A COMPARATIVE FINANCIAL PERFORMANCE ANALYSIS OF AGRICULTURAL DEVELOPMENT BANK, NABIL BANK AND LAXMI BANK

A Thesis

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CERTIFICATION OF AUTHORSHIP

I certify that the work in this thesis has not previously been submitted for a degree nor has it been submitted as part of requirements for a degree except as fully acknowledged within the text.

I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the reference section of the thesis.

.....

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May, 2019

RECOMMENDATION LETTER

It is certified that thesis entitled **"A Comparative Financial Performance Analysis of Agricultural Development Bank, Nabil Bank and Laxmi Bank"** submitted by **Amrit Kunwar** is an original piece of research work carried out by the candidate under my supervision. Literacy presentation is satisfactory and the thesis is in a form suitable for publication. Work evinces the capacity of the candidate for the critical examination and independent judgment. Candidate has put in at least 60 days after registering the proposal. The thesis is forwarded for examination.

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APPROVAL SHEET

We, the undersigned, have examined the thesis entitled **"A Comparative Financial Performance Analysis of Agricultural Development Bank, Nabil Bank and Laxmi Bank"** presented by **Amrit Kunwar,** a candidate for the degree of **Master of Business Studies (MBS)** and conducted the viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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Amrit Kunwar
Researcher

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ABBREVIATION

ADBL	:	Agricultural Development Bank Limited
BAFIA	:	Bank and Financial Institutions Act
BFIs	:	Bank and Financial Institutions
C.V.	:	Coefficient of Variation
CAR	:	Capital Adequacy Ratio
CRR	:	Cash Reserve Ratio
FIs	:	Financial Institutions
FY	:	Fiscal Year
LBL	:	Laxmi Bank Limited
Ltd.	:	Limited
MBS	:	Master of Business Studies
NBL	:	Nepal Bank Limited
NPLs	:	Non-Performing Loan
NRB	:	Nepal Rastra Bank
Pvt.	:	Private
ROA	:	Return of Assets
ROE	:	Return of Equity
S.D.	:	Standard Deviation
TU	:	Tribhuvan University

ABSTRACT

The title of the study is A Comparative Financial Performance Analysis of Agricultural Development Bank, Nabil Bank and Laxmi Bank. The main objective of the study is to assess the financial performance of ADBL, Nabil Bank and LBL. The descriptive tools are used to research design have been adopted for study. Secondary data was collected from three commercial banks ADBL, Nabil Bank and LBL in the period of seven years from 2011/012 to 2017/018. The study used to analyze the performance of bank financial and statistical tools. Data have also been obtained browsing the official website of NRB and SEBON.

Based on the finding of the study the capital adequacy ratio of all the three banks has met the NRB standard. The nonperforming loan to total loan of ADBL and Nabil Bank was in increasing trend show that the asset quality of the degrading and the decreasing trend of LBL reveal the better quality of assets. The loan loss provision ratio of ADBL is higher than Nabil and LBL. Higher ratio of LLP is a higher level of nonperforming loan and indicates undermanaged institution. Loan loss coverage ratio of all the banks was in good trend that all the banks are able to meet their nonperforming loan obligations. Management of Nabil Bank is more efficient than ADBL and LBL according to net income per employee. Management of ADBL and Nabil Bank is better to curtail the expenses than LBL. According to ROA and ROE Nabil Bank has more productivity and profitability than ADBL and LBL. On the basis of net income to loan and advance, Nabil Bank has higher contribution of loan and advance in income generation than ADBL and LBL. The CRR distribution of Nabil Bank is highly fluctuated. Lower level of ratio indicates liquidity crunch and very high level CRR indicates idle money which do not generate any income. ADBL always cross the NRB standard but Nabil Bank and LBL had below the NRB standard for some years and they suffer liquidity problem.

CHAPTER - I
INTRODUCTION

1.1 Background of the Study

Nepal is a least developed country in the world. A large number of populations are still below the poverty line. The agro-dominated economy is further worsened by the complex geographical situation. Various factors like the landlocked situation, poor resource mobilization, lack of entrepreneurship, lack of institutional commitment, erratic government policies and political instability, etc. are responsible for the slow pace of development in Nepal.

Banking system occupies an important role in the economic development of a country. A banking institution is indispensable in a modern society. It plays a vital role in the economic development of a country and focus the core of the money market in an advance country. The basic function of the bank is to collect deposits as much as possible from customers and mobilize it into the most preferable and profitable sector like industry, commerce, agriculture, entertainment etc. Like other countries, Goldsmiths, merchants and moneylenders were the ancient bankers of Nepal. TejarathAdda established during the tenure of the Prime Minister Ranoddip Singh (B.S. 1993) was the first step towards the institutional development of banking in Nepal. Tejarath Adda did not collect deposits from the public but gave loans to employees and public against the bullion. But the concept of modern banking institution in Nepal was introduced when the first commercial bank, Nepal Bank Limited (NBL) was established in 1994 B.S. under Nepal Bank act 1993 B.S. Being a commercial bank, it was natural that NBL paid more attention to profit generating business and preferred opening branches at urban areas. Nepal Rastra Bank (NRB) was set up in 2013 B.S. as a central bank under NRB act 2012 B.S. Since then it has been fluctuating as the government's bank and has contributed to the growth of financial sector. After this, government set up Rastriya Banijya Bank (RBB) in B.S. 2022 as a fully government owned commercial bank. As the name suggests,

commercial banks are to carry out commercial transaction only. But commercial banks had to carry out the function of all type of financial institutions.

Hence, Industrial Development Center (IDC) was set up in 2013 B.S. for industrial development. In 2016, IDC was converted to Nepal Industrial Development Corporation (NIDC). Similarly, Agricultural Development Bank (ADB) was established in B.S. 2024 to provide finance for agricultural produces so that agricultural productivity could be enhance by introducing modern agriculture techniques. The commercial bank have been established gradually after the commercial bank act 2013 B.S. with the passage of time so many commercial banks have been established gradually because of the liberal and market friendly economic policy of Nepal government. The banking activities are getting very much dynamic as well as complex. Because of the higher return on investment, entrepreneurs were interested in setting of new bank including branches of foreign banks. However, current political and economic scenario of the country coupled with new prudential norms of Nepal Rastra Bank and stiff competition may make the entrepreneurs give a second thought to the idea of establishing banks.

Banks are the institutions that provide the funding required starting and enlarging the business to those with skills and desire to operate the business collecting from those with the money but no skill or time to operate the business. Bank is a resource mobilizing institution, which accepts deposit from various sources and invests such accumulated resources in the fields of agriculture, commerce, trade and industry. In other words, banks are the institutions of offering deposits subject to withdrawal on demand and making loans of business nature (BAFIA, 2063).

Commercial banks play a vital role in the economic resource allocation of countries. They channel funds from depositors to investors continuously. They can do so, if they generate necessary income to cover their operational cost they incur in the due course. In other words, for sustainable intermediation function, banks need to be profitable. Beyond the intermediation function, the financial performance of banks has critical implications for economic growth of countries. Good financial performance rewards the shareholders for their investment. Thus, it encourages additional investment and

brings about economic growth. On the other hand, poor banking performance can lead to banking failure and crisis and which have negative repressions on the economic growth (Ongore & Kusa, 2013:237).

Financial performance analysis is a process of identifying the financial strength and weakness of the firm by properly establishing relationship between the item financial statements. It is also a study of relationship among various financial factors in a business as a disclosed by a single set of statements and a study of the trend of these factors as shown in a series of statements. By establishing a strategic relationship between the items of balance sheet and income statement and other operative data, the financial analysis shows the meaning and significance of such items. Thus, financial performance analysis is required to take managerial and financial decisions (Thapa, 2012).

Agricultural Development Bank Limited (ADBL) is an autonomous organization largely owned by government of Nepal. The bank has been working as a premier rural credit institution since last three decades, contributing a more than 67 percent of institutional credit supply in the country. Hence, rural finance is the principal operational area of ADBL. Besides, it has also been executing Small Farmer Development Program (SFDP), the major poverty alleviation program launched in the country. Furthermore, the bank has also been involved in commercial banking operations since 1984. The enactment of Bank and Financial Institution Act (BAFIA) in February 2004 abolished all acts related to financial institutions including the ADBN Act, 1967. Thus, ADBL operates as a "A" category financial institution under the legal framework of BAFIA and the company act, 2033. (www.adbl.com.np).

Nabil Bank Limited is the nation's first private sector bank, commencing its business since July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 74 points of representation. In addition to this, Nabil has presence through over 1500n Nabil Remit agents throughout the nation. Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector,

represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as an objective while doing business.(www.nabilbank.com.np).

Laxmi Bank is a category "A" financial institution and re-registered in 2006 under the Bank and Financial Institutions Act of Nepal. The Bank's shares are listed and actively traded in the NEPSE. The bank is primarily recognized for its stringent credit policies, conservative approach to banking and pioneers in technological innovations in the banking services. Laxmi Bank has award winning annual reports has set the standards for quality, presentation and disclosure for the Nepali corporate sector to follow. Since 2005 Laxmi Bank promotes a separate life insurance limited which came into operation in 2009. (www.laxmibank.com.np).

1.2 Statement of the Problems

Establishment of banks concentrate only in urban area, like Kathmandu, Pokhara, Birgung, Hetauda, Biratnagar, etc. has raised certain questions. This application is not able to contribute the socio- economic development of the country where around 80% people live in rural and 79% of the population depends upon agriculture. These banks should expand their operation in rural areas. NRB, as the central bank has ruled that banks should invest 10% of their total investment in the rural areas. These banks are inclined to pay fines rather than investing their resources to such less profitable sector. The main objective of the bank is to collect deposits as much as possible from the customer and to mobilize into the most profitable and preferable sector.

The present study basically focused on the financial performance of Agricultural Development Bank Ltd (ADBL), Nabil Bank Ltd and Laxmi Bank Ltd(LBL).In Nepal, many banks and financial companies have opened up within a span of few years. Although, these three banks have managed to perform better than other local commercial banks within the short period of time they have been facing a neck competition against one another. Therefore, it is necessary to analyze the profitability position of ADBL, Nabil Bank Ltd and LBL. Thus the present study seeks to explore

the efficiency and comparative financial performance of ADBL, Nabil Bank LTD and LBL.

In Nepal, the profitability rate, operating expenses and dividend distribution rate among the shareholders has been found different in the financial performance of the three banks in different period of time. The problem of the study will ultimately find out the reasons about difference in financial performance. A comparative analysis of financial performance of the banks would be highly beneficial for pointing out their strengths and weaknesses. Although banks are considered efficient, but how far are they efficient? This question does emerge in banking sector. At present we have twenty eight commercial banks. In spite of rapid growth, some indicators show performance is not much encouraging towards the service coverage. In such a situation the study tries to analyze the present performance of banks, which would give the answers of following queries.

a. What are the financial strengths and weaknesses of ADBL, Nabil Bank Ltd. and LBL?
b. What is the current position of profitability and operating efficiency of Agricultural Development Bank Ltd., Nabil Bank ltd. and Laxmi Bank Ltd.?

1.3 Objectives of the Study

The main objectives of the study is to evaluate and analysis the financial performance of these two banks i.e. ADBL, Nabil Bank LTD and LBL. And to recommend the suitable suggestion for improvements.

a) To analyze and compare the financial strengths and weaknesses of the selected commercial banks.
b) To evaluate the profitability and operating efficiency of Agricultural Development Bank Ltd., Nabil Bank ltd. and Laxmi Bank Ltd.

1.4 Significance of the Study

Commercial banks are not one of the major core components of modern economy. They give greater contribution to GDP too. The production of finance and real –

estate sub sector is increasingly comparatively. However various financial sector liberalization programmes such as SAP and ESAP has been initiated with the loan and assistance of World Bank, IMF and ADB, the banking sector continued to be in though in this situation too. The slowdown in the economic segments has a definite impact on the banking sector too. Globalization and accession to WTO, South Asia Free Trade Area (SAFTA) and BIMSTEC membership has invited more challenges as well as opportunities. In addition, Branches of foreign companies are allowed to insurance services and wholesale banking from January 1, 2010.

At this situation, the commercial banks should be more competitive. They should become financially strength/ healthy and must have growth potentially. And they have to shape their plans and strategies accordingly. In such a situation, this study tried to analyze and indicate the overall financial health whether they are capable to compete the challenges and grab to opportunities or not. So, the study basically covered the commercial banks falling in the same strategic group to be more meaningful. No single measure can tell much. Thus, a case study was conducted on based on top three private – sector commercial banks ranking by NEPSE according to their market capitalization ratio. Thus the study may be more fruitful and rationale to their stakeholders at present situation, where the commercial bank becomes advancing through IT – integration.

1.5 Limitations of the Study

The following are the limitation of the present study:

1. This study is limited to the comparative study of financial performance of three banks, ADBL, Nabil Bank and LBL.
2. The research study is based on secondary data, the accuracy of results and conclusion highly depends upon the reliability of these data.
3. This study only covers the data of 7 financial years which may not show the overall performance of banks.
4. This study taken only three commercial banks as a sample which may not represent the whole banking industry.

5. Only selected statistical and financial tools are used.

1.6 Chapter Plan

The study is structured into five chapters:

Chapter I: Introduction

This chapter includes the background information of the subject matter of research undertaking to provide a general idea of its history. Likewise it also includes statement of problem, objectives of study, significance of the study, limitation and organization of study.

Chapter II: Literature Review

This chapter comprises the reviews of relevant previous writing and studies to find the existing gaps. It includes conceptual framework regarding banks and performance analysis of financial institutions, and review of related studies. Review of journal, books, thesis and newspaper is also included in this chapter.

Chapter III: Research Methodology

This chapter describes about the methodology used in the study. This includes the population, sample, sampling procedures and sources of data. It also comprises the research design employed along with the various financial and statistical tools used in the study.

Chapter IV: Results

This chapter is the main part of this study; it presents the data and information collected from secondary sources. Chapter four comprises of presentation and analysis of data and major findings. The data collected after processing have been presented using figures and results of statistical analysis are interpreted in this chapter.

Chapter V: Summary and Conclusion

This chapter is for major findings, summary, conclusion and recommendations. Finally, references and appendices are also included at the end of the study.

References and appendix have also been attached at the end of the study.

