can be determined. After calculation various ratios, we need to compare with the certain standard and draw out the conclusion of the result

“It is the process of determining the significant operating and financial statement. The goal of such analysis is to determine the efficient and performance of the firm's management as reflected in the financial records and reports” (*Hampton; 1998: 98*).

“Financial analysis is the process of determining financial strength and weakness of a company by establishing strategic relationship between the component of the balance sheet and profit and loss statement and other operative data” (*Pandey; 1999: 96*).

2.1.2 Financial Statement Analysis

Financial statement published by the listed company in the stock exchange are collected and analyzed by Nepal Stock Exchange for the calculation of the financial performance of the concerned company.

Every business organization is established with the objective of earning the profit. Bank is also established with the same motives. Profit is necessary for the long term existence of the business. Every investor wants to invest their money in profitable area. Financial statement is the indicator of business ratio in terms of its strength and weaknesses and profitability. Therefore, the financial ratio analysis reflects the financial position of a firm; financial statement analysis is helpful to the decision maker for finding out favorable or unfavorable situation of a business concern.

“The main function of financial ratio analysis is the pointing out the strength and weaknesses of a business undertaking by regrouping and analysis the figures contains in financial statement by making composition of various components and by examining their content. This can be used by financial managers as the basis to plan future financial requirements by means of forecasting budgeting procedures” (*Weston and Copeland; 1992: 92*).

“Financial statement analysis is largely a study of relationship among the various financial factors in a business as disclosed by a single set of statement and study of trends of these factors as shown in a series of statements” (*Weston and Copeland; 1992: 95*).

Financial Analysis identifies the financial strength and weakness of the firm with the help of basic financial statement. For this purpose a ratio helps the analysis to make qualify about the firm's financial performances.

“The financial statement provides a summarized view of the financial operation of the firm. Therefore, much can be learnt about a firm and careful examination of its financial statement as invaluable documents. The analysis of financial

statement is thus important aid to financial analysis. He also mentioned that the ratio analysis is one of the major tools of financial statement analysis" (*Pandey; 1992:109*).

"Financial Analysis is the purpose of identifying the financial strength and weakness of the firm by properly establishing relationship between the balance sheet and profit and loss accounts" (*Pandey; 1995:103*).

"Ratio Analysis is the systematic use of ratio to interest the financial performance so that the strength and weakness of a firm as well as its historical performance and current financial condition can be obtained" (*Jain and Narang; 1993: 123*).

"Ratio may also be judge in comparisons with those of similar firms in the same line of business and when appropriate with an industry average. from Empirical testing in the recent years, it appears that financial ratios can be used successfully to predict certain events, bankruptcy in particular. With this testing, financial ratio analysis has become more scientific and objectively than ever before" (*Van Horne; 1997: 712*).

Financial Statement analysis and technique used by various group like creditors, shareholders, investors, management, government and so on. Financial statements reflect a firm overall performance as well as its future growth and solvency, analysis financial statements are crucial.

Financial analysis is a process of evaluating the relationship between components parts of financial statements to obtain a better understanding of a business concerns financial health. It can be undertake by different parties, but the nature of analysis will differ depending on the purpose of users. Financial statement analysis doesn't provide extract answer, but it informs about future expectation.

“Financial statement analysis involves a comparison of a firm’s ratio with that of other firms in the same line of business, which offers is identified by the

firm's industry classification. Generally, speaking the analysis is used to determine the firm's financial position in order to identify its current strength and weakness and to suggest actions that might enable the firm to take advantage of its strength and correct its weakness" (*Weston and Copeland; 1996: 99*).

"Financial ratio analysis is the process of identifying the financial strengths and weaknesses of the firm by property establishing relationship between the items of the balance sheet and the profit and loss account. Management of the firm can undertake it or by parties outside the firm" (*Pandey; 1997: 82*).

Financial ratio analysis focused on the key figure contained in the financial statement and significant relationship between them. Management of the firm is generally interested in every aspect of the financial ratio analysis, which is responsible for the overall efficient and effective utilization of the available resources and financial position of the firm.

By analyzing the financial statement, every firm can determine their financial soundness in terms of profitability, interest payment ability, debt maturity dividend policy, capital structure and so on.

"Financial ratio analysis is used primarily to gain insight into operating financial problems confirming the firms, with respect to this problem, we must be careful to distinguish between the causes of problem and symptom of it" (*Hampton; 1998: 52*).

"It is the process of determining the significant of operating and financial statement. The goal of such analysis is to determining the efficiency and ratio of the firm's management. As reflected in the financial records and reports" (*Hampton; 1998: 54*).

"Financial ratio analysis is to analyze the achieved statement to see, if the results meet the objectives of the firm, to identify problem. If any, in the past or

present and or likely to be in the future and to provide recommendation to solve the problem” (*Vanhorn; 2000: 72*).

“Financial ratio analysis is process of identifying the financial strength and weakness of the firm by establishing relationship between the items of the balance sheet, which represents analysis snapshot of the firm’s financial position analysis at analysis moment in the time and text, income statement, that depots analysis summary of the firm’s profitability overtime” (*Vanhorn; 2000: 74*).

“Thus, the analysis of financial statement is an important aid to financial ratio analysis. It is helpful in assessing the financial position and profitability of concerned business organization” (*Pandey; 1979: 78*).

“For the financial analysis of any firm, the vertical and horizontal analysis would be done. The vertical analysis consists of financial balance sheet. Profit and loss account of certain period of time only which is known as static analysis. And the horizontal analysis consist of a series of statement relating to the number of years are reviewed and analyzed. It is also known as dynamic analysis that measure the changes of the position trend of business over the number of years” (*Thapa; 2003: 37*). Here, horizontal study has been done for the purpose of finding out the key financial indicators of the EBL and HBL over the period of fiscal year 2003/04 to 2007/08.

To find and evaluate the financial ratio of the firm, ratio analysis is taken as an effective tool. Ratio analysis is a way of establishing the relationship between items which are expressed as percentage, fraction or proportion of numbers. Ratio analysis enables us to summarize the large number of quantities date and analysis it in a simple way. “Financial ratio helps us to find out the symptoms of the operational and financial problem of a corporation which can be ascertained by examining the behavior of these ratios” (*Vanhorn; 2000: 78*).

“Ratio analysis is the systematic use of financial information of the firm’s strength and weakness as its historical ratio and current financial condition can be determined” (*Weston and Brigham; 1987: 102*).

Ratio analysis is a powerful tool of financial ratio analysis, which helps in identifying strength and weakness of business concerns. It is an important way to present the meaningful relationship between components of financial statement. So, ratio analysis is a major tool which can be used to interpret and evaluate the financial statement.

It is thus an attempt to direct the financial statements into their components on the basis of purpose in hand and establish relationship as between these components and totals of these items on the other. Among with this a study of various important factors over the past several years is also undertaken to have clear understanding of changing profitability and financial condition of the business organization.

2.1.3 Balance Sheet

Balance sheet is the most significant financial statement. It indicates the financial condition or the state of affairs of a business at a particular moment of time. Balance sheet is the base for the analysis of financial performance of any company. Balance sheet contains information about resources and obligations of a firm entity and about its owners' equity. Balance sheet provides a snapshot of the financial position of the firm at the closed of fiscal year.

As we know, Balance sheet is very important tools for the analysis of financial performance. The functions severed by Balance sheet can be pointed out as follows:

-) It gives concise summary of the firm's resource obligations.
-) It is a measure of the firm's liquidity.
-) It is a measure of the firm's solvency.

2.1.4 Profit and Loss Account

Balance sheet plays very significant role for the banker and other creditors because it indicates the firm's financial Solvency and liquidity, where as profit and loss account reflect the earning capacity and potentiality of the firm. The profit and loss account is a scoreboard of the firm's performance during a period. Since the profit and loss account reflects the results of operations for a period, it is a flow statement. In contrast, balance sheet is a stock or status statement as it shows assets, liability and owners' equity at a point of time.

Profit and Loss account presents the summary of revenues and expenses and net income of a firm. It servers as a measure of the firm's profitability. The functions of profit and loss account can be described as follows:

- a. It gives a concise summary of the firm's revenue and expenses during a period.
- b. It measures the firm's profitability.
- c. It communicates information regarding the results of the firm's activities to owners and other.

In conclusion, financial information is required for a financial planning, analysis and decision-making. The user of financial information includes owner's managers, employees, customers, suppliers and society.

The financial statements like Balance Sheet and P/L account are the basic instruments for the analysis of financial performance.

2.1.5 Income Statement

"Income statement is designed to portray the performance of the business firm for specific period of time i.e. for a year or month or quarter. The business revenues and expenses resulting from the accomplishment of the firms operation are shown in the income statements. It is the "Scoreboard" of the firm's performance during particular period of time. It shows the summary of

revenues, expenses and net income or loss of a firm for a particular period of time. Income statement also serves as a true measure of the firm's profitability" (*Khan and Jain; 1993: 15*).

2.1.6 Statement of Retained Earning

This statement explains about the Company's position of earnings to be paid as dividend and the portion of profit to be retained for future uses. It also explains how profit, dividend and other transaction affect the retained earnings and share-holders' equity.

Financial analysis is done on the basis of financial statement of the concerned company. The objective of financial analysis can be described as:

-) To get the entire information that can be used at the time of decision making.
-) To judge overall performance and management effectiveness.
-) To identify the deficiencies and weaknesses.
-) To take corrective action in time to check such deficiencies and improve the performance.
-) To evaluate the possible implications of alternative course of actions.
-) To get in dept information of possibilities of brining changes worthwhile.

2.1.7 Tools of Financial Statement

2.1.7.1 Ratio Analysis

The following are the some important financial ratios to analyze the financial performance of selected bank:

(i) Liquidity Ratio

A liquidity ratio measures the ability of the firm to meet its current obligations. In fact, analysis of liquidity need the preparation of cash budgets and cash and funds flow statements; but liquidity ratios, by establishing a relationship between cash and other current assets to current obligations, provide a quick measure of liquidity a firm should ensure that it doesn't suffer from lack of liquidity, and also that it doesn't have excess liquidity. The failure of company to meet its obligation due to lack of sufficient liquidity, will result in poor creditworthiness, loss of creditors' confidence, or even in legal tangles resulting in the closure of the company. A very high degree of liquidity is also bad; idle assets. Therefore, it is necessary to strike a proper balance between high liquidity and lack of liquidity.

(ii) Leverage Ratio

The short-term creditors, like bankers and suppliers of raw materials, are more concern with the firm's debt-paying ability. On the other hand, long-term creditors, like debenture holders, financial institutions etc., are more concerned with the firm's long-term financial strength. In fact, a firm should have a strong short as well as long-term financial position. To judge the long-term financial position of the firm, financial leverage, or capital structure ratios are calculated. These ratios indicate mix of debt and owners' equity in financing the firm's assets. The process of magnifying the shareholders' return through the use of debt is called financial leverage or financial gearing or trading on equity.

(iii) Activity Ratio

Activity ratios are concerned with the measuring of efficiency in assets management. This ratios are employed to evaluate the efficiency with the bank manages and utilizes funds. These ratios are also called turnover ratios because they indicate the speed with which the assets are being converted or turned over into sales.

(iv) Profitability Ratio

A company should earn profits to survive and grow over a long period of time. Profit is the difference between revenues and expenses over a period of time. Profit is the ultimate output of the company, and it will have no future if it fails to make sufficient profits. Therefore, the financial manager should continuously evaluate the efficiency of the company in terms of the profits. The profitability ratios are calculated to measure the operating efficiency of company. Besides management of the company, creditors and owners are also interested in the probability of the firm. Creditors want to get interest and repayment of principal regularly only when the company earns enough profits.

(v) Credit Ratio

Credit ratios are calculated in order to measure the credit position of the banks. It shows what portion of collected deposits are used to make credit and remain cash and bank balances to make immediate payments.

2.1.7.2 Funds Flow Statement

Funds flow analysis is the statement of changes in financial position of any organization that determines only the sources and used of fund between two dates of balance sheet. It is prepared to uncover the information that financial statements fail to describe clearly. It describes the sources from which funds were derived and used to which these funds were put.

The statement is prepared to summarize the changes in assets and liabilities resulting from financial and investment transactions during the period as well as those changes occurred due to the changes in owner's equity. It also uncovers the way of using financial resources during the period by the firm.

Method of preparing funds flow statement depends essentially upon the sense in which the term fund is used. There are three concept of fund: cash concept, total resources concept and working capital concept. According to cash

concept, the word fund is synonymous with cash. Total resources concept refers total assets and resources as fund. The term fund represents only to working capital on the stated last concept However, working capital concept of fund has gained wide acceptance as compared to the other concepts. Therefore, any transaction that increases the amount of working capital is taken as source of fund while conducting funds flow analysis. Any transaction that decreases working capital is treated as application. But, any transaction that affects current liabilities or current assets without result any changes in working capital is not taken as sources or use.

