

**A STUDY OF FINANCIAL PERFORMANCE
OF AGRICULTURE DEVELOPMENT BANK IN
FAR-WESTERN DEVELOPMENT REGION**



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DECLARATION

I, here by would like to declare that the work of thesis entitled "A Study of Financial Performance of Agriculture Development Bank in Far Western Development Region" is submitted to Kailali Multiple Campus is the original work done in the form of partial fulfillment of requirement of Master in Business Studies (MBS) under the supervision of Dr. Padam Raj Joshi of Kailali Multiple Campus.

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Nar Raj Pandey

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LIST OF ABBREVIATIONS

ADB/N	-	Agricultural Development Bank of Nepal
FY	-	Fiscal Year
Govt.	-	Government
SFDP	-	Small Farmer Development Programme
O/S	-	Outstanding
P/L	-	Profit/Loss
FWDR	-	Far-Western Development Region
NPTAR	-	Net profit to Total Assets Ratio
CBBTAR	-	Cash & Bank Balance to Total Asset Ratio
FOATAR	-	Fixed & Other Assets to Total Assets Ratio
OETIR	-	Other Expenses to Total Assets Ratio
NPA	-	Non-performing Assets
Exp ⁿ	-	Expenses
PE _r	-	Probable Error
ROA	-	Return on Assets
RO	-	Regional Office
Br.	-	Branch
RTC	-	Regional Training Center
Sbr.	-	Sub-branch
i.e.	-	That is
B.S.	-	Bikram Samvat (Hindu Calendar)
AD	-	After Death (Gregorian Calendar)
MBS	-	Master's of Business Study
Rs.	-	Nepalese Currency Rupees

CHAPTER-I

INTRODUCTION

1. 1 Introduction of Bank

In term of economic development, Nepal is very back but in term of natural and cultural, it is one of the richest members of the world community. Nepal has many natural resources like forest, minerals, mountains, and many more but not managed properly due to the underdeveloped economy and technology.

Nepal is an agricultural country due to the topographical feature. So agricultural plays the vital role for the socio-economic development of the nations. It is regarded that agricultural is the backbone of Nepalese economy. For the development of the country, the twelvth 3 year development plans is operative from the fiscal year 2067/068 to 2069/070 B.S. However, the central issue of the development in Nepal, even today, continues to be the eradication of unemployment, poverty and unsimilarity. Since 80% of the population is dependent upon agriculture, the economic development of the country heavily depends upon the improvement of the agricultural sector. High population growth rate, low saving rate, low export base, high import base and low level of industrialization, due to instability in political system are some constraints that the country presently faces in sound and sustainable development.

To overcome this economic situation, government has to formulate and implement strategies focusing overall development of the nation and sound banking system is necessary for the rapid industrial development.

Bank is a financial institution which plays a great role in facilitating the growth of the trade and industry.

Bank is also a resource for economic development, which maintains the self confidence of various segments of the society and extends credit to people. It is assumed that the word "Bank" has been derived from Italian word "Banco" and French word "Banke" which refers to the meaning of accumulation of money.

We can also say that a bank is related to collection of deposits, advancing loan and other credit activities. A Bank will generally collect deposits from different individuals and institution and utilizes it by giving loans to industries and commercial enterprises.

1.2 Origin and Evolution of Bank

The word "Bank" is derived from Italian word "Banco" which means a bench. In the early days the goldsmiths were sitting in bench and done their activities. Thus those activities were known as banking activities.

The concept of modern banking was developed in Italy in middle of 12th century. As per Sir G. Crow the following are the ancestors of modern banking.

-) The merchant
-) The money lenders
-) The Goldsmiths

In the world, as banking institution "The Bank of Venice" established at 1157 A.D. in Italy was the first bank. The second banking institution was "The Bank of Barcelona" established at 1401 A.D. in Spain. After

that "The bank of Genova" established at 1407 A.D., whereas "The Bank of England" was established at 1694 A.D. as a joint stock bank, which was the first central bank of the world.

1.3 Introduction of ADB/N

The main objective of ADB/N is to improve the socio-economic status of the rural populace. Agriculture Development Bank play a significant role in the economic development of the country as agricultural and rural development, proficiency in the rural area and widespread network. Agriculture Development Bank was converted into commercial bank in 2042 B.S. The Bank is managed by board of directors. Its head office is situated at Ramshah path Kathmandu.

ADB/N is an autonomous organization under the supervision of the ministry of finance of government of Nepal, and the bank has been working as premier rural credit institution since the last four decades contributing about 80% fund of micro-credit is followed in rural development.

The main objectives of Agricultural Development Bank Nepal can be highlighted as below:

-) To provide banking service to public in all over the country.
-) To provide the financial support for development of rural economy.
-) To provide qualitative banking and financial support to raise the economic condition, who's working area in rural area like agriculture, Industry, Trade and Business etc.
-) To provide credit facilities to the farmer for accelerate the rate of agricultural productivity of labour.

Among five development region, FWDR is known as least developed region of the country. To develop any sector the foremost thing is infrastructure development but this region is deprived of such development. Its impact directly can be seen in agriculture sector also.

Among nine districts of FWDR, Kailai and Kanchanpur falls upon this Treai region and other seven districts are in mountains regions. To enhance agriculture sector there is one regional office and one regional training center of ADB/N in Kailali district, other two banking, six branch and 13 sub branch offices are established in other districts. Although in this region except ADB/N other banks are also established but role of it's vital in the context of this country.

Most of the people of this region are also dependent upon agriculture and it is their main occupation too. So ADB/N can play tremendous role in this sector. In this sector no study has been done about ADB/N and its financial performance. So realizing this fact researcher has encouraged to study about this sectors to find out actual financial performance of agriculture development bank and provided appropriate suggestions for the betterment of all aspects of it.

These banks are performing their activities independently but there is co-operation between them in different aspects. These banks are controlled and monitored by regional office, which is in Kailali district.

1.4 Statement of the Problem

Behind the establishment of this bank the main aim is to promote agriculture sector by providing support to the farmers. So in this region except one regional office, one regional training center of ADB/N other branch and sub-branch are located in different rural part of the region to

fulfill the credit need as well as to provide technical support to the farmers. Its main aim is to keep direct contact with the concerned farmers. But due to the conflict situation of the country all the branch and sub branch offices of ADB/N are shifted to town area since few years, but nowadays improving in political situation the bank covers the rural area. This bank is performing their financial transaction from there only and concerned farmer of the particulars places come to town to seek assistance from the bank. But unfortunately in spite of so many objectives of ADB/N poor farmer of this region are not benefited that much from this bank. They are still deprived of financial as well as technical support. If they are able to get this support they are not able to utilize it properly. Because of the lack of quality seeds, fertilizers and good market for agricultural products, lack of proper marketing channel, influence of Indian production, more priority farm labour to urban areas, deviation of farm labour to urban to urban areas, inaccessibility of supporting services etc. Farmers are not able to get good price even after doing hard labour in their fields. Due to these very reasons farmers are discouraged and the main aim of ADB/N to enhance agriculture sector that has remained idle.

There are many problem in this sector due to which this sector is not developing properly and the aim of ADB/N is not meeting with its objectives. In this regard to know the fact situation the researcher has tried to analyze the bank's performance by studying its different aspect to know it's financial sector and other different situation by analyzing the data, which are availed from the bank. So the present study has tried to answer the following research questions.

-) What is the financial position of ADB/N in FWDR?
-) What is the condition of investment and collection of the bank?
-) What are the sources of financing of the bank?
-) Is the bank generating profit or not?

1.5 Objectives of the Study

Agriculture development is the essential for the development of the country. Many banking branches (sub-branches) of ADB/N are established in almost all the district for the development of agricultural sector. In this region ADB's 1 regional office, 2 banking, 6 branch, 13 sub-branch and 1 regional training center offices are established to increase the agriculture sector of this region. There is a great importance of it in this region because most of the people of this area are farmers and very back from development in comparison of other regional area. They are sustaining their life by agriculture sector only.

This bank is laying greater emphasis for bringing farmers under small farmers' development concept. This concept is running on smoothly in many districts of Nepal. The concept has helped this bank to penetrate into the grass root level. The involvement of bank has helped small farmer groups in utilizing and investing their accumulated fund in various productive sectors.

The basic objective of this study is to analyze the financial performance of ADB in Far Western Region.

The specific objectives of the study are:

- i) To analyze the condition of investment and collection of loan.
- ii) To analyze the trend of outstanding loan.
- iii) To examine the trend of income and expenditure of the bank.
- iv) To examine the relationship among the term of financial statement of in term of financial ratios.
- v) To provide suggestions for the future improvement of the bank.

1.6 Need & Significance of the Study

Bank is essence for the development of any sector and for the safeguard of money. In the country there is an increasing competition in the banking sector. As a bank, ADB's role is vital for the development of the agriculture sector. Being an agricultural country there is a great importance of ADB/N for the development of agriculture sector. Due to the lack of this type of bank farmers had to suffer financial crisis and they compelled to take loan from private sources but the poor farmers use to exploit a lot. Later on after establishment of this bank in the country most of the poor farmers are getting a lot of financial as well as technical support. Almost in all parts of the country this bank is established and it started giving services right from the very beginning. It is only the bank, which is serving the farmers and is used to give agriculture credit. But from few years it has enlarged its working sector. It has started to give non-agriculture credit and commercial banking services too.

Till now, no study has been done in this sector about the financial performance of ADB/N in this region. So realizing the need of the study the researcher has selected this topic. Because without study of this sector it is very difficult to say how this bank is performing its financial activities and its performance.

Financing is the essence in every sector and this agriculture sector also cannot remain isolate from financial need. This need is fulfilled in this sector by ADB/N. To know its performance in this region the need of the study about financial performance of this bank was realized.

So this study will be for the benefit of agriculture sector, poor farmer and the bank itself as well, new researcher also will get some idea to do further more study in this field. It will be useful for government,

policy maker and equally important for the bank to take decision in a better manner.

A comprehensive analysis on financial performance of ADB/N of this FWDR will be beneficial for all concerned people which are mentioned as follows:

-) To the ADB/N FWDR and ADB/N itself.
-) To the planners as well as policy makers.
-) To the other researchers for further study.
-) Indirectly to all concerned.

1.7 Limitations of the Study

Every work has their own limitations it is very difficult to cover all the sectors at once and it also consumes enough time and resources. So the limitations of the present study are as follows:

-) This study is based on the published financial report of the bank.
-) This study mainly concentrates on financial aspects, which is mainly based on secondary data provided by the regional offices of Dhangadhi, Kailali.
-) This study covers 5 years period only.
-) In this study there is use of compiled data of the bank, which is provided by the regional office of ADB/N Dhangadhi, Kailali.

1.8 Structure of the Study

This study has been segregated into five chapters as:

Chapter-I introduction

Introduction chapter deals with general background of the study a brief review of ADB/N, statement of the problem, significance of the study limitation of the study, and design of the study.

Introduction of the study consist of brief introduction about origin of ADB/N, its working sector and contribution for the enhancement of agriculture and problems related to ADB/N would be studied. Except it need and significance of the study and limitation of the study will be cleared.

Under the design of the study all the chapter scheme will be presented.

Chapter-II Review of literature

This chapter includes review of conceptual framework and previous related research.

For review the researcher will study previous related research regarding concerned sector of the bank and other related study t make this study more meaningful and to get more idea.

To get more idea about financial aspect, research and statistic researcher has already collected and studied different books of well-known writers and finally to get more idea and to gain more knowledge regarding concerned bank. The researcher has collected lot of publication

of bank other magazine and daily publication of national level magazine etc.

Chapter-III Research methodology

This chapter includes research design, time period covered, sources of data, analytical tools and research variables.

In this chapter researcher will try his best to give definition regarding research methodology, its aim, research design, its population and sample study.

Chapter-IV Presentation of data and analysis

This chapter includes the presentation, analysis and interpretation of the data, which is collected from various sources.

This chapter will play the vital role to show the financial performance of the bank (ADB/N) in this FWDR.

Chapter-V Summary, conclusion and recommendations

This chapter includes summary conclusion and recommendations of the study.

CHAPTER-II

REVIEW OF LITERATURE

2.1 Review of Conceptual Framework

The evaluation of modern finance has greatly impacted the role and importance of financial performances. Finance today is best characterized as ever changing with new ideas and techniques. Only efficient management and sound financial position of the company can achieve the set up goal. Any firms must have adequate equity capital in their capital structure. If a bank does not maintain adequate equity capital, it makes the bank more risky. Inadequate equity capital makes use of debt reduces the shares holders profit because the cost of debt is always less then the cost of capital.

The business of bank is mainly of resources mobilization and it must have utilized its resources properly. If a bank fails to utilize its collected resources, then it can not generate revenue. Resource mobilization managements of bank include resource collections, investment portfolio, loans and advances, working capital, fixed assets management etc. It measures the extents to which bank is successful to utilize its resources. To measure the bank performance in many aspects; we should analyze its financial statements.

Financial analysis is the process of identifying the financial strength and weakness of the concern. It is the process of critically examining in detail accounting information given in the financial statement to gain better understanding of the firm's financial position and performance. It is performed to determine the liquidity, solvency, efficiency and profitability position of an organization. It gratifies the

different needs of the concern parties like potential investor, shareholders, government, general public, short termed as well as long term creditors and management itself about there rested interest by providing them with adequate information.

The function or the performance of finance can be broken down in three measure decision the firms must make the investment decision, the financing, decision and the dividend decision, an optimal combination of the three decisions will maximize the value of the firm.

In the word of Van Horne, "Financial ratios can be derived from the balance sheet and income statement. They must be analyzed on a comparative basis. A comparison of ratios of the same firm overtime on covers leading clues in evaluation changes and trends in the firm financial condition and profitability. Ratios may also be judged in comparison with those of similar firms in the same line of business and, when appropriate with an industry average and we can look to further progress in this regards.

The analysis of financial performance consists of study of relationship and trend to determine whether or not the financial position and results operations can be determined.

I.M. Pandey in his book, "Financial Management", has defined as, "The financial statements provides a summarized view of financial operation of the firm. Therefore, much can be learnt about a firm and careful examination of it financial statements are valuable documents. The analysis of financial statement is, thus the important aid to financial analysis"

Financial statement analysis involves a comparison of a firm's performance with that of other firms in the same line of business, which often 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 strengths and weaknesses and to suggest actions that might enable the firm to take advantage of its strengths and correct its weaknesses.

Financial analysis is helpful in assessing the financial position, which can help the bank to take investment decision. It is a process of evaluating the relationship between component parts of financial statements to obtain a better understanding of a business concern's financial health. Different parts can undertake it, but the nature of analysis will differ on the purpose of the users. Financial statement analysis does not provide exact answer, but it informs about future expectation.

2.2 Review of Cases Related to the Study.

Following researches have been reviewed in this chapter to the purpose of the study.

The study of **Jaya Satyal** (1985) entitled "Performance Evaluation of Agriculture Development Bank of Nepal" concluded that because of its expanding activities financial resources has to be increased each year and this trend was more impressive since 1979/80. The outstanding loan of the bank at the end of the year 1982/83 was Rs.6,89,483 thousands which indicate increasing figure of outstanding loan every year. The bank had disbursed the loan according to the need of the farmers, while disbursing loan top priority was given to cereal, cash crops production and also agro based industries and marketing etc.

The objective of the study of **Madan Kumar Regmi** (1993) entitled "Role of Institutional credit in Financing Nepalese Agriculture" was to analyze the role of institutional credit in Nepalese agriculture, to

examine the trend of present credit distribution pattern of different institutions and pointed out the major problem faced by the existing agriculture credit institution.

The study conducted by **Mr. Sagar Shrestha** (1994) entitled, "A study on disbursement and collection pattern of SFDP-ADB/N" concluded that the disbursement and collection policy should be simplified, so that small farmer members should get credit easily. The unnecessary procedures should be avoided which enable the small farmers to get the credit with in a shorter period and get benefit quickly as possible. The unnecessary paper work and formalities make uneasy to the poor and other borrowers also. So if they want to disburse the loan amount in specific prescribed field, these points should be considered.