CHAPTER – II
LITERATURE REVIEW

Review of literature means reviewing research studies or other important propositions in the related area of the study so that, all the past studies and their conclusions and deficiencies may be known and further research can be conducted. This chapter is divided into two sections. Section I deals with theoretical review whereas the section II presents the relevant past studies.

2.1 Theoretical Review

This sub-chapter presents the theoretical aspect of the study.

CAMEL Theory is a recognized international rating system that bank supervisory authorities use in order to rate financial institutions according to its factors represented by its acronym. Supervisory authorities assign each bank a score on a scale. Banks that are given an average score of less than two are considered to be high quality institutions. Banks with scores greater than three are considered to be less than satisfactory institutions. CAMEL stand for the following factors that examiners use to rate bank institutions.

Examiners assess institutions Capital Adequacy through capital trend analysis. Examiners also check if institutions comply with regulations pertaining to risk based net worth requirement. To get a high capital adequacy rating, institutions must also comply with interest and dividend rules and practices. Other factors involved in rating and assessing an institution's capital adequacy are its growth plans, economic environment, ability to control risk and loan and investment concentrations.

Asset Quality covers an institutional loan's quality, which reflects the earnings of the institution. Assessing asset quality involves rating investment risk factors that the company may face and comparing them with the company's capital earnings. This shows the stability of the company when faced with particular risks. Examiners also check how companies are affected by the fair market value of investments when

mirrored with the company's book value of investments. Lastly, asset quality is reflected by the efficiency of an institution's investment policies and practices.

Management Efficiency determines whether an institution is able to properly react to financial stress. This component rating is reflected by the management's capability to point out, measure, look after and control risks of the institution's daily activities. It covers management's ability to ensure the safe operation of the institution as they comply with the necessary and applicable internal and external regulations.

Earning Capacity is an institution's ability to create appropriate returns to be able to expand, retain competitiveness, and add capital is a key factor in rating its continued viability. Examiners determine this by assessing the company's growth, stability, valuation allowances, net interest margin, net worth level and the quality of the company's existing assets.

To assess a company's Liquidity, examiners look at interest rate risk sensitivity, availability of assets that can easily be converted to cash, dependence on short term volatile financial resources.

2.2 Review of Empirical Studies

National and international journals, experts' views, review of previous researches and studies are covered in this section.

2.2.1 Review of Journal and Articles

Ogbari (2018) examined the comparative analysis of small business strategic orientations based on the presence of aggressiveness, futurity, riskiness, proactiveness and analysis and defensiveness for performance. This study formulated four hypotheses for proper projection. Survey research design, purposive and simple random sampling technique were adopted for the study. Data were collected from selected Covenant University strategic business Units through the administration of questionnaires were sorted and analyzed using descriptive statistics, regression and Pearson correlation analysis. The study found that a positive effect between the various variables; product innovation and revenue turnover; research development

and customer patronage; technological innovation and return on investment. It is recommended that SMEs need to be innovative and proactive as possible to enable their optimal navigation and improved productivity in whatever business environments they operate and also to foster more strategic improvisational actions that can bring out change, enhance operational efficiency and contribute to organizational performance and competitive advantage.

Rahman (2018) identified whether there is any difference regarding financial performance between state-owned banks and private commercial banks of Bangladesh or not. To justify this statement CAMEL Analysis has been used. A sample of six banks from each category has been selected altogether. For the study, 5 years data (2010 to 2014) have been collected. Different statistical tools especially independent sample t-test is used. This study found that significant differences in case of capital adequacy and liquidity management among all the elements of CAMEL between these two sectors and found no differences among the rest of the elements. It is recommended that the study may be helpful for the bankers and bank stakeholders.

Sharma & Chopra (2018) evaluated and compared the financial performance of selected public and private sector banks. For the study 30 banks in total i.e. top 15 public and private sector banks each according to financial rating agency Money Control have been selected. Data related to CAMEL Model indicators has been collected from Indian banking association website and the bank's websites for the period of 4 years i.e. 2014-2017. Ranking, t-test and Mann-Whitney U test have been used to meet the objectives. This study found that the present study indicates that private sector banks perform better than the public sector banks in India on all parameters of CAMEL Model. Public sector banks display low soundness as compared to private sector banks. The theoretical implications of the study are that it provides basis for future comparisons and the practical implications of the study is to provide the reasons for poor performance and suggestions to improve the financial performance of banks.

Rani (2017) examined the financial performance of Axis and ICICI Bank, both are private sector bank. This study is descriptive and analytical in nature. The data used

for this study was entirely secondary nature. This study is conducted to compare the financial performance of Axis and ICICI Bank on the basis of ratios such as credit deposit, net profit margin etc. The period of study taken is from the year 2012-13 to 2016-17. This study found that Axis is performing well and financially sound than ICICI Bank but in context of deposits and expenditure ICICI bank has better managing efficiency than Axis bank. This study concluded that Axis Bank is more profitable deployed and operationally efficient than ICICI Bank. It is recommended that the banks invest more in interest bearing assets, mainly loans, to fully utilized their revenue generating capacity.

Desta (2016) analyzed the financial performance of the African banks. Only seven banks were observed among the 30 African best banks as identified by the Global Finance Magazine. These banks have complete and consolidated financial statements for a period of the recent three fiscal years (i.e. 2012 to 2014). It has applied the CAMEL composite and component rating. This study found that the banks are rated as strong and satisfactory when rated in terms of capital adequacy ratio and earnings ability. Conversely, they were rated as less satisfactory, deficient and critically deficient when rated in terms of asset quality, management quality and liquidity. The banks are recommended to employ the CAMEL composite and component rating on a periodic basis in order to withstand business fluctuations and vulnerability to outside influences.

Balaji& Kumar (2016) analyzed the comparative financial performance of selected public and private sector banks in India. The study is based on secondary data that has been collected from annual reports of the respective banks, Reserve Bank of India website. This research study covers a period of five years i.e. from financial year 2011-2012 to 2015-2016. This study used a quota sample method to select ten banks i.e. five from public sector and five from private sector has been selected and the criteria is based on highest market capitalization generated by banks during 2015-2016. T Test, mean and graphs are used to analyze the data. This study found that there was increase in profitability for both sector banks the rate of growth is higher for private sector banks. Public sector banks are lagging in many financial parameters and they are facing many challenges also. This study found that Public sector banks must

redefine their strategies by considering their strengths and weakness and the type of market they are operating. This study recommended that the profitability for both sector banks should increase the rate of growth is higher for private sector banks.

Narwal (2015)discussed the different determinants of productivity and profitability of banks functioning in India. The performance of public and private sector banks in terms of productivity and profitability is being assessed in two different time periods (2003-04 to 2008-09 and 2009-10 to 2013-2014). The linear programming model Data Envelopment Analysis (DEA) based Malmquist index is used to measure total factor productivity of groups and sub-group banks. The decomposition of total factor productivity into pure technical and scale efficiency is done to get a comprehensive insight of the effect of these two on the overall productivity. Further, regression analysis discovers the determinants of different bank groups. This study found that the study disclose that private sector banks are more productive than public sector banks over the whole study period. The study recommended that the banks invest more in interest bearing assets, mainly loans, to fully utilize their revenue generating capacity.

Haile, Getacher & Tesafy (2014) analyzed the financial performance of commercial banks in Ethiopia for the period between 2009 and 2012. A sample of the top seven commercial banks was selected based on the value of their total assets at the end of the 2009 financial year. These are the banks that dominate the sector with the top 7 banks controlling 90.4% of the total industry assets which makes them systemically important banks. The results of the study indicated that CBE showed the highest level of ROE all the time but this was driven by its high leverage levels. Moreover, all banks were found to be unduly liquid affecting their revenue generating capacity. Dashen Bank has continuously improved its performance throughout the study period in most of the parameters used to measure its performance. This study found that the Wegagen Bank had the most stable earnings over time as a result of its policy to use high level of equity financing. For sustained good banking performance in the country, it is recommended that the banks invest more in interest bearing assets, mainly loans, to fully utilize their revenue generating capacity.

Hunjra (2014) examined the financial performance of Islamic and Conventional banks to support depositors, bank managers, shareholders, investors, and regulators by providing true picture of financial position of Islamic as well conventional banks in Pakistan. This study used ratio analysis technique to analyze financial performance of both banks. Data is collected from annual financial statements i.e. Balance sheet and Income statement for the period of 2008- 2012. Nineteen ratios were estimated to measure these performances in terms of profitability, liquidity, risk and solvency, capital adequacy, operational, deployment and cash flow. Independent sample t test was used to determine significance of mean differences of these ratios between two banks. This study found that Conventional banks are more profitable, deployed and operationally efficient while less liquid and more risky as compared to Islamic Banks and also found a significant mean difference in profitability, capital adequacy, and cash flow ratio of both banks. The banks are recommended to increase performance of banks should conduct internal evaluation to improve its activities and to overcome weaknesses.

Fayed (2013) analyzed and compared the performance of Islamic and conventional banking in Egypt and to find out which of the banking streams is performing better than the other. To make appropriate comparative analysis, three Islamic banks (Faisal Islamic Bank, EI Baraka Misr, and National Bank for Development) and six conventional banks (National Bank of Egypt, Banque Misr, Bank of Alexandria, National Societe Generale Bank, Arab African International Bank, Commercial International Bank) were used during the period from 2008 to 2010. Financial ratios were estimated from annual reports and financial statements. Seven financial ratios were used to gauge profitability, liquidity and credit risk; and a model known as "Bank-o-meter" was used to gauge solvency. This study found the superiority of conventional banks over Islamic ones in profitability, liquidity, credit risk management as well as solvency. The study found that the comparison of financial measures, expressed in terms of various financial ratios, indicates the superiority of conventional banks over Islamic ones in profitability, liquidity, credit risk management and solvency. The findings conclude that Islamic banks still have a long

way to go. The government is also recommended to balance its desire to control inflation with the need to maintain lasting viability of the banking industry.

Ally (2013) analyzed the financial performance of commercial banking sector in Tanzania for the period of 7years from 2006 to 2012. Financial ratios were employed to measure the profitability and liquidity of banks; in addition Analysis of Variance (ANOVA) was used to test the significance differences of profitability means among peer banks groups. This study found that overall bank financial performance increased considerably in the first two years of the analysis. A significant change in trend is noticed at the onset of the global financial crisis from 2008 to 2009. However, Tanzania banking sector remained stable; banks are adequately capitalized and profitable and remained in a sound position. The study recommended that the banks invest more in interest bearing assets, mainly loans, to fully utilize their revenue generating capacity.

Hanif, Tariq, Tahir & Momeneen (2012) analyzed and compared the performance of Islamic and conventional banking in Pakistan. For this study, sample of 22 conventional banks and 5 Islamic banks were selected. Nine financial ratios were used to gauge profitability, liquidity and credit risk; and a model known as “Bank-o-meter” is used to gauge solvency. The findings of the study suggest in terms of profitability and liquidity conventional banking leads, while in credit risk management and solvency maintenance Islamic banking dominates. It is recommended that the. Motivating factors for customers of Islamic banking are the location and Shari’a compliance, while in case of conventional banking it is wide range of products and services.

Chantapong (2003) analyzed the comparative study of the performance of domestic and foreign banks in Thailand in terms of profitability and other characteristics after the financial crisis. This study is based ona micro bank-level panel data on financial statements by pooling cross-bank time-series data with the major balance sheet and income statement ratios for domestic and foreign banks in Thailand for 1995-2000. The estimation results of this study indicate that foreign bank profitability is higher than the average profitability of the domestic banks. Importantly, the study concluded

that in the post-crisis period, the gap between foreign and domestic profitability become closer. It is recommended to balance its desire to control inflation with the need to maintain lasting viability of the banking industry.

2.3 Research Gap

The purpose of the present research work is quite different from the studies made by the previous. This study covers latest financial data and analysis by using financial as well as statistical tool. The previous research only focus on management account practices in Nepalese companies mainly service sectors. These studies only defined financial tool and use financial ratio to evaluate the effect on financial performance of the bank. This study has suggested and recommended financial as well as statistical tools are apply to find out financial strength and weakness at right time and improve financial performance in future. So, this study details analysis of financial performance and position of selected commercial banks. This study tries to fulfill the previous research gap on financial performance of selected commercial bank's financial position.

2.4 Theoretical Framework

The theoretical framework is the basis of foundation upon which the theory is established. It is within the framework of this theory that the entire study proceeds. Since, the general purpose of research is to develop theories about problems and questions, it is important that the theoretical framework be carefully developed and presented. A theoretical model may be presented in graphic form, which reflects the variables or characteristics selected for inclusion in the investigation.

2.4.1 Dependent Variables

A. Return on Assets (ROA)

The measures of bank performance may be varied and the choice of the specific performance measure depends on the objective of the study. In theoretical literature the performance measures could be found such as: traditional measures of performance (ROA - return on assets, ROE - return on equity, cost to income ratio,

net interest margin), economic measure of performance (EVA- economic value added, RAROC- risk adjusted return on capital) and market based measure of performance (total share return, price-earnings ratio, price-to-book value, credit default swap). This study has used ROA as dependent variables to represent bank performance. ROA measures the profit earned per dollar of assets and reflect how well bank management uses the bank's real investments resources to generate profits (Naceur, 2003 and Alkassim, 2005). For banks with similar business risk profiles, ROA is a useful statistic for comparing the profitability of banks because it avoids distortions that are introduced by differences in financial leverage. Return on assets (ROA) is a comprehensive measure of overall bank performance from an accounting perspective (Sinkey and Joseph, 1992). It seems more suitable for comparing the banks in the same industry than other measures of performance. Thus, return on assets (ROA) is chosen as the performance measure for this study. It shows the effectiveness of management in the utilization of the assets of a commercial bank. It is analyzed that bank performance is influenced by the credit risk indicators like: capital adequacy ratio, non-performing loan and cost per loan assets with controlling the effect of cash reserve ratio and leverage.

B. Return on Equity (ROE)

Return of equity is a measure of the profitability of a business in relation to the equity, also known as net assets. ROE is a measure of how well a company uses investments to generate earnings growth. The benefit of low ROEs comes from reinvesting earnings to aid company growth. The benefit can also come as a dividend on common shares or as a combination of dividends and company reinvestment. The sustainable growth model shows that when firms pay dividends, earnings growth lowers. If the dividend payout is 20%, the growth expected will be only 80% of the ROE rate.