2.2 Review of Related Studies

2.2.1 Review of Journals and Articles

Poudel (2053 B.S.), has published an article on "*Financial Statement Analysis: An Approach to Evaluate Bank's Performance*" explained that the balance sheet, profit and loss account and the accompanying notes are the most useful aspects of the bank. We need to understand the major characteristics of bank's balance sheet and profit and loss account. The bank's balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Fixed assets accounts form a small portion of the total assets. Financial innovations, which are generally contingent in nature, are considered as off-balance sheet items. Interest received on loans/advances and investments and paid on deposits are the major components of profit and loss account. The other sources of income are fee, commission, discount and service charges. The users of the financial statements of a bank need relevant, reliable and comparable information, which assist them in evaluating the financial position and performance of the bank and which is useful to them in making economic decisions. The disclosure requirement of the bank's financial statement has been expressly laid down in the concerned act. Commercial Bank Act 2031 B.S. requires the audited balance sheet and profit and loss account to be published in the leading newspaper for the information of general public.

Pendelton (2061 B.S.), has published an article on “*Nepal’s Financial Reform: A Tardy Pace of Deliberate Race.*” He is trying to explore the need and relevancy of financial reform program in Nepal. In this article he suggest that ‘HMG/N’ has way to go for complete financial reform, restore financial soundness to deserving public much work is left to do; however, the government had set to ‘Road Map’ to complete this phase and continues to improve the reform process, a process vision to sustain the economy for generations to come. It is important that the citizens of Nepal, particularly the media services, support this effort as well.

Mundul (2007), has published an article on “*Corporate Financial Sector: Restructuring.*” He mentioned that corporate and financial sector restructuring are two aspects of the same problem. The amount of debt and company can sustain – and on which lenders can expect reliable debt service - is determined by the unit’s cashflow. Indeed, a company cannot sustain interest payments in excess of its cashflow (i.e. interest coverage < 1:1), let alone make any repayments on the principal. Hence, substantially higher ratios of interest coverage are most desirable. He concluded that the corporate debtors and financial institution creditors will naturally seek to minimize their losses from corporate restructuring. The government has a role to play in balancing a variety of conflict interest.

Upadhaya (2007), has published an article on “*Five years financial projection of Nepal Telecom.*” He highlighted Nepal Telecom have to investor modern technology in time and optimum utilization of the technology so as to guide for the high return on investment. Only investing on modern technology may not be sufficient to get the required return on investment its optimum utilization is must otherwise the investment in new technology cannot give the return. Investment in modern new technology may turn riskier for the company. He had analyze past five year financial data of NTC and tried to project the financial future of the company. He found that the operating profit of NTC is slightly increasing this is due to decreasing of operating expenses. Study shows

that NTC is successful to manage cost efficient. Return on assets is about 26 percent this means company is able earn 26 percent profit in terms of total assets. He projects the future five years financial performance of NTC by using regression analysis, judgmental approach. According to his projection growth rate on return will remain around 4.69 percent.

2.2.2 Review of Thesis

Prior to this study, the several researchers have found various studies regarding financial performance of commercial and joint venture banks. In this study, only relevant subject matters are reviewed which are as follows:-

Poudel (2000) has conducted a study on “*A comparative financial performance analysis of joint venture bank in Nepal (A case study of Nepal Bangladesh Bank Ltd. and Nepal Arab Bank limited).*” The main objective was to analyze and evaluate the financial strength of selected commercial banks. The objectives are as follows:

- i) To identifying liquidity position of NB and NABIL and compare the result each other.
- ii) To evaluate and compare of profitability between NB and NABIL.
- iii) To compare capital structure and leverage between NB and NABIL.
- iv) To observe and compare return of the period between NB and NABIL.

Major findings of the study are as follows:

-) From the study, it has found that the liquidity position of NB bank is better than that of NABIL.
-) Though the liquidity position is lower, NABIL is able to meet its current obligation. Both joint venture banks are extremely leveraged indicating outsiders claim exceed for more than that of the owner and bank assets.

- J Comparatively capital structure of NB bank is more risky than that of NABIL. Earning performance and prospects of NB is better than that of NABIL.
- J Both Joint Venture Bank to increase their equity capital by issue of share expanding general reserve and retaining more earning.

Deoja (2001) has conducted a research on “*A Comparative Study of the Financial Performance between Nepal SBI Bank Ltd. and Nepal Bangladesh Bank Ltd.,*” analyzed different ratio of NSBIBL and NBBL for the period of five years till fiscal year 2000. His main objective was to analyze the financial performance between Nepal SBI Bank Limited and Nepal Bangladesh Bank Limited. The specific objectives are as follows:

- i) To analyses the strength and weakness of the selected commercial Banks.
- ii) To evaluate the liquidity, leverage, activity, profitability and credit ratio of two commercial Banks.
- iii) To examine the financial performance of the selected commercial Banks.

Major findings of the study are as follows:

- J Here, in some cases the liquidity position of NBBL is higher where as in some cases the ratio of NSBIBL is higher. It concludes that liquidity position of these two banks is sound.
- J NBBL has better utilization of resource in income generating activity than NSBIBL. They are on decreasing trends while interest earned to total assets and return or net worth ratio of NBBL is better than NSBIBL.
- J From the point of profitability position of NBBL is better than NSBIBL and both banks are highly leveraged.”

Oli (2002) has conducted a research study on “*A Comparative Study of Financial Performance of HBL, NSBIBL and NBBL.*” His main objective was to analyze the financial performance between HBL, NSBIBL and NBBL with the help of various financial and statistical analysis. The specific objectives are as follows:

- i. To evaluate the liquidity, leverage, activity, profitability and credit ratio of two commercial Banks.
- ii. To examine the financial performance.
- iii. To recommend the appropriate suggestion to concerned authority.

Major findings of the study are as follows:

-) Liquidity position of two JVBs i.e. NSBIBL and NBBL are always above than non standard and HBL is always below than normal standard.
-) Total debt with respect to shareholders fund and total assets are slightly higher for HBL than NSBIBL and NBBL.
-) The researcher has found from the analysis that NBBL has been successfully utilized their total deposits in terms of extending loan and advances for profit generating purpose on compared to NSBIBL and HBL.
-) NSBIBL is also better than HBL. It has concluded that net profit to total assets ratio in case of HBL is found better performance by utilizing overall resources but the generated profit is found lower for the overall resources in three JVBs.”

Joshi (2003) has conducted a study on “*A Study on Financial Performance of Commercial Banks.*” His main objective was to evaluate the liquidity, leverage, activity, profitability and credit ratio of two commercial Banks. concludes that

“Liquidity position of commercial banks is sound. The specific objectives were as follows:

- i. To examine the financial performance.
- ii. To evaluate the liquidity, leverage, activity, profitability and credit ratio of two commercial Banks.
- iii. To recommend the appropriate suggestion to concerned authority.

Major findings of the study are as follows:

-) Their debt to equity ratio is high which doubts on solvency.
-) Debt to equity ratio of local commercial banks is higher than other joint venture banks.
-) Assets utilization for earning purpose is $\frac{2}{3}$ of the total assets.
-) The main source of income for these banks is interest from loan and advance of overall profitability position, is better than others.”

Luitel (2003) has conducted a study on “*A Study on Financial Performance Analysis of Nepal Bank Limited.*” His main objective was to analyses the strength and weakness of these two commercial Banks.

The specific objectives are as follows:

- i. To examine the overall financial ratio of the selected commercial bank.
- ii. To examine the financial performance.
- iii. To recommend the appropriate suggestion to concerned authority.

Major findings of the study are as follows:

-) The liquidity position of the bank is also not satisfactory during both periods. It is even worse during the second period as various current ratios have fluctuated during these periods and it shows lack of specific policy of holding various types of current assets. Thus, it can be said that the financial position of the NBL is worse during the second period due to its inefficiency in risk management.

-) Since NBL has not maintained a balanced ratio among its deposit liabilities during the second period with the first period, the bank seems to be unable to utilize its high cost resources in high yielding investment portfolio.
-) During both the periods there are negative operating profit for two years however, the company enjoyed the net profit due to the non-operational activities from first period of both years.
-) There is a demarcation between operational and non-operational activities of the bank and performance and result of the first period shows that the bank is more inclined towards non-operating activities. Yet, the overall financial position of the bank is unsatisfactory during both periods.

Joshi (2004) has conducted study on “*Financial Analysis of Nepalese Commercial Banks.*” His main objective of finding the comparative financial strengths and weakness of various commercial banks.

The specific objectives are as follows:

- i. To analyze the return rate and expected return to the shareholders
- ii. To evaluate systematic and unsystematic risk of the banks and providing recommendation on the basis if research findings.

From the study, major findings of the study are as follows:

-) It is calculated that lending condition of banks are in decreasing trend.
-) Banks in strong condition are holding good customers and discouraging low rated and less amounting loans. Instead of that, they are initiated towards remittance, bank guarantees and other commission generating activities, while other banks are showing aggressive and are spontaneously increasing loan loss provision.
-) Deposits in the banks are also decreasing while some banks are holding enough funds. Its recommended for SCBNL was utilizing the maximum

of the outsider's funds towards the credit sector because return on credit sector is higher than on investment sector.

-) Loan loss provision of SCBNL is comparatively higher. It is recommended to control while sanctioning loan outflows. So, the bank should improve its credit management.

Maharjan (2006) has conducted a study on "*A Study on Financial Performance of NABIL Bank Limited.*" Liquidity position of the bank is good enough to meet the short-term obligations. His main objective was to evaluate the overall financial performance of Nabil Bank Limited. The specific objectives are as follows:

- i. To examine the strength and weaknesses through ratio analysis.
- ii. To examine the financial performance of Nabil Bank Limited.
- iii. To recommend the appropriate suggestion to concerned authority.

Major findings of the study are as follows:

-) The study shows that the bank is mobilizing its loan and advances adequately. The bank has better mobilization of its saving deposits in loans and advances adequately.
-) The bank has better mobilization of its saving deposits in loan and advances for income generating purpose but it has not nicely mobilized its fixed deposits in loans and advances to generate the income. It has not invested more amount in loan and advances as well as less in government securities efficiently for generating profit. Interest earned by the bank is inadequate in comparison to the assets. So it has drawn attention of the bank towards the sense of significant EBIT.
-) Since the net profit of the bank in comparison to the total deposit is relatively low, it focused on earning operational profit wither by increasing their operational efficiency, or by decreasing their operational expenses as far as possible. The bank is also has not formulate and implement some sound and effective financial and non financial

strategies to meet required level of profitability as well as the social responsibility.

Rajbhandari (2009), has conducted a study on “*A Comparative Study on Financial Performance of Nabil Bank Limited and Standard Chartered Bank Nepal Limited.*” The main objective of the study was to analyze, examine and interpret the financial position of SCBNL and NABIL with the help of ratio analysis and other financial tools.

The specific objectives are as follows:

- i. To examine the strength and weaknesses through ratio analysis.
- ii. To examine the financial performance of Nabil Bank Limited.
- iii. To recommend the appropriate suggestion to concerned authority.

Major findings of the study are as follows:

-) In the study she had chosen only two commercial banks as sample i.e. SCBNL and NABIL.
-) The main findings in her study were that the liquidity positions of these banks were not satisfactory.
-) The current ratio should be in the normal standard of 2:1 but both banks are below the normal standard 2:1, which indicates the both banks i.e. NABIL bank and SCBNL were not adopting constant policy regarding liquidity ratio.
-) The cash and bank balance to total deposit ratio, cash and bank balance to current assets and cash and bank balance to saving deposit ratio of SCBNL is higher than that of NABIL bank as per mean ratio.
-) It signified SCBNL is more successful in utilizing its amounts of total deposits, current assets and saving deposits in cash and bank balance.
-) Cash and bank balance to saving deposit ratio, fixed deposit to total deposit ratio and performing assets to total assets ratio of NABIL bank is higher than that of SCBNL as per mean ratio.

-) The leverage or capital structure ratio reveals that the capital structure of NABIL bank was more leverage than that of SCBNL. This implies that NABIL bank is utilizing more outside funds for the benefit of its shareholder than SCBNL.
-) The total assets to net worth ratio of NABIL bank are lesser than that of SCBNL as per mean ratio. This shows investment of owner's equity in total assets is minimum than SCBNL. Analysis of activity ratio signifies that both the banks are successful in utilizing or managing the resources or assets satisfactorily.
-) Comparatively, loans and advances to total deposits ratio and loans and advances to saving deposits ratio of NABIL bank is more efficiently utilizing the outside funds in extending credit for profit generation.