The objective of the study conclude by **Mr. Siddhi Bahadur Shah (1985)** entitled "Performance Evaluation of ADB/N" to evaluate the performance of ADB/N during the period 1970/80 to examine the lending procedure of ADB/N to analyze the working of institutional financing in Nepal. The major findings of the study were as below:

The ADB/N provides loan only for agricultural development activities. But it was found that a heavy amount of loan was distributed for individuals instead of co-operatives and village committees. It was a major problem of the loan disbursement to such individuals.

The study done by **Mr. Gorakha Khanal** (1983) entitled "A study on agricultural credit by ADB/N" aimed to analyze the lending activities of ADB/N and to examine the regional distribution as well as cost of credit provided by ADB/N. The major findings of the study are:

There were only 30 offices of the bank in 1970/71 but it increased to 1941 in 1981/82.

Among the various development regions, middle development region commended the major share of the capital of total loan disbursed by the Bank.

The rate of interest charged by the bank was found lower than all other agriculture credit agencies.

The study done by **Mr. Dev Hari Subedi** (2002) successfully conducted a research work entitled "Revenue and Expenditure of Agriculture Development Ban" The study covered only five Fiscal Year 051/52 to 055/56. The study concluded that: The analysis of the position of deposit in ADB/N shows that the deposits raised by the bank are not properly utilized. This also reflects the lack of definite policy of ADB/N.

There has been sharp increase in the bank branches throughout the kingdom. However, they have not grown at desired rate.

The research work conducted by **Jayanti Shrestha** (1989) entitled, "A Study on the impact of ADB/N on Nepalese Agriculture" aimed to study the loan disbursement repayment and outstanding of ADB/N, to understand the how far ADB/N has changed the traditional farmer practice, to find out the success of ADB/N and to provide facilities to small farmers etc.

The study done by **Mr. Ganesh Bahadur Chand** (1988) entitled "Loan Disbursement and Repayment of ADB/N" revealed: that loan disbursement by ADB/N and repayment of Loan both were increasing.

The loan collection of bank seemed to be directly proportional to the loan disbursement because both have shown movement in the same direction.

Mr. Yogendra Regmi (2001) in his article "Factor affecting profitability of the ADB/N" concluded that bank there is need of different types of expenses like staff expenses, offices expenses and other expenses. These expenses can be controlled by increasing efficiency and

effectiveness, knowledge's, skill, strength etc. To increase the income of the bank there is need to increase quality of loan. It should not disburse loan rather than to disburse in poor sector where there is less possibility of refund. While disbursing loan there is needed to do proper identification and selection of mortgage, reliable and responsible customer should be selected. There is need to motivate the customer for timely payment of interest.

The pattern of institutional agriculture financing has been analyzed by **Ashok Bahadur Amatya (1998)** in his thesis entitled "Institutional Agricultural Financing in Nepal" The objectives of the study are to analyse the operation and achievement of ADB/N in Doti district, to examine the increasing trend of outstanding loan in the district and its cause. The study concluded that:

Outstanding loan to sampled household between the period 1973/74 to 1981/82 has shown increasing trend.

The analysis of repayment and outstanding loan showed that loan taken by small farmers group of the sample household for the purpose of fruits, buffaloes, irrigations, and cardamom plantation has not been repaid.

Repayment of loan in each class of the sample household, it was concluded that only 19 percent of the total households repaid and remaining loan was not paid.

Mr. Purna Bhatt (2000) conducted a research work on " A study on Financial Performance of Agriculture Development Bank in Kanchapur district " concluded that the overall situation of the bank is not bad even in such a conflict situation of the country but overdue, interest receivable, expenses and not performing assets increasing trend shows the negative situation of the bank. It should be decreased for the betterment of the bank's overall financial condition.

To enhance the life standard of the farmers, to develop the agriculture sector as well as to develop the whole economy ADB/N is working through three doors system i.e. development bank, commercial banking and poverty alleviation program.

Mr. Badri Raj Subedi (2004), in his article "Message delivered by ADB/N statistical figure" stated that interest income can be earned by disbursing loan. If loan is disbursed without proper analysis then neither interest nor principal can be refunded and overdue problem will arise. Due to it there is need to keep provision of doubtful debt. Therefore the bank should not invest a project where there is less chances of recovery. Reform program of the bank has also taught the some lesson. There is a trend to do investment forgetting the negative aspect. It is also a responsible facture behind increasing non-performing principal and interest. It has become necessary to be clear about either bank to do investment or distribution. The bank should not loose its strength and bear the burden of non-performing assets. It should try to do its utmost effort to convert such assets into performing assets. For it bank should try to reduce such mortgage.

Dr. Manohar Krishna Shrestha (2005), in his article, "Commercial bank comparative performances evaluation" conclude that, JVBS are operationally new, efficient, having superior performance while comparing to other local banks better performance of JVB is due to sophisticated technology, modern banking system, method and skill. He further remarks that local banks are efficient and export in rural sectors dealing but having number of deficiencies, they are lacing to generate required revenue. So the local bank has to face growing constraints of socio-economic political systems on spectrum and that of issues and challenges of JVBs commanding significant business on other spectrum.

Dhruba Kumar Shrestha (2006) conducted a research work to access the financial position of the bank and the study revealed that:

- 1) The major sources of revenue of ADB/N is interest on loan and major head of expenditure is interest on deposit.
- 2) The bank has over staffing problem there are a large number of non-permanent staff that are appointed with no functioning requirements.
- 3) Though the repayment rate is increasing over the years profit picture of bank is gloomy.
- 4) Though total deposit collection is in increasing over the year. It is good far investment opportunity to the bank and overdue loan has been increased every year. It is great challenge to the bank.
- 5) The increase in interest receivable over the year, is a challenge for bank because it increases the doubtful debt account.
- 6) Liquidity position of bank is weak bank is not able to pay its amount obligations.
- 7) Likewise cash and bank position of ADB/N with respect to deposit is not satisfactory.
- 8) Though earning per share is increasing every year is not adequate in relative to investment.
- 9) Ratio of other income to total income is less then 5% so bank should be more careful to collect income from other sources.
- 10) There is a frequent and continuous governmental interaction, which hamper the smooth functioning of the bank.

Mr. Mahendra Kumar Shrestha (2007), in his thesis, entitled “Performance Evaluation of ADB/N as Sources of Agriculture Credit in Nepal”, stated that the main problem in agriculture is related not only to agriculture finance but also with other non monetary factor such as input, lack of technical knowledge and landlessness. Therefore all these factors should be taken into consideration while introducing modernization process in this sector.

He further stated that in our country credit is one of the indispensable factor for the agriculture development of the country. Only the personal saving does not meet financial need for farmer financial institutions help to meet the need of the farmer, therefore, the farmer who was very small capacity to save due to their low level of income, credit becomes indispensable for that to purchase modern farm machinery, improved seeds and fertilizers, to develop the market oriented agro-business and on so forth.

-) ADB/N had been devised as an instrument for easy accessibility of credit for poor farmer, but in its operation mainly large and medium farmer have been benefited by its credit. Small and very small farmers have still to depend on traditional sources.
-) The majority number of the farmer has preferred to approach co-operatives, village money lenders, friends and relatives for credit. They have given least performance to ADB/N in comparison to these agencies.
-) Outstanding ADB/N credit is mounting because of poor recovery situation due to misuse of loan in non-productive use.
-) Non borrowers and borrowers both have complain about high interest rate, stringent security rules and difficulties in securing loans on time of need.

J To make agriculture credit more purposeful as well as more effective, he suggests some recommendations as follows.

- 1) The study have inferences that people in the hilly areas are shy nature and are generally reluctant to mix up with the outsider. It is therefore imperative that the bank staff should be properly trained, among other thing to develop cordial relationship with the village. the staff should also be asked to mix up with people and work like a friends, philosopher and guide them. This will lead to the creation of a congenial atmosphere, which will in a big way, help the bank in recovering the overdue.
- 2) A number of borrowers pointed out that they themselves delay the repayment in order to meet their urgent need as they had experienced under cut of loans, so repayment are delayed. Thus there are immediate need that bank financing should become a regular and constant feature in these areas. So that villagers should be encouraged to avail of the benefit from the various banking scheme offered by bank for their socio-economic growth.
- 3) Effort should be made to visit the area in groups for recovery purposes, the field staff of all the branches of bank where the service are common or adjoining to each other should jointly go for recovery trips.
- 4) ADB/N credit provision must not be security based against loan rather it should be service oriented.
- 5) ADB/N should keep watching over the farmers to make the loan used, properly or not.
- 6) Complexity in the lending process of ADB/N should be avoided.

- 7) Recovery camps should be organized during recovery seasons in and around the areas where there are heavy overdue.
- 8) The bank should launch a campaign for imparting primary knowledge as a part of function. It provides timely knowledge about modern innovations to the farmer.

Bandana Chand Thakuri (2011), in her thesis, entitled "A study on the financial performance of Agriculture Development Bank in Kanchanpur District", stated the following recommendations for the improvement and overall development of the bank.

- 1) To increase investment and for the development of a particular sector the bank should continue its "pocket area programme" according to the specialty of that particular area.
- 2) The bank should be conscious about the quality of loan and complete utilization of loan given for a particular objective. For this there should be developed modern information system, which can collect, analyze and present information on time.
- 3) In this modern technology age, the bank should have the facility for providing ATM, debit card and credit card facilities to the customer but these facilities are also not being possible through this bank.
- 4) For effective collection, it has to enlarge its sector but disbursing loan in different sectors to minimize the risk of collection.
- 5) Due to lack of education, people are not conscious and on the other side they are lacking technical skill. So in this regard, employee of the bank should be more conscious and

they should possess such technical skills to suggest and guide the borrowers.

- 6) For effective investment and collection, there should be a lot of interaction between bank and borrowers for transparency. Inspirations play a vital role for the effective utilization of loan. So bank should continue to distribute "Green Card" to the good borrowers.
- 7) To increase the revenue, the bank should try to reduce unproductive expenses. Employees should be encouraged for their commitment and a team spirit should be developed among them.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

The main objective of this report is to analyze, examine, highlight and competes the financial performance of Agriculture Development Bank in FWDR and recommend and suggest for better performance. So the purpose of this study is to analyze and fulfill the stated objectives. Project methodology refers to the various sequential steps to be adopted by a reporter in studying a problem with certain objectives in view. It is the way to solve the research problem systematically. Here, focus is made on research design, sample size, sources and types of data, data gathering instruments and procedures, data tabulations and methods of analysis.

The primary objective of this study is to evaluate and assess the financial performance of the regional offices of Agriculture Development Bank in FWDR.

3.2 Research Design

Research design is the task of defying the problem. In other words a research design is the arrangement of conditions, for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In fact the research design is the conceptual structure within which the research is conducted. The research design of this study is both analytical and descriptive.

3.3 Population and Sample of the Study

This study is based on the overall financial performance of all branches of ADB/N in FWDR. The ADB/N of this region comprises of regional office, regional training centre, 2 banking, 6 branch and 13 sub-branch offices are established in different part of this region. The regional office is considered as the population in the present study.

3.4 Sources of Data

The main sources of data for this report are secondary data. Besides, necessary suggestions are taken from various experts both inside and outside the bank whenever required. According to the requirements, published balance sheet, profit/loss account and other related statements of account as well as the annual reports of the ADB/N have also been collected for the last five years. For the purpose of study, various related books, booklets, magazine, journals, newspaper, and thesis made in this field have been referred. Personal queries, discussion, consultations are also conducted.

3.5 Procedure of the data collection

In order to obtain the required data information, the researcher made several visit to the concerned banks of ADB/N and conversed with the concerned personnel. The researcher visited regional ADB/N of Far Western Development Region to get actual informations and other bulletins and publication of the bank.

Besides it, for the detailed study and for review of literature study and for review of literature the Researcher has visited T.U. central library (Kirtipur) and library of Kailali Multiple Campus Dhangadhi.

In spite of it many other necessary information are collected through observation and formal as well as informal discussion with the concerned authorities of the banks under this study.

3.6 Presentation of Data

The data have been mainly collected from published materials of ADB/N. The obtained data are presented in various tables, and diagrams with supporting interpretations. Data are tabulated in accordance with nature of data.

3.7 Method of Data Analysis

For the purpose of study, the collected data and obtained data are scanned and tabulated under various heads. After the data tabulated, various tools have been used to achieve the results. The present study applies the different financial as well as statistical tools.

Except all the other method, graphic presentation, bar diagram has been also adapted to reflect the actual status of the bank.

3.8 Data Analysis Tools

Financial performance is analyzed through the use of two important tool, financial tools and statistical tools. The first most important tool is the financial tool which includes ratios analysis:

Ratio analysis

Ratio analysis is the powerful tools of financial analysis, which helps in identifying the strength and weakness of an organization or business concern about the financial performance. The term ratio refers to an arithmetical relationship between two figures, to make rational decision of financial variability of the company. This relationship can be expressed in terms of percentage, fractions, or proportions. To achieve an effective result, ratio must be analyzed in comparative basis.

"The techniques of ratio analysis are the art of the whole process of the analysis of financial statements of the whole business of the industrial concern, especially to take output and credit decision."

There are different types of ratios, which can be used for financial analysis of bank.

1. Revenue Analysis:

Banks generate revenue from different sources. Interest income is the major sources of revenue. There are fund and non fund based income. Interest income is fund based and others are non-fund based income. More revenue encourages the bank to enlarge its sector. Higher interest collection of bank means good performance of bank and vice versa.

2. Expenditure Analysis:

The bank incurs expenditure on staffs, office, doubtful debts and other miscellaneous expenses, that are the main items of expenditure in banks. This study represents expenditure of 5 years. The ratios that are

being analyzed under this heading are staff expenses to total income ratio, office expenses to total income ratio, doubtful debts to total income ratio and other expenses to total income ratio.

3. Profitability Ratio:

Profitability Ratio is a measurement of efficiency and the search for it provides the degree of success in achieving desired profit. Any firm should earn a satisfactory profit to survive and grow over a long period of time in the competitive market. Profitability ratio can be determined on the basis of either sales or investments. Through this ratio, the investor decided whether to invest in a particular business.

The important profitability ratio has been implemented in the present study is:

Return on Assets:-

This ratio is important for measuring the profitability of fund. It measures the firms return on investment of financial resources. It shows relationship between profit and total assets. It provides the information about the proper utilization of the resources. Lower return of assets means lower profit and higher return means higher profit. The ratio is calculated by dividing the net profit in after tax by total assets.

Return on Assets = Net profit after tax / total assets

4. Other Analysis:

A part from the ratios that are being already mentioned there are certain ratios that has helped in analyzing the financial performance of ADB/N of FWDR. The ratios are cash and bank balance, to total assets ratio, fixed and other assets to total assets ratio and outstanding loan to total assets ratio.

Statistical Tools:

1 Trend Analysis

Trend Analysis is a statistical tool, which will highlight the previous trend of the financial performance and helps in forecasting the future financial results. Trend analysis is done to know how much it would be in next year if it follows the pattern of past year. This study analysis the trend of loan investment, loan collection, interest collection, loan outstanding, overdue loan and interest receivable.

2 Correlation Analysis

The correlation analysis is a statistical tool which, studies the relationship between two variables and correlation between two variables and correlation analysis involves various methods and techniques used for studying and measuring the extent of the relationship between the two variables.

Thus correlation is a statistical tool with the help of which we can determine whether or not two or more variables are correlated and if they are correlated the degree and direction of correlation is determined.

The formula for measuring correlation coefficient by Karl Pearson's method.

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

3. Probable Error

The probable error of the co-efficient of correlation helps in interpreting its value. It is obtained using the following formula:

$$PE_r = 0.6745 \frac{1-r}{\sqrt{N}}$$

If the value of r is less than PE_r there is no evidence of correlation i.e. value of r is not at significant level. If the value of r is more than six times of the probable error. It means both the variables are highly correlated at significant level.