ROE is especially used for comparing the performance of companies in the same industry. As with return on capital, a ROE is a measure of management's ability to generate income from the equity available to it. ROEs of 15-20 percent are generally good. ROE is also a factor in stock valuation, in association with other financial ratios. While higher ROE ought intuitively to imply higher stock prices, in reality,

predicting the stock value of a company based on its ROE is dependent on too many other factors to be of use by itself. ROE is calculated from the company perspective, on the company as a whole. The growth rate will be lower if earnings are used to buy back shares.

2.4.2 Independent Variables

An independent variable is defines as the variable that is changed or controlled in a scientific experiment. It represents the cause or reason for an outcome.

A. Capital Adequacy

This is an independent variable for the determination of the performance and is considered as the core measure of a bank's financial strength from a regulator's point of view. Capital requirement(capital adequacy) is the amount of capital a bank or other financial institution has to ensure that institutions are not involving in or holding investments that amplify the risk of default. In addition, to guarantee that financial institutions have enough capital to sustain operating losses while honoring withdrawals.

It is a measure of the amount of bank's capital expressed as a percentage of its risk weighted exposure. It consists of the types of financial capital considered the most reliable, primarily shareholders' equity. Theoretically, banks with good capital adequacy ratio have a good performance. A bank with a strong capital adequacy ratio is also able to absorb possible loan losses and avoid bank's insolvency and failure.

Bank capital increases the capital to raise non-insured debt and the bank's ability to limit the effect of a drop in deposits on lending (Ashcraft, 2001). Since, higher capital reduces bank risk and creates a buffer against losses, it makes funding with non-insured debt less information sensitive (Admati et al., 2010). Thus, capital adequacy can enhance bank performance. However, empirical studies on the relationship between firms' performance and capital adequacy ratio have shown mixed results.

B. Asset Quality

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

NRB uses composition of assets, nonperforming loan to total loan ratio, net nonperforming loan to total loan ratio as the indicators of the quality of assets of commercial banks. NRB has directed the commercial banks in regards to the concentration of the loan. Any licensed financial institution can grant the fund base loan to a single borrower or borrowers related to the same business group up to the 25 percent of its primary capital. In the same vein, it can provide non fund base loan up to 50 percent of its core capital (NRB, 2071).

C. Management Quality

Sound management is the key to bank performance but is difficult to measure. It is primarily a qualitative factor applicable to individual institutions. Several indicators, however, can jointly serve as an indicator of management soundness. Expenses ratio, earning per employee, cost per loan, average loan size and cost per unit of money lent can be used as an indicator of management quality. ADB recommends cost per unit of money lent as a proxy of management quality. But this cannot be used as an indicator of management quality in Nepal. Since the data on amount of the total loan mobilized during a particular fiscal year is not available in published financial statements and

annual reports. As stated earlier, NRB has skipped up this component in the performance evaluation of commercial banks.

D. Earning Capacity

Earning capacity or profitability keeps up the sound health of a financial institution. Chronically unprofitable financial institution risks insolvency on one hand and on the others, unusually high profitability can reflect excessive risk taking of a financial institution. There are different indicators of profitability. Return on assets, return on equity, interest-spread ratio, earning-spread ratio, gross margin, operating profit margin and net profit margin are commonly used profitability indicators. NRB uses return on total assets as an indicator of profitability of a commercial bank. In addition, it uses the other measures such as net income to deposit, weighted average interest spread rate, base rate, interest income to loan and advances, net profit to gross income to evaluate the profitability of a commercial banks.

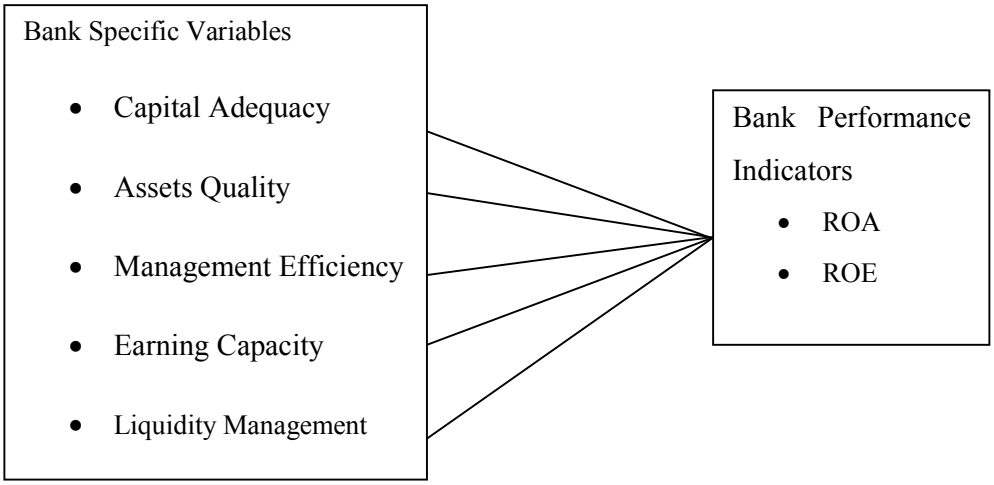
E. Liquidity

Liquidity risk threats the solvency of financial institutions. In the case of commercial banks, first type of liquidity risk arises when depositors of commercial banks seek to withdraw their money and the second type does when commitment holders want to exercise the commitments recorded of the balance sheet. Commercial banks have to borrow the additional funds or sell the assets at fire sale price to pay off the deposit liabilities. They become insolvent if sale price of the assets are not enough to meet the liability withdrawals. The second type of liquidity risk arises when demand for unexpected loans cannot be met due to the lack of the funds. Commercial banks can raise the funds by running down their cash assets, borrowing additional funds in the money markets and selling off other assets at distressed price. Both liability side liquidity risk (first type risk) and asset side liquidity risk (second type risk) affect the health of commercial banks adversely. Therefore, financial institutions should strike the tradeoff between liquidity position and profitability so that they could maintain their health sound.

In addition different exposure ratios such as borrowed funds to total assets, core deposit to total assets, loans to deposits, and commitments to lend to total assets are used to measure the liquidity position of a commercial bank. NRB uses total loan to total deposit ratio, cash and equivalents to total assets ratio, cash and equivalents to total deposit ratio, NRB balance to total deposit ratio to measure the liquidity position of commercial banks in the course of the performance evaluation of commercial banks.

Graphical representation of model

Independent Variables Dependent Variables



Theoretical Framework

CHAPTER-III

RESEARCH METHODOLOGY

This section describes the method and process applied in entire study. Research Methodology is a search tool, which is used to test the hypothesis and to come to a factual conclusion. This study basically helps to conclude the comparative financial performance analysis of selected commercial banks. Following research methodology is used to achieve the objective of this research paper.

3.1 Research Design

Research design is the arrangement of conditions for collection and analysis of data. Research design serves as a framework for the study, guiding the collection and analysis of the data, Research tools to be utilized. The research design of this study is analytical as well as descriptive approach. Some financial tools along with statistical tools have been applied to examine facts and techniques have been adopted to evaluate the comparative financial performance analysis of three leading joint venture commercial banks. They are ADBL, Nabil Bank Ltd and LBL.

3.2 The Population and Sample

There are 28 commercial banks listed in NEPSE up to the end of the fiscal year 2017/18. But, it is not possible to study all data related with these 28 commercial banks. Hence three banks have been taken as sample from the whole population of twenty eight banks. This study is based on convenience sampling method. The sample banks are Agricultural Development Bank Limited, Nabil Bank Limited and Laxmi Bank Limited.

3.3 Nature and Sources of Data

Mainly, the study is based on of secondary data. The required data are extracted from balance sheet, profit and loss account and different financial schedules of concerned banks' annual report. Other supplementary data are collected from a number of institutions and regulatory authorities like Nepal Rastra Bank, Nepal Stock Exchange

and Security Board of Nepal and from different related websites. This study is based on the historical data of 7 years periods.

In this research work, seven years period is taken. The annual reports of concerned banks for seven years are taken for the purpose of study and analysis. It covers the fiscal year from 2011/2012to 2017/2018.

3.4 Data Collection Procedures

This study is based on secondary data obtained from some published or unpublished sources. The data required for the analysis are directly obtained from the balance sheet and the profit and loss account of the concerned bank's annual reports and the other publications. Supplementary information is collected from the institutions and authorities like NRB and official site of selected banks. Ministry of finance and economic surveys. Likewise, various data and information are collected from the economic journals, periodicals, bulletins, magazines, websites and other published and unpublished reports and documents from various sources.

3.5 Data Processing Procedure

Firstly data were extracted from the annual reports of the bank and put them in a sheet. Then data were entered into the spreadsheet to work out the financial ratios and prepare necessary figures, according to the need and requirement of the study. For this purpose, gathered data have been processed using computer program like Microsoft Excel and Word etc.

3.6 Method of Data Analysis

Only descriptive tools are used to get the meaningful result of the collected data and to meet the research objectives. Collected data are tabulated under various heads. Then the tabulated data are analyzed by using various financial tools.

3.6.1 Financial Tools

In this study, the following financial tools are applied for the analysis and interpretation of the data.

A. Capital Adequacy

a. Total Capital Adequacy Ratio

Capital adequacy ratio is a financial tool to measure the ratio between institutions capital to its risk-weighted assets. This can be met only on the basis of an amount and the quality capital, a bank can access. A ratio of capital to risk-weighted assets determines the bank's capital adequacy.

$$\text{Capital Adequacy Ratio (CAR)} = \frac{\text{Total Capital Fund}}{\text{Total Risk Weighted Assets}}$$

Where,
Total Capital Fund = (core capital + supplementary capital)
Total Risk Weighted Assets = (on-balance risk weighted assets + off-balance sheet risk weighted assets)

b. Core Capital Adequacy Ratio (CCAR)

Core capital is entire claimable capital by its shareholders.

$$\text{Core Capital Adequacy Ratio} = \frac{\text{Core Capital Fund}}{\text{Total Risk Weighted Assets}}$$

Where,
Core Capital = (paid-up capital + share premium + non-redeemable preference share + general reserve + cumulative profit – non tangible and fictitious assets – Debit balance of P/L a/c).

c. Supplementary Capital Ratio (SCR)

Supplementary capital ratio is the expression of numerical relationship between supplementary capital and total risk weighted assets of a bank. It measures the proportion of supplementary capital in total risk weighted assets. The ratio is used to analyze the supplementary capital adequacy of the banks and determined in the given way.

$$\text{Supplementary Capital Ratio (SCR)} = \frac{\text{Supplementary Capital Fund}}{\text{Total Risk Weighted Assets}}$$

Where,

Supplementary Capital = (loan loss provision + exchange equalization reserve + assets revaluation reserve + hybrid capital instrument + unsecured subordinate term debt + interest rate fluctuation fund + other free reserves).

The benchmark by NRB is 11 percent for CAR and 6 Percent for CCAR to the commercial banks i.e. 'A' graded banks.

B. Asset Quality

a. Non-Performing Loan to Total Loans

The loans which have crossed the due for 3 months or they are in watch list are called non-performing loan. This ratio indicates the portion of nonperforming loan out of total loan. Low level of ratio is preferable for financial institutions.

$$\text{NPLs to Total Loan} = \frac{\text{Non-Performing Loan}}{\text{Total Loan}}$$

b. Non-Performing Loan to Equity

A nonperforming loan is a sum of borrowed money upon which the debtor has not made the scheduled payments for a specific period. When non-performing loan is compared with the equity we need to calculate this ratio.

$$\text{NPLs to Equity} = \frac{\text{Non-Performing Loan}}{\text{Shareholders Equity}}$$

c. Loan Loss Provision Ratio

The loans provided by the banks are categorized into five. They are Pass Loan, Sub-Standard Loan, Doubtful Loan, Bad Loan and Watch Listed Loan.

These are categorized according to the due date specification. These categorized have different provisions. Non-performing loans consists of sub-standard loan, pass loan and watch listed loan and doubtful loan and bad loan.

$$\text{Loan Loss Provision Ratio} = \frac{\text{Total Loan Loss Provision}}{\text{Total Loan}}$$

Higher ratio shows the sufficient assets to cover the possible loan loss but still it also indicates that there is more non-performing loan which is not healthy for financial institutions.

d. Loan Loss Coverage Ratio

This is the ratio between total loan loss provision and total non-performing loans. It tells about the ability of financial institutions to meet its obligations in the non-performing loan changes into bad loan or unrecovered loan.

$$\text{Loan Loss Coverage Ratio} = \frac{\text{Total Loan Loss Provision}}{\text{Total Non-Performing Loan}}$$

C. Management Efficiency

a. Net Income Per Employee

This tool helps to determine the efficiency of management. Total net income is divided by total employees to calculate this ratio. Higher ratio indicates the higher efficiency of management. This is also called management efficiency ratio.

$$\text{Income per Employee} = \frac{\text{Net Income}}{\text{Total Employee}}$$

b. Expenses Per Employee

Expense per employee is another tool to measure the efficiency of management. Lower ratio is supposed to be better as that shows the good productivity of employee and less turnover ratio but if the ratio is very low it cannot retain the good employee in the long run.

$$\text{Expenses per Employee} = \frac{\text{Total Operating Expenses (Excluding LLP)}}{\text{Total Employee}}$$

D. Earning Capacity

a. Return on Equity

This is the income per unit of equity fund invested by the investor. Higher the results of this ratio better the quality of financial institutions. This is the real income earned by the owner of any financial institutions.