Sharma (2010) conducted a study on *A financial performance of capital structure of Everest Bank Limited.* "The main objective of the study was to the analyze and evaluate the financial performance of capital structure of Everest Bank Limited. The specific objectives are as follows:

- i) To examine the existing financial position regarding the capital structure.
- ii) To analyze the composition of Everest bank limited of the mixture of debt and equity capital.
- iii) To examine the different profitability ratios of Everest Bank Ltd.

Major findings of the study are as follows:

-) From the analysis the position of investment, income, deposits are increasing trend of Everest Bank Ltd.
-) The relationship between net profit and capital employed is shown in the capital employed ratio analysis. The ratio has a fluctuating trend. The average ratio is 4.61%. Under net operating approach it is daid that the total valuation of the firm is unaffected by the capital structure.

-) The rate of equity capitalization of EBL is in decreasing trend. The cost of equity is continuously decreasing, decrease th equity capitalization rate implies good sign foe increase in shareholders equity. The average cost of equity is 4.72% and the whole changes rates for all the fiscal year is negative.
-) The liabilities and capital for all fiscal year are continuously increasing, it shows that overall situation of bank is growing up the change rates is however, fluctuating liabilities are increasing more than the share capital. And also found debt capacity of EBL is more fluctuating but it shows the changing rate are all positive in all fiscal year and the market value, PE ratio is very good all indicators shows financial activity of Everest Bank Limited are very good.

Pandey (2011), has conducted a study on “*An Analysis of Key Financial Ratio of Commercial Banks in Nepal: A Special Reference with Himalayan Bank Limited and Everest Bank Limited.*” The main objective of his study was to find out exact financial ratio of these two commercial banks over the periods of time. He had taken Everest Bank Limited and Himalayan Bank Limited as sample. Mainly he had conducted this research based on secondary data available in both banks’ annual reports and manuals. He had presented data using both financial and statistical tools in his study.

The specific objectives are as follows:

- i. To examine the overall financial ratio of the selected commercial bank.
- ii. To examine the financial performance.
- iii. To recommend the appropriate suggestion to concerned authority.

Major findings of the study are as follows:

-) Current ratio of both of the banks showed consistent trend. Both the banks could not maintain the conventional standard of 2:1.

-) EBL has higher average ratio which implies that EBL is more capable to meet short term obligation in comparison to HBL.
-) Normally, the ratio remained consistent in HBL but the ratio of EBL is fluctuated more which is reflected by higher standard deviation.
-) Both the selected banks were successful to mobilize their fund as loan and advance with respect to total assets. However, EBL has higher mean ratio than HBL over the study period which implies that EBL can be taken as better investor than HBL as concerned to consistency, both the sample banks able to maintain consistency.
-) According to the analysis of assets management ratio, both the banks were successful in on-balance sheet utilization. Out of these two banks, EBL is found to be best in mobilizing the assets to the profitable sector.
-) By analyzing the valuation ratio of selected bank, market value of EBL was higher position than HBL. Total deposits and loan and advances of both the bank were almost positively perfect correlated. Correlation coefficient between total deposit and total investment of both the banks were more than 0.5 with positive sign, which means investment will increase proportionally with the increment in total deposit.
-) The trend analysis of EBL was better than that of HBL in all the cases. The growth rate of total deposit, total loan and advance, total investment and total net profit of EBL is higher than that of HBL.

Research Gap

Large numbers of research are available bearing the same or similar topic. However, the researcher will sustain gap by covering the relevant data and information from the year 2005/06 to 2011/12. Moreover, the researcher has selected only one commercial bank of Nepal as sample banks i.e. Agriculture Development Bank Limited. That itself demonstrates the gap of this research from the previous one because the researcher has not found any research done in the bank in collective form. Under this topic many researches have been done but none of the researchers are undertaken regarding the case study of

financial performance of Agriculture Development Bank Limited. Financial analysis is the major function of every commercial bank for evaluating the financial performance. Therefore, it is the major concern of stakeholders to know the financial situation of the bank.

Agriculture Development Bank Limited is a leading commercial bank of the country having the huge market share and its investment activities and the bank has significant impact on developing the economy of the country. Every year the financial performances are changing according to the environment of the country. Hence, this study fulfills the prevailing research gap about the in-depth analysis of the financial performance which is the major concern of the shareholders and stakeholders.

CHAPTER III

RESEARCH METHODOLOGY

The main objective of this study to examine the major components of portfolio of the balance sheet of bank as well as to evaluate financial performance of the bank to achieve that objective the study require an appropriate research methodology therefore this chapter highlights about the methodology adopted in the process of present study.

An appropriate choice of research methodology is a difficult task which is most necessary to support the study in realistic term with sound empirical analysis (*Paudyal, Basnet and Pant, 2069*). So that, the study uses the following research methodology like research design, population and sample, data collection procedure, method of data analysis, method of presentation etc explanations of the above points are given which seems appropriate to understand methodology in detail.

3.1 Research Design

The research design followed is basically the evaluation of financial performance of Agriculture Development Bank Limited. Analytical as well as descriptive approaches are used to evaluate the financial performance of the bank. Analysis is basically on the basis of secondary data.

3.2 Sources of Data

Secondary data are used for the purpose of the study. They are collected form official publication of the bank. Also some data has been gathered from website, article, journals related to the financial performance study, previous research reports etc.

3.3 Population and Samples

On the basis of researcher's judgment the study cover only one sample bank of Agriculture Development Bank Limited.

3.4 Method of Data Analysis

Different data obtained through various sources are arranged and analyzed using financial and statistical tools which are presented as under.

3.4.1 Financial Tools

In this research study various financial tools are employed for the analysis. There are more than 200 ratios existing today, but in this study some selected ratio are used. A ratio is defined as "the indicated quotient of two mathematical expression" and as the relationship between two or more things (*Pandey, 1998*).

3.4.1.1 Liquidity Ratio

Liquidity is measure by the speed with which a bank's assets can be converted into a cash to meet deposit withdrawals and other current obligation. These ratios provide insight into the present cash solvency in the event of adverse financial condition. This ratio is used to measure the company's short-term obligation with short term resources available at a given point of time.

The following ratios are evaluated liquidity ratios:

a. Current Ratio

The current ratio of a firm measures its short-term solvency that is its ability to meet short-term obligations. As a measure of short term current financial liquidity it indicates the rupees of current assets available for each rupee of current liability. The higher the current ratio the larger is the amount of rupees available per rupees of current liability, the more is the firm ability to meet

current obligations and the greater is the safety of funds of short term creditors. Thus current ratio in a way is a measure of margin of safety to the creditors.

It is computed dividing current assets by current liability

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

b. Cash and Bank Balance to Current Assets Ratio

The ratio measures the ability of bank to meet immediate obligations. The bank should maintain adequate cash and bank balance to meet the unexpected as well as heavy withdrawal of current assets. High ratio indicated sound liquidity position of the bank however too high ratio is not good enough as it reveals the under utilization of fund. The ratio is computed by dividing the cash and bank balance by current saving and deposit

$$\text{Cash and bank balance to current assets ratio} = \frac{\text{Cash and bank balance}}{\text{Current assets}}$$

c. Cash and Bank Balance to Current Assets

The ratio shows the proportion of total deposits held as most liquid assets. High ratio shows the strong liquidity position of the bank. But too high ratio is not favorable for the bank because it produces adverse effect in profitability due to idleness of high interest bearing fund. The ratio is computed by dividing cash and bank balance by current assets.

$$\text{Cash and bank balance to current assets} = \frac{\text{Cash and bank balance}}{\text{Current assets}}$$

d. Investment on Government Securities to Current Assets Ratio

The ratio shows what percentage of government securities has been collected from current assets. High ratio indicates better opportunity available to the bank to invest sufficient generating long term loans. Low ratio means the bank

should invest the fund of low cost in short term loans. The ratio is computed by dividing government securities by current assets.

$$\text{Investment on government securities to current assets} = \frac{\text{Fixed deposit}}{\text{Total deposit}}$$

e. Loan and Advance to Current Assets

This ratio shows that capability of bank discounting and purchasing the bill, loan and overdraft facilities to the customer to make a high profit mobilizing its fund in the best way the bank should not keep it all collected funds as cash and bank balance but they should be invested as loan and advances to customers. This ratio is computed by dividing loan and advance by current assets:

$$\text{i.e., } \frac{\text{Loan and advances}}{\text{Current assets}}$$

3.4.1.2 Activity Ratio

Activity or turnover ratio measure the performance efficiency of an organization that whether it is using its resources properly or not. To carry out operation a firm needs to invest in bank short term and long term activity ratio describe the relationship between the firm level of operation and the assets to sustain the activity turnover ratio can be used to forecast a firm capital requirement. The turnover ratio analyzed in the study.

a. Loan and Advance to Total Deposit Ratio

This ratio indicates the proportion of total deposits invested the greater use of deposit for investing in loans and advance but very high ratio shows poor liquidity position and risk in loan on the contrary, too low ratio may be cause of idle cash or use of fund in losses productive sector. It is calculated by dividing loan and advance by total deposit.

$$\text{Loan and advance to total deposit ratio} = \frac{\text{Loan and advance}}{\text{Total deposit}}$$

b. Total Investment to Total Deposit Ratio

This ratio measures the extent to which a bank is able to mobilize its deposits on investment in various securities. A high ratio indicates the success in mobilizing deposits in securities. This ratio is computed by dividing total investment by total deposit ratio:

$$\text{i.e., } \frac{\text{Total investment}}{\text{Total deposit}}$$

c. Loan and Advance to Capital Employed

This ratio reflects the extent to which commercial banks are successful in mobilizing their assets as loans for the purpose of income generation.

$$\text{i.e., } \frac{\text{Loan and advances}}{\text{Capital employed}}$$

3.4.1.3 Profitability Ratio

Profitability ratio measures the efficiency of a business enterprise. The profit measure the management ability regarding how well they have utilized their funds to generate surplus for this following ratio has been analyzed.

a. Return on Equity Ratio

The ratio is tested to see the profitability of the owner's investment. It reflects the extent to which the objective of business is accomplished. It is computed by dividing net profit by equity.

$$\text{Return on equity ratio} = \frac{\text{Net profit}}{\text{Total equity capital}}$$

b. Interest Earned to Total Capital Employed

This ratio reflects the extent to which the bank is successful in mobilizing its total assets to generate high income as interest. A ratio is an indicator of high earning power of the bank on its assets employed and vice-versa.

$$\text{i.e., } \frac{\text{Interest earned}}{\text{Total capital employed}}$$

c. Interest Paid to Total Capital Employed Ratio

This ratio measures the percentage of total interest paid against the total assets employed. A high ratio indicates the interest expense on total assets employed.

$$\text{i.e., } \frac{\text{Interest paid}}{\text{Total capital employed}}$$

d. Interest Earned to Operating Income Ratio

This ratio reflects the extent to which the bank has successfully mobilized its fund in interest bearing assets. It measures the magnitude of interest income in total income.

$$\text{i.e., } \frac{\text{Total interest earned}}{\text{Total operating income}}$$

Where, total operating income includes the interest income, commission and discount, income from dividend, foreign exchange income and other.

e. Return on Total Capital Employed Ratio

It measures the profit earning capacity by utilizing available resources i.e. total assets return will be higher if the banks working fund is well managed and efficiently utilized.

$$\text{i.e., } \frac{\text{Net profit}}{\text{Total capital employed}}$$

f. Return on Loans and Advances Ratio

It measures the earning capacity of ADBL on its deposits mobilized on loan and advances.

$$\text{i.e., } \frac{\text{Net profit}}{\text{Loan and advances}}$$

g. Interest Earned to Total Assets Ratio

The ratio shows the percentage of interest income as compared to the assets of the bank. High ratio indicates the proper utilization of bank's assets for income generating purpose. High ratio is satisfactory performance.

$$\text{i.e., } \frac{\text{Interest income}}{\text{Total assets}}$$

h. Total Interest Expenses to Total Interest Income

Total interest expenses consists of interest expenses incurred for deposit borrowing and loan taken by the bank. Total interest income includes, interest income received from loan and advance, cash credit, overdrafts, government securities interbank loans and other investment. Lower the ratio is favourable from profitability point of view.

$$\text{i.e., } \frac{\text{Interest expenses}}{\text{Interest income}}$$

3.4.2 Statistical Tools

3.4.2.1 Arithmetic Mean

Arithmetic mean is the most popular and widely used measure for representing the entire data by one value also called average. Arithmetic mean of a given set of observation is their sum divided by the number of observations. In general $X_1, X_2, X_3, \dots, X_n$ are the given observations then their arithmetic mean, usually denoted by \bar{X} .