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Financial Analysis

The basic objective of analyzing the financial performance and interpretation is to highlight the strength and weaknesses of the business. Therefore, this chapter includes the analysis and result of the gathered data with a view to assessing financial performance of the bank for the period of five years. Consequently, this analysis help the management to take benefit of strategic management technique by providing the information regarding the strength and weakness of the bank, So as to exploit the opportunities lying in the environment and mange the threats poses by the environment.

This chapter starts with the analysis of overall investment, collection of principal and interest, outstanding interest receivable, overdue etc. Next analysis consists of the analysis of income statement and statement of assets and liabilities of the bank with help of different analytical tools.

4.1.1 Analysis of Investment and Collection

Agriculture Development Bank of this region has been doing its investment in different sector according to the demand of the people who are mainly engaged in agricultural activity by accepting mortgage to assure the refund of loan.

Loan investment is the major sources of earning for the bank. It plays a major role to increase the revenue of banks. The position of

overall investment of ADB/N during the study period has been presented in Table 4.1

4.1.2 Analysis of Overall Investment

In this topic researcher has tried his best to analyze the data by tabulation and presenting in graph to find out their trend in different FY. ADB/N in FWDR doing its investment of ADB/N during the study period has been presented in Table 4.1

Table 4.1
Overall Investment of Loan

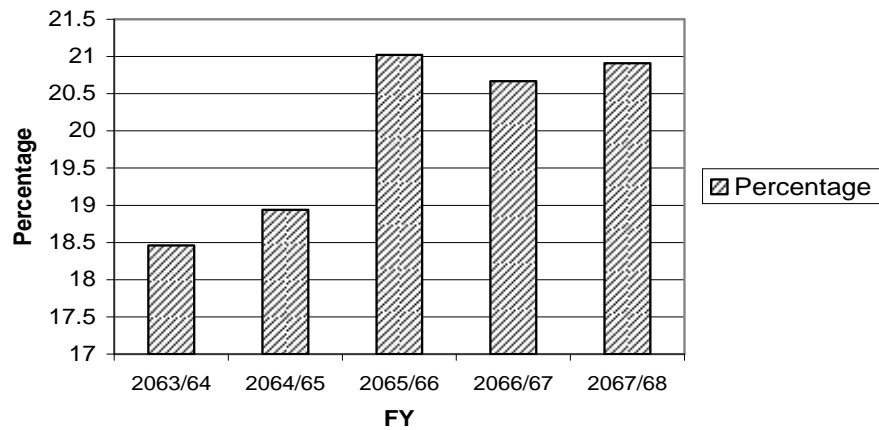
Fiscal year	Amount (Rs in '000)	Percentage
2063/64	1919092	18.46
2064/65	1966490	18.94
2065/66	2184394	21.02
2066/67	2148166	20.67
2067/68	2172365	20.91
Total	10390507	100

Source: ADB/N regional office Dhangadhi FY 2063/64 to 067/68

Table 4.1 indicated that overall investment was the highest in Fiscal Year 2065/66 and the lower in Fiscal Year 2063/64. In terms of percentage, it was 21.02% and 18.94% respectively. It was further reflected that after the fiscal year 2063/64 percentage of investment was increasing continuously during the study period except in Fiscal Year 2067/68. In terms of percentage 18.46% in fiscal year 2063/64, 18.94% in Fiscal Year 2064/65, and 21.02% in Fiscal Year 2065/66, but in Fiscal

Year 2066/67 the investment is decreases by 20.67% and Fiscal Year 2067/68 it is increases by 20.91%. This trend has been presented in figure 4.1

Figure 4.1
Overall Investment of Loan



4.2 Analysis of Collection of Deposit

Collection is essential for the efficient financial performance of the bank because bank provides loan to the customer charging interest. So later on it collects in the form of principal and interest. Principal is the investment amount where as interest is the income of the bank.

4.2.1 Analysis of Principal Collection

For the efficient financial performance of the bank, timely collection of principal is essential. Regarding this the situation of this region has been shown in Table 4.2

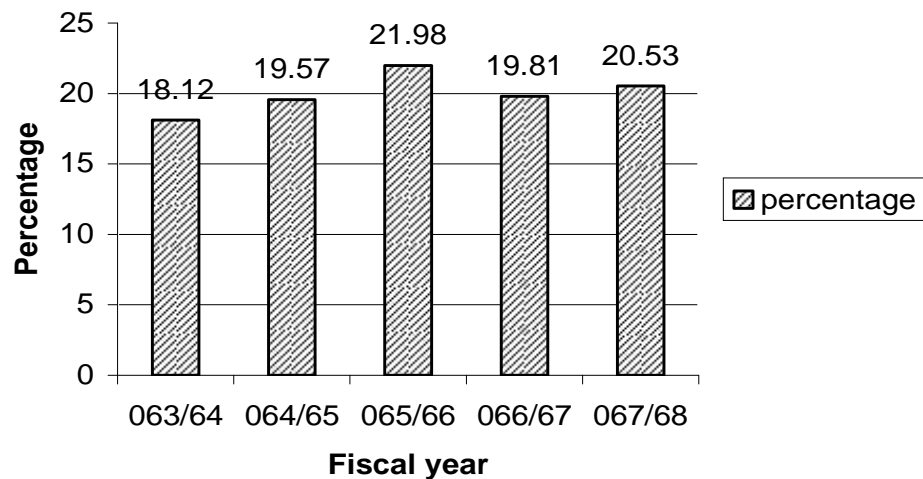
Table 4.2
Total principle collection of the bank

Fiscal year	Amount (Rs in '000)	Percentage
2063/64	1999692	18.12
2064/65	2159589	19.57
2065/66	2425027	21.98
2066/67	2185618	19.81
2067/68	2265463	20.53
Total :	11035389	100.01

Source: ADB/N regional office Dhangadhi, FY2063/64 to 2064/68

Table 4.2 showed that the percentage of principle collection was increasing every year upto Fiscal Year 2065/66 but in Fiscal Year 2066/67 it was in decreased, in Fiscal Year 2067/68 it was increase. In terms of percentage it was 18.12%, 19.57%, 21.98%, 19.81 and 20.53 respectively from Fiscal Year 2063/64 to 2067/68. The trend has been presented in figure 4.2.

Figure 4.2
Total principle collection Trend



4.2.2 Analysis of Interest Collection

Interest is the major source of income for this bank. Proper collection of interest is essential for the existence of the bank. In this regard the situation of this region is shown in Table 4.3 of the study period.

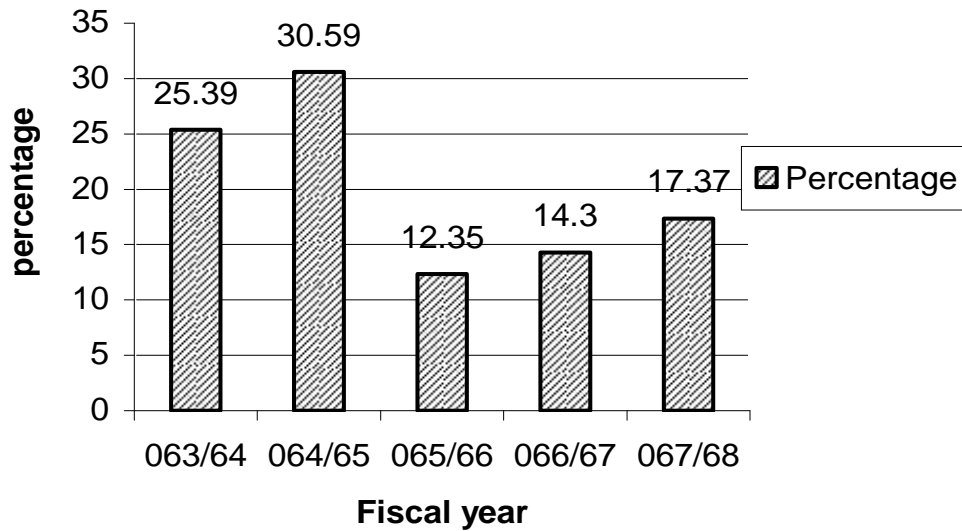
Table 4.3
Collection of interest

Fiscal Year	Amount (Rs in '000)	Percentage
2063/64	518304	25.39
2064/65	624574	30.59
2065/66	252057	12.35
2066/67	292184	14.30
2067/68	354638	17.37
Total:	2041757	100

Source: ADB/N regional office Dhangadhi, FY 2063/63 to 2067/68.

Table 4.3 stated that percentage of interest collection was increasing first two year. In terms of percentage it was 25.39% and 30.59% but it was decrease in Fiscal Year 2065/66 by 12.35% and increase in Fiscal Year 2066/67 by 14.30% and Fiscal Year 2067/68 by 17.37% respectively. The trend has been presented in figure 4.3

Figure 4.3
Interest collection trend



4.3 Analysis of Outstanding Loan

Bank should try to disburse loan after analyzed properly. In other words it should be aware of the returning capacity of the borrower. It should returned with in the predetermined time period. Till that time it remains as an outstanding loan for the bank. These outstanding increases with the increasing investment. If it is collected timely then bank do not have to suffer any problem. Thus outstanding situation of ADB/N in FWDR has been shown in table 4.4

Table 4.4
Outstanding loan of the bank

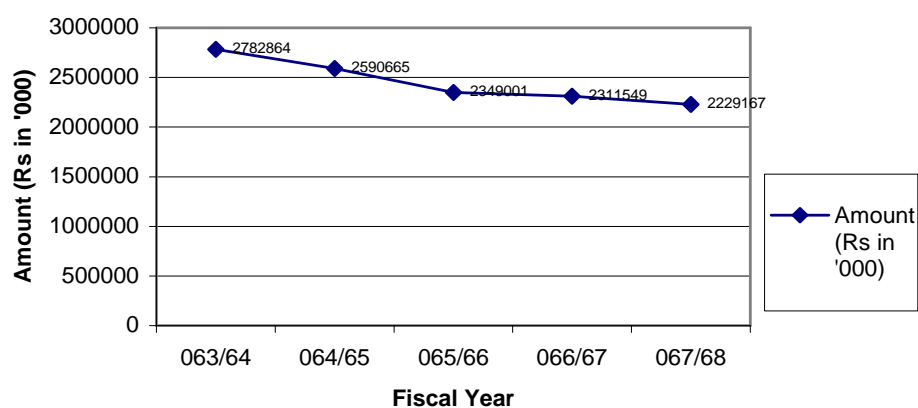
Fiscal Year	Amount (Rs in '000)	Percentage
2063/64	2782864	22.70
2064/65	2590665	21.13
2065/66	2349001	19.15
2066/67	2311549	18.85
2067/68	2229167	18.18
Total:	12263246	100.01

Source: ADB/N regional office Dhangadhi, FY 2063/64 to 2067/68.

Table 4.4 highlighted that percentage of outstanding loan was decrease every year of the study period. In term of percentage proportion of outstanding loan was 22.70%, 21.13%, 19.15%, 18.85% and 18.18% in Fiscal Year 2063/64 to 2067/68 respectively.

The trend of outstanding is presented in figure 4.4

Figure 4.4
Outstanding loan of the bank



4.4 Analysis of Interest Receivable

Interest is the main sources of income for the bank. Without interest it is very difficult for the banks to survive because they have to meet their day to day and other expenses.

So in the context of ADB/N also, interest can not be ignored. It is the main source of income for this bank. It includes the total interest receivable by the bank. In this regard the detailed data of last five years shown in table 4.5

Table 4.5

Interest Receivable of the Bank

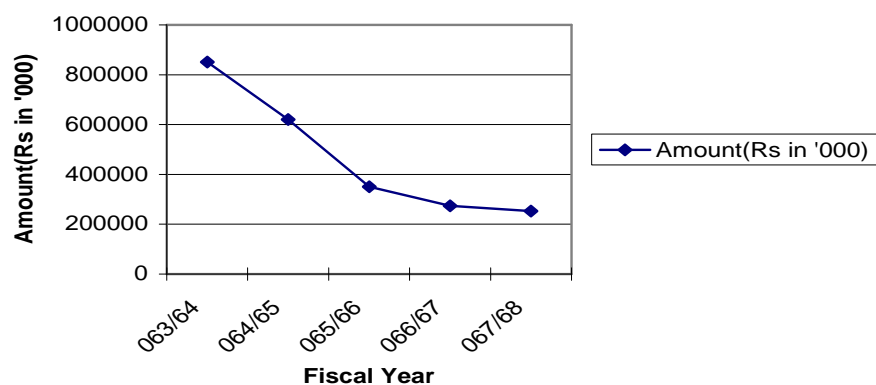
Fiscal Year	Amount(Rs in '000)	Percentage
2063/64	851082	36.23
2064/65	620458	26.42
2065/66	350055	14.90
2066/67	274042	11.67
2067/68	253218	10.78
Total:	2348855	100

Source: ADB/N regional office Dhangadhi, FY 063/64 to 067/68.

Table 4.5 stated that percentage of interest receivable was decreasing every year of the study period. In terms of percentage the proportion of interest receivable was 36.23% in Fiscal Year 2063/64, 26.42% in Fiscal Year 2064/65, 14.90% in Fiscal Year 2065/66, 11.67% in Fiscal Year 2066/67 and 10.78% in Fiscal Year 2067/68. The trend has been presented as shown in figure 4.5.

Figure 4.5

Interest receivable of the Bank



4.5 Analysis of Overdue Loan

Collection is the most important aspect of the bank. But sometimes it is very difficult for the bank to collect accordingly with in its time period due to which overdue problem has arisen as shown in table 4.6

Table 4.6

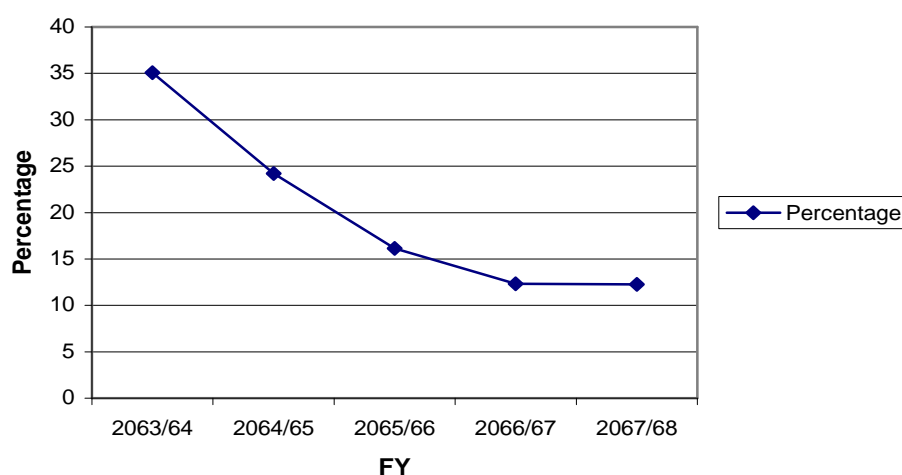
Overdue of the Bank

Fiscal Year	Amount(Rs in '000)	Percentage
2063/64	1230205	35.08
2064/65	849325	24.22
2065/66	565120	16.13
2066/67	431744	12.32
2067/68	429645	12.25
Total:	3506039	100

Source: ADB/N regional office Dhangadhi, FY 063/64 to 067/68.

Table 4.6 revealed that percentage of overdue loan was decrease continuously, from Fiscal Year 2063/64 to 2067/68. In terms of percentage it is 35.08% in Fiscal Year 2063/64, 24.22% in Fiscal Year 2064/65, 16.13% in Fiscal Year 2065/66, 12.32% in Fiscal Year 2066/67 and 12.25% in Fiscal Year 2067/68. The trend of overdue has been further presented in figure 4.6.

Figure 4.6
Overdue of the bank



4.6 Analysis of Income and Expenditure

Revenue is an essence to run every organization smoothly. Income and expenditure are two aspect of the same coin. Without good income, expenditure is not possible. Without expenditure any organisation can not meet its result. Likely, a bank also has to bear different expenses while achieving its objectives. ADB/N also can not be separated from it. It has also its different sources of income. In the past it was used to get support from donor agencies through Govt. But now situation has been changed.