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Shareholders Equity Fund}}$$

b. Return on Asset

This is per unit income generated from the asset used by the financial institutions. Higher result is better as it shows that the assets are utilized properly.

$$\text{Return on Asset} = \frac{\text{Net Interest Income}}{\text{Total Asset}}$$

c. Net Income to Loan and Advance

Net income to loan and advances helps to measure the profitability of any banks. This shows the contribution of loan and advances in income generation as it is obviously known that interest income generated by loan and advance is the main source of income for any bank. The following equation is used to calculate the net income to loan and advances.

$$\text{Net Income to Loan and Advances} = \frac{\text{Net Income}}{\text{Total Loan and Advances}}$$

E. Liquidity

a. Cash Reserve Ratio (CRR)

The financial institutions need to deposit certain portion of deposit collection into central bank to protect from the probable problem of solvency that is called cash reserve ratio. Certain specific portion of amount is to be kept into the central bank throughout the year.

$$\text{Cash Reserve Ratio (CRR)} = \frac{\text{Cash Balance in Central Bank}}{\text{Local Currency Deposit - Margin Deposit}}$$

The benchmark by NRB is 6 percent for commercial banks.

b. Credit Deposit Ratio (CDR)

This ratio suggest about the utilization of deposit. Lower ratio indicates lower ratio but higher ratio indicates solvency problem so the financial institutions should be conscious about the utilization of deposit. This is also called credit deposit ratio. NRB has prescribed this ratio to the banks not to increase the level of 80 percent.

$$\text{Credit Deposit Ratio (CDR)} = \frac{\text{Total Loan}}{\text{Total Deposit}}$$

3.6.2 Statistical Tools

The following statistical tools are applied for the analysis and interpretation of the data.

a. Mean

Mean is a tool under the measures of central tendency. It is a quantitative average figure for a given series of data. In this thesis, this tool will be used to measure the periodic average of different components.

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

Where,

Σx = sum of all data of series

N = No of all items in a series

b. Standard Deviation

Standard deviation is an absolute measure of dispersion. This helps to show the deviation or risk in a series of data.

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

c. Coefficient of Variation

Coefficient of variation is a relative measure of dispersion. It is the deviation or risk in per of data.

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

CHAPTER – IV
RESULTS

4.1 Introduction

This chapter deals with presentation and analysis of data collected from annual reports of the bank. The raw data collected has been organized and processed using various tools discussed in previous chapter "Research Methodology". In this chapter data and information are presented and analyzed using different financial and statistical tools in order to achieve the objectives of the study. In data presentation and analysis, the study is focused on different ratios.

4.1.1 Capital Adequacy

Capital adequacy determines how well banks can manage with stocks to their balance sheets. For the purpose of capital adequacy measurement, bank capital is divided into core capital (Tier I) and supplementary (Tier II). Risk based capital ratio, core capital adequacy ratio and supplementary capital adequacy ratio are used to analyze the capital adequacy ratio.

The adequacy of bank capital is the most important aspect of a bank. If there is inadequacy of capital, the bank should take step for the adequacy of capital as per legal requirement because of its financial health cannot be regarded capable and healthy without having adequate capital.

4.1.1.1 Analysis of Core Capital Adequacy Ratio

Capital adequacy ratio is the measure of financial strength of a commercial bank. Specifically, the core capital adequacy ratio measures the adequacy of primary capital for smooth operation of a bank. A bank should adequate capital ratio as set by NRB. NRB has fixed a minimum standard of core capital adequacy ratio of 6 percent for year 2011/12 and 6 percent thereafter for last seven fiscal years. It is measured as the ratio of core capital fund to total risk adjusted assets of the bank as shown below;

Table 4.1 Comparison of Core Capital Adequacy Ratio of ADBL, BL and LBL

Year	ADBL's CCAR (%)	Nabil's CCAR (%)	LBL's CCAR (%)	NRB Standard (%)
2011/012	15.72	9.30	9.52	6.00
2012/013	13.61	9.98	9.15	6.00
2013/014	12.49	9.74	9.62	6.00
2014/015	15.17	10.18	9.17	6.00
2015/016	15.19	10.51	9.79	6.00
2016/017	18.61	11.70	12.43	6.00
2017/018	19.28	11.81	11.32	6.00
Mean	**15.72**	**10.46**	**10.14**	**6.00**
S.D.	**2.28**	**0.89**	**1.15**	**0.00**
C.V.	**6.89**	**11.76**	**8.79**	**0.00**

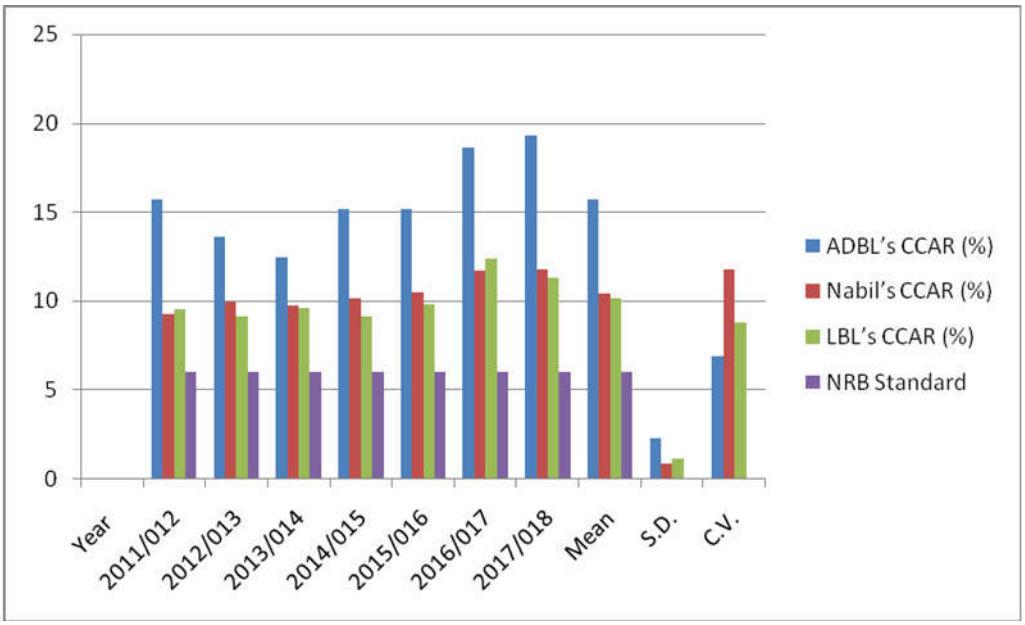
Source: Annual Reports of ADBL, Nabil Bank & LBL

Table 4.1 shows the core capital adequacy ratio of Agricultural Development Bank, Nabil Bank and Laxmi Bank for last seven years. The ratio of Agricultural development bank for the year 2011/012 was 15.72 percent likewise for year 2012/013 it was decreased to 13.61 percent, for year 2013/014 it was again decreased to 12.49 percent, for year 2014/015 it was increased to 15.17 percent, for year 2015/016 was 15.19 percent, for year 2016/017 was 18.61 percent and for year 2017/018 was 19.28 percent. ADBL meet their standard level of 6 Percent all the year.The ratio of Nabil bank for the year 2011/012 was 9.30 percent, for the year 2012/013 was 9.98 percent, for the year 2013/014 was 9.74 percent, for the year 2014/015 was 10.18 percent, for the year 2015/016 was 10.51 percent, for the year 2016/017 was 11.70 percent and for the year 2017/018 was 11.81 percent.The ratio of Nabil Bank was slightly increasing trend and meet the NRB standard all the years.

The ratio of Laxmi bank for the year 2011/012 was 9.52 percent, for the year 2012/013 was 9.15 percent, for the year 2013/014 was 9.62 percent, for the year 2014/015 was 9.17 percent, for the year 2015/016 was 9.79 percent, for the year

2016/017 was 12.43 percent and for the year 2017/018 was 11.32 percent. The all banks meet the NRB standard. The average of the banks is 15.72 percent for ADBL, 10.46 percent for Nabil Bank and 10.14 percent for LBL. In comparison, ADBL have higher average ratio than Nabil bank and LBL, which means the ADBL have the good performance. Likewise standard deviations are 2.28, 0.89 and 1.15 for ADBL, Nabil and LBL respectively. The C.V. of ADBL, Nabil and LBL are 6.89, 11.76 and 8.79 respectively.

Figure 4.1 Comparison of Core Capital Adequacy Ratio of ADBL, BL and LBL



4.1.1.2 Analysis of Supplementary Capital Adequacy Ratio

Supplementary capital is the amount of capital that is transferred in reserve and collected by using the hybrid capital instruments. It includes loan loss provision, exchange equalization reserve, assets revaluation reserve, hybrid capital instruments, unsecured subordinate term debt, interest rate fluctuation fund and other free reserves. NRB has set a standard of supplementary capital to be maintained by the commercial banks as not more than the core capital of the bank. This ratio can be calculated by dividing the supplementary capital fund by total risk weighted asset or by subtracting the core capital adequacy ratio from total capital adequacy ratio.

Table 4.2 Comparison of Supplementary Capital Adequacy Ratio of ADBL, Nabil Bank and LBL

Year	ADBL's SCAR (%)	Nabil's SCAR (%)	LBL's SCAR (%)	NRB Standard (%)(not more)
2011/012	3.28	1.71	1.50	6.00
2012/013	2.72	1.61	3.08	6.00
2013/014	2.44	1.50	2.29	6.00
2014/015	1.99	1.39	1.65	6.00
2015/016	1.99	1.22	1.36	6.00
2016/017	1.80	1.20	1.15	6.00
2017/018	0.38	1.19	1.11	6.00
Mean	**2.09**	**1.40**	**1.73**	**6.00**
S.D.	**0.84**	**0.19**	**0.66**	**0.00**
C.V.	**2.48**	**7.18**	**2.62**	**0.00**

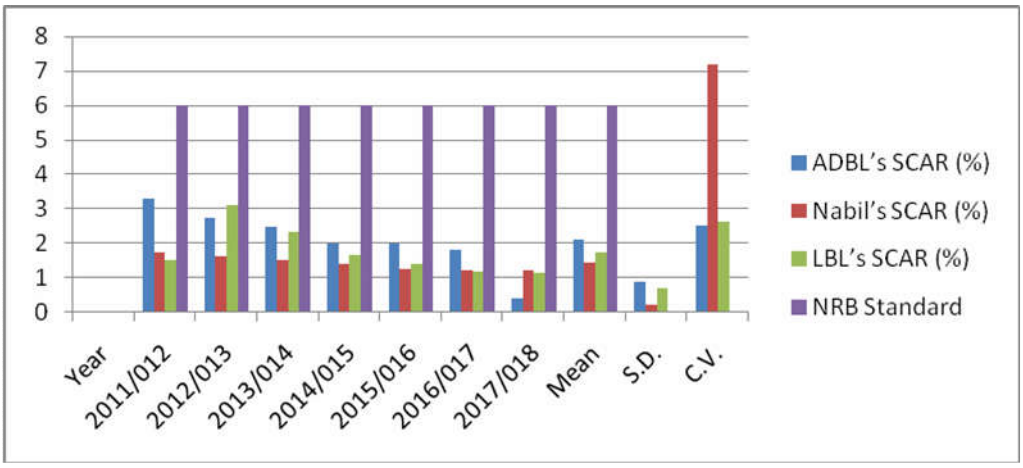
Source: Annual Reports of ADBL, Nabil Bank & LBL

Table 4.2 shows the supplementary capital adequacy ratio of Agricultural Development bank, Nabil bank and Laxmi bank. The ratio of ADBL for the year 2011/012 was 3.28 percent, for the year 2012/013 was 2.72 percent, for the year 2013/014 was 2.44 percent, for the year 2014/015 was 1.99 percent, for the year 2015/016 was 1.99 percent, for the year 2016/017 was 1.80 percent and for the year 2017/018 was 0.38 percent. The ratios are in decreasing trend and ADBL failed to maintain the standard level of NRB i.e. 6 percent.The ratio Nabil bank for the year 2011/012 was 1.71 percent, for the year 2012/013 was 1.61 percent, for the year 2013/014 was 1.50 percent, for the year 2014/015 was 1.39 percent, for the year 2015/016 was 1.22 percent, for the year 2016/017 was 1.20 percent and for the year 2017/018 was 1.19 percent.Nabil bank also failed to maintain the standard level of NRB.

The ratio of LBL for the year 2011/012 was 1.50 percent, for the year 2012/013 was 3.08 percent, for the year 2013/014 was 2.29 percent, for the year 2014/015 was 1.65

percent, for the year 2015/016 was 1.36 percent, for the year 2016/017 was 1.15 percent and for the year 2017/018 was 1.11 percent. It means that the supplementary capital of all the bank have lowest ratio in the year 2017/018. The average of ADBL, Nabil and LBL are 2.09, 1.40 and 1.73 respectively. The standard level of NRB cannot maintain by all the banks.

Figure 4.2 Comparison of Supplementary Capital Adequacy Ratio of ADBL, Nabil Bank and LBL



4.1.1.3 Analysis of Total Capital Adequacy Ratio

Total capital adequacy ratio can be calculated by dividing the total capital fund by the total risk weighted assets. As the NRB has made it mandatory to publish these ratios for the banks, these ratios can be found in their periodic reports.

Table 4.3 Comparison of Capital Adequacy Ratios of ADBL, Nabil Bank & LBL

Year	ADBL's CAR (%)	Nabil's CAR (%)	LBL's CAR (%)	NRB Standard (%)
2011/012	19.00	11.01	11.02	11.00
2012/013	16.34	11.59	12.23	11`.00
2013/014	14.93	11.24	11.91	11.00
2014/015	17.16	11.57	10.81	11.00
2015/016	17.18	11.73	11.15	11.00
2016/017	20.41	12.42	13.58	11.00
2017/018	19.66	13.00	12.43	11.00
Mean	**17.81**	**11.79**	**11.86**	**11.00**
S.D.	**1.81**	**0.64**	**0.90**	**0.00**
C.V.	**9.85**	**18.44**	**13.11**	**0.00**

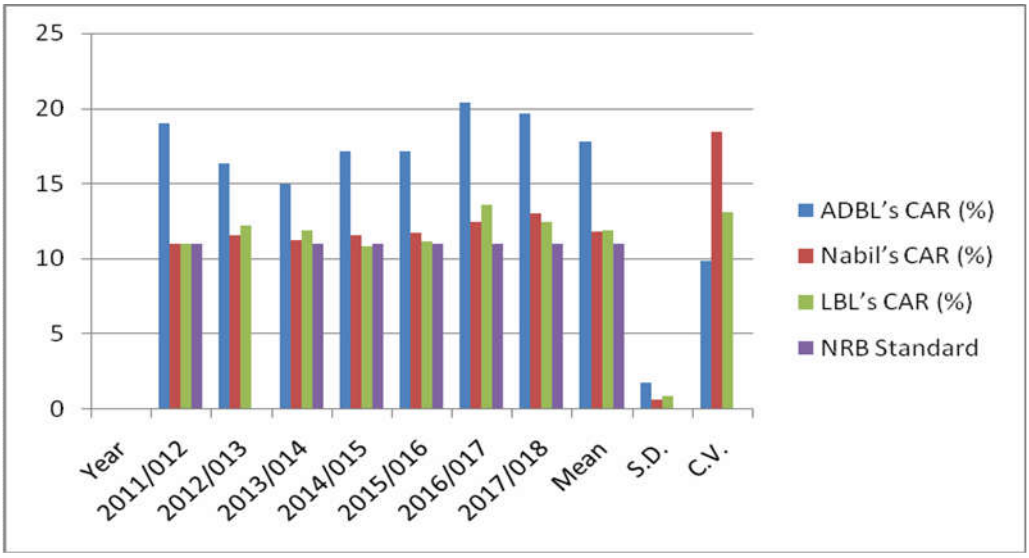
Source: Annual Reports of ADBL, Nabil Bank & LBL

Table 4.3 shows the total capital adequacy ratio of ADBL, Nabil bank and LBL. The ratio of ADBL for the year 2011/012 was 19 percent, for the year 2012/013 was 16.34 percent, for the year 2013/014 was 14.93 percent, for the year 2014/015 was 17.16 percent, for the year 2015/016 was 17.18 percent, for the year 2016/017 was 20.41 percent and for the year 2017/018 was 19.66 percent. The bank meet the NRB standard level for all the year i.e. 11 percent.The ratio of Nabil bank for the year 2011/012 was 11.01 percent, for the year 2012/013 was 11.59 percent, for the year 2013/014 was 11.24 percent, for the year 2014/015 was 11.57 percent, for the year 2015/016 was 11.73 percent for the year 2016/017 was 12.42 percent and for the year 2017/018 was 13 percent. Nabil bank also meet the standard level of NRB for all the year i.e. 11 percent.