Symbolically,

$$\text{Arithmetic mean, } \bar{X} = \frac{X_1 + X_2 + X_3 + \dots + X_n}{n}$$

$$\bar{x} = \frac{\sum x}{n}$$

Where, \bar{x} = arithmetic mean

$x_1, x_2, x_3, \dots, x_n$ = values of the variable

$\sum x$ = sum of the values of the variables x

n = number of observation

3.4.2.2 Coefficient of Variation

The coefficient of variation is the relative measure of dispersion, comparable across distribution. This is defined as the ratio of the standard deviation to the mean expressed in percent.

$$CV = \frac{s}{\bar{X}} \times 100\%$$

Where, s = standard deviation

\bar{x} = arithmetic mean

3.4.2.3 Correlation Coefficient

The Coefficient of correlation is an important measure to describe how well one variable is explained by another. It measures the degree of relationship between the two casually related variables. Karl Pearson's coefficient of correlation between two variables X and Y is usually denoted by 'r' which is the numerical measure of linear association between the variables.

Where,

$$r = \frac{n \sum xy - \sum x \sum y}{\sqrt{(n \sum x^2 - (\sum x)^2)(n \sum y^2 - (\sum y)^2)}}$$

$$\text{Probable Error (P.E.)} = \frac{0.6745(\sqrt{1 - r^2})}{\sqrt{N}}$$

Where, r = correlation coefficient

N = No. of pairs of observation.

If $r > 6 \text{ P.E}$, then the correlation coefficient is significant and reliable.

If $r < P.E$, then the correlation coefficient is insignificant and there is no evidence of correlation.

3.4.2.4 Trend Analysis

Trend Analysis is one of the statistical tools which is used to determine the improvement or deterioration of its financial situation. Trend analysis informs about the expected future values of various variables. The Least square method has been adopted to measure the trend behaviors of these selected Banks. This method is widely used in practices. The formula of least square method for the straight line is represented by the following formula.

$$Y_c = a + bX$$

Where,

$$Y_c = \text{Trend Values}$$

$$a = \text{Y intercept or the computed trend figure of the Y variable, when X} \\ = 0$$

$$b = \text{Slope of the trend line of the amount of change in Y variable that is} \\ \text{associated with change in 1 unit in X variable.}$$

$$X = \text{Variable that represent time i.e. time variable}$$

The value of the constants a and b can be determined by solving the following two normal equations.

$$\sum Y = \sum XNa + \sum X^2b \quad \text{.....(i)}$$

$$\sum XY = \sum X^2a + \sum X^3b \quad \text{.....(ii)}$$

Where, N = number of years

But for simplification, if the time variable is measured as a deviation from its mean i.e. mid-point is taken as the origin, the negative value in the first half of the series balance out the positive values in the second half so that ($\sum X = 0$).

The values of constant a and b can easily be determined by using following formula.

$$a = \frac{Y}{N}$$

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

CHAPTER IV

DATA PRESENTATION AND ANALYSIS OF DATA

Date presentation and analysis is the important part of the research work. It is known as the heart of the research. The whole research is based on the analysis and interpretations of collected data. Here the basic objective of the study is to examine the CVP relationships.

The secondary data is for sales and analysis, statistical analysis, cost plan analysis, profitability analysis, operating leverage analysis and cup analysis etc. The secondary data are collected from profit and loss account, cost details sheet, balance sheet, cash flow statement etc, which is provided by the company.

The primary data is used for salary cost analysis and segregating cost into variable and fixed etc. The primary data is collected mainly by questionnaire. Besides, questionnaire discussions were also made with different level of Bank staff. The study has tired to the covered activities of ADB from F y 2005/06 to 2011/12 because the audited data of only this period is available the information, which have been collected from ADB are given and analysis in Coming pages according.

4.1 Financial Analysis

4.1.1 Current Ratio

Current ratio indicates the concern has instant ability to payout the current liabilities as they mature. This ratio is the yardstick to judge the short term financial position of the business unit, Bank or industry. Standard of current ratio 2:1.

We have,

$$\text{Current} = \frac{\text{Current assets}}{\text{current liabilities}}$$

Where,

Current Asset = Cash and bank balance, account receivable, amount at called credit.

It is assumed that current assets includes the above items due to non ability of information. We are unable to define to define the investment and other assets as current assets. So, both the assets are categorized as long term assets.

Current liabilities = Accountpayable, Accruals, Notepayable

It is assumed that current liabilities include the above items. Similarly, due to the non-availability of information. We are unable to define the investment and other assets as current assets. So, both the assets are categorized as loan as current liabilities.

Table 1
Current Ratio

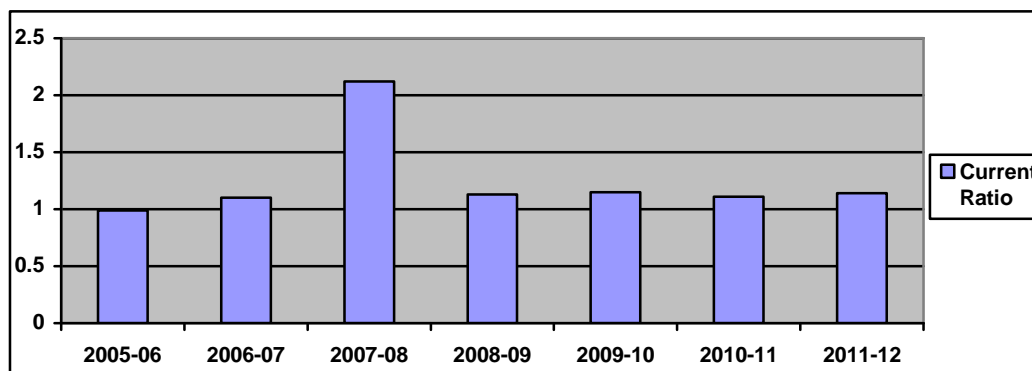
(Rs in million)

FY	Current Assets	Current Liabilities	Current Ratio
2005-06	29029	29207	0.99
2006-07	31834	29817	1.1
2007-08	34441	31047	2.12
2008-09	36386	32283	1.13
2009-10	38693	33568	1.15
2010-11	40463	36443	1.11
2011-12	46328	40562	1.14

Source: Annual Report of Agricultural Development Bank

The above table not shows that current ratios are fluctuation trend from FY 2005/06 to 2011/012. As the current ratio is below that normal standard however we cannot conclude the liquidity position is poor as it is only quantitative measures not qualitative and the situation of the bank is quite different than that of general business enterprise.

Graph 1
Graphical Presentation of Current Ratios



I. Cash and bank balance to Current Assets Ratio

Cash and bank balance to current assets ratio reveals the position of cash and bank in to cash and bank balance in total current assets.

In the present study cash and bank balances includes cash on hand including foreign cheque other cash item and balance with domestic banks and abroad. Cash and bank balances are highly liquid assets than other current assets. So this ratios scan higher liquidity position than current ratio.

We have,

$$= \frac{\text{Total cash and bank balance}}{\text{Total current Assets}}$$

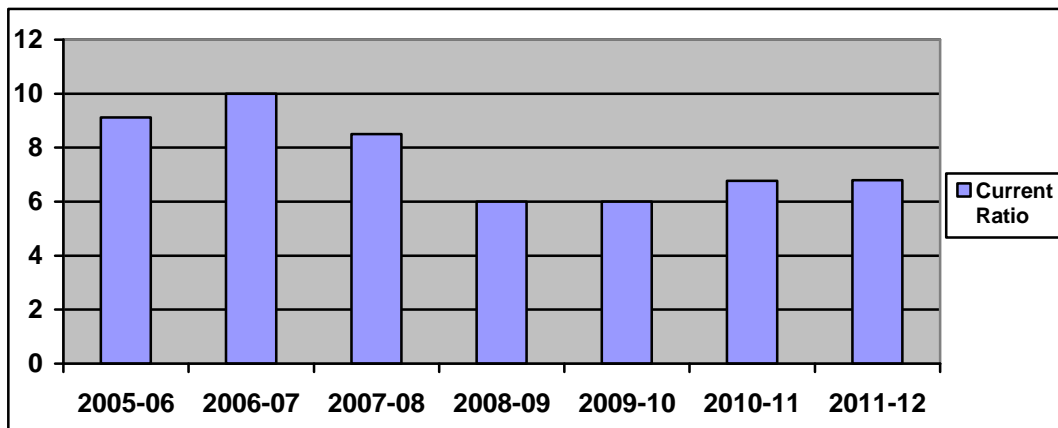
Following table shows the data relating to cash and bank balance to current assets.

Table 2
Cash and Bank Balance to Current Assets Ratio

FY	Cash and Bank Balance (Rs)	Current Assets (Rs)	Ratio (%)
2005-06	2649	29029	9.12
2006-07	3169	31834	10
2007-08	2935	34441	8.5
2008-09	2212	36386	6
2009-10	2360	38693	6
2010-11	2738	40463	6.77
2011-12	3152	46328	6.80

The table no 2 depicts that cash and bank balance to current assets ratio is better as it shows the ability to manage the deposit withdraws from the customers. The data have followed fluctuating trends through out the study period i.e. from the year 2005/2006 to 2011/2012

Graph 2
Graphical Presentation of Cash and Bank Balance to Current Assets Ratios



II. Investment of Government Securities to Current Assets Ratio

Government security is slightly liquid assets as well as confidential investment until the state is living. So it is also a very important and very near cash items of current assets. Investment on government security to current assets ratio visualizes the proportion of investment on government security to current assets.

We have,

$$= \frac{\text{Investment on government securities}}{\text{Current assets}}$$

The following table shows the figure of this Ratio

Table 3

Investment on Government Securities to Current Assets Ratio

FY	Investment on Government Securities (Rs)	Current Assets (Rs)	Ratio (%)
2005-06	97	29029	0.33%
2006-07	250	32834	0.76%
2007-08	500	34441	1.5%
2008-09	1000	36426	2.75%
2009-10	1000	38693	2.6%
2010-11	1200	40463	2.97%
2011-12	1400	46328	3.02

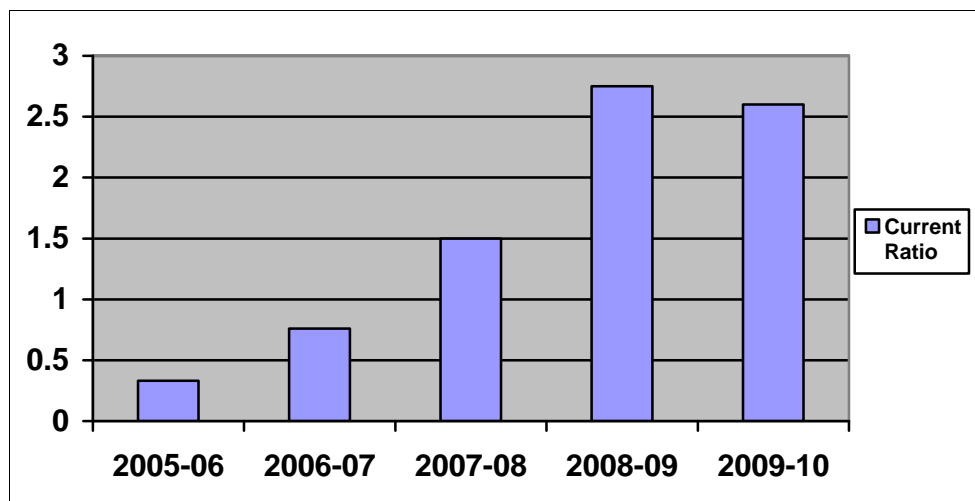
Above table no 3 reveals that ADB investment on government securities to current ratio is in increasing trend expect 0.33% in FY 2005/06 and in FY 2011/12 above this trend 3.02% the study period.

Investment on government securities is the more safe investment than current assets. In addition to can earn additional interest income by investing instead of keeping ideal cash.

In conclusion, it can be regarded that ADB Nepal has invested its remarkable potion of currents assets on government securities.

Graph 3

Graphical Presentation of Investment on Government Securities to Current Assets Ratio



III. Loan and Advance to Current Assets Ratio

Loan and advance to current assets ratio reflects the capability of bank discounting and purchasing the bills, loans and overdraft facilities to the customer to make a high profit mobilizing its fund in the best way a Agriculture development should not keep it all collected funds as cash and bank balance but they should be invested as loan and advances to customers.