Here under this topic the researcher has tired his best to analyze the total revenue and expenditure situation as shown in table 4.7

Table 4.7
Total Revenue and Total Expenditure

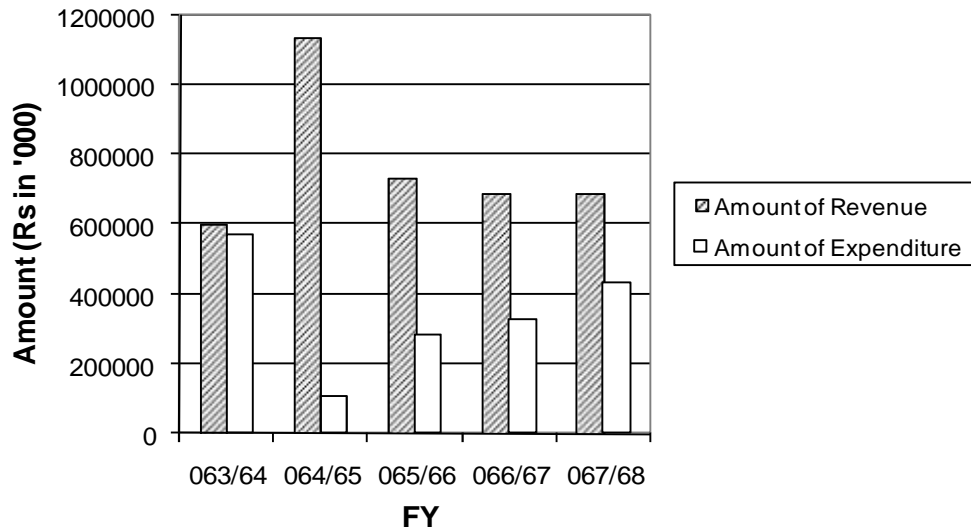
FY	Amount of revenue (Rs in '000)	Percentage	Amount of Expenditure (Rs in'000)	percentage
2063/64	600855	15.61	570345	33.18
2064/65	1138664	29.57	106205	6.18
2065/66	731968	19.01	284082	16.53
2066/67	687794	17.86	327494	19.05
2067/68	691084	17.95	430595	25.05
	3850365	100	1718721	99.99

Source: ADB/N regional office Dhangadhi, FY 063/64 to 067/68.

Table 4.7 revealed that percentage of revenue was increasing in first two Fiscal Year. After that it was decreased. In terms of percentage it is 15.61%, 29.57%, 19.01%, 17.86%, and 17.95% from Fiscal Year 2063/64 to 2067/68 respectively. And it further showed that percentage of expenditure was also in mixed type. In terms of percentage it is 33.18%, 6.18%, 16.53%, 19.05% and 25.05% respectively from Fiscal Year 2063/64 to Fiscal Year 2067/68. It is further, reflected that in comparison to revenue, expenditure is less. It is a good aspect of the Bank. The above tabulated data further has been presented in figure 4.7

Figure 4.7

Revenue and Expenditure



4.7 Analysis of Income (Revenue)

Revenue is an essence for every organisation. This bank is also an organisation which does not produce any tangible goods but it provides services by providing loans, technical advice, keeping deposits and involvement in poverty alleviation programs through different ways.

4.7.1 Analysis of income from interest on Loan

It is the main sources of income for this bank. In this region also this bank is generating more income from interests as shown in Table 4.8

Table 4.8

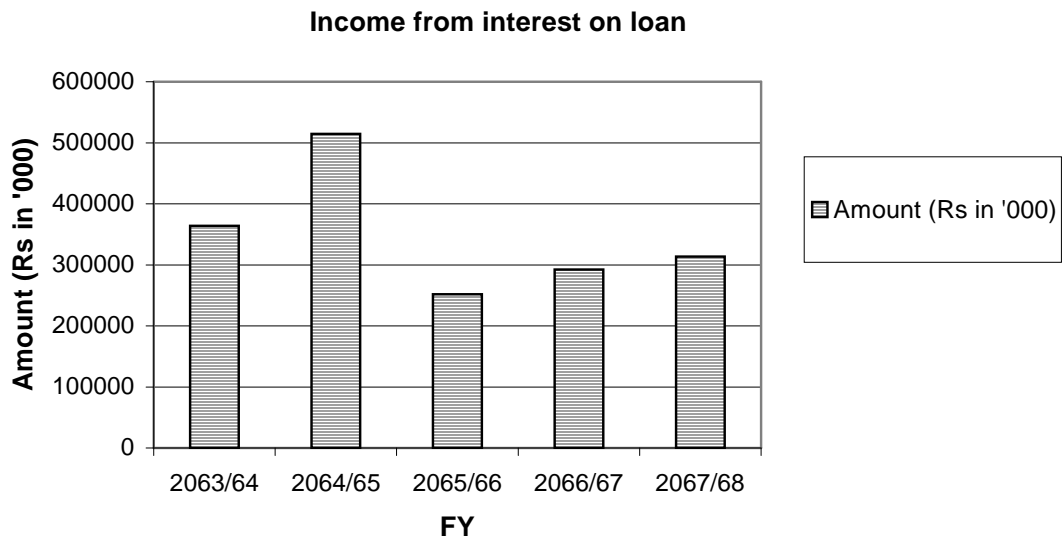
Income from interest on loan

Fiscal Year	Amount(Rs in '000)	Percentage
2063/64	363770	20.95
2064/65	514482	29.63
2065/66	252057	14.52
2066/67	292546	16.85
2067/68	313672	18.06
Total:	1736527	100

Source: ADB/N regional office Dhangadhi, FY 063/64 to 067/68.

Table 4.8 stated that percentage of income from interest on loan was in mixed (Both in increasing and decreasing) type. In term of percentage 20.95%, 29.63%, 14.52%, 16.85%, and 18.06% from Fiscal Year 2063/64 to 2067/68 respectively. It has been further presented in figure 4.8

Figure 4.8



4.8 Expenditure Analysis

Like other organisation banks also has to expend money in different sectors to perform its function effectively. Without analyzing them it becomes very difficult for the stakeholders, where and how much the banks are expending and about their increasing and decreasing trends.

4.8.1 Analysis of Expenditure on Employee

Bank needs sufficient personnel to continue office and other operations. There is need to pay salaries and other payments that includes allowances to their staffs in term of services.

Employees are the main sources of the bank with the help of whom it can keep close concern with its stakeholders. Without employees bank can not perform its functions properly. There is huge amount incurred in employees as shown in Table 4.9

Table 4.9

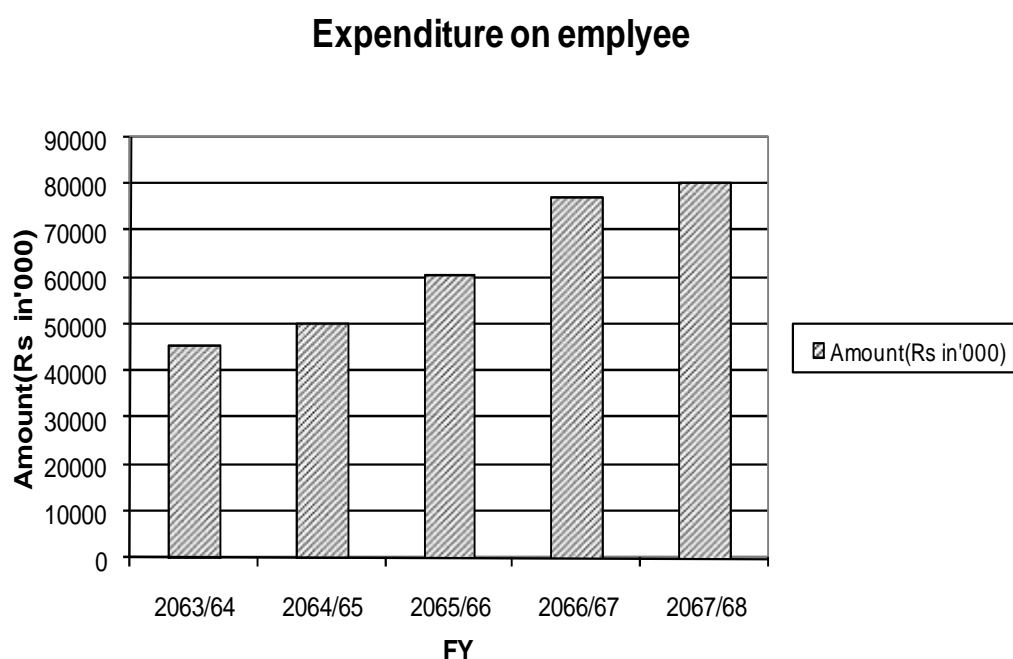
Expenditure on Employee

Fiscal Year	Amount (Rs in '000)
2063/64	45587
2064/65	50329
2065/66	60382
2066/67	77383
2067/68	80264
Total:	313945

Source: ADB/N regional office Dhangadhi, FY 063/64 to 067/68.

Table 4.9 stated that amount of expenditure on employees was increased from Fiscal Year 063/64 to 067/68. In terms of amount (in '000s) Rs 45587, Rs50329, Rs60382, Rs77383 and Rs80264 respectively. It has been further presented in figure 4.9.

Figure 4.9



4.8.2 Analysis of Expenditure on Office

Office is a place from where bank perform its transactions and there is need of different office materials for recording, filing etc and it has to pay rents for hired building too. It has been presented in Table 4.10.

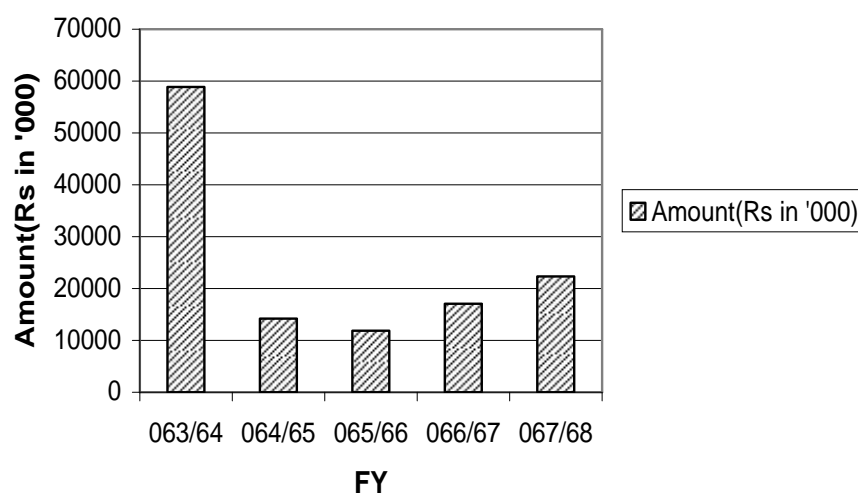
Table 4.10
Expenditure on Office

Fiscal Year	Amount (Rs in '000)
2063/64	58897
2064/65	14228
2065/66	11846
2066/67	17076
2067/68	22357
Total:	109034

Source: ADB/N regional office Dhangadhi, FY 063/64 to 067/68.

Table 4.10 revealed that amount of office expenditure in terms of amount (in '000_s) was Rs58897, Rs14228, Rs11846, Rs17076 and Rs22357 respectively. The above tabulated data further can be presented in figure 4.10

Figure 4.10
Expenditure on office



4.8.3 Analysis of Expenditure on Other Expenses

The expenditure that are not classified are kept under the category of other expenses as shown in Table 4.11

Table 4.11
Expenditure on Other Expenses

Fiscal Year	Amount (Rs in '000)
2063/64	22301
2064/65	25137
2065/66	53464
2066/67	54593
2067/68	56375
Total:	211870

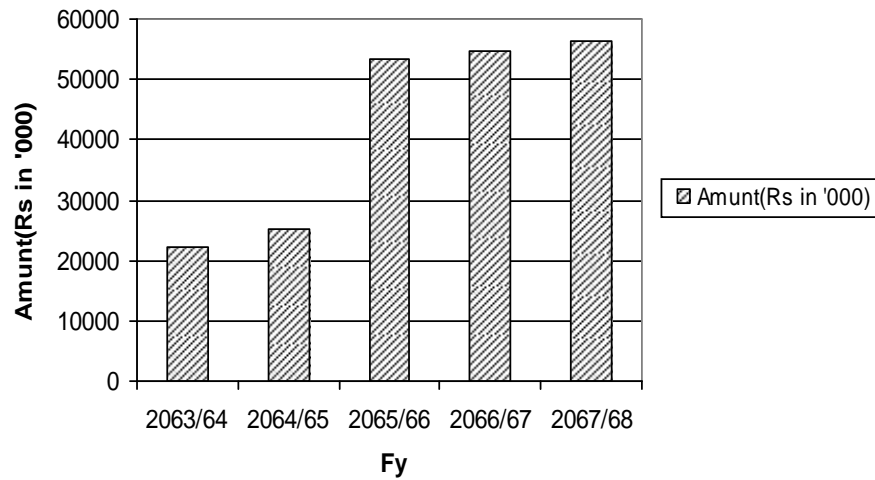
Source: ADB/N regional office Dhangadhi, FY 063/64 to 067/68.

Table 4.11 stated that amount of other expenses was increasing rapidly. In terms of amount in rupees(in 000) Rs22301, Rs25137, Rs53464, Rs54593 and Rs56375 respectively. It is further revealed that these expenses increased highly in Fiscal Year 065/66.

The above tabulated figure further can be presented in figure 4.11

Figure 4.11

Expenditure on Other expenses



4.9 Analysis of Profit/Loss

Bank is an institution that deals with finance. Profit/Loss analysis is also on essence in this regard. Profit is obtained when the revenue is more than the expenses.

Under this topic the researcher has tried to analyze the Profit/Loss situation of the ADB/N of this region. Profit/Loss A/C acts as an indicator which shows whether a particular organization is able to perform well or not, whether a particular organization is viable or not etc. All these things have been shown with the help of Table 4.12

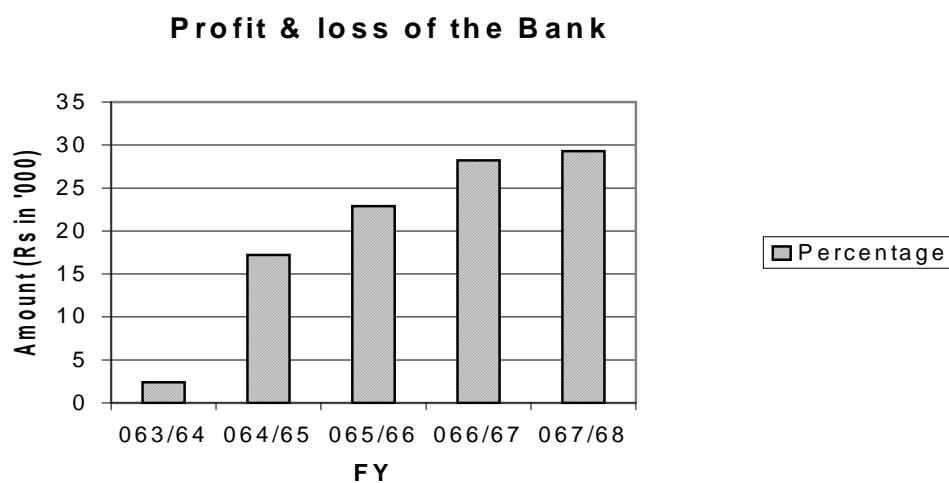
Table 4.12
Profit and Loss of the Bank

Fiscal Year	Amount(Rs in '000)	Percentage
2063/64	30508	2.40
2064/65	219869	17.22
2065/66	292105	22.88
2066/67	360301	28.22
2067/68	373750	29.28
Total:	1276533	100

Source: ADB/N regional office Dhangadhi, FY 063/64 to 067/68.