The ratio of LBL for the year 2011/012 was 11.02 percent, for the year 2012/013 was 12.23 percent, for the year 2013/014 was 11.91 percent, for the year 2014/015 was 10.81 percent, for the year 2015/016 was 11.15 percent, for the year 2016/017 was 13.58 percent and for the year 2017/017 was 12.43 percent. LBL fail to meet the

standard level in the year 2014/015 and meet the level rest of the year. The average of ADBL, Nabil and LBL are 17.81, 11.79 and 11.86 percent respectively. The average of all the banks meet the NRB standard.

Figure 4.3 Comparisons of Capital Adequacy Ratios of ADBL, Nabil Bank & LBL



4.1.2 Assets Quality

Loans and advances dominate the assets side of the balance sheet of the banks. Similarly, earning from such loans and advances occupy a major space in income statement of the bank. Hence, asset is the critical factor in determining the strength of any bank. Primary factor that can be considered are the quality of loan portfolio, mix of risk assets and credit administration system. The qualities of assets are measured in terms of ratio of past due loans to total loans and loan classified as substandard or doubtful or loss to total loans. The assets quality of the selected banks is measured on the following basis;

4.1.2.1 Analysis of Non-Performing Loans to Total Loans

All loans which have crossed the due date are called nonperforming loan. In other words, substandard loans, doubtful loans, bad loans and restructured or rescheduled loans are non-performing loans. Any portion of non-performing loans to total loans

helps to determine the quality of assets of any bank. This ratio is calculated by dividing the NPLs by total loans.

Table 4.4 Comparison of Non-Performing Loans to Total Loans of ADBL, Nabil Bank & LBL

Year	ADBL's NPLTL (%)	Nabil's NPLTL (%)	LBL's NPLTL (%)
2011/012	8.98	2.33	0.62
2012/013	5.85	2.13	1.51
2013/014	5.46	2.23	1.15
2014/015	5.35	1.82	1.30
2015/016	4.36	1.14	0.80
2016/017	4.60	0.79	0.93
2017/018	3.41	0.55	1.29
Mean	**5.43**	**1.57**	**1.08**
S.D.	**1.63**	**0.68**	**0.29**
C.V.	**3.32**	**2.31**	**3.72**

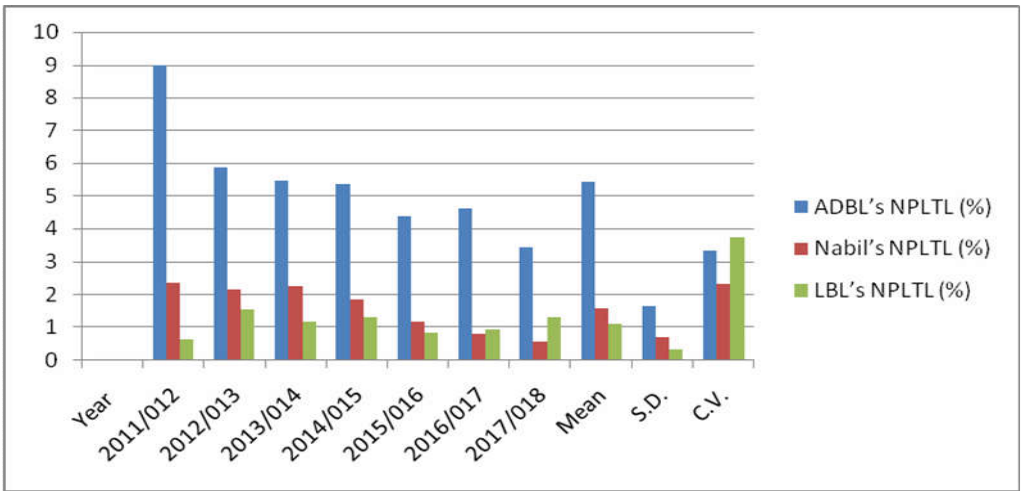
Source: Annual Reports of ADBL, Nabil Bank & LBL

Table 4.4 shows the ratio of non-performing loans to total loans of ADBL, Nabil and LBL. The ratio of ADBL for the year 2011/012 was 8.98 percent, for the year 2012/013 was 5.85 percent, for the year 2013/014 was 5.46 percent, for the year 2014/015 was 5.35 percent, for the year 2015/016 was 4.36 percent, for the year 2016/017 was 4.60 percent and for the year 2017/018 was 3.41 percent.The ratio of Nabil bank for the year 2011/012 was 2.33 percent, for the year 2012/013 was 2.13 percent, for the year 2013/014 was 2.23 percent, for the year 2014/015 was 1.82 percent, for the year 2015/016 was 1.14 percent, for the year 2016/017 was 0.79 percent and for the year 2017/018 was 0.55 percent.

The ratio of LBL for the year 2011/012 was 0.62 percent, for the year 2012/013 was 1.51 percent, for the year 2013/014 was 1.15 percent, for the year 2014/015 was 1.30 percent, for the year 2015/016 was 0.80 percent, for the year 2016/017 was 0.93 percent and for the year 2017/018 was 1.29 percent. The highest ratio was in the year

2012/013 i.e. 1.51 percent and the lowest ratio was in the year 2011/012 i.e. 0.62 percent. The average of ADBL, Nabil and LBL are 5.43, 1.57 and 1.08 percent respectively. ADBL have higher ratio than Nabil bank and LBL. Higher ratio indicates the worsening position of the bank. ADBL should grant loan in affordable area. Its NPLs to total loan shows the ineffectiveness of banks in recovering loan and providing in secure sector.

Figure 4.4 Comparisons of Non-Performing Loans to Total Loans of ADBL, Nabil Bank & LBL



4.1.2.2 Analysis of Non-Performing Loans to Equity Ratio

NPLs to equity measure the capacity of any institution to absorb the possible risk arisen from the insolvency of its borrowers. This ratio is calculated by dividing the nonperforming loan by its equity as follows;

Table 4.5 Comparison of Non-Performing Loans to Equity of ADBL, Nabil Bank & LBL

Year	ADBL's NPLE (%)	Nabil's NPLE (%)	LBL's NPLE (%)
2011/012	13.76	15.11	12.52
2012/013	18.67	18.35	13.40
2013/014	13.54	15.18	16.42
2014/015	10.96	18.77	10.47
2015/016	16.33	14.38	8.59
2016/017	15.23	17.34	11.56
2017/018	15.12	13.76	12.84
Mean	**14.80**	**16.13**	**12.26**
S.D.	**2.24**	**1.85**	**2.27**
C.V.	**6.62**	**8.71**	**5.39**

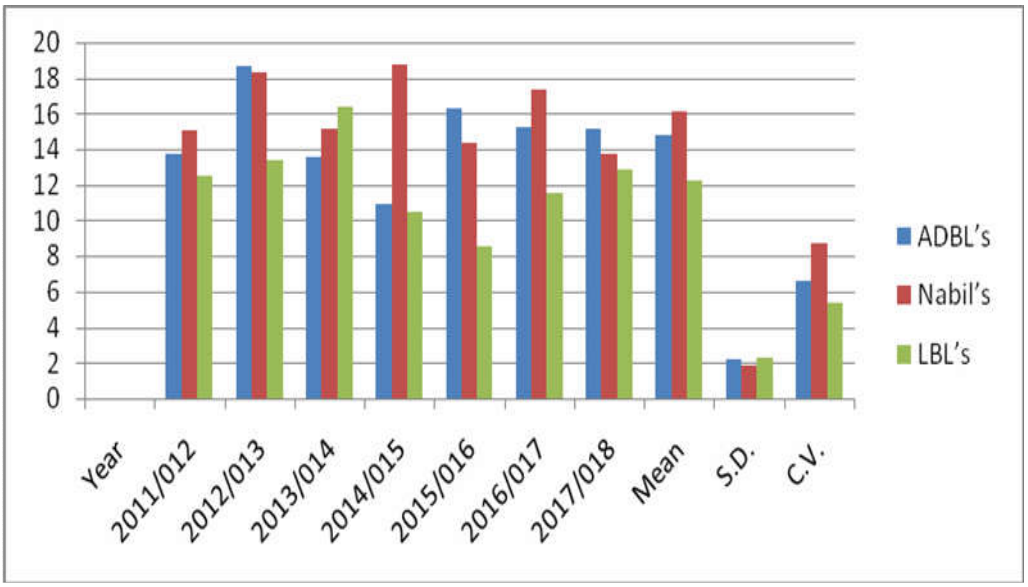
Source: Annual Reports of ADBL, Nabil Bank &LBL

Table 4.5 shows the non-performing loans to equity ratio of ADBL, Nabil Bank and LBL. The ratio of ADBL for the year 2011/012, 2012/013, 2013/014, 2014/015, 2015/016, 2016/017 and 2017/018 was 13.76, 18.67, 13.54, 10.96, 16.33, 15.23 and 15.12 percent respectively. The average ratio of ADBL is 14.80 percent and the standard deviation and C.V. are 2.24 and 6.62 respectively. The ratio of Nabil Bank for the year 2011/012, 2012/013, 2013/014, 2014/015, 2015/016, 2016/017 and 2017/018 was 15.11, 18.35, 15.18, 18.77, 14.38, 17.34 and 13.76 percent respectively. The average of Nabil Bank is 16.13 percent and the standard deviation and C.V. is 1.85 and 8.71 respectively.

The ratio of LBL for the year 2011/012, 2012/013, 2013/014, 2014/015, 2015/016, 2016/017 and 2017/018 was 12.52, 13.40, 16.42, 10.47, 8.59, 11.56 and 12.26 percent respectively. The average ratio of LBL is 12.26 percent and the standard deviation and C.V. are 2.27 and 5.39 respectively. Nabil bank have highest C.V. than other sample banks. There less consistency in the ratios of Nabil as shown by coefficient of

variation. Nabil should manage the loan recovering capacity to be better as that of ADBL and LBL.

Figure 4.5 Comparisons of Non-Performing Loans to Equity of ADBL, Nabil Bank & LBL



4.1.2.3 Analysis of Loan Loss Provision Ratio

This ratio measures the precautions of banks recover the problem of bankruptcy. NRB has scheduled to banks to make provisions by categorizing the loans in different types. Each types are categorized on the basis of passing due dates. For different categories, different levels of provisions are to be maintained by the banks. Loan loss provision ratio is calculated by dividing the total loan loss provision by the total loans as follows;

Table 4.6 Comparison of Total Loan Loss Provision Ratio of ADBL, Nabil Bank & LBL

Year	ADBL's LLPR (%)	Nabil's LLPR (%)	LBL's LLPR (%)
2011/012	14.65	2.94	1.32
2012/013	12.36	2.68	2.02
2013/014	8.46	2.69	1.61
2014/015	5.07	2.47	1.86
2015/016	4.71	2.09	0.34
2016/017	4.98	1.76	0.19
2017/018	4.22	1.68	1.20
Mean	**7.78**	**2.33**	**1.22**
S.D.	**3.89**	**0.45**	**0.66**
C.V.	**2**	**5.18**	**1.85**

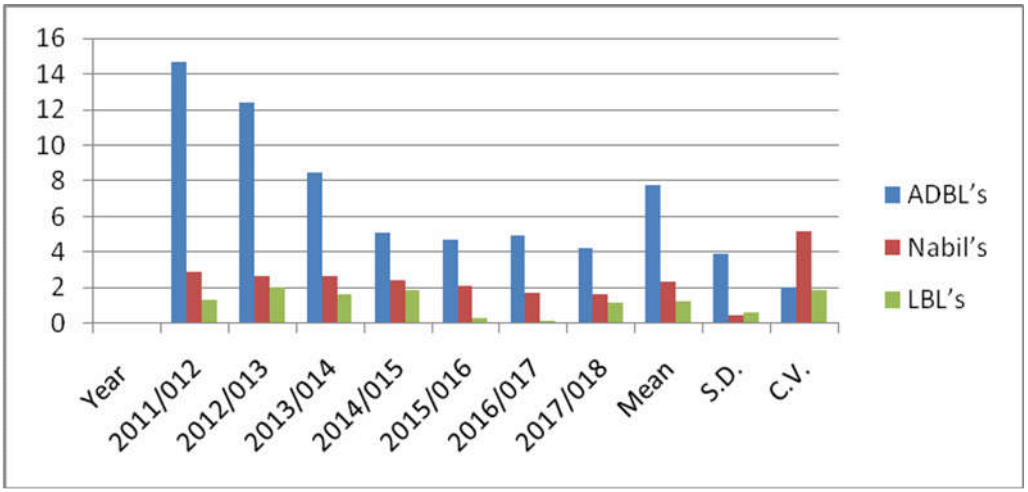
Source: Annual Reports of ADBL, Nabil Bank & LBL

Table 4.6 shows the loan loss provision ratio of ADBL, Nabil Bank and LBL. The ratio of ADBL for the year 2011/012, 2012/013, 2013/014, 2014/015, 2015/016, 2016/017 and 2017/018 was 14.65, 12.36, 8.46, 5.07, 4.71, 4.98 and 4.22 percent respectively. The ratio of ADBL is in decreasing trend. The average of ADBL is 7.78 percent and its standard deviation and C.V. are 3.89 and 2 respectively. The ratio of Nabil Bank for the year 2011/012, 2012/013, 2013/014, 2014/015, 2015/016, 2016/017 and 2017/018 was 2.94, 2.68, 2.69, 2.47, 2.09, 1.76 and 1.68 percent respectively. The ratio of Nabil bank is also in decreasing trend. The average of Nabil Bank is 2.33 percent and its standard deviation and C.V. are 0.45 and 5.18 respectively.