We have,

$$= \frac{\text{Loan and Advance}}{\text{Current Assets}}$$

Table 4

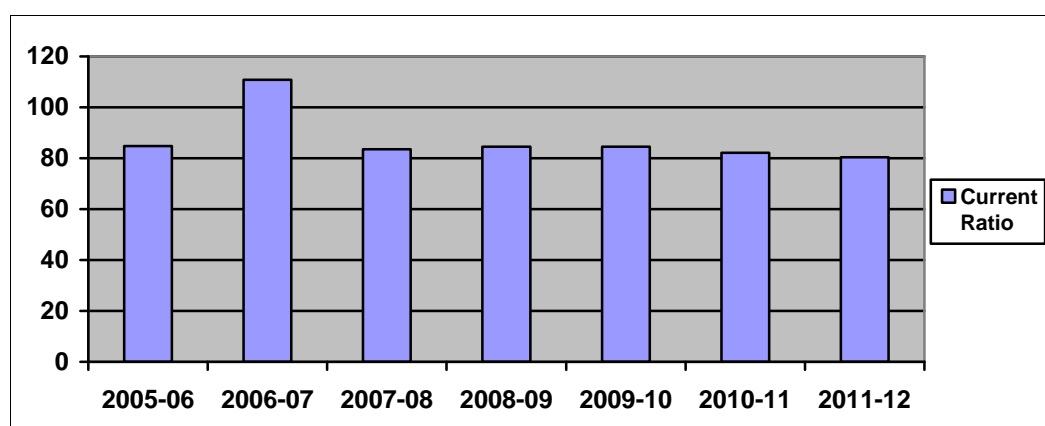
Loan and Advance to Current Assets Ratio

FY	Loan & Advance (Rs)	Current Assets (Rs)	Ratio (%)
2005-06	24437	29029	84.18%
2006-07	36375	32834	110.8%
2007-08	28772	34441	83.5%
2008-09	30786	36426	84.5%
2009-10	32711	38693	84.5%
2010-11	33234	40463	82.13%
2011-12	37234	46328	80.37%

The above table shows that the loan and advance to current assets ratio has followed the state line order through out the study periods. The above discussion helps to conclude that the bank can not mobilize its current deposit on loan and advances.

Graph 4

Graphical Presentation of Loan Advances to Current Assets Ratio



IV. Cash and Bank to Total Deposit Ratio

Cash and Bank balance is said to be the first defense of every banks. The ratio between the cash and bank balance and total deposit measure the ability of bank to meet the unanimated cash and all types of deposit.

We have,

$$= \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

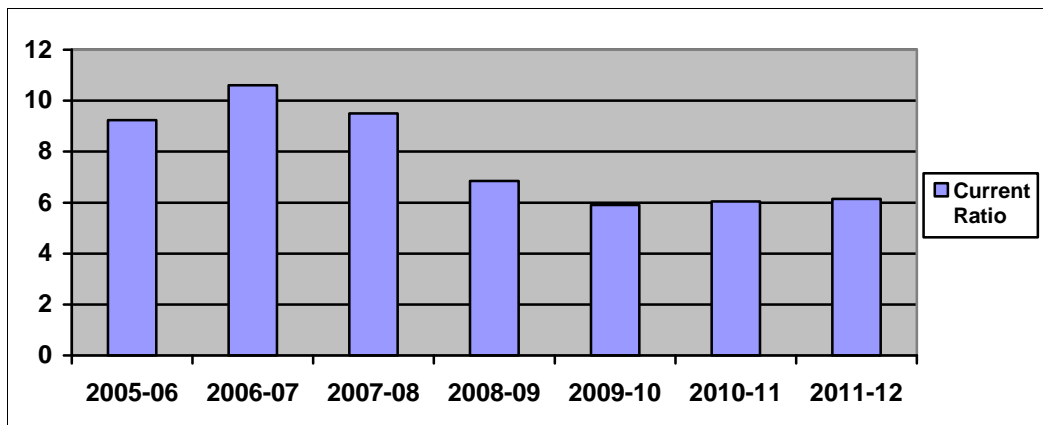
The following table shows the ratio measurement years

Table 5
Cash and Bank Balance to Total Deposit

FY	Cash & Bank Balance	Total Deposit	Ratio (%)
2005-06	2649	28715	9.23%
2006-07	3169	29858	10.6%
2007-08	2935	31047	9.5%
2008-09	2212	32282	6.85%
2009-10	2360	40127	5.9%
2010-11	2738	45234	6.05%
2011-12	3152	51345	6.14%

The table no 5 shows fluctuating trend on cash and bank balance to total deposit ratio during the study period, in average it has maintained remarkable cash and bank balance to total deposit ratio. It shows that the improve or execute modification on the satisfactory position regarding the meeting of demand of its customers on their deposit at any time. That means it operates in higher risks. Through high ratio indicates its high ability but very high ratio shows the inefficiency.

Graph 5
Graphical Presentation Cash and Bank Balance to Total Deposit



4.1.2. Activity Ratio

Activity or turnover measures the efficiency of the bank to manage its assets in profitable and satisfactory manner these ratio are employed to evaluate the efficiency with which the firm manages and utilize its assets. A Agriculture development must manage its assets properly to earn high profit. Under this chapter following ratios are studied.

I. Loan and Advance to Total Deposit Ratio

This ratio measure the extent to which the banks are successful to mobilize their total deposit on loan and advance.

$$= \frac{\text{Loan and Advance}}{\text{Total Deposit}}$$

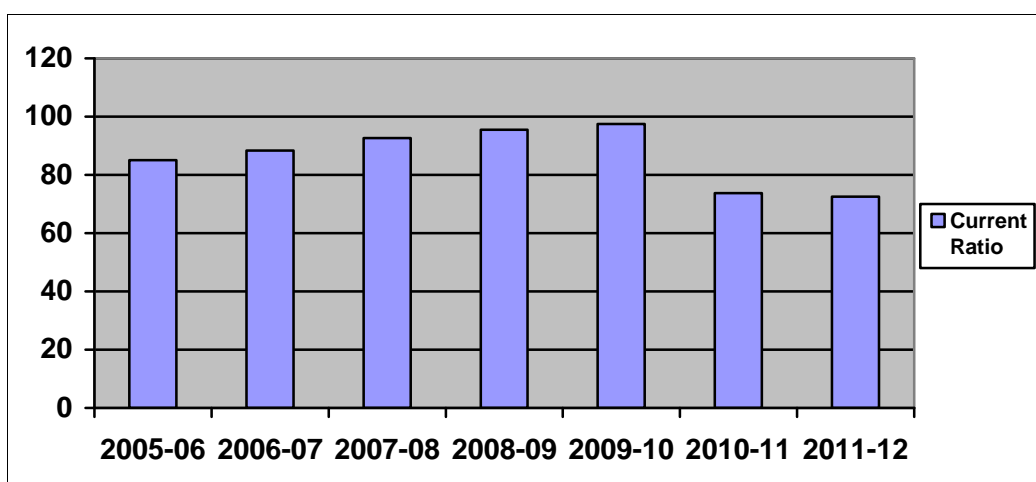
The table below shows the ratio of loan advances to total deposit ratio.

Table 6
Loan and Advances to Total Deposit Ratio

FY	Loan and advances	Total Deposit	Ratio (%)
2005-06	24437	28715	85.10%
2006-07	26375	29856	88.34%
2007-08	28772	31047	92.67%
2008-09	30786	32282	95.53%
2009-10	32711	33568	97.45%
2010-11	33234	45234	73.77%
2011-12	37234	51345	72.52%

The above no 6 shows that the ratio in different year has fluctuating trend. It has highest 97.45% in FY 2009/10 and lowest ratio is 72.52% in the FY 2011/12. In conclusion the bank has weak position regarding the mobilization of total deposit on loan and advance and acquired loss and low ratio shows the less amount is providing as loan and advanced which is nor better for the bank. The mean cause of loss is showing the less amount of providing the loan and advance. So, the bank should improve in providing the loan and advanced.

Graph 6
Graphical Presentation Loan and Advance to Total Deposit



II. Total Investment to Total Deposit Ratio

This ratio measures the extent to which a bank is able to mobilize its deposits on investment in various securities. A high ratio indicates the success in mobilizing deposits in securities and vice-versa.

$$= \frac{\text{Total Investment}}{\text{Total deposit}}$$

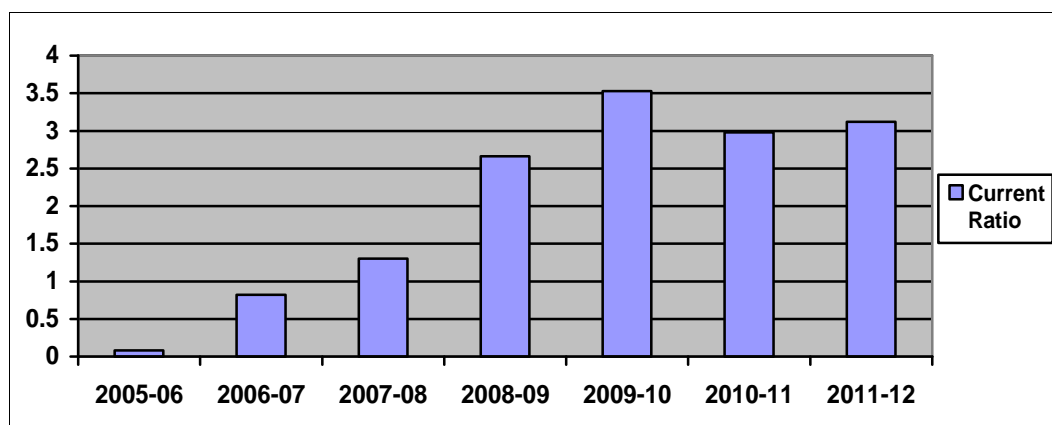
The following table exhibits the ratio of total investment to deposit.

Table 7
Total Investment to Total Deposit Ratio

FY	Total Investment (Rs)	Total Deposit	Ratio (%)
2005/06	237	28715	0.825%
2006/07	390	29858	0.825%
2007/08	640	31047	1.3%
2008/09	1140	32282	2.66%
2009/10	1140	33568	3.53%
2010/11	1350	45234	2.98%
2011/12	1600	51345	3.12%

In the above table, the ratio is increasing in order from the beginning to the end but it is an increase in the fiscal year 2010/11 on the basis of other fiscal years. It is concluded that the increasing investment is better for the bank.

Graph 7
Graphical Presentation of Total Investment to Total Deposit



III. Loan and Advance to Capital Employed

This ratio reflects the extent to which the commercial banks are success in mobilization their assets as loan for the purpose of income generation. A high ratio indicates better in mobilization of fund as loan and advance and vice-versa.

We have,

$$\text{i.e. } \frac{\text{Loan and Advance}}{\text{Total Capital Employed}}$$

Total working fund is the total assets. It is composed up of capital and reserves, deposit, loan and other liabilities.

The following table exhibits the ratio of loan and advance to total capital employed.

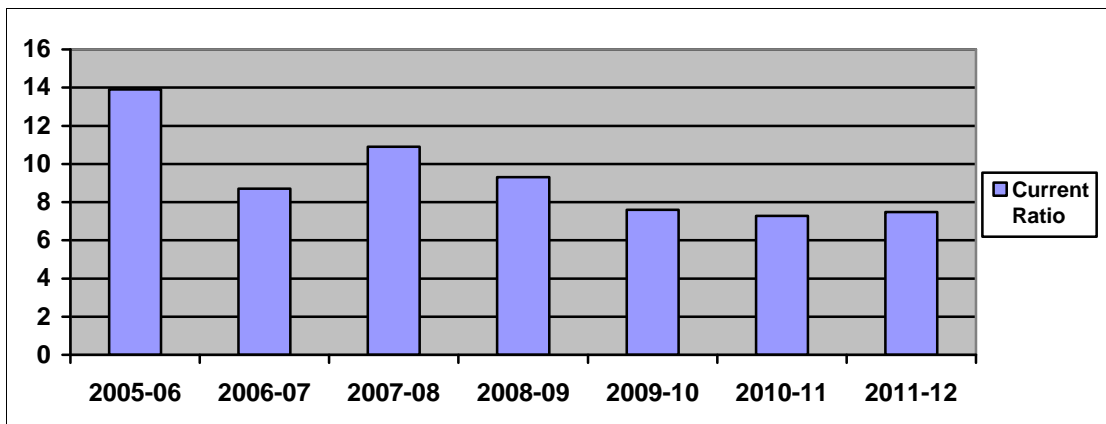
Table 8
Loan and Advance to Total Capital Employed

FY	Loan & Advance	Total Capital Employed	Ratio (times)
2005/06	24437	1752	13.9
2006/07	26375	3031	8.7
2007/08	28772	2638	10.9
2008/09	30786	3325	9.3
2009/10	32711	4250	7.6
2010/11	33234	4560	7.28
2011/12	37234	4980	7.48

Referring to the above no. 8 the loan and advances to Total Capital employed ratios exhibit decreasing trend except 13.9 times in FY 2005/06 and remains to 7.48 at the end of the study period.