Table 4.12 revealed that the percentage of profit was increasing every year. In terms of percentage 2.39%, 17.22%, 22.88%, 28.22%, and 29.28% from Fiscal Year 063/64 to 067/68 respectively. It has been further presented in figure 4.12

Figure 4.12



4.10 Analysis of Income, Expenditure and Net Profit/Loss

Income, cost and Profit/Loss are correlated with each other. Profit can only be obtained in the revenue exceeds cost. In this regard situation of FWDR has been shown in Table 4.13

Table 4.13

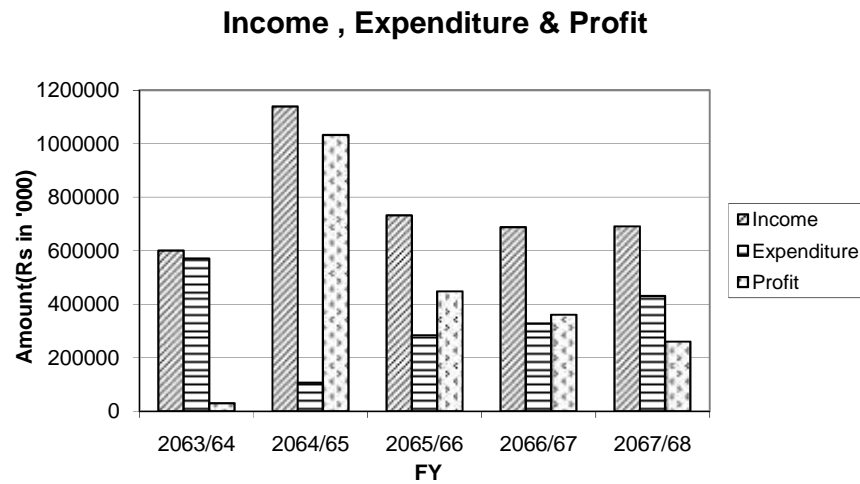
Income, Expenditure and P/L of the Bank

FY	Income(Rs in '000)	Expenditure (Rs in '000)	Net P/L (Rs in '000)
2063/64	600855	570345	30510
2064/65	1138664	106205	1032459
2065/66	731968	284082	447886
2066/67	687794	327494	360300
2067/68	691084	430595	260489
	3850365	1718721	2131644

Source: ADB/N regional office Dhangadhi, FY 063/64 to 067/68.

Table 4.13 showed that the highest income was in Fiscal Year 064/65(1138664) and the lowest income in Fiscal Year 063/64(600855). But regarding expenses highest expenditure was in Fiscal Year 063/64(570345) and the lowest expenses in Fiscal Year 064/65(106205). But regarding Profit/Loss except in Fiscal Year 064/65 there was an decreases in the amount of profit. In terms of amount in rupees (in 000,) Rs30510, Rs1032459, Rs447886, Rs360300 and Rs260489 respectively from Fiscal Year 063/64 to 067/68. This bank was able to generate profit even in such a critical situation in the country. It was a positive aspect of the bank too. It has been further presented in figure 4.13.

Figure 4.13



4.11 Financial Analysis

Under this chapter the researcher has tried to analysis financial position and activities of this ADB/N in FWDR with the help of ratios analysis.

An arithmetical relationship between two figures is known as ratio. Ratio analysis is a technique of analysis and interpretation of financial statement. To evaluate the performance of an organisation by creating of ratios from the figures of different account contained in the balance sheet and income statement is known as ratio analysis.

Ratio analysis is one of the financial tools, which help to evaluate the strengths and weakness of an organisation. In this chapter researcher has tried to analyze different ratios with the help of the income statement and balance sheet.

4.11.1 Analysis of Interest Income to Total Income Ratio

Interest income is the major sources of earning for this bank. So this ratio will help to identify the contribution of interest income to total income of the study period as shown in Table 4.14

Table 4.14

Relation between interest incomes to total income

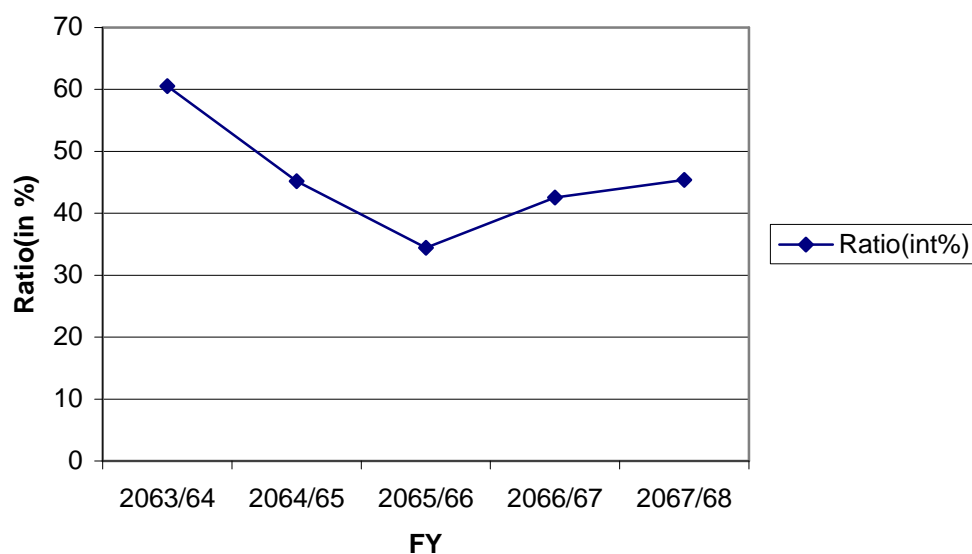
FY	Interest income (Rs in '000)	Total income (Rs in '000)	Ratio=Int.income/ total income (in %)
2063/64	363770	600855	60.54
2064/65	514482	1138664	45.18
2065/66	252057	731968	34.44
2066/67	292456	687794	42.53
2067/68	313672	691084	45.39

Source: ADB/N regional office Dhangadhi, FY 063/64 to 067/68.

Table 4.14 revealed that the main source of income of the bank is interest income. The bank was able to earn the interest about 60.54% of it is total income in the Fiscal Year of 063/64 followed by 45.18%, in 064/65, 34.44% in 065/66, 42.53% in 066/67 and 45.39% in 067/68 respectively. The relationship between interest incomes to total income has been presented in figure 4.14

Figure 4.14

Interest income to total income ratio



4.11.2 Analysis of Staff Expenses to Total Income Ratio

Among many other expenses bank has to bear staff expenses to run the bank smoothly as shown Table 4.15

Table 4.15

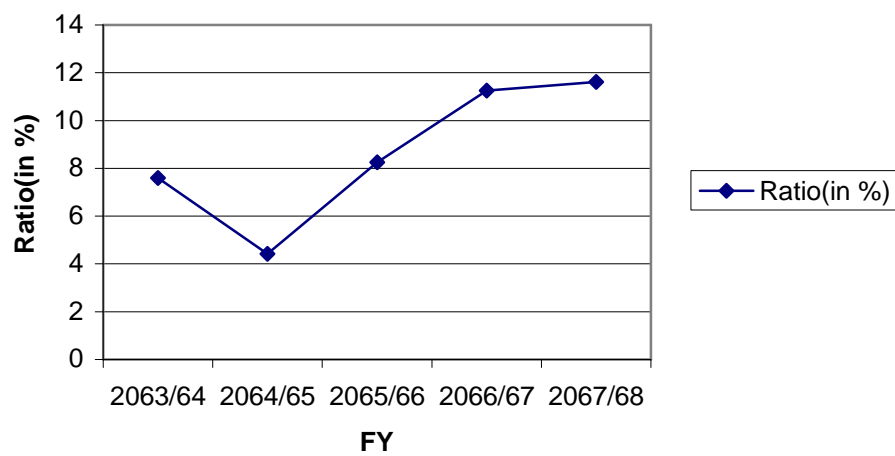
Staff expenses to total income ratio

FY	Staff exp(Rs in '000)	Total income(Rs in '000)	% of staff exp. to total income
2063/64	45587	600855	7.59
2064/65	50329	1138664	4.42
2065/66	60382	731968	8.25
2066/67	77383	687794	11.25
2067/68	80264	691084	11.61

Source: ADB/N regional office Dhangadhi, FY 063/64 to 067/68.

Table 4.15 stated that percentage of staff expenses were 7.59%, 4.42%, 8.25%, 11.25%, and 11.61% respectively from Fiscal Year 063/64 to 067/68. It is further revealed that among five Fiscal Year, in the second Fiscal Year staff expenses to total income ratio was decreasing. The trend has been further presented in figure 4.15

Figure 4.15
Staff expenses to total income ratio



4.11.3 Analysis of Office Expenses to the Total Income Ratio

This bank also has to bear expenses, for running the office efficiently. In this regard office expenses to total income ratio of this region was as shown in Table 4.16

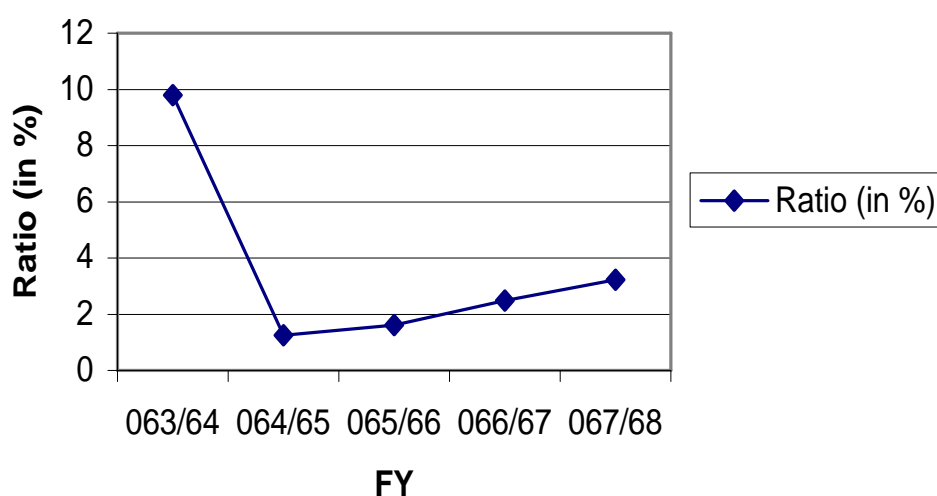
Table 4.16
Office expenses to total income ratio

FY	Office exp ⁿ (Rs in '000)	Total income(Rs in '000)	% of office exp. to total income
2063/64	58897	600855	9.80
2064/65	14228	1138664	1.25
2065/66	11846	731968	1.61
2066/67	17076	687794	2.48
2067/68	22357	691084	3.23

Source: ADB/N regional office Dhangadhi, FY 063/64 to 067/68.

Table 4.16 revealed that percentage of ratio of office expenses to total income. In terms of percentage 9.80%, 1.25%, 1.61%, 2.48% and 3.23 from Fiscal Year 2063/64 to 2067/68 respectively. The trend has been presented in figure 4.16.

Figure 4.16
Office expenses to total income ratio



4.11.4 Analysis of Other Expenses to Total Income Ratio

This bank has to bear expenses in different matters too, which are included in the head of other expenses. This ratio highlights the expenditure of bank in other expenses out of the total income as shown in Table 4.17. It is calculated by,

$$\text{OETIR} = \frac{\text{Other expenses}}{\text{Total income}}$$

Where, OETIR = other expenses to total income ratio.

Table 4.17

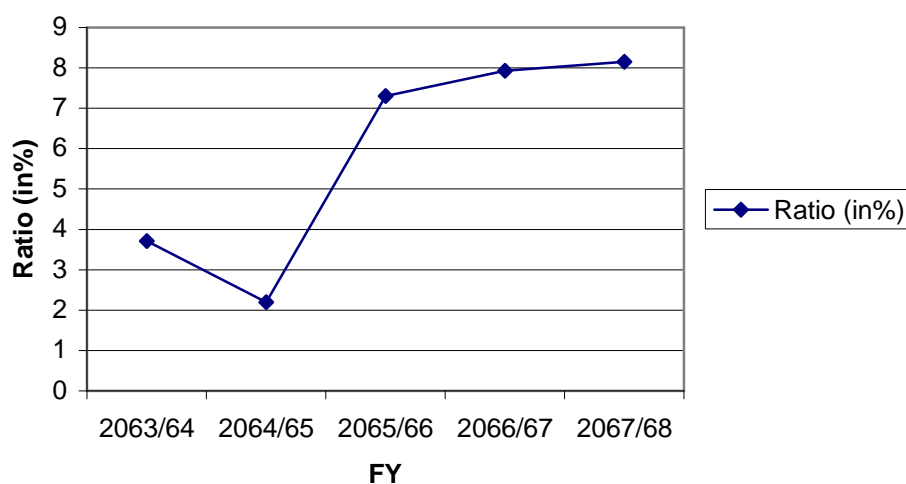
Other expenses to total income ratio

FY	Other exp ⁿ . (Rs in '000)	Total income(Rs in '000)	Ratio
2063/64	22301	600855	3.71
2064/65	25137	1138664	2.20
2065/66	53464	731968	7.30
2066/67	54593	687794	7.93
2067/68	56375	691084	8.15

Source: ADB/N regional office Dhangadhi, FY 063/64 to 067/68.

Table 4.17 revealed that the percentage of other expenses to total income ratio was in mixed type during the study period. In terms of percentage it is 3.71%, 2.20%, 7.30%, 7.93%, and 8.15% respectively from Fiscal Year 2063/64 to 2067/68. The trend has been shown in figure 4.17

Figure 4.17
Other expenses to total income ratio



4.11.5 Analysis of Net Profit to Total Assets Ratio.

This ratio helps to measure the ability of the bank while earning the rate of return to total assets. It further helps to provide information about the proper utilization of resources. It shows the relation between profit and total assets. Higher ratio means higher return and vice-versa as shown in Table 4.18.

It is calculated by,

$$\text{NPTAR} = \text{Net profit} / \text{Total assets}$$

Where,

NPTAR = Net Profit to Total Assets Ratio

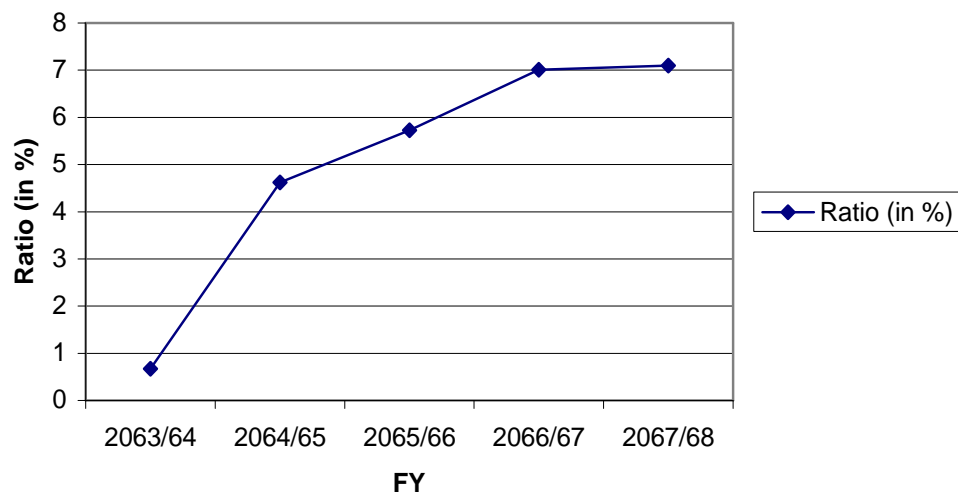
Table 4.18
Net Profit to Total Assets Ratio

FY	Net profit (Rs in '000)	Total assets(Rs in '000)	Ratio(in %)
2063/64	30508	4500544	0.67
2064/65	219869	4762884	4.62
2065/66	292105	5099280	5.73
2066/67	360301	5136311	7.01
2067/68	373750	5267427	7.10

Source: ADB/N regional office Dhangadhi, FY 063/64 to 067/68.