The ratio of LBL for the year 2011/012, 2012/013, 2013/014, 2014/015, 2015/016, 2016/017 and 2017/018 was 1.32, 2.02, 1.61, 1.86, 0.34, 0.19 and 1.20 respectively. The ratio of LBL is in fluctuating trend. The average of LBL is 1.22 percent and its standard deviation and C.V. are 0.66 and 1.85 respectively. Loan loss provision ratio

of LBL is lower than Nabil and ADBL. It means LBL shows the better performance. Only from the average, we cannot determine the soundness of any bank because the total LLP consists of provision for bad loans too.

Figure 4.6 Comparison of Total Loan Loss Provision Ratio of ADBL, Nabil Bank & LBL



4.1.2.4 Analysis of Loan Loss Coverage Ratio

It is derived by dividing loan loss reserve by non-performing assets. Generally it is assumed that this ratio should not be less than 100 percent as these assets may be converted into bad loans which may cause the burden for the banks. The following relationship is used to calculate loan loss coverage ratio.

Table 4.7 Comparison of Loan Loss Coverage Ratio of ADBL, Nabil Bank & LBL

Year	ADBL's LLCR (%)	Nabil's LLCR (%)	LBL's LLCR (%)
2011/012	162.95	126.20	212.56
2012/013	137.65	125.66	133.51
2013/014	155.08	120.33	140.62
2014/015	94.75	135.95	142.80
2015/016	108.09	182.71	427.14
2016/017	105.92	221.70	203.94
2017/018	102.23	227.69	180.85
Mean	**123.81**	**162.89**	**205.92**
S.D.	**25.58**	**43.62**	**95.10**
C.V.	**4.84**	**3.73**	**2.17**

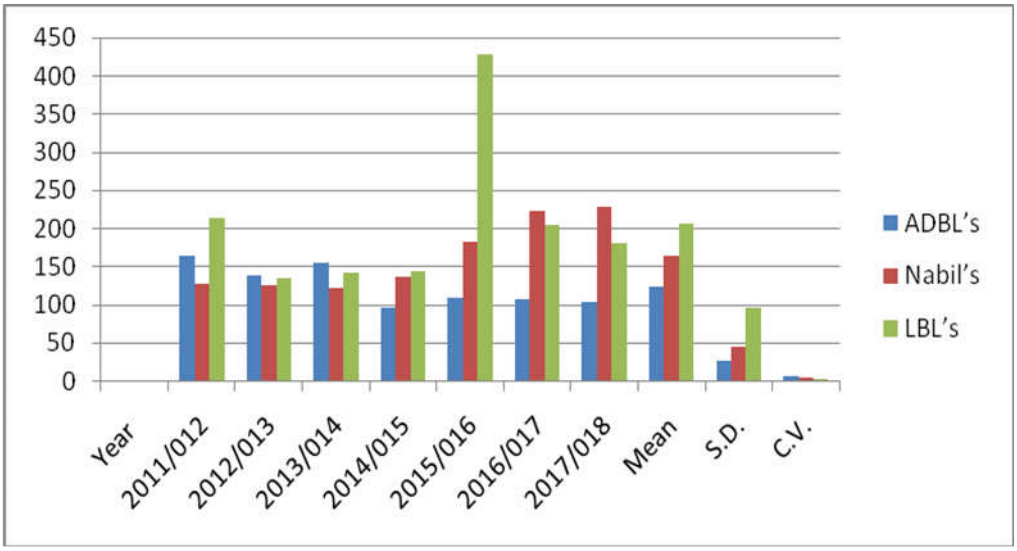
Source: Annual Reports of ADBL, Nabil Bank & LBL

Table 4.7 shows the loan loss coverage ratio of ADBL, Nabil Bank and LBL. The ratio of ADBL for the year 2011/012, 2012/013, 2013/014, 2014/015, 2015/016, 2016/017 and 2017/018 was 162.95, 137.65, 155.08, 94.75, 108.09, 105.92 and 102.23 percent respectively. In the year 2014/015 i.e. 94.75 percent, the ratio was less than 100 percent as assumed that this ratio should not less than 100 percent. The average of ADBL is 123.81 percent and the standard deviation and C.V. are 25.58 and 4.84 respectively. The ratio of Nabil Bank for the year 2011/012, 2012/013, 2013/014, 2014/015, 2015/016, 2016/017 and 2017/018 was 126.20, 125.66, 120.33, 135.95, 182.71, 221.70 and 227.69 percent respectively. The average of Nabil Bank is 162.89 percent and the standard deviation and C.V. are 43.62 and 3.73 respectively.

The ratio of LBL for the year 2011/012, 2012/013, 2013/014, 2014/015, 2015/016, 2016/017 and 2017/018 were 212.56, 133.51, 140.62, 142.80, 427.14, 203.94 and180.85 percent respectively. The average of LBL is 205.92 percent and the standard deviation and C.V. are 95.10 and 2.17 respectively. The average of all the banks have ratio of more than 100 percent which means the quality of assets of all the

banks have in good level. The table shows that the average ratio of LBL is superior to ADBL and Nabil in case of loan loss coverage ratio. This shows the better quality of asset of LBL in the same time we need to look at consistency of these ratios too.

Figure 4.7 Comparison of Loan Loss Coverage Ratio of ADBL, Nabil & LBL



4.1.3 Management Efficiency

The success and failure of any bank largely depends on effective implementation of management tactics, tools and practices. Sound management is a key to bank performance but is difficult to measure due to qualitative factors applicable to individual institutions. Several indicators can jointly serve as an indicator of management soundness. Management efficiency ratios are used as a proxy of the management quality. However, here earning per employee and expenses per employee is used to indicate the quality of management.

4.1.3.1 Analysis of Income per Employee

Income per employee is the indicator which measures the efficiency of management. Here, management refers to the top level management who are involved in policy making and implementation. Income per employee is derived by dividing the net

income after tax by no of employees involved in functioning of business. The following equation can better clarify income per employee.

Table 4.8 Comparison of Income per Employee of ADBL, Nabil Bank & LBL

Inmillion (Rs.)

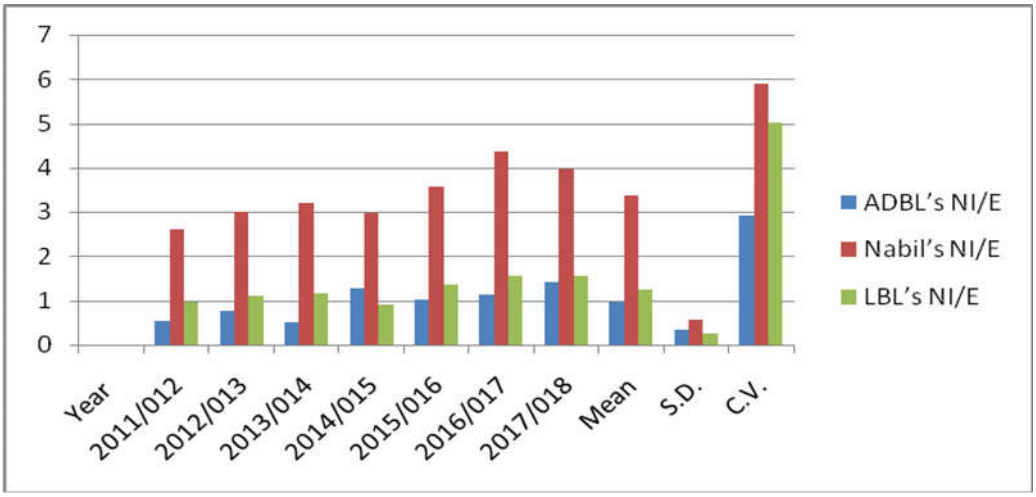
Year	ADBL's NI/E	Nabil's NI/E	LBL's NI/E
2011/012	0.55	2.60	0.96
2012/013	0.76	3.00	1.10
2013/014	0.52	3.20	1.17
2014/015	1.27	2.97	0.92
2015/016	1.01	3.56	1.37
2016/017	1.13	4.37	1.56
2017/018	1.43	3.96	1.57
Mean	**0.95**	**3.38**	**1.24**
S.D.	**0.33**	**0.57**	**0.25**
C.V.	**2.91**	**5.89**	**5.01**

Source: Annual Reports of ADBL, Nabil Bank & LBL

Table 4.8 shows the income per employee of ADBL, Nabil Bank and LBL. The income per employee of ADBL for the year 2011/012 was Rs. 0.55 million. The ratio was increased in 2012/013 i.e. Rs. 0.76 million. It was again declined in 2013/014 i.e. Rs. 0.52 million and in year 2014/015 it was increased to Rs. 1.27 million. In 2015/016 it was declined to Rs. 1.01 million and then increased in the following year 2016/017 and 2017/018 was Rs 1.13 million and Rs 1.43 million respectively. The average income per employee of ADBL is Rs 0.95 million. The income per employee of Nabil Bank in the starting year of the study period 2011/012 was Rs. 2.60 million then in the year 2012/013 and 2013/014 were Rs. 3.00 million and Rs.3.20 million respectively. In the year 2014/015 the ratio was declined to Rs. 2.97 million. In the year 2015/016 and 2016/017 the ratio was increased to Rs. 3.56 million and Rs. 4.37 million respectively. In the year 2017/018 it was decreased to Rs 3.96 million. The average income per employee of Nabil bank is Rs 3.38 million.

The income per employee of LBL for the year 2011/012, 2012/013 and 2013/014 were in increasing trend i.e.Rs 0.96 million, Rs 1.10 million and Rs 1.17 million respectively. In the year 2014/015 it was decreased to Rs. 0.92 million. For the year 2015/016, 2016/017 and 2017/018 it was increasing trend i.e. Rs 1.37 million, Rs 1.56 million and Rs 1.57 million respectively. The average income per employee of LBL is Rs 1.24 million. The average income per employee of Nabil bank is higher than ADBL and LBL which means the efficiency of management of Nabil bank have good quality.

Figure 4.8 Comparison of Income per Employee of ADBL, Nabil Bank & LBL



4.1.3.2 Analysis of Expenses per Employee

Expenses per employee are an indicator of measuring the management efficiency of any institution. Lower rate of expenses is supposed to be better for any bank. In other words, lower level of expenses per employee indicates the sound productivity of employee. To take best productivity of employee is the efficient function of management. This indicator can be derived from the following relationship.

Table 4.9 Comparison of Expenses per Employee of ADBL, Nabil Bank & LBL

In Million (Rs.)

Year	ADBL's E/E	Nabil's E/E	LBL's E/E
2011/012	2.65	3.38	6.91
2012/013	2.84	3.24	11.79
2013/014	3.21	3.71	10.40
2014/015	2.66	4.27	14.00
2015/016	3.17	3.79	4.08
2016/017	3.26	3.73	2.93
2017/018	3.56	3.37	3.24
Mean	**3.05**	**3.64**	**7.62**
S.D.	**0.32**	**0.36**	**4.14**
C.V.	**9.64**	**10.06**	**1.84**

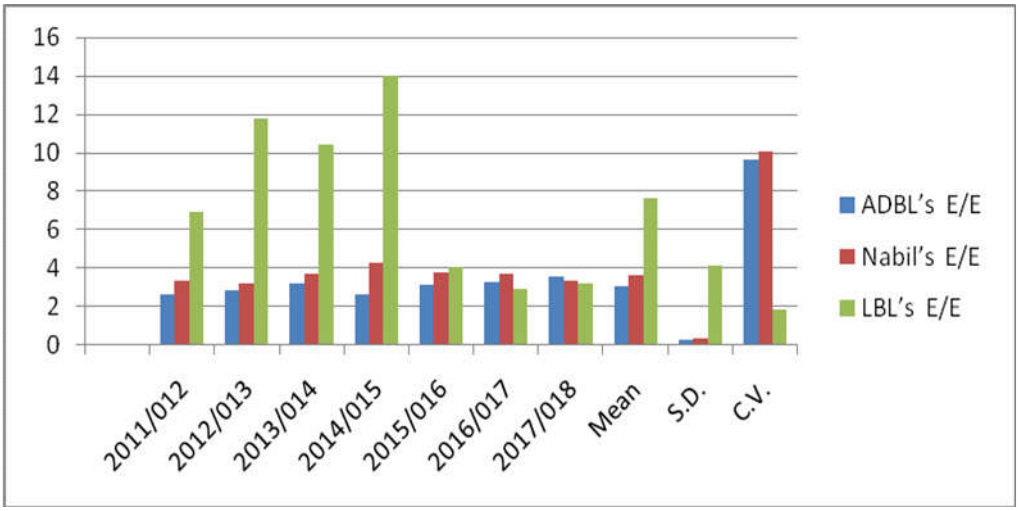
Source: Annual Reports of ADBL, Nabil Bank & LBL

The above table 4.9 shows the expenses per employee of ADBL, Nabil Bank and LBL. The expenses per employee of ADBL for the starting year 2011/012, 2012/013 and 2013/014 was in increasing trend i.e. Rs. 2.65 million, 2.84 million and 3.21 million respectively. For the year 2014/015 it was decreased to Rs. 2.66 million. Then again increased in 2015/016, 2016/017 and 2017/018 were Rs 3.17, Rs 3.26 and Rs 3.56 million respectively. The average expense per employee is Rs 3.05 and the standard deviation and C.V. are 0.32 and 9.64 respectively.