Graph 8

Graphical Presentation of Loan and Advance to Total Deposit Employed



4.1.3 Profitability Ratio

Profitability ratios indicate degree of success in achieving desired profit level. Profitability ratios, which measure as management overall effectiveness, are shown by the returns generated on sales and investment. A bank should be able to earn profit to survive and grown over a long period of time profit is the indicator efficient operation of a Bank. The banks acquire profit by providing different services to its customers or by making investment of different kinds. Profitability ratios measure the efficiency of bank. Higher profit ratio shows higher the efficiency of the bank. The following profitability ratios are related to study in this heading.

I. Return on Equity

If bank can mobilize its equity capital properly, they can earn high profit. The return on equity measures extend to which a bank is successful to mobilization its equity.

We have,

$$= \frac{\text{Net Profit}}{\text{Total Equity Capitals}}$$

Equity capital includes paid up equity, and loss Account, Various Reserves, Genera Loan, Loss Provision etc.

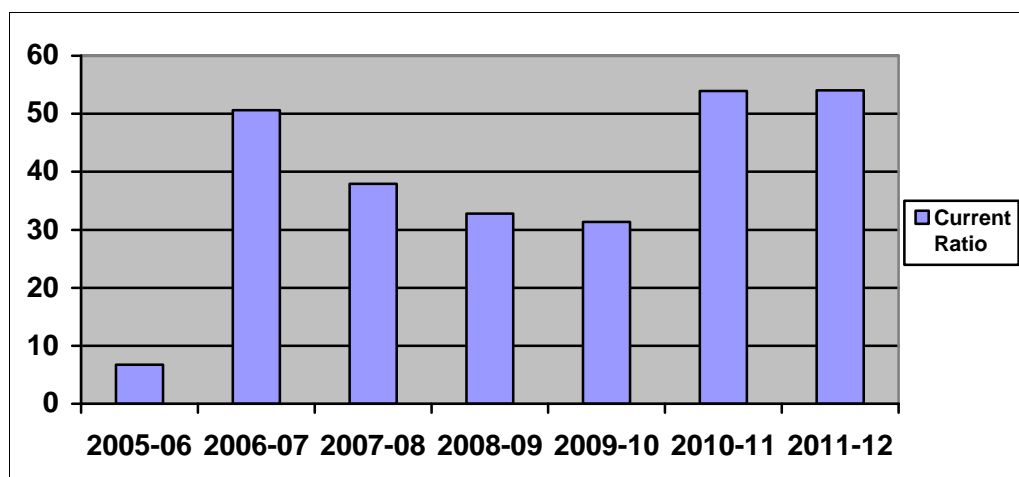
The table below shows the ROE in different year during the study period.

Table 9
Return on Equity Ratio

FY	Net Profit	Total Equity Capital (Rs)	Ratio (%)
2005-06	74	1115	6.73%
2006-07	700	1399	50.63%
2007-08	1080	2847	37.93%
2008-09	1159	3534	32.8%
2009-10	1398	4459	31.35%
2010-11	2460	4560	53.95%
2011-12	2690	4980	54.02%

The above table that the ratio has followed the decreasing trend during the study period. It can be concluded that the bank has been loss for utilizing its equity capital. The bank seems to the having loss for the mobilization of its equity capital. Due to the different cases therefore the return on equity ratio.

Graph 9
Graphical Presentation of Return on Equity



II. Interest Earned the Extent to Total Employed

This ratio reflects the extent to which the bank is successful in mobilizing its total assets to generate high income as interest. A ratio is indicator of high earning power of the bank the bank on its assets employed and vice-versa.

We have,

$$= \frac{\text{Interest Earned}}{\text{Total Capital Employed}}$$

Table 10

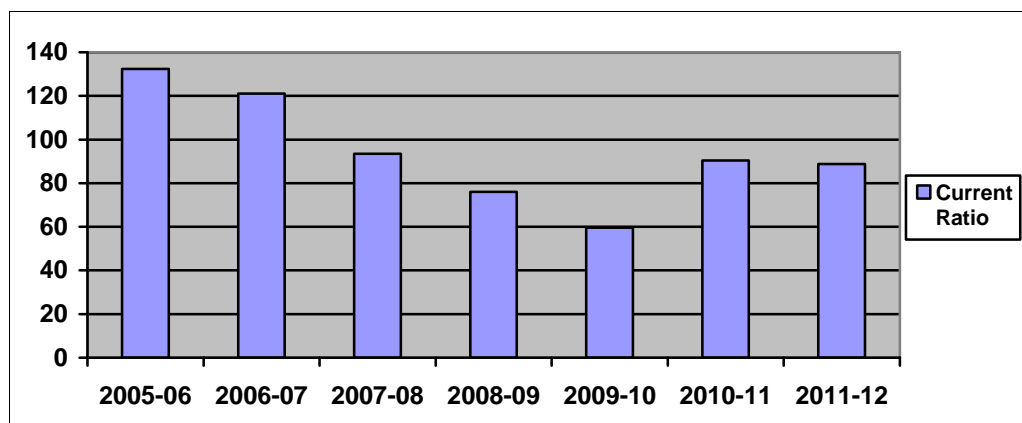
Total Interest Earned to Total Capital Employed

FY	Total Interest Earn (Rs)	Total Capital Employed	Ratio (%)
2005/06	3525	1752	132.36%
2006/07	3516	2031	121.12%
2007/08	3545	2638	93.5%
2008/09	3647	3325	76%
2009/10	3698	4250	59.6%
2010/11	4123	4560	90.41%
2011/12	4324	4980	88.83%

The above table no. 10 shows that the ratio exhibits decreasing trend except 132.36% in FY 2005/06. It has lowest ratio of 59.6% in FY 2009/010.

From the above table it can be concluded that the ratio of total interest earned to total capital employed not satisfactory. That means Bank is not successful in earning interest income the decreasing trend shows the performance of bank does not satisfactory it means the total interest earned to total capital employed decreasing every year.

Graph 10
Graphical Presentation of Total Interest Earned to Total Capital Employed



III. Interest Paid to Total Capital Employed

This ratio measures the percentage of total interest paid against the total assets employed. A high ratio indicates the interest expense on total assets employed and vice-versa.

We have,

$$= \frac{\text{Interest Paid}}{\text{Total Capital Employed}}$$

The following table shows the figures of this ratio.

Table 11
Interest paid to Total Capital Employed

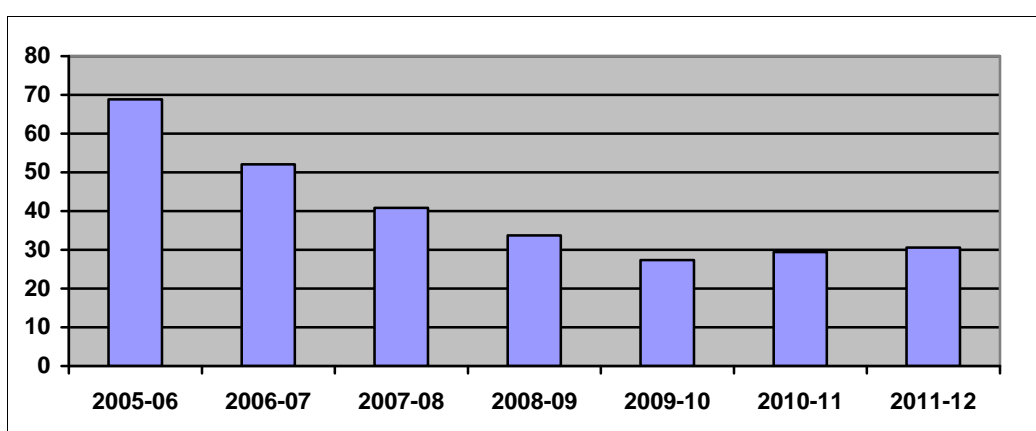
FY	Interest Paid (Rs)	Total Capital Employed	Ratio (%)
2005/06	1206	1752	68.83%
2006/07	1057	2031	52.04%
2007/08	1077	2638	40.83%
2008/09	1120	3325	33.68%
2009/10	1164	4250	27.39%
2010/11	1342	4560	29.43%
2011/12	1523	4980	30.58%

The above table no 11 shows that the total interest paid to total capital employed ratio is in fluctuating trend. The ratio ranges from 27.39% to 68.83% which lies on the FY 2009/10 and FY 2005/06 respectively.

In conclusion we can say that bank is in worse position from payment of interest point of view. It seems the bank collect its working fund from expensive sources. It plays the vital role to decrease the profit of bank.

Graph 11

Graphical Presentation on Interest Paid to Total Capital Employed



IV. Interest Earned to Operating Income Ratio

This ratio reflects the extent to which the bank has successfully mobilized its fund in interest bearing assets. It measures the magnitude of interest income in total income.

We have,

$$= \frac{\text{Total Interest Earned}}{\text{Total Operation Income}}$$

Where,

Total operating income includes the interest income, commission and discount, income from dividend, foreign exchange income and others.

The following table shows the figure of this ratio.

Table 12

Interest Earned to Operating Income Ratio

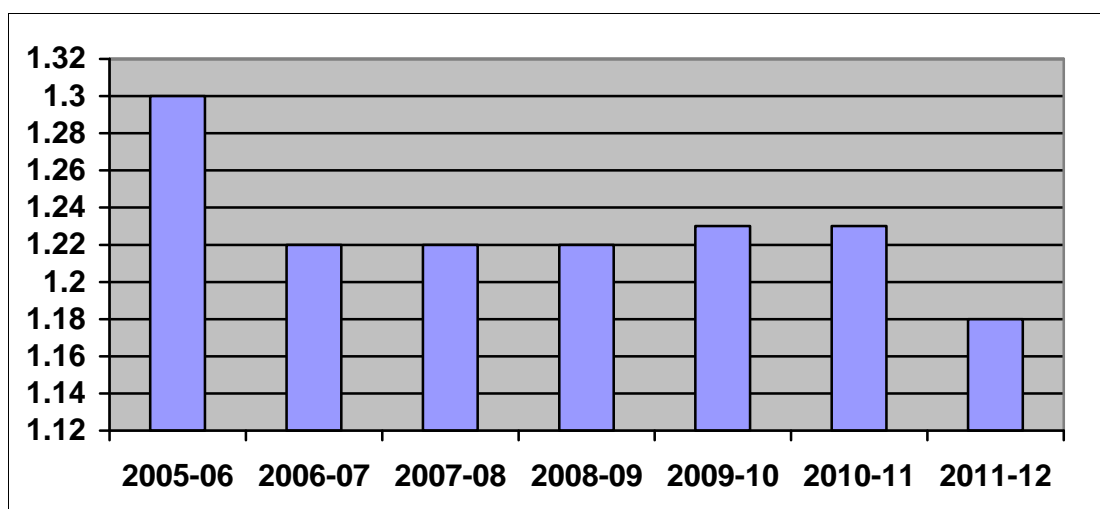
FY	Total Interest earned (Rs)	Total operating Income	Ratio (times)
2005/06	3525	2717	1.30
2006/07	3516	2878	1.22
2007/08	3545	2906	1.22
2008/09	3647	2988	1.22
2009/10	3698	3017	1.23
2010/11	4123	3342	1.23
2011/12	4324	3672	1.18

The above table no 12 exhibits that the bank ratio of total interest earned to total operating income is in decreasing trend. The ratio 1.30 times is the highest in FY 2005/06 where as the lowest ratio 1.22 is in FY 2006/07, 2007/08 and 2008/09.

It can be concluded that the bank has the satisfactory position regarding the mobilization of interest bearing assets such as loan advanced and investment though the investment in such fund based investment are more risky than the fee based activities and the bank should be investing its fund at secure source like as the government treasury bills.

Graph 12

Graphical Presentation on Interest Earned to Total Operating Income



V. Return on total capital Employed

It measures the profit earning capacity by utilizing available resource i.e. total assets. Return will be higher if the banks working fund is well managed and efficiently utilized.

We have,

$$\frac{\text{Net Profit}}{\text{Total Capital Employed}}$$

Where,

Net profit includes the profit that is left to the internal equities after all costs, charge and expense. Following table shows the figure of this ratio.