The table 4.18 indicated that the bank earned highest profit in Fiscal Year 067/68 and the lowest in Fiscal Year 2063/64. In terms of percentage the proportion of net profit to total assets is 0.67%, 4.62%, 5.73%, 7.01% and 7.10% respectively from Fiscal Year 063/64 to 067/68. The trend has been presented in figure 4.18

Figure 4.18
Net Profit to Total Assets Ratio



4.11.5.1 Analysis of Cash Bank Balance to Total Assets Ratio

This ratio helps to measure the bank's ability to meet its current obligations. In other words it shows the portion of cash and bank balance to total assets. Lower ratio shows lower percentage in total assets and vice versa as shown in Table 4.19. It is calculated by.

$$\text{CBBTAR} = \frac{\text{Cash \& Bank Balance}}{\text{Total Assets}}$$

Where,

CBBTAR= Cash and Bank Balance to Total Assets Ratio

Table 4.19
Cash and Bank Balance to Total Assets Ratio

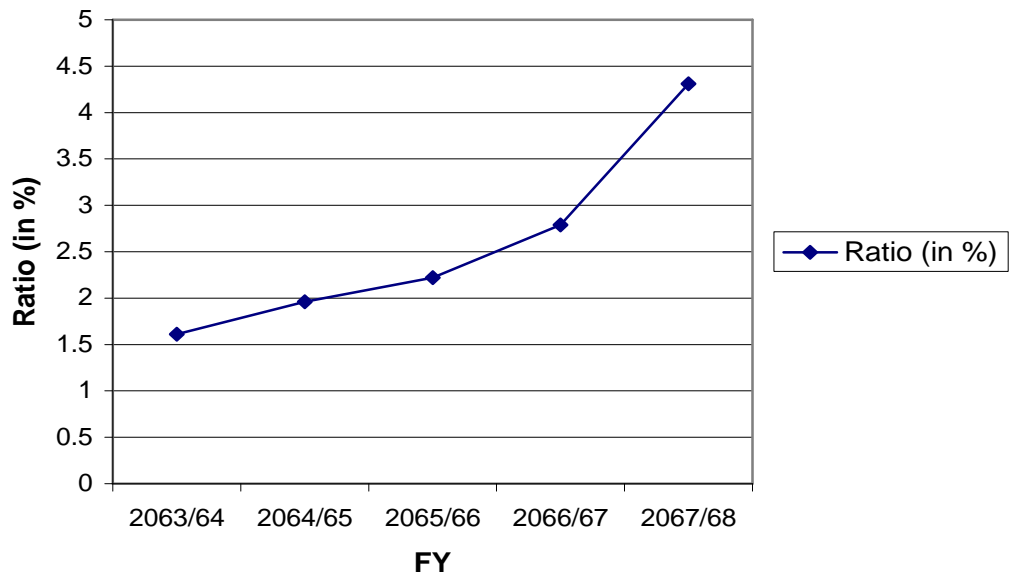
FY	Cash & bank Balance (Rs in '000)	Total Assets(Rs in '000)	Ratio (in %)
2063/64	72730	4500544	1.61
2064/65	93133	4762884	1.96
2065/66	113424	5099280	2.22
2066/67	143154	5136311	2.79
2067/68	226838	5267427	4.31

Source: ADB/N regional office Dhangadhi, FY 063/64 to 067/68.

Table 4.19 represented that the percentage of cash and bank balance to total assets ratio is in increasing trends. In terms of percentage the proportion of cash and bank balance to total assets ratio are 1.61%, 1.96%, 2.22%, 2.79% and 4.31% respectively. The trend has been presented in figure 4.19.

Figure No. 4.19

Cash and Bank Balance of Total Assets Ratio



4.11.5.2 Analysis of Fixed and Other Assets to Total Assets Ratio

This ratio helps to measure the proportion of fixed and other assets in total assets as shown in Table 4.20

It is calculated by,

$$\text{FOATAR} = \frac{\text{Fixed \& Other Assets}}{\text{Total Assets}}$$

Where,

FOATAR= Fixed & Other Assets to Total Assets

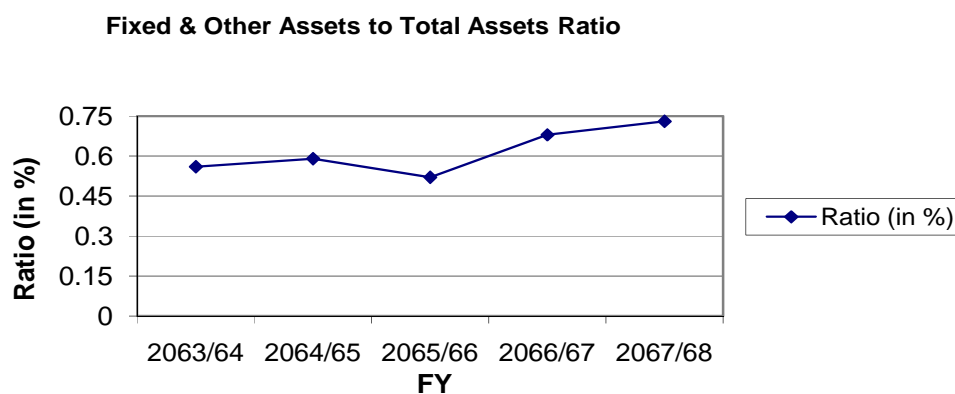
Table 4.20
Fixed & Other Assets to Total Assets Ratio

FY	Fixed & Other Assets (Rs in '000)	Total Assets(Rs in '000)	Ratio (in %)
2063/64	25401	4500544	0.56
2064/65	28215	4762884	0.59
2065/66	26342	5099280	0.52
2066/67	34872	5136311	0.68
2067/68	38249	5267427	0.73

Source: ADB/N regional office Dhangadhi, FY 063/64 to 067/68.

Table 4.20 showed that percentage of fixed assets to total assets ratio is in increasing trends. In terms of percentage the proportion of fixed assets and other assets to total assets ratio is 0.56%, 0.59%, 0.52%, 0.68% & 0.73% respectively, from Fiscal Year 063/64 to 067/68. The trend has been presented in figure 4.20

Figure 4.20



4.11.5.3 Analysis of Outstanding Loan to Total Assets Ratio

Here outstanding loan refers to that loan which is disbursed to the borrowers for investment as shown in Table 4.21

This ratio is calculated by,

$$\text{OLTAR} = \frac{\text{Outstanding Loan}}{\text{Total Assets}}$$

Where,

OLTAR= Outstanding Loan to Total Assets Ratio

Table 4.21
Outstanding Loan to Total Assets Ratio

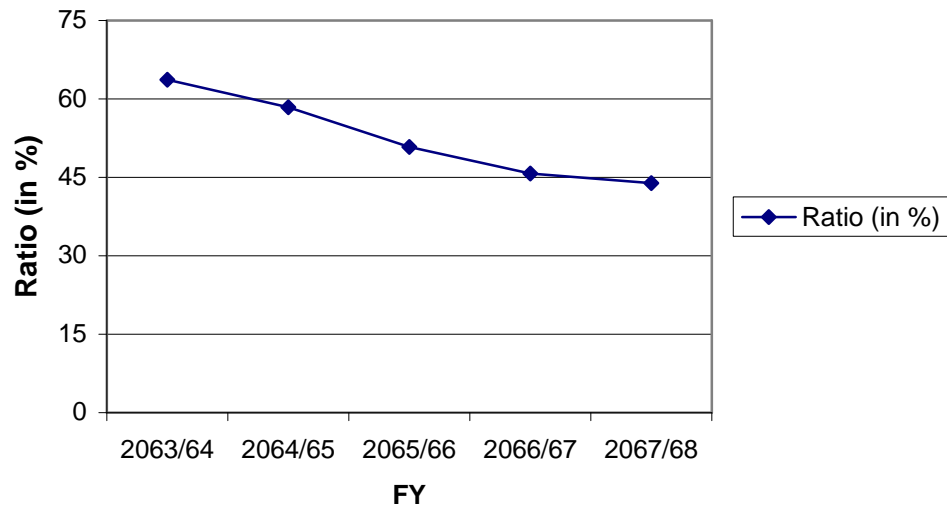
FY	Outstanding Loan (Rs in '000)	Total Assets(Rs in '000)	Ratio (in %)
2063/64	2864531	4500544	63.65
2064/65	2782864	4762884	58.43
2065/66	2590665	5099280	50.80
2066/67	2349001	5136311	45.73
2067/68	2311549	5267427	43.88

Source: ADB/N regional office Dhangadhi, FY 063/64 to 067/68.

The major part of the bank's assets is outstanding loan. The highest outstanding loan was in Fiscal Year 063/64 and lowest outstanding was in Fiscal Year 067/68. In terms of percentage the proportion of outstanding loan to total assets is 63.65%, in Fiscal Year 063/64, 58.43% in 2064/65, 50.80% in 2065/66, 45.73% in 2066/67 & 43.88% in Fiscal Year 2067/68 respectively. The trend has been presented in figure 4.21.

Figure 4.21

Outstanding Loan to Total Assets



4.12 Analysis of Non-performing Assets

NPA is the assets, which remains idle and does not help the bank to generate income. Bank generally gets such assets from the borrower. When the borrower is unable to pay the invested loan, the bank do not refund the mortgaged property and try to recover from it. If the quality of that mortgaged assets is not good quality then this problem arises. From this type of idle assets bank has to bear a lot of unnecessary expenses and it decreases the profit of the bank. It also gives a bad impression to the stakeholders.

It is already mentioned that this assets is also shown in Balance Sheet along with other assets. The non-performing assets cannot be classified from the other assets in the balance sheet but it helps to increase the assets amount and highlights the good financial position of the bank. Actually such assets do not give any return. Therefore bank should try to do its utmost effort to convert such assets into performing assets. In this regard, situation of ADB/N FWDR during study period has been shown in Table 4.22

Table 4.22
Non-performing assets of the bank

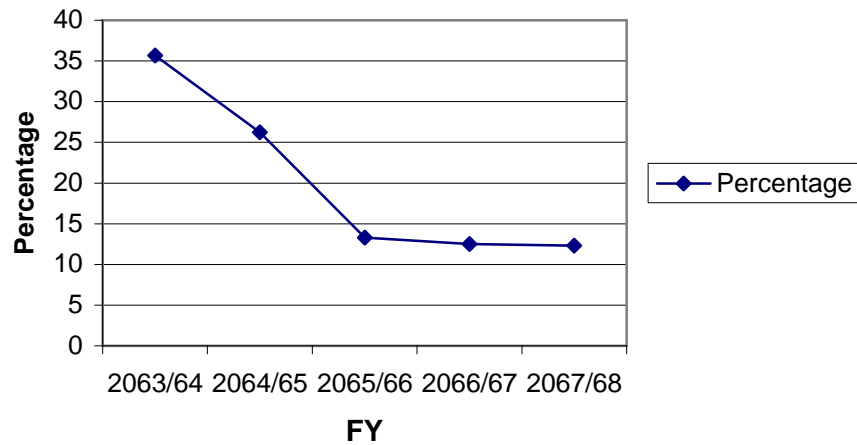
FY	Amount of Non-performing Assets(Rs in'000)	% of Non-performing Assets
2063/64	69202	35.67
2064/65	50883	26.23
2065/66	25799	13.29
2066/67	24279	12.51
2067/68	23867	12.30
	194030	100

Source: ADB/N regional office Dhangadhi

Table 4.22 highlighted that percentage of non-performing assets was decreasing every year during study period. In terms of percentage it is 35.67%, 26.23%, 13.29%, 12.51% & 12.30% from Fiscal Year 2063/64 to Fiscal Year 2067/68 respectively. It shows the positive aspect of the bank. The trend of non-performing assets of the study periods has been presented in figure 4.22

Figure 4.22

Trend of Non-performing assets



4.13 Trend Analysis

Trend analysis reflects the dynamic place in the movement of a phenomenon over a period of time. It helps to forecast the trend values of succeeding years. But computed values may differ from the actual value.

The trend analysis of different items in regard to ADB/N of FWDR is as follows.

4.13.1 Trend Analysis of Loan Investment

As already mentioned that interest is the major source of income of this bank. More loans invested means more returns but such investment should be done with utmost care. The trend of loan investment is shown in Table 4.23

Table 4.23
Trend of Loan investment (Rs in '000)

FY	Loan Investment Y	Year X	XY	X ²	Trend value
2063/64	1919092	-2	-3838184	4	1940457
2064/65	1966490	-1	-1966490	1	2009279
2065/66	2184394	0	0	0	2078101
2066/67	2148166	1	2148166	1	2146923
2067/68	2172365	2	4344730	4	2215745
N=5	dY=10390507	dX=0	dXY=688222	dX²=10	

Here we have trend equation, $y=a+bx$

Other equations

$$\phi Y = Na - b\phi X \dots\dots\dots(i)$$

$$\phi XY = a\phi X + b\phi X^2 \dots\dots\dots(ii)$$

Now, substituting the above calculated value in the equation(i) &(ii)

Here,

$$\begin{aligned} \phi Y &= Na - b\phi X \\ \text{or, } 10390507 &= 5a - b \mid 0 \\ \text{or, } 5a &= 10390507 \end{aligned}$$

$$\dots a = \frac{10390507}{5}$$

5

$$a = 2078101.40$$

and

$$\phi XY = a\phi X + b\phi X^2$$

$$\text{or, } 688222 = a | 0 + b | 10$$

$$\dots 10b = 688222$$

$$b = 688222/10$$

$$b = 68822.20$$

... Trend equation will be $Y = a + bX$

$$= 2078101.40 + 68822.20 | X$$

Trend equation of loan for 2068169 is

$$= 2078101.40 + 68822.20 | 3$$

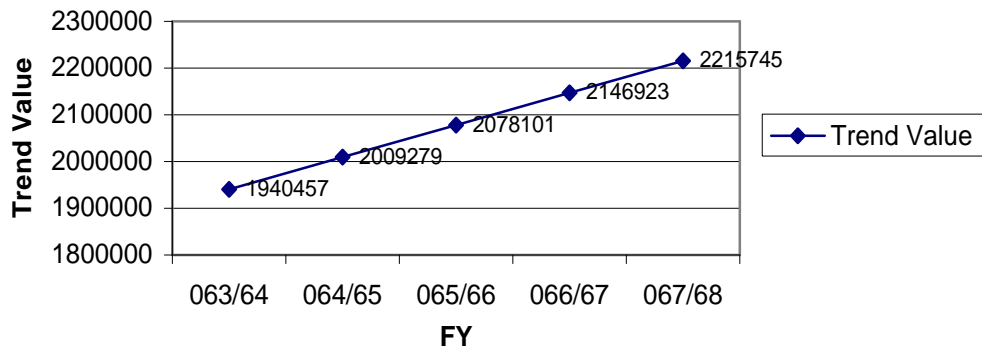
$$= 2078101.40 + 206466.60$$

$$= 2284568$$

Trend analysis shows that investment of loan was increasing. It shows that investment of loan for coming year will be Rs 2284568 (in'000). It is showing a increasing trend in the succeeding year. The trend has been presented in figure 4.23

Figure 4.23

Trend of loan investment



4.13.2 Trend Analysis of Collection of Loan

Like investment, collection is also an essential aspect of the bank. It's always eager to know about the successive collection as shown in Table 4.24

Table 4.24
Trend of loan collection(Rs in '000)

FY	Collection of loan Y	Year X	XY	X²	Trend values
2063/64	1999692	-2	-3999384	4	2095563
2064/65	2159589	-1	-2159589	1	2151320
2065/66	2425027	0	0	0	2207077
2066/67	2185618	1	2185618	1	2262834
2067/68	2265463	2	4530926	4	2318592
N=5	dY=11035389	dX=0	dXY=557571	dX²=10	

Here we have trend equation, $y=a+bx$

Other equations

$$\phi Y = Na - b\phi X \dots\dots\dots(i)$$

$$\phi XY = a\phi X + b\phi X^2 \dots\dots\dots(ii)$$

Substituting the above value in the equation(i) &(ii)

Here,

$$\phi Y = Na - b\phi X$$

$$\text{or, } 11035389 = 5a - b | 0$$

$$\text{or, } 5a = 11035389$$

$$\dots a = 11035389/5 \\ = 2207077.80$$

and

$$\phi XY = a\phi X + b\phi X^2$$

$$557571 = a | 0 + b | 10$$

$$\text{or, } 10b = 557571$$

$$\text{or, } b = 557571/10 \\ = 55757.10$$

Now the substituting the above calculated value of a & b in trend equation i.e.