The expenses per employee of Nabil Bank for the starting year 2011/012 was Rs. 3.38 million. For the year 2012/013 it was decreased to Rs. 3.24 million. Then increased in the year 2013/014 and 2014/015 were Rs. 3.71 million and 4.27 million respectively. Then the ratio was in decreasing trend in the year 2015/016, 2016/017 and 2017/018 were Rs 3.79, Rs 3.73 and Rs 3.37 respectively. The average expenses per employee is Rs 3.64 million and the standard deviation and C.V. are 0.36 and 10.06 respectively.

The expenses per employee of LBL for the year 2011/012 is Rs. 6.91 million. In the year 2012/013 it was increased to Rs. 11.79 million. In the year 2013/014 it was again decreased to Rs. 10.40 million. In the year 2014/015 it was again increased to Rs. 14.00 million. In the year 2015/016 it was highly decreased to Rs. 4.08 million and also in 2016/017 decreased to Rs. 2.93 million. At last year, 2017/018 it was slightly increased to Rs 3.24 million The average expenses per employee is Rs 7.82 million and the standard deviation and C.V. are 4.14 and 1.84 respectively. ADBL have lowest expenses per employee than Nabil bank and LBL which means that there sound productivity of employee of ADBL than Nabil bank and LBL.

Figure 4.9 Comparison of Expenses per Employee of ADBL, Nabil Bank & LBL



4.1.4 Earning Capacity

A required level of profit is necessary for the firm's growth and survival in the competitive environment. Profitability is vitally more important for assuring that backstays in business or activity. Net profit of any bank decreases resulting from high non-performing loans, lack of avenues for earning fee based income and operating inefficiencies.

4.1.4.1 Analysis of Return on Asset (ROA)

This ratio measures earnings per unit of asset. In other word, this is the reward for the total assets generated by deploying them in business activities. Higher level of return on asset is considered as the better productivity of those assets. This ratio can be derived by dividing the net income by total assets of any institutions. The following equation is used to calculate the return on assets.

Table 4.10 Comparison of Return on Asset of ADBL, Nabil Bank & LBL

Year	ADBL's ROA (%)	Nabil's ROA (%)	LBL's ROA (%)
2011/012	2.90	2.80	1.50
2012/013	2.97	3.25	1.50
2013/014	1.76	2.89	1.47
2014/015	3.12	2.06	1.04
2015/016	2.32	2.32	1.35
2016/017	2.15	2.70	1.52
2017/018	2.54	2.61	1.55
Mean	**2.54**	**2.66**	**1.42**
S.D.	**0.46**	**0.36**	**0.14**
C.V.	**5.52**	**7.43**	**9.87**

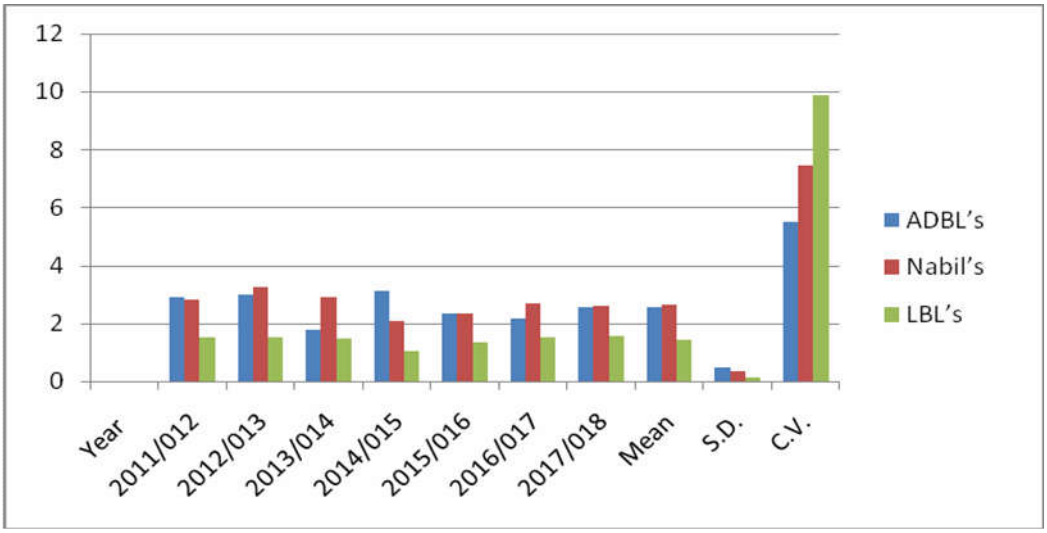
Source: Annual Reports of ADBL, Nabil Bank & LBL

Table 4.10 shows the ROA of ADBL, Nabil Bank and LBL. The ratio of ADBL for the year 2011/012 was 2.90 percent and for the year 2012/013 was 2.97 percent and it was slightly increasing trend. It was decreased for the year 2013/014 was 1.76 percent. For the year 2014/015 it was increased to 3.12 percent and for the year 2015/016 it was again it was further decreased to 2.32 percent, for the year 2016/017 was 2.15 percent and for the year 2017/018 was 2.54 percent.

The ratio of Nabil Bank for the year 2011/012 was 2.80 percent, for the year 2012/013 was increased to 3.25 percent, for the year 2013/014 was 2.89 percent, for the year 2014/015 was 2.06 percent, for the year 2015/016 was 2.32 percent, for the year

2016/017 2.70 percent and for the year 2017/018 was 2.61 percent. The ratio of LBL for the year 2011/012 was 1.50 percent, for the year 2012/013 was 1.50 percent, for the year 2013/014 was 1.47 percent, for the year 2014/015 was 1.04 percent, for the year 2015/016 was 1.35 percent, for the year 2016/017 was 1.52 percent and for the year 2017/018 was 1.55 percent. The average of ADBL, Nabil Bank and LBL are 2.54, 2.66 and 1.42 percent respectively. The standard deviation of ADBL, Nabil Bank and LBL are 0.46, 0.36 and 0.14 respectively. The C.V. of ADBL, Nabil Bank and LBL are 5.52, 7.43 and 9.87 respectively. The all three sample banks have same range of ROA but Nabil bank have highest average than ADBL and LBL. In comparison, Nabil bank have better productivity of assets.

Figure 4.10 Comparison of Return on Asset of ADBL, Nabil Bank & LBL



4.1.4.2 Analysis of Return on Equity (ROE)

This measures per unit reward for equity capital of different banks. Higher return on equity is supposed to be better for any institution. This ratio is directly or indirectly affects the price of shares of any specific institutions. Higher return on equity pays more in the market. The following equation is used to calculate roe of any institution.

Table 4.11 Comparison of Return on Equity of ADBL, Nabil Bank & LBL

Year	ADBL's ROE (%)	Nabil's ROE (%)	LBL's ROE (%)
2011/012	26.85	30.25	26.37
2012/013	30.42	32.78	22.84
2013/014	28.44	27.97	28.16
2014/015	27.73	22.73	24.75
2015/016	25.45	25.61	20.57
2016/017	22.22	22.41	24.34
2017/018	20.56	20.94	21.87
Mean	**25.95**	**26.10**	**24.13**
S.D.	**2.42**	**4.09**	**2.42**
C.V.	**10.70**	**6.38**	**9.95**

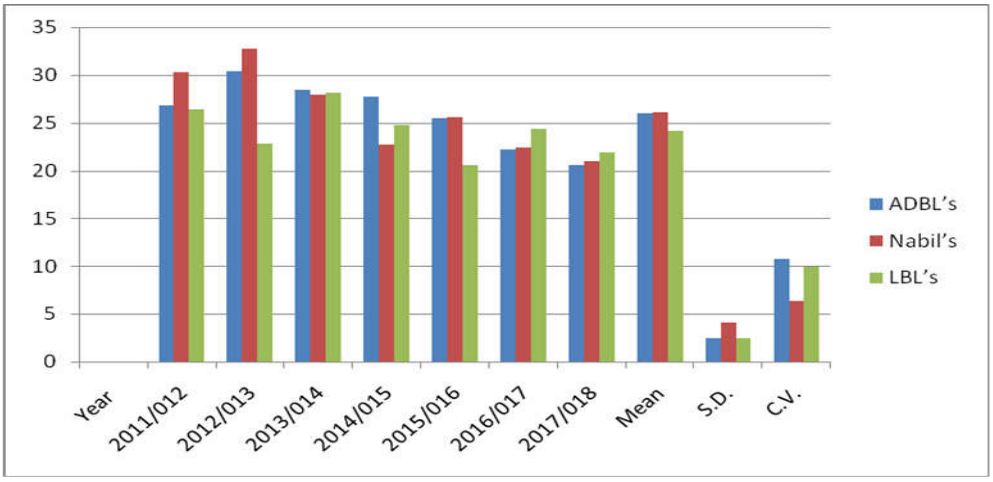
Source: Annual Reports of ADBL, Nabil Bank & LBL

Table 4.11 shows the ROE of ADBL, Nabil Bank and LBL. The ROE of ADBL for the year 2011/012 was 26.85 percent. It was increased in the year 2012/013 i.e. 30.42 percent. Then decreased in the following year 2013/014, 2014/015, 2015/016, 2016/017 and 2017/018 were 28.44 percent, 27.73 percent, 25.45 percent, 22.22 percent and 20.56 percent respectively. The average of ADBL is 25.95 percent and the standard deviation and C.V. are 2.42 and 10.70 respectively. The ROE of Nabil Bank for the year 2011/012 was Rs. 30.25 percent. It was increased in 2012/013 i.e. 32.78 percent. For the year 2013/014 and 2014/015 it was decreased to 27.97 percent and 22.73 percent respectively. For the year 2015/016 it was increased to 25.61 percent. For the year 2016/017 and 2017/018 ratios were decreased to 22.41 percent and 20.94 percent respectively.

The average of Nabil Bank is 26.10 percent and the standard deviation and C.V. are 4.09 and 6.38 respectively. The ROE of LBL for the year 2011/012, 2012/013, 2013/014, 2014/015, 2015/016, 2016/017 and 2017/018 were 26.37, 22.84, 28.16, 24.75, 20.57, 24.34 and 21.87 percent respectively and the ratios were in fluctuating trend. The average of LBL is 24.13 percent and the standard deviation and C.V. are

2.42 and 9.95 respectively. All the sample banks ROE are in the same range but Nabil bank have highest ROE than ADBL and LBL. To get profitability of Nabil bank, ADBL and EBL should manage the activity perfectly.

4.11 Comparison of Return on Equity of ADBL, Nabil Bank & LBL



4.1.4.3 Analysis of Net Income to Loan and Advances

Net income to loan and advances helps to measure the profitability of any bank. This shows the contribution of loan and advances in income generation as it is obviously known that interest income generated by loan and advance is the main income source for any bank. The following equation is used to calculate the net income to loan and advances.

Table 4.12 Comparison of Net Income to Loan and Advances of ADBL, Nabil Bank & LBL

Year	ADBL's NILA (%)	Nabil's NILA (%)	LBL's NILA (%)
2011/012	4.09	4.14	2.22
2012/013	4.17	5.04	2.28
2013/014	2.43	4.55	2.20
2014/015	4.83	3.31	1.52
2015/016	3.17	4.13	1.88
2016/017	2.91	4.28	2.10
2017/018	3.29	3.99	2.08
Mean	**3.56**	**4.21**	**2.04**
S.D.	**0.77**	**0.49**	**0.24**
C.V.	**4.60**	**8.64**	**8.41**

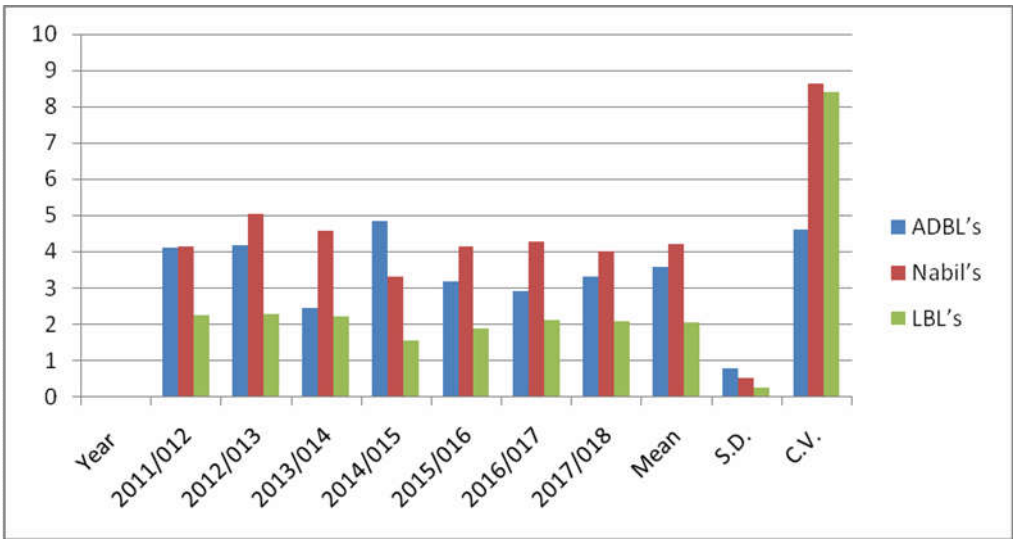
Source: Annual Reports of ADBL, Nabil Bank & LBL

Table 4.12 shows the net income to loan and advances ratio of ADBL, Nabil Bank and LBL. The ratio of ADBL for the year 2011/012 was 4.09 percent, for the year 2012/013 4.17 percent, for the year 2013/014 was 2.43 percent, for the year 2014/015 was 4.83 percent, for the year 2015/016 was 3.17 percent, for the year 2016/017 was 2.91 percent and for the year 2017/018 was 3.29 percent. The ratio of ADBL is fluctuating trend. The ratio of Nabil Bank for the year 2011/012 was 4.14 percent, for the year 2012/013 was 5.04 percent, for the year 2013/014 was 4.55 percent, for the year 2014/015 was 3.31 percent, for the year 2015/016 was 4.13 percent, for the year 2016/017 was 4.28 percent and for the year 2017/018 was 3.99 percent. The ratio of Nabil bank is also in Fluctuating trend.