Table 13
Return on Total Capital Employed Ratio

FY	Net Profit (Rs)	Total Capital Employed (Rs)	Ratio (%)
2005/06	74	6552	1.13
2006/07	700	8363	8.37
2007/08	1080	10214	10.27
2008/09	1159	11201	10.33
2009/10	1398	12126	11.53
2010/11	2460	4560	53.94
2011/12	2690	4980	54.02

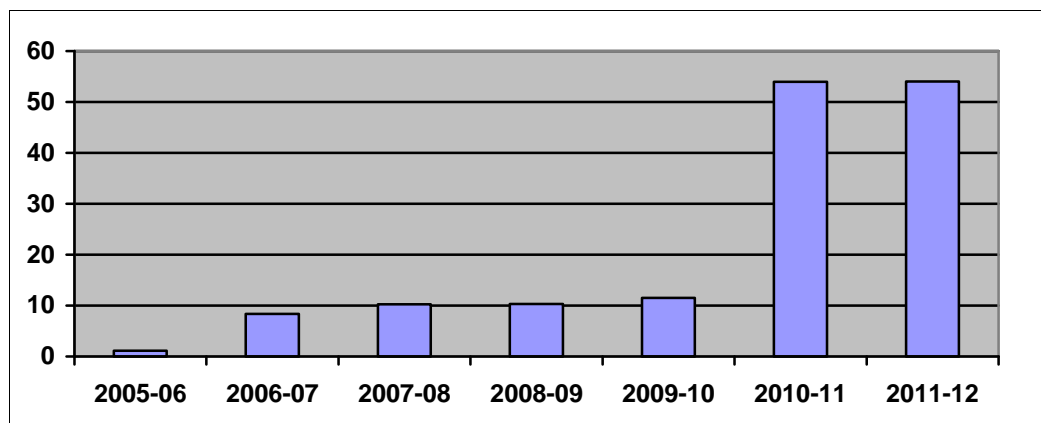
The above shows that the profitability ratio of bank is not consistent. It has the fluctuating trend. It has maintained net profit ratio on capital employed 1.13%, 8.37%, 10.27%, 10.33%, 11.53%, 53.94% and 54.02% for the year 2005/06 to 2011/12 respectively. During the period least ratio is 1.13 in FY 2005/06 whereas highest in 2011/12 i.e. 54.02%. This shows the agriculture development bank is in profitable way.

From the above analysis, it can be concluded that the profitability with respect to financial resources investment of the bank capital is not satisfactory. Net

profit to total capital employed is increasing. Interest earned of the bank is high with comparison of market rate.

Graph 13

Graphical Presentation of Return on Total Operating Employed



VI. Return on Loans and Advance Ratio

It measures the earnings capacity of commercial banks on its deposits mobilized on loan and advances.

We have,

$$= \frac{\text{Net Profit}}{\text{Loan and Advance}}$$

The following table shown in the figure of this ratio.

Table 14

Return of Loans and Advances Ratio

FY	Net Profit (Rs)	Loan and Advance (Rs)	Ratio (%)
2005/06	74	24437	0.30
2006/07	700	26375	2.65
2007/08	1080	28772	3.75
2008/09	1159	30786	3.76
2009/10	1398	32711	4.27
2010/11	2460	33234	7.40
2011/12	2690	37234	7.22

The above listed table reveals that ADB return on loans and advances ratios have fluctuating trend. In the study of seven years. Net profit to loan and advance is increasing positive order. It shows the interest earned is very high.

Thus it can be concluded that the bank is earn on loan and advances.

Graph 14
Graphical Presentation of Return on Loans and Advances

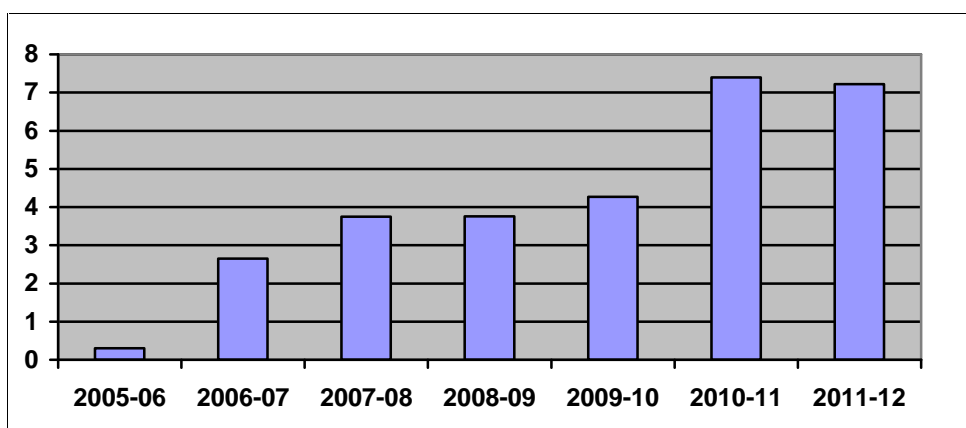


Table 15
Earning Per Share

FY	Net Profit (Rs)	No. of Share	Rupees Per Share
2005-06	74	1678	4.41%
2006-07	700	7678	41.72%
2007-08	1080	1678	64.36%
2008-09	459	1678	69.07%
2009-10	1398	1678	83.31%
2010-11	2460	2800	87.86%
2011-12	2690	2800	96.07%

From the above table we can see the EPS of the bank is fluctuating trend. The EPS of FY 2005/2006 is Rs. 4.41% and Rs. 41.72% in FY 2006/2007 is Rs. 64.36% in FY 2007/2008 is Rs. 69.07% in FY 2008/2009, Rs. 83.31% in FY 2009/2010. Similarly in FY 2010-11 ADBL has 87.86% EPS and in FY 2011-12 it has 96.07% EPS which is highest during the study period.

It is the positive trend of the profit, it seems the positive performance of banking operation. In the every year the profit is satisfactory it can be conclude that the performance of the bank is improving.

4.2 Statistical Tools

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

4.2.1 Statistical Tools

Under this chapter Karl Person's coefficient is used to find out the relationship between deposit and loan & advances, deposit and total investment and outside asset and net profit.

i) Coefficient of correlation between deposit and loan and advances

Deposit have played a vital role in performance of a agriculture development and similarly loan advances are important to mobile the collected deposits. Coefficient between deposit and loan and advances measures the degree of relationship between these two variables.

In this analysis, deposit is independent variable (x) and loan and advances are dependent variables are to (x). The main objectives of computing 'r' between these two variables are to justify whether deposits are significantly used on loan and advances in a proper way or not. The following table shows the value of 'r', 'r²' probable error (P.ER) and 6P.ER between deposit and loan and advances for the study period 2005/2006 to 2011/2012.

Coefficient of correlation between deposit and loan and advances 0.8761, which shows negative correlation between these two variables. Similarly, the value of coefficient of determination (r²) is to found 0.7675. Moreover by application of P.ER., i.e. 0.067 it is significant which means the significant. It is because of the position of bank has obtained performance and it shows that the deposit of bank is and loan and advance is decreasing. In order words the ADB has negative performance. Similarly considering the value of (r) i.e. 0.067 land

comparing it with 6 PEr 0.402 we can say that the value of r is more (*Source: Calculation through Computer Excel Sheet*)

(ii) Correlation between Outside Assets and Net Profit

Coefficient of correlation 'r' between outside asset and net profit measure the degree of relationship between these two variables. Here outside asset is independent variables (x) and net profit is dependent outside asset and net profit is to find out whether the net profit is significantly correlated with respective total assets or not.

Coefficient of correlation between total assets (x) and net profit (y) is 0.9732, which indicates positive correlation between these two variables. Considering the value of coefficient of determination is r^2 i.e. 0.9471 indicates that 0.94% of the variation in the dependent of variable (net profit) has been explained by the independent variable (total assets) less with considering the probable error we can further say that there is not significant relationship between total assets and net profit because the value of r. i.e. 0.9732 is less than six times P.Er. i.e. 0.1419 (*Source: Calculation through Computer Excel Sheet*).

It indicate that Agriculture Development Bank that Agricultural Development Bank is not able of earning net profit by mobilizing its total assts.

4.2.2 Trend analysis and projection for five year

The measurement used in financial management analysis may be classified into two group those who measures in the relations among the items. Insight set of statements, and those who measure the analysis in these items in successive statement. The first is a static analysis measuring position at a point of time of for a period and the second is a dynamic analysis measuring changes of position. Both types if analyses are necessary for a comprehensive interpretation. Since it sis important to know not only the proportion as on a certain data but also the trends on the enterprise.

Here, in this study in this study the trend analysis of the financial condition are presented which is objected to provide the insight of the bank position.

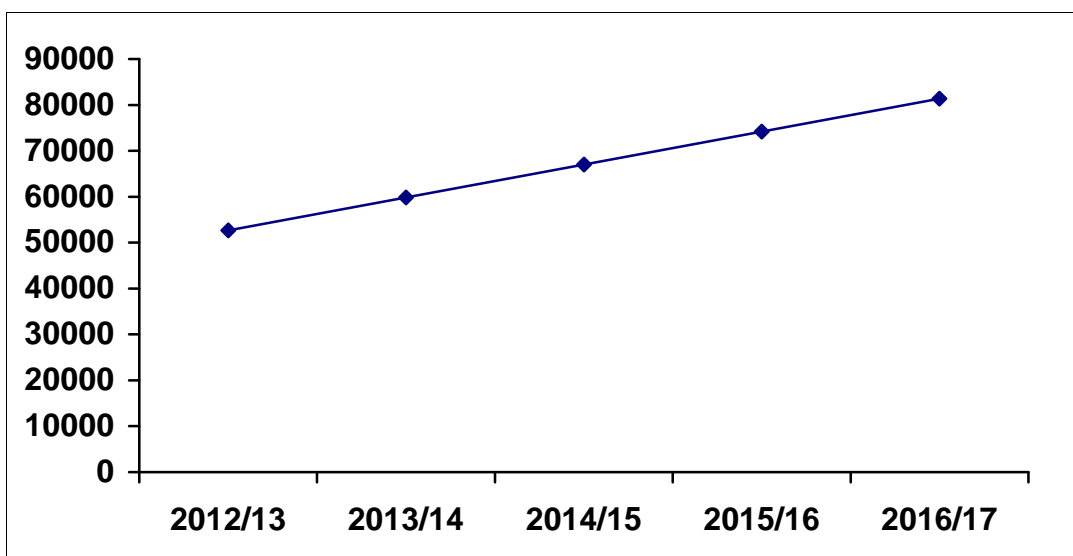
In this study the method of least square is used for the analysis of the banks total deposit trend, loan and advances and agricultural Development bank trend.

The project is based on the following assumptions.

-) The main assumption is that other things being will remain unchanged.
-) The bank will run in the present position.
-) The economy will remain in the present stage.
-) The Forecast will be true only when the limitation of least square method is carried out.
-) Nepal Rastra Bank will change its guideline to Agricultural Development.
-) Trend Analysis total deposit

Under this topic and effort has been made to calcite the trend value of deposit for seven years 2005/06 to 2011/12 and forecast for next five years. The following tables shows the trend value of 5 years from 2012/13.

Graph 15
Graphical Presentation of Trend



Source: Calculation through Computer Excel Sheet

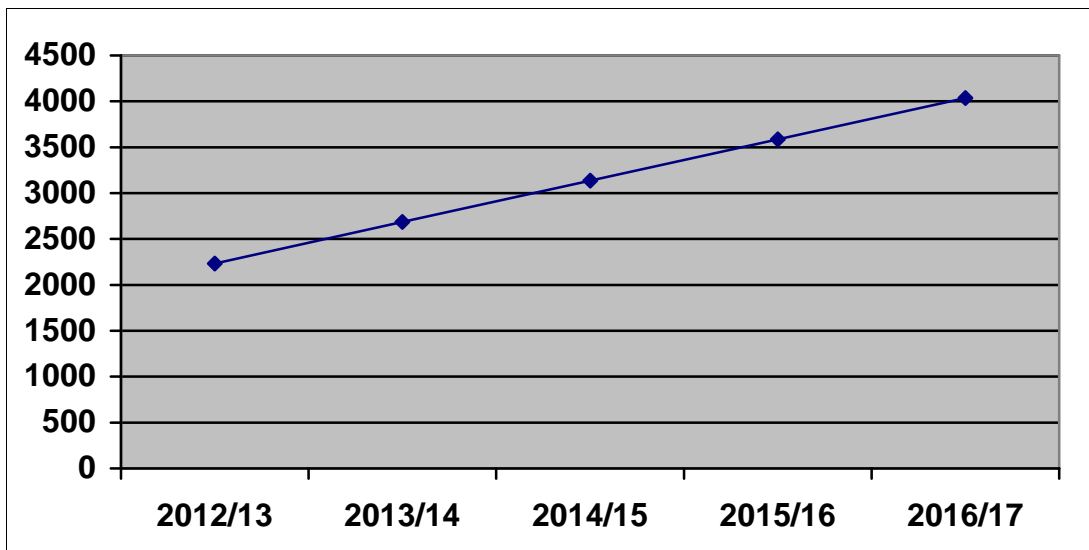
i) Trend Analysis of Net profit

Under this topic the trend values of net profit have been calculated for seven years from FM 2005/06 to 2011/12 and the forecast for next years up to 2012/013.

ii) Trend analysis of Agricultural Development Bank

Under this topic trend values of agriculture development bank calculate for next seven years up to 2005/06 to 2011/12 and the forecast for next five years up to 2012/13 to 2016/17.