$$Y = a + bX$$

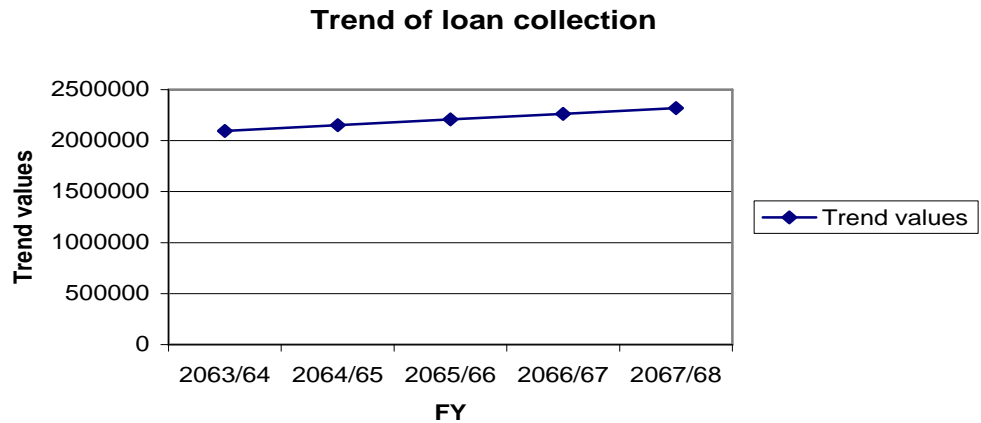
$$Y = 2207077.80 + 55757.10 | X$$

Hence, collection of loan for 2068/69 will be

$$Y = 2207077.80 + 55757.10 | 3 \\ = 2207077.80 + 167271.3 \\ = 2374349.10$$

It is observed that trend value and actual values of collection loan are not same. Trend analysis shows that collection loan was increasing every FY. It amount to Rs 2374349.10(in '000) in the coming year. The trend has presented in figure 4.24

Figure 4.24



4.13.3 Trend Analysis of Interest Collection

As it has been already mentioned that interest is the main source of income for this bank. So interest collection is also necessary for the bank to generate more revenue. The trend of interest collection has been shown in Table 4.25

Table 4.25

Trend Analysis of interest collection(Rs in '000)

FY	Collection of Interest Y	Year X	XY	X²	Trend values
2063/64	518304	-2	-1036608	4	540294.20
2064/65	624574	-1	-624574	1	474322.80
2065/66	252057	0	0	0	408351.40
2066/67	292184	1	292184	1	342380.00
2067/68	354638	2	709276	4	276408.60
N=5	dY=2041757	dX=0	dXY=-659722	dX²=10	

Here we have trend equation, $y=a+bx$

Other equations

$$\phi Y = Na - b\phi X \dots\dots\dots(i)$$

$$\phi XY = a\phi X + b\phi X^2 \dots\dots\dots(ii)$$

Now substituting the above value in the equation(i)

&(ii)

Here,

$$\phi Y = Na - b\phi X$$

$$\text{or, } 2041757 = 5a - b \mid 0$$

$$\text{or, } 5a = 2041757$$

$$a = 2041757/5$$

$$\dots a = 408351.40$$

And

$$\phi XY = a\phi X + b\phi X^2$$

$$\text{Or, } -659722 = 408351.40 \mid 0 + b \mid 10$$

$$\text{or, } 10b = -659722$$

$$\dots b = -659722/10$$

$$= -65972.2$$

Again substituting the value of a and b in trend equation i.e.

$$Y = a + bX$$

Then we get

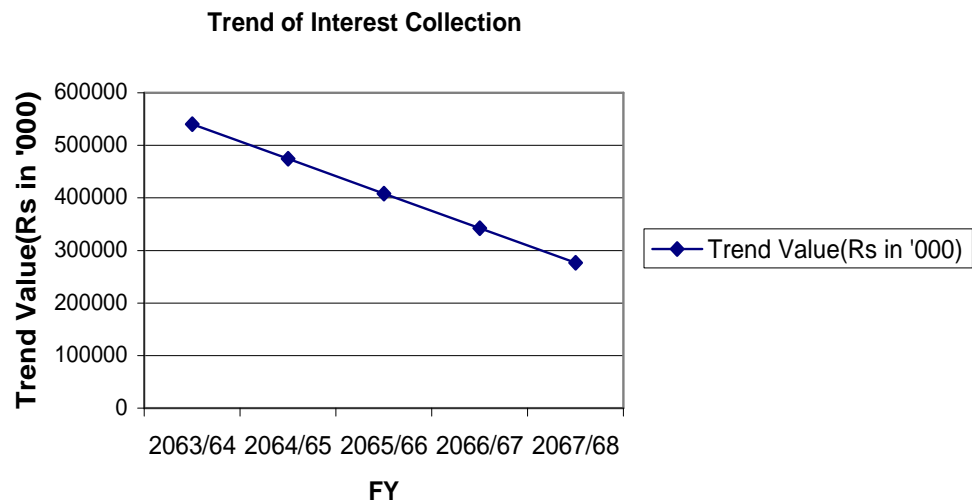
$$Y=408351.40+(-65972.2)X$$

Hence collection of interest for the FY 2068/69

$$\begin{aligned} Y &= 408351.40 - 65972.2 \times 3 \\ &= 408351.40 - 197916.6 \\ &= 210434.8 \end{aligned}$$

It is observed from above table 4.25 that the trend value of interest collection was decreasing every. Trend analysis shows that interest collection for coming year will be 210434.8. The trend has been shown in figure 4.25

Figure 4.25



4.13.4 Trend Analysis of Loan Outstanding

With the increase in loan investment loan outstanding also increases. Bank generates income through this outstanding loan.

In this region there was decrease in loan outstanding every year during the years of the study period. The outstanding trend of next year i.e.2068/69 has been shown in the table 4.26

Table 4.26
Trend of Loan Outstanding

FY	Loan Outstanding Y	Year X	XY	X²	Trend values
2063/64	2782864	-2	-5565728	4	2729951.40
2064/65	2590665	-1	-2590665	1	2591300.40
2065/66	2349001	0	0	0	2452649.40
2066/67	2311549	1	2311549	1	2313998.40
2067/68	2229167	2	4458334	4	2175347.40
N=5	dY=12263246	dX=0	dXY= - 1386510	dX²=10	

Trend of loan outstanding (Rs in '000)

Here we have trend equation, $y=a+bx$

Other equations

$$\phi Y = Na - b\phi X \dots\dots\dots(i)$$

$$\phi XY = a\phi X + b\phi X^2 \dots\dots\dots(ii)$$

Now substituting the above value in the equation (i) &

(ii)

Here,

$$\phi Y = Na - b\phi X$$

$$\text{or, } 12263246 = 5a - b | 0$$

$$\text{or, } 5a = 12263246$$

$$a = 12263246/5$$

$$= 2452649.20$$

And

$$\phi XY = a\phi X + b\phi X^2$$

$$\text{or, } -1386510 = 2452649.40 + b \cdot 10$$

$$\text{or, } 10b = -1386510$$

$$\text{or, } b = -1386510/10$$

$$\dots b = -138651.00$$

Again substituting the above calculated value of a and b in trend equation i.e

$$Y = a + bX$$

$$= 2452649.20 + (-138651)X$$

Hence, loan outstanding for the year 2068/69 will be

$$Y = 2452649.20 + (-138651) \cdot 3$$

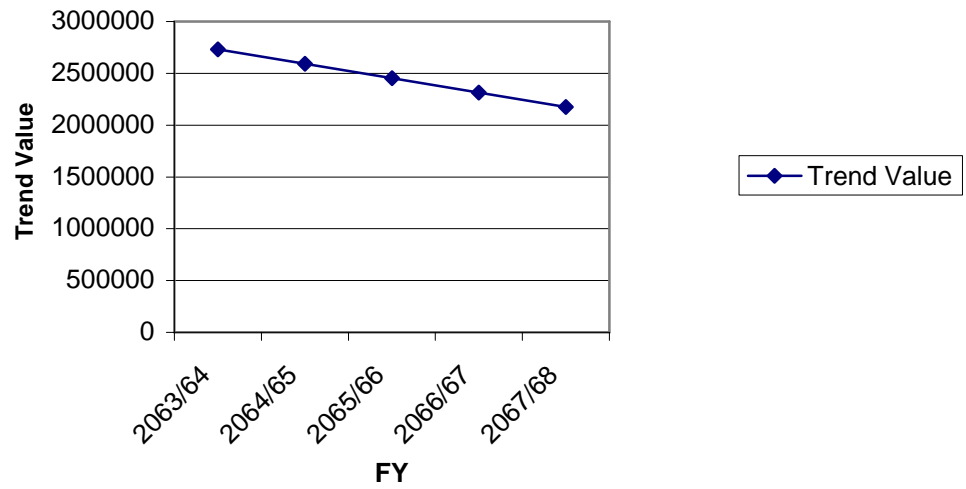
$$= 2452649.20 - 415953$$

$$= 2036696.20$$

It is obvious that outstanding loan was decreasing in the study period. From the table 4.26 it is observed that trend values and actual values are not accurate but the difference is marginal only. It is further shown that outstanding loan for the coming year will be Rs 2036696.20('000). The trend has been shown in figure 4.26

Figure 4.26

Trend of Loan Outstanding



4.13.5 Trend Analysis of Overdue Loan

Invested loan should be collected on time otherwise overdue situation arises. The trend of overdue has been shown in Table 4.27

Table 4.27

Trend of overdue Loan (Rs in '000)

FY	Overdue Loan Y	Year X	XY	X²	Trend values
2063/64	1203205	-2	-2406410	4	1088748
2064/65	849325	-1	-849325	1	892277.90

2065/66	565120	0	0	0	695807.80
2066/67	431744	1	431744	1	499337.70
2067/68	429645	2	859290	4	302867.60
N=5	dY=3479039	dX=0	dXY=-1964701	dX²=10	

Here we have trend equation, $y=a+bx$

Other equations

$$\phi Y = Na - b\phi X \dots\dots\dots(i)$$

$$\phi XY = a\phi X + b\phi X^2 \dots\dots\dots(ii)$$

Now substituting the above value in the equation (i)

&(ii)

Here,

$$\phi Y = Na - b\phi X$$

$$\text{or, } 3479039 = 5a - b | 0$$

$$\text{or, } 5a = 3479039$$

$$\dots a = 3479039/5$$

$$= 695807.80$$

And

$$\phi XY = a\phi X + b\phi X^2$$

$$\text{or, } -1964701 = a | 0 + b | 10$$

$$\text{or, } 10b = -1964701$$

$$\dots b = -1964701/10$$

$$= -196470.10$$

Again substituting the value of **a** and **b** in trend equation i.e.

$$Y = a + bX$$

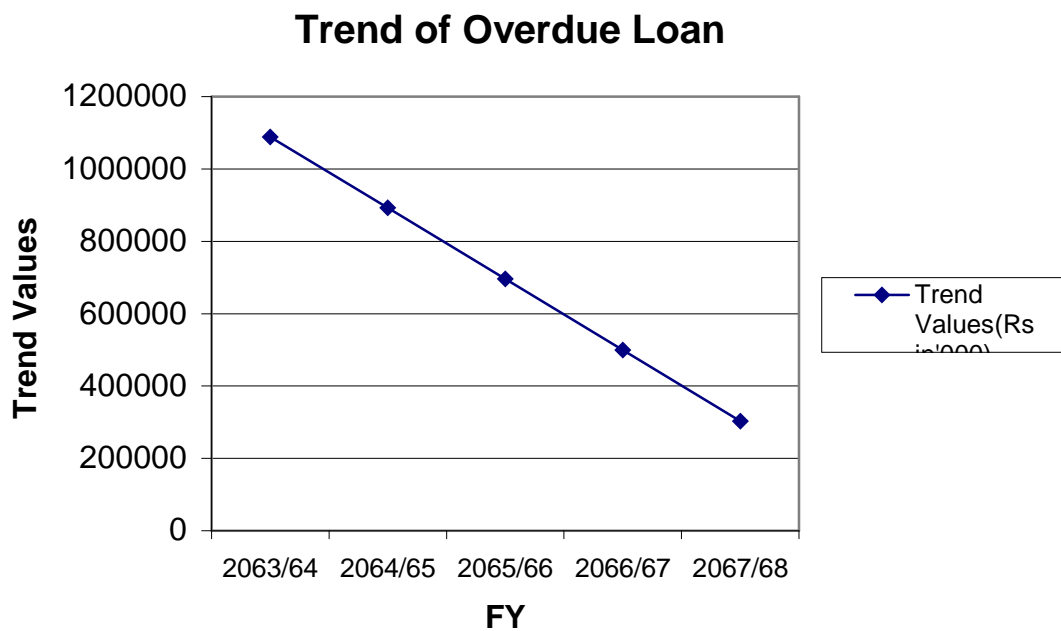
$$= 695807.80 + (-196470.10)X$$

Hence, overdue loan for the FY 068/69 will be

$$\begin{aligned} Y &= 695807.80 + (-196470.10) | 3 \\ &= 695807.80 - 589410.3 \\ &= 106397.50 ('000) \end{aligned}$$

Trend analysis shows that overdue loan was decreasing every year. It further shows that overdue loan for the year 2068/69 will be Rs 106397.50('000). It means overdue loan will be further decreased. It is a good aspect of the bank. The trend has been shown in Figure 3.27

Figure 4.27



4.14 Correlation Analysis

Here under this topic correlation coefficient is calculated to measure the relation between overdue and doubtful debt, which are as follows.

4.14.1.1 Analysis of Correlation between Overdue & Doubtful Debts

Overdue and doubtful debts are correlated with each other with the decreasing overdue doubtful debts also decreasing as shown in Table 4.28

Table 4.28

Correlation between overdue and doubtful debts(Rs in '000,000)

FY	Overdue (X)	Doubtful debt(Y)	XY	X ²	Y ²
2063/64	1203.205	470.753	566412.36	1447702.272	221608.387
2064/65	849.325	755.172	641386.46	721352.956	570284.75
2065/66	565.120	133.271	75314.11	319360.614	17761.159
2066/67	431.744	187.832	81095.34	186402.882	35280.86
2067/68	429.645	156.438	67212.80	184594.826	24472.848
N=5	$\phi X=3479.04$	$\phi Y=1703.47$	$\phi XY=1431421.07$	$\phi X^2=2859413.55$	$\phi Y^2=869408.004$

Now substituting the above value in the following formula

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

Where,

R= Pearsonion correlation coefficent

N= No. Of Fiscal years

X=Values of Overdue

Y=Values of Doubtful Debts

ϕXY =Sum of product of variable X and Y.

Now, we have

$$N = 5 \text{ yrs}$$

$$\phi X = 3479.04$$

$$\phi Y = 1703.47$$

$$\phi XY = 1431421.07$$

$$\phi X^2 = 2859413.55$$

$$\phi Y^2 = 869408.01$$

$$r = \frac{5 \left[\frac{1431421.07 - 3479.04 \cdot 1703.47}{\sqrt{5 \left[\frac{2859413.55 - 3479.04^2}{5} \right] \left[\frac{869408.01 - 1703.47^2}{5} \right]} \right]}{5 \left[\frac{1431421.07 - 3479.04 \cdot 1703.47}{\sqrt{5 \left[\frac{2859413.55 - 3479.04^2}{5} \right] \left[\frac{869408.01 - 1703.47^2}{5} \right]} \right]}$$

$$X = \frac{7157105.35 - 5 \cdot 1703.47 \cdot 1431421.07}{\sqrt{14297067.75 - 12103719.32} \cdot \sqrt{4347040.05 - 2901810.04}}$$

$$X = \frac{1230665.08}{\sqrt{2193348.43} \cdot \sqrt{1445230.01}}$$

$$X = \frac{1230665.08}{1480.9958 \cdot 1202.1772}$$

$$\frac{1230665.08}{1780419.3841}$$

$$0.6912$$

Probable Error

Here,

$$r = 0.6912$$

$$N = 5$$

We have,

$$PE_r = X0.6745 \frac{1Zr^2}{\sqrt{N}}$$

$$X0.6745 \mid \frac{1Z0.6912\bar{A}}{\sqrt{5}}$$

$$X0.6745 \mid \frac{1Z0.4778}{\sqrt{5}}$$

$$X0.6745 \mid \frac{0.5222}{2.2361}$$

$$=0.6745 \mid 0.2335$$

$$X0.1575$$

Above calculation reveals that the correlation and probable error between overdue and doubtful debt of ADB/N FWDR where 0.6912 and 0.1575.