Graph 16
Trend Value of Net Profit



Source: Calculation through Computer Excel Sheet

4.3 Test of Hypothesis

Under this topic effort has been made to test the significance regarding the parameter of the population

Some main hypothesis testes are calculated and decisions are made.

Null hypothesis, $H_0: u_1 : u_2$ there is no significant in profit planning and control of agriculture development bank (two -tailed test)

Analysis of Primary Data

For the collection of primary data, the researcher has visited the Agriculture development bank. The researcher provided the questionnaire to 20 respondents. Among them 50% of the respondent replied that the bank has applied the CVP tool for profit planning and control and than other 50% suggest new techniques for the evaluation of performance the analysis has been presented in the paragraph from to given idea of the analysis.

ii) Bank is maintaining its target deposit or not:

The Bank has maintained its target deposit and it has excess than the expectations. But due to the limitations of the productive investment sectors it is avoiding its interest bearing deposits which may reduce its target deposit.

From the deposit of Agricultural Development Bank during the study period it is clear that it has increases trend deposit in FY 2005/2006 to 2011/12. It is clear that the bank is mandating its target deposits.

iii) Bank is using its deposit properly or not:

In using the deposit funds that bank is trying best but it is getting the secure productive opportunities to invest. According to assistant general manager (Forex, Treasury & Deposit) it invest opportunities for the bank is very limited due to the external economics is the result of changing government policies.

It is investing is excess funds in other investments rather than in loan and advances. It is better than keeping money ideal for nothing.

iv) The gap between deposits an credit rather than decreasing

-) Agriculture bank were caution in extending loans. The rising non-performance assets in their portfolio and a bit pessimistic view about the economy following the Asian crisis guided such behavior of bank.
-) The corporate sector was not happy with the agricultural Development bank lending rates time business slackness was observed in the economy.

) The business community also played role for relatively low demand for bank credit observed the problem with the introduction of vat.

v) Major portion of Deposit are invested in Loan and Advance

Major portion of bank deposits are invested in loan and advance because it is the only protiable sector for long term investment. The bank doesn't get much from other investments. If they failed in recovering loan they get profit from the margin rate in the collaterals securities kept against the loans and advances.

vi) Major problem that Agriculture development bank are facing while investing in loan and advance

A number of factors can be attributing to a lower bank credit off take in recent years.

a) High Lending Rate

As industries in Nepal are not performing well due to slowdown in economic activities as a host of the factors they unable to bear the interest rate that in 12% 13% which is relatively high. This leads is credit deadlock for the agricultural Development bank.

b) Real Estate Crash

When the real estate business began to define in 2005/2006 consequent to the crash real estate not only non performing assets of ADB increased but also the fresh disbursal of loans to these sectors decelerated. The crash in real estate market thus played a role in the deceleration of bank credit grown with in recent year.

c) New Economic Policy

The chaining economic policies in Nepal affect adversely to the overall business environment which slowdown in the development of business

environment which slow down in the development of business sectors. The sluggish business growth given deadlock to the bank's credit.

d) NRB'S policies

-) Bank rate reduced
-) Withdrawals of EBL bonds from the market
-) Cash reserve ratio lowered
-) Directives to reduce interest.

vii) Nepal Government measure against this problem

Nepalese government is still showing strong activities to solve this problem. The internal crisis's of Nepal has been solved, and internal strike still faced which is disturbing the whole economy of Nepal.

viii) Banks management

The Nepalese Agriculture Development Banks are also responsible for this problem of credit deadlock as there is very less cooperation is seen between all the Agriculture Development Bank. They are not moving in same path each and very bank is performing differently with respect to deposit and loan activities. The second problem is lack pf proper managerial power also affecting their lending activities.

4.3 Findings

Based on the analysis of data, the main findings are given below.

Liquidity Ratio

From the analysis of liquidity ratio, it is found that the bank is able to maintain its liquidity position to meet the daily cash requirement. Ti has made enough investment on government securities, but it has maintained moderate investment policy on load and advance. Overall it has indicated the unstable liquidity position as the data lower consistency.

Activity Ratio

From the analysis of various activity ratios, the following findings are categorized.

-) Bank has strong position regarding the mobilization of total deposit as loan and advances.
-) Bank has normal position and decreasing trend regarding the mobilization of total deposit investment.
-) The bank has average position towards the minimum utilized of working fund on loan and advance.

Profitability Ratio

From the analysis of various profitability ratios, the following findings can be categorized.

-) Return on equity found unsatisfactory, as it has not efficiently utilized its equity capital.
-) The ratio of total interest earned to total capital employed is not satisfactory as it is decreasing of interest earned every year.
-) The ratio of total interest paid to capital employed is not satisfactory position, as it could to be successful to collect its working fund from less expensive source.
-) The ratio interest earned to operating income shows the magnitude of interest income is high as the bank seems to be successful to investment.
-) From the analysis of deposit increase next seven years the profit also increases next five years. So that the future the result is satisfaction. The result is bank provide other branch and investment.
-) From the analysis of return on total capital employed ratio, it is found that the profitability with respect of financial resources investment of the

bank capital is satisfactory as well as unstable and increase return every year.

-) From the analysis of return on loan and advances ratio, it found that bank is not to earn satisfactory income loan and advance.
-) Analysis of EPS reveals that the bank has every good and increasing trend regarding EPS even through the increasing order or positive order till seven year EPS is showing higher then other year.

Co-efficient of Correlation Analysis

Co-efficient of correlation analysis between different variables that:

-) Co-efficient of correlation between deposit and loans & advances indicates unsatisfactory position. and negative performance because the r value is negative and $r > 6$ PE. It is significant. i.e. there is evidence of co-relation.
-) Co-efficient of correlation between total assets and net profit indicates that the bank is unsatisfactory performance mobilization of total assets. i.e. net profit from such mobilized fund.

Trend Analysis

The trend analysis of deposit, net profit, loan and advance and EPS show the increase trend through the study period and the forecasting for next five years has also seen in Increasing.

CHAPTER-5

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This is the final chapter that involves summary, conclusion and recommendations of the research work. The facts and finding from primary and secondary data analysis are using and concluding research work recommendation are made to concerned person and organization.

5.1 Summary

ADBL is supervised and regulated by NRB, under BFIO and the Nepal Rastra Bank Act of 2000. NRB has issued Directives of the banks and financial institutions under the power conferred to it by Nepal Rastra Bank Act, 2000. Under BFIO, no one other than a bank or financial institution established under BFIO may conduct financial transactions. The Bank's first Board was appointed in May 1970 under the chairmanship of George Jarvis Fuller. In 1977, Frank Thompson became the first appointed General Manager. The have since been other General Manager's: Roy Phillips, Albert Vincent, Terence O'Neil Lewis, S.W.K. Knott (as Chairman), followed by Chief Executive Officer - Patrick Musaib-Ali and Hubert Alleyne as Chairman. Today, the Bank's operation is led by Jacqueline Rawlins, its first female Chief Executive Officer and Board of Directors that is chaired by Noel Garcia.

Financial analysis is the process of identifying the financial strength and weakness of the firm. In this study the financial analysis has been adopted to know the performance of the ADBL over the period of seven years.

The study has been divided into five chapters. In first chapter, introductory part has been discussed. In the second chapter literature review has been done, in which, various theoretical as well as empirical study has been considered relating to financial performances. In theoretical review, different theories regarding financial performance has been mentioned and in empirical part, different previous research studies done entitled financial performance has

been discussed. Chapter three clears the methods and techniques used in the research, where research design, population and sample, sources of data collection, analytical tools used in the research have been mentioned. In this research, all secondary sources of data have been used. Collected data have been analyzed and interpreted with the help of financial and statistical tools. In chapter four data and information have been analyzed, and interpreted and major findings have been also incorporated. Chapter five deals with summary, conclusion and some recommendations for improvement have been incorporated.

5.2 Conclusion

Based on the major findings of this study some conclusion has been drawn. The ADB in Nepal are doing well but they are not giving satisfactory result due to some internal and external factors. The deposits and its investment in productive sectors by ADB are not stable. They are not earning more profit for ADB. The increasing deposit are ideal in the banks and in turn they are investing at these funds in other sectors as government securities at maximum of 4% interest rate while the cost of fund they are bearing 6% but it is better than nothing for the ADB bank.

The ADB in Nepal are facing the problem in investing in loan and advances. Due to various internal and external factors the banks are not making open investments. Deposits are being excess and idle in these bank.

Therefore, these bank formulate new investment strategies. They should launch the intensive program to encourage. The ADB should talk to NRB to make clear and new polices keeping in view the problem these banks are facing. These should seriously.

There is significance different between deposit and loan and advances and between deposit and investment of both banks. The ADB in Nepal are facing the problem in investing in loan and advances. Due to various internal and external factors the bank are nit making open investments. Deposits are being

excess and ideal in these banks. In the table and ratio analysis so that the ADB provide sub-branch every district.

The ADB in Nepal must hard to prove that they are really efficient and variable agencies for mobilization of saving and its channelization into productive Agriculture field are professionally managed and competent enough to ensure adequate rate of return on investment and are strategically well planned to be competitive.

5.3 Recommendations

On the basic of research work, the following recommendations are made to improve the present condition of the Bank.

-) The company should formulate strategic programs and policies according to basic objectives, mission and goal.
-) The company should make specific framework and responsibility center for classification of expenses such as variable. Fixed and semi-fixed costs which helps to control/reduce the costs.
-) The bank should make periodic performance report to evaluate the poor performance.
-) The bank is suggested to maintain to its liquidity position in normal standard i.e. 2:1 as their liquidity position is below the normal standard and also recommended to follow consistency liquidity policy.
-) In regard, investment and government securities, it has been revealed the ADB has given more priority to invest its fund in government securities than other investment sector. Though securities issued by government are considered to be free risk of default, but such securities yield the lower interest rate of a particular maturity due to low risk feature. So, I ADB is recommended not to give much of important to the government securities and diversity and diversity the investment policy on more yield base fund.

- J It is recommended to increase case and bank balance to meet current obligation and loan demand.
- J On the main objective to operate publish that is specially ADB is to boost foreign investment. However ADB doesn't seem to be successful in this aspect. Therefore ADB is recommended to activate itself towards increasing foreign investment in Nepal by mean of their wide international banking network.
- J It will be informative if Bank provides all the detail information in the website. So that if anybody needs information they can visit in the website.
- J To make very clear to the customer bank should make transparent in service charge and interest rate.
- J Marketing department must be well trained about the competition.
- J Interest rate and service charge should be minimum to as per acceptable by customers.
- J More especially ADB suggested reviewing its overall capital structure and investment portfolio to make better mix in capital structure as well as investment portfolio. For enjoy deposit, borrowing and other services.
- J The Bank suggested improving in social responsibility by investing apart of profit on social activities.
- J Looking at current trend of banking business, a bank must be careful while formulating marketing strategies to service customers. The marketing strategies should be innovative so that it would attract and return the customers. It is recommended that ADB should develop innovate approach to Bank marketing for its well being and sustainability in the market upgrade the banking facilities as per the changing need of the customers.
- J Though the government securities issued by government are free of risk of default. Such securities yield the lowest interest rates of a particular maturity due to low risk feature. So, it is recommended to invest in some

profitable sectors like providing loan and developing industries as tourism industry. Agricultural field, housing.

-) Since the bank is service oriented it should promote and outsource some of its work so that consumers could get better service and that bank can enhance its revenue.
-) Since, the technological development in the ADB sector is rapid and new service could be introduced every day, the bank should consider its product line to increase its profit the market survey on demand. Supply and pricing of its services should be carried out and loss oriented costs should be identified and controlled.
-) A systematic approach should be made for practicing comprehensive profit planning. This can considerably contribute to the increase in profitability.

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