The correlation coefficient is less than six times of the probable error i.e. $0.6912 < 6 \mid 0.1575$.

It indicates that there is Negative correlation between overdue and doubtful debts at significant level.

4.14.1.2 Analysis of Correlation between Profit and Interest Income

Income and profit are directly correlated to each other. Therefore with the increasing income profit also increase as shown in Table 4.29

Table 4.29

Coorelation between profit and interest income (Rs in 0,00,000)

FY	Profit (X)	Interest (Y)	XY	X ²	Y ²
2063/64	3.0508	36.3770	110.979	9.3074	1323.2861

2064/65	21.9869	51.4482	1131.1864	483.4238	2646.9173
2065/66	29.2105	25.2057	736.2711	853.2533	635.3273
2066/67	36.0301	29.2546	1054.0462	1298.1681	855.8316
2067/68	37.3750	31.3672	1172.3491	1396.8906	983.9012
N=5	$\phi X=127.6533$	$\phi Y=173.6527$	$\phi XY=4204.8318$	$\phi X^2=4041.0432$	$\phi Y^2=6445.2635$

Now, substituting the above calculated values in the following formula

$$r_{XY} = \frac{N\phi_{XY} - \phi_X \phi_Y}{\sqrt{N\phi_X^2 - (\phi_X)^2} \sqrt{N\phi_Y^2 - (\phi_Y)^2}}$$

Where,

r_{XY} = person's correlation co-efficient

N=No.of years

X=Values of profit

Y=Values of interest income

ϕ_{XY} = Sum of product of variable X and Y.

Now we have,

N=5

$\phi_X = 127.6533$

$\phi_Y = 173.6527$

$\phi_{XY} = 4204.8318$

$\phi_X^2 = 4041.0432$

$\phi_Y^2 = 6445.2635$

$$r_{XY} = \frac{5 | 4204.8318 - 127.6533 | 173.6527}{\sqrt{5 | 4041.0432 - (127.6533)^2} \sqrt{5 | 6445.2635 - (173.6527)^2}}$$

$$X \frac{21024.1590 Z22167.3402}{\sqrt{20205.216 Z16295.3650} \sqrt{32226.3175 Z30155.2602}}$$

$$X \frac{Z1143.1812}{\sqrt{8909.8510} \sqrt{2071.0573}}$$

$$X \frac{Z1143.1812}{62.5288 | 45.5089}$$

$$X \frac{Z1143.1812}{2845.6169}$$

$$=-0.4017$$

Probable error

Here,

$$r=-0.4017$$

$$N=5$$

$$PE_r X0.6745 \frac{1 Z r^2}{\sqrt{N}}$$

$$X0.6745 \frac{1 Z (0.4017)^2}{\sqrt{5}}$$

$$X0.6745 | \frac{1 Z 0.1614}{2.2361}$$

$$X0.6745 | \frac{0.8386}{2.2361}$$

$$X0.6745 | 0.3750$$

$$X0.2529$$

Above calculation shows that co-efficient of correlation and the probable error between total profit and total interest income are 0.4017 and 0.2529 respectively.

The correlation co-efficient(r) is less than six times of the probable error i.e. $0.4017 < 6 | 0.2529$. It implies that there is negative correlation between profit & interest income, at significant level.

4.14.2 Analysis of Correlation between Expenditure and Doubtful Debts

A doubtful debt is one of the items of expenditure. Expenses increases with doubtful debts as shown in Table 4.30

Table 4.30
Correlation between Expenditure and Doubtful Debts

FY	Expenditure (X)	Doubtful Debts (Y)	XY	X ²	Y ²
2063/64	57.0345	47.0753	2684.9162	3252.9342	2216.0839
2064/65	10.6205	75.5172	802.0304	112.795	5702.8475
2065/66	28.4082	13.3271	378.5989	807.0258	177.6116
2066/67	32.7494	18.7832	615.1385	1072.5232	352.8086
2067/68	43.0595	15.6438	673.6142	1854.1205	244.7285
N=5	$\phi X=171.8721$	$\phi Y=170.3466$	$\phi XY=5154.2982$	$\phi X^2=7099.3987$	$\phi Y^2=8694.0801$

Now substituting the values in the following formula.

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

Where,

r =person's correlation co-efficient

N= No.of Fiscal Year

X=Values of Expenditure

Y=Values of Doubtful Debts

ϕXY =Sum of products of variable

Now, we have,

N=5 yrs

$$\phi X \times 171.8721$$

$$\phi Y \times 170.3466$$

$$\phi XY \times 5154.2982$$

$$\phi X^2 \times 7099.3987$$

$$\phi Y^2 \times 8694.0801$$

$$r = \frac{5 \times \frac{5154.2982 \times 171.8721 \times 170.3466}{\sqrt{7099.3987 \times 8694.0801}}}{\sqrt{5 \times \frac{5154.2982 \times 171.8721 \times 170.3466}{\sqrt{7099.3987 \times 8694.0801}}}}$$

$$X = \frac{25771.491 - 29277.8279}{\sqrt{35496.9935 \times 29540.0188 \times \sqrt{43470.4005 - 29017.9641}}}$$

$$X = \frac{-3506.3369}{\sqrt{5956.9747 \times 14452.4364}}$$

$$\frac{Z3506.3369}{77.1815 \mid 120.219}$$

$$\frac{Z3506.3369}{9278.6827}$$

$$X = -0.3778$$

Probable Error

Here,

$$r = -0.3778$$

$$N = 5$$

We have ,

$$PE_r = 0.6745 \times \frac{1 \times Z \times r^2}{\sqrt{N}}$$

$$0.6745 \times \frac{1 \times Z \times 0.3778^2}{\sqrt{5}}$$

$$X0.6745 \mid \frac{1Z0.1427}{2.2360}$$

$$X0.6745 \mid \frac{0.8573}{2.2360}$$

$$X0.6745 \mid 0.3834$$

$$X0.2586$$

Above calculation show that co-efficient of correlation and the probable error between expenditure and doubtful debts are -0.3778 and 0.2586 respectively.

The correlation co-efficient (r) is less then six times of the probable error i.e. $-0.3778 < 6 \mid 0.2586$. It indicates that there is negative correlation between expenditure and doubtful debts at significant level.

CHAPTER-V

SUMMARY, CONCLUSION & RECOMMENDATION

5.1 Summary

The present study has been undertaken to compare the financial performance of ADB/N in Far-Western Development Region. The main objective of the study was to highlight and analyze the various aspects relating to financial performance of ADB/N in FWDR. The researcher has collected all the necessary data straight from the concerned regional offices. The study covered the period of five years from the fiscal year 2063/64 to 2067/68. The researcher has used the necessary financial tools as well as statistical tools to make the study effective and crystal clear.

The researcher has divided the study in 5 main chapters, among which, the first chapter includes introduction portion. The second chapter includes review of literature. The third, fourth and fifth chapters include research methodology, data presentation and analysis and summary, conclusion and recommendations respectively. The conclusion of the study and some package of recommendation based on the major findings.

5.2 Summary of major Findings

Following are the major findings of the study.

1. Total investment was in increasing trend during the study period except 2066/67. The highest percentage of investment was in 2065/66 (21.02%) and lowest in Fiscal Year 2063/64 (18.46%).
2. The ratio of principal collection is in increasing trend up to Fiscal Year 2065/66 and Fiscal Year 2067/68. In terms of percentage it is 18.12%, 19.57%, 21.98%, 19.81% and 20.53% respectively from Fiscal Year 2063/64 to Fiscal Year 2067/68. Which was good aspect of the bank.

3. The ratio of interest collection in fluctuating trend. The highest ratio is 30.59% in Fiscal Year 2064/65 and lowest ratio is 12.33% in Fiscal Year 2065/66.
4. The percentage of outstanding loan was decreasing every year in study period. In terms of percentage it is 22.70%, 21.70%, 21.13%, 29.15%, 18.25% and 18.18% respectively from Fiscal Year 2063/64 to Fiscal Year 2067/68.
5. The context of interest receivable it was also decreasing continuously. In terms of percentage it is 36.28%, 25.42%, 14.90%, 11.67% and 10.78% respectively from Fiscal Year 2063/64 to Fiscal Year 2067/68. Which was the good performance of the bank.
6. The overdue loan of the bank was decreasing continuously. In terms of percentage it is 85.08%, 24.22%, 16.13%, 12.32% and 12.25% respectively from 2063/64 to 2067/68.
7. The ratio of income was in fluctuating during the study period. The highest percentage of income was in 2064/65 is 29.57% and lowest in 2063/64 is 15.61%.
8. The income from interest was in fluctuating during the study period. In terms of percentage it is 20.95%, 29.63%, 14.52%, 16.85% and 18.06% respectively from 2063/64 to 2067/68.
9. The study show that the ratio of expenditure was in fluctuating during the study period. The highest expenditure was in 2063/64 is 33.18% and lowest in 2064/65 is 6.18%.
10. The amount of office expenses was the lowest in Fiscal Year 2065/66 (Rs. 11846000) and the highest was in Fiscal Year 2063/64 (Rs. 58897000).
11. The amount of expenditure on employee was increasing every year of the study period. In terms of amount it is Rs.

45587000, Rs. 50329000, Rs. 60382000, Rs. 77383000 and Rs. 80264000 respectively from Fiscal Year 2063/64 to Fiscal Year 2067/68.

12. The expenditure on other expenses was is increasing trend. In terms of amount it is Rs. 22301000, Rs. 25167000, Rs. 53464000, Rs. 54593000 and 56375000 respectively from Fiscal Year 2063/64 to Fiscal Year 2067/68.
13. The amount of office expenses was highest in Fiscal Year 2063/64 Rs. 58897000 and lowest is Fiscal Year 2065/66 Rs. 11846000.
14. Interest income to total income ration is fluctuating type during the study period. The bank was able to earn highest interest of its total income in the Fiscal Year 2063/64 ie. 60.54%, and lowest in Fiscal Year 2065/66 ie. 34.44%.
15. The study shows that the percentage of staff exp. to total income ratio were 7.59%, 4.42%, 8.25%, 11.25% and 11.61% respectively from Fiscal Year 2063/64 to Fiscal Year 2067/68.
16. Office expenses to total income ratio were 9.80%, 1.25%, 1.61%, 2.48% and 3.23% respectively from 2063/64 to 2067/68.
17. Other expenses to total income ratio were in increasing trend except Fiscal Year 2064/65 during study period.
18. The highest net profit to total assets ratio was 7.10% and lowest was 0.67% in Fiscal Year 2067/68 and in Fiscal Year 2063/64. Cash and bank balance to total assets ratio was highest in Fiscal Year 2067/68 (4.31%) and lowest in Fiscal Year 2063/64 (1.61%). Fixed and other assets to total assets ratio was not more than 1% during the study period.

Outstanding loan to total assets ratio was highest 63.65% in Fiscal Year 2063/64 and lowest 43.88% in Fiscal Year 2067/68.

19. Percentage of non performing assets was in decreasing every year. In terms of percentage it is 35.67%, 26.23%, 13.29% and 12.30% respectively in Fiscal Year 2063/64 to Fiscal Year 2067/68. This is the good aspect to the bank.
20. The situation of investment and collection of loan, are in increasing trend. But collection of interest, loan outstanding, over due loan are in decreasing trend, which is a good sign for the bank.
21. There was high degree of negative correlation between profit and interest income, expenditure and doubtful debt.

5.3 Conclusions

Based on the main findings of the study, it is found that the overall investment was in increasing and principal collection was in increasing trend which was a very good aspect of the bank. Decreasing in interest receivable, overdue loan and outstanding loan was also a good aspect for the bank. The main sources of income of the bank were interest income which has an increasing trend. That income has to spend on various parts ie. employee, offices, doubtful debt and other expenses.

There was never incurred any losses during the study period. Bank has must highest portion of expenditure in employees. Fluctuating in income and expenditure was not good aspect for bank that bear risk. It was further found that there was high degree of positive correlation between profit and interest income and expenditure and doubtful debt.

The major sources of income (revenue) of ADB/N is interest on loan and major head of expenditure is interest on deposit. The bank has over staffing problem there are a large number of non-permanent staff that are appointed with no functioning requirements, there is huge amount is to pay salaries and other payments that includes allowances to there staffs in term of service. Cash and bank balance to total assets ration of ADB/N with respect to deposit is not satisfactory. The objectives of this study are to identify the nature and extent of agricultural financing situation through the ADB/N. The finding of this study proves that the present situation of agricultural credit is not sufficient to mobilize full capacity of agricultural potentialities.

5.4 Recommendations

The available data has been analyzed according to need of the overall financial performance of bank. Certain issues and findings have been materialized from analysis of data. Now the researcher is going to provide a package of suggestion and recommendation that may be acceptable to the bank managers as an input to their decision making.

1. Presently, highly increase in the number of bank, as well as finance companies and insurance company all have been creating strong pressure on deposits collection of ADB/N, so they are recommend to quicken and reliable depositing process and provide attractive schemes for depositors.
2. Bank must formulate the strategy to control such expenses using modern technology, computer networks, expert and well trained personnel, which also increase the operating efficiency of the bank.

3. While investing loan it should be kept in mind that whether the borrower can repay interest on time or not because some sectors. It is not possible to get immediate returns after investment. So in such cases of investment the bank should consider otherwise the borrowers will be discouraged.
4. Training program launched by the bank is not effective and sufficient so it should be made more effective.
5. To increase investment and for the development of a particular sector bank should continue its "pocket area programme" according to the specialty of that particular area.
6. Bank should be conscious about the quality of loan and complete utilization of loan given for a particular objectives. For this there should be develop modern information system. Which can collect, analyze and present information on time.
7. In this modern technology bank should have the facility for providing ATM, debit card, credit card facilities to the customer but these facilities are also not being possible through this bank.
8. For effective collection it has to enlarge its sector but disbursing loan in different sectors to minimize the risk of collection.
9. Due to lack of education people are not conscious and on the other side they are lacking technical skill. So in this regard employee of the bank should be more conscious and they should possess such technical skills to suggest and guide the borrowers.
10. For effective investment and collection there should be a lot of interaction between bank and borrowers for transparency.

Inspirations play a vital role for the effective utilization of loan. So bank should continue to distribute "Green Card" to the good borrowers.

11. To increase the revenue bank should try to reduce unproductive expenses. Employees one the people who contribute in the overall financial development of the bank. So they should be encouraged for their commitment and a team spirit should be developed among them.

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APPENDIX

WORKING AREA OF ADB/N IN FWDR

Although in this study there is used compiled data for the study even that by the help of the following detail list the researcher wants to make clear about the working area of ADB/N in different part of the region.

- Ro. Dhangadhi
 - Br. Dhangadhi
 - RTC. Dhangadhi
 - Br. Bhajani
 - Br. Tikapur
 - Br. Hasuliya
 - Sbr. Sukhhad
 - Bnk. Dhangadhi
 - Br. Attariya
 - Sbr. Silgadhi
 - Sbr. Bundar
 - Sbr. Mangalsin
 - Sbr. Sanfebagar
 - Sbr. Bajhang
 - Sbr. Bajura
 - Br. Mahendranagar
 - Br. Shripur Belauri
 - Sbr. Do. Chandani
 - Bnk. M. Nagar
- District Kailali**
- District Doti**
- District Achham**
- District Bajhang**
- District Bajura**
- District Kanchanpur**

- Sbr. Baitadi } **District Baitadi**
- Sbr. Patan }

- Sbr. Dadeldhura] **District Dadeldhura**

- Sbr. Darchula] **District Darchula**