The ratio of LBL for the year 2011/012 was 2.22 percent, for the year 2012/013 was 2.28 percent, for the year 2013/014 was 2.20 percent, for the year 2014/015 was 1.52 percent, for the year 2015/016 was 1.88 percent, for the year 2016/017 was 2.10 percent and for the year 2017/018 was 2.08 percent. The average of ADBL, Nabil and LBL are 3.56, 4.21 and 2.04 percent respectively. The standard deviation of ADBL,

Nabil and LBL are 0.77, 0.49 and 0.24 respectively. The C.V. of ADBL,Nabil and LBL are 4.60, 8.64 and 8.41 respectively. The table clearly show that the position and distribution of net income to loan and advance of Nabil bank is stronger than ADBL and LBL

Figure 4.12 Comparison of Net Income to Loan and Advances of ADBL, Nabil Bank & LBL



4.1.5 Liquidity

Liquidity is short term solvency of a firm. It reflects the short term financial strength of banks. Bank does not provide all deposit at loan and advances. Banks need to maintain reasonable level of liquidity to pay cash to its depositors so it is of prime importance. If the bank keep greater deposit in cash, it losses the opportunity cost. Similarly, if bank keeps low amount of in deposit, it could not be able to pay depositors on the time of requirement. Lower ratio indicates that that banks might face a liquidity crunch while paying its obligations, where as a very high ratio points out that the banks have been keeping idle funds and not deploying them properly.

4.1.5.1 Analysis of Cash Reserve Ratio (CRR)

Cash deposit ratio is the portion of deposit kept into central bank i.e. NRB in Nepal by the banks as prescribed by NRB as a provision for the probable liquidity crunch of

banks. This ratio is 4 percent for 'A' level banks as prescribed by NRB. This ratio should be maintained by banks on weekly basis.

Table 4.13 Comparison of Cash Reserve of ADBL, Nabil Bank & LBL

Year	ADBL's CRR (%)	Nabil's CRR (%)	LBL's CRR (%)	NRB Standard (%)
2011/012	36.65	8.60	19.60	4.00
2012/013	32.27	9.32	12.33	4.00
2013/014	30.43	11.32	18.28	4.00
2014/015	28.74	14.15	12.59	4.00
2015/016	23.33	6.77	7.17	4.00
2016/017	31.18	10.02	7.32	4.00
2017/018	29.15	10.05	6.57	4.00
Mean	**30.25**	**10.03**	**11.98**	**4.00**
S.D.	**3.73**	**2.13**	**4.92**	**0.00**
C.V.	**8.11**	**4.70**	**2.44**	**0.00**

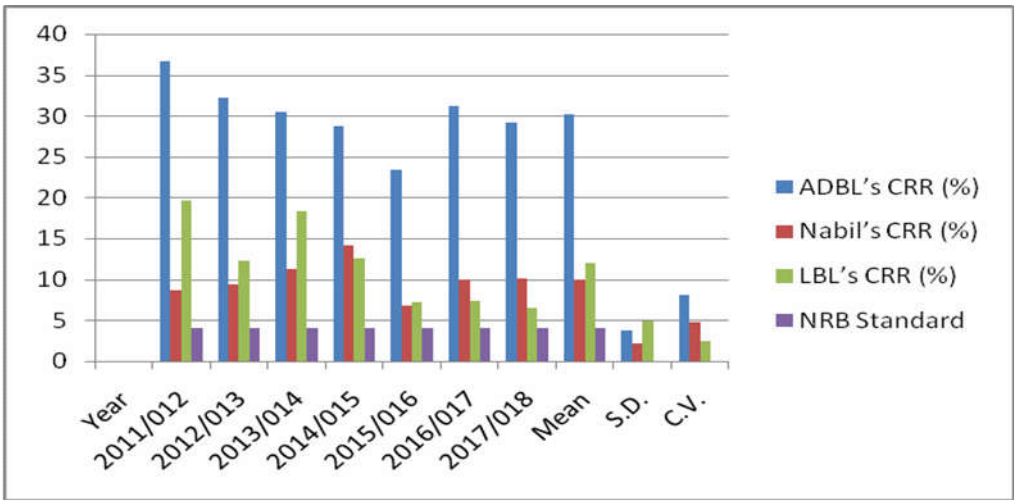
Source: Annual Reports of ADBL, Nabil Bank & LBL

Table 4.13 shows the cash reserve ratio of ADBL, Nabil Bank and LBL. The CRR of ADBL for the year 2011/012 was 36.65 percent, decreased for the year 2012/013 was 32.27 percent, again decreased for the year 2013/014 was 30.43 percent, for the year 2014/015 it was declined to 28.74 percent, for the year 2015/016 it was decreased to 23.33 percent, for the year 2016/017 it was increased to 31.18 percent and for the year 2017/018 it was decreased to 29.15 percent. The CRR of Nabil Bank for the year 2011/012 was 8.60 percent, for the year 2012/013 was 9.32 percent, for the year 2013/014 was 11.32 percent, for the year 2014/015 was 14.15 percent, for the year 2015/016 was 6.77 percent, for the year 2016/017 was 10.02 percent and for the year 2017/018 was 10.05 percent. The CRR of Nabil bank was in fluctuating trend.

The CRR of LBL for the year 2011/012 was 19.60 percent, for the year 2012/013 was 12.33 percent, for the year 2013/014 was 18.28 percent, for the year 2014/015 was 12.59 percent, for the year 2015/016 was 7.17 percent, for the year 2016/017 was 7.32

percent and for the year 2017/018 was 6.57 percent. The average of ADBL, Nabil and LBL are 30.25, 10.03 and 11.98 percent respectively. The standard deviation of ADBL, Nabil and LBL are 3.73, 2.13 and 4.92 respectively. The C.V. of ADBL, Nabil and LBL are 8.11, 4.70 and 2.44 respectively. In comparison CRR of ADBL and have losses the opportunity cost. The Nabil bank and LBL have lower ratio which indicates that banks might face liquidity crunch in the near future.

Figure 4.13 Comparison of Cash Reserve of ADBL, Nabil Bank & LBL



4.1.5.2 Analysis of Credit Deposit Ratio (CDR)

CDR is the ratio of total cash outflow as loan to total cash inflows as deposit. So, the ratio provides the ratio of efficiency with which the resources are mobilized. We can calculate CDR by the using of following formula;

Table 4.14 Comparison of Credit Deposit Ratio of ADBL, Nabil Bank & LBL

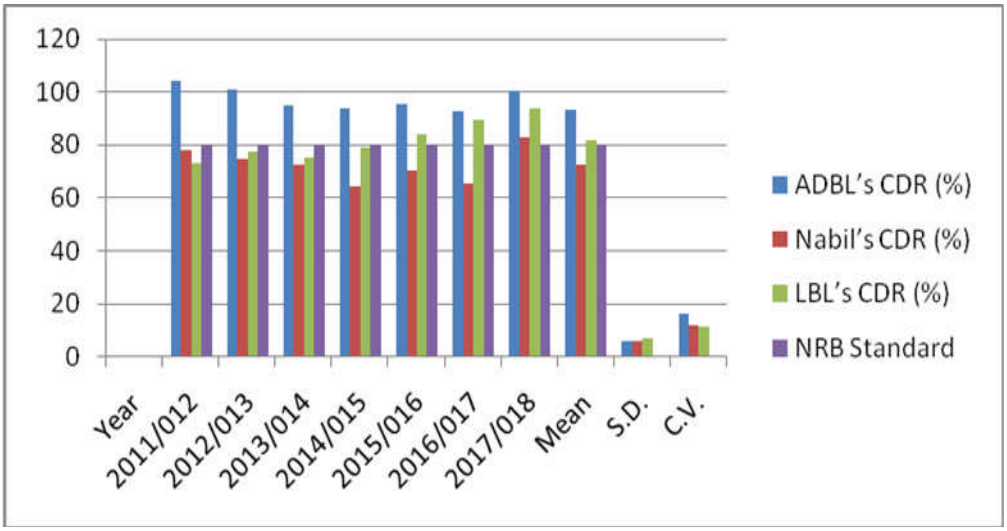
Year	ADBL's CDR (%)	Nabil's CDR (%)	LBL's CDR (%)	NRB Standard (%)
2011/012	104.06	77.91	73.13	80.00
2012/013	100.81	74.90	77.43	80.00
2013/014	94.80	72.55	75.50	80.00
2014/015	93.77	64.43	78.91	80.00
2015/016	95.46	70.49	83.81	80.00
2016/017	92.90	65.38	89.20	80.00
2017/018	100.26	82.66	93.79	80.00
Mean	**93.44**	**72.62**	**81.68**	**80.00**
S.D.	**5.80**	**6.07**	**7.02**	**0.00**
C.V.	**16.10**	**11.96**	**11.64**	**0.00**

Source: Annual Reports of ADBL, Nabil Bank & LBL

Table 4.14 shows the credit deposit ratio of ADBL, Nabil Bank and LBL. The credit deposit ratio of ADBL for the year 2011/012 was 104.06 percent. It was decreased in the years 2012/013, 2013/014 and 2014/015 were 100.81 percent, 94.80 percent and 93.77 percent. For the year 2015/016 it was increased to 95.46 percent. For the year 2016/017 it was decreased to 92.90 percent and 2017/018 it was increased to 100.26 percent. The average CDR of ADBL is 93.44 percent and the standard deviation and C.V. of ADBL are 5.80 and 16.10 respectively. The credit deposit ratio of Nabil Bank for the year 2011/012 was 77.91 percent. Further three years 2012/013, 2013/014 and 2014/015 were decreased by, 74.90 percent, 72.55 percent and 64.43 percent respectively. For the year 2015/016 it was increased to 70.49 percent. For the year 2016/017 it was decreased to 65.38 percent and for the year 2017/018 it was increased to 82.66 percent. The average CDR of Nabil Bank is 72.62 percent and the standard deviation and C.V. are 6.07 and 11.96 respectively. The credit deposit ratio of LBL for the year 2011/012, 2012/013, 2013/014, 2014/015, 2015/016, 2016/017 and 2017/018 was 73.13, 77.43, 75.50, 78.91, 83.81, 89.20 and 93.79 percent respectively. The ratios are slightly increased in each year. The average of LBL is 81.68 percent

and the standard deviation and C.V. are 7.02 and 11.64 respectively. The CDR of Nabil bank fail to maintain NRB standard i.e. 80 percent.

Figure 4.14 Comparison of Credit Deposit Ratio of ADBL, Nabil Bank & LBL



4.2 Major Findings

This section includes the key findings of the study obtained from the analysis of the data. Conclusions derived from the findings are presented in the next chapter.

1. The core capital adequacy ratio of all the three banks has met the NRB standard. In comparison of the banks, ADBL has higher average than Nabil bank and LBL.

2. The total capital adequacy ratio of both banks also met the NRB standard with ADBL has higher average than other two banks. Researcher says that ADBL can absorb the balance sheet stock better than Nabil Bank and LBL.

3. The supplementary capital ratios are under the NRB standard. From this analysis, we can conclude that the overall capital adequacy of ADBL is better than that of Nabil Bank and LBL. They are well managed banks in subject to the capital adequacy to absorb the probable market, credit and operational risk.

4. The decreasing trend of nonperforming loan to total loan of ADBL and Nabil Bank show that the asset quality of the banks is in better quality and also the fluctuating trend of LBL shows the good quality of assets. This ratio is higher to ADBL and lower to Nabil Bank and LBL. Higher ratio determines lower quality of asset, and the higher nonperforming loan may cause problem for the better performance of bank.

5. The nonperforming loan to equity of ADBL were ranges from 10.96 percent to 18.67 percent in the study period, for Nabil Bank it was ranges from 13.76 percent to 18.77 percent and for LBL it was ranges from 8.59 percent to 16.42 percent. The overall average of Nabil Bank is higher than that of ADBL and LBL which is not good for bank. If there is bankruptcy occurs, Nabil Bank will suffer more than ADBL and LBL.

6. The loan loss provision ratio of ADBL is ranges from 4.22 percent to 14.65 percent with average value of 7.78 percent, for Nabil Bank is ranges from 1.68 percent to 2.94 percent with average of 2.33 percent and for LBL it ranges from 0.19 percent to 2.02 percent with average value of 1.22 percent. Higher ratio of LLP is a higher level of nonperforming loan and indicates undermanaged institution.

7. Loan loss coverage ratio of ADBL ranges from 94.75 percent to 162.95 percent with the average of 123.81 percent, for Nabil Bank ranges from 120.33 percent to 227.69 percent with average of 162.89 percent and for LBL ranges from 133.51 percent to 427.14 percent with the average of 205.92 percent. All the three banks are able to meet their nonperforming loan obligations.

8. Net income per employee of ADBL ranges from 0.52 million to 1.43 million with the average of 0.95 million, for Nabil Bank it ranges from 2.60 million to 4.37 million with the average of 3.38 million and for LBL it ranges 0.92 million to 1.57 million with the average of 1.24 million. This concludes that the management of Nabil Bank is more efficient than ADBL and LBL.

9. Expenses per employee of ADBL ranges from 2.65 million to 3.56 million with the average of 3.05 million, for Nabil Bank it ranges from 3.24 million to 4.27 million with the average of 3.64 million and for the LBL it ranges from 2.93 million to 14 million with the average of 7.62 million. Expenses per employee of LBL is higher than ADBL and Nabil Bank. This concludes that management of ADBL and Nabil Bank is better to curtail the expenses than LBL.

10. ROA of ADBL ranges from 1.76 percent to 3.12 percent with the average of 2.54 percent, for Nabil Bank it ranges from 2.06 percent to 3.25 percent with the average of 2.66 percent and for LBL it ranges from 1.04 percent to 1.55 percent with the average of 1.42 percent. This concludes that the Nabil Bank has more return than that of ADBL and LBL and the Nabil Bank has more productivity.

11. ROE of ADBL is ranges from 20.56 percent to 30.42 percent with the average of 25.95 percent, for Nabil Bank it ranges from 20.94 percent to 32.78 percent with the average of 26.10 percent and for the LBL it ranges from 20.57 percent to 28.16 percent with the average of 24.13 percent. This concludes that the Nabil Bank has more profitability than ADBL and LBL.

12. Net income to loan and advance of ADBL is ranges from 2.43 percent to 4.83 percent with the average of 3.56 percent, for Nabil Bank it ranges from 3.31 percent to 5.04 percent with the average of 3.56 percent and for the LBL it ranges from 1.52 percent to 2.28 percent with the average of 2.04 percent. This concludes that Nabil Bank has higher contribution of loan and advance in income generation than ADBL and LBL.

13. CRR of ADBL ranges from 23.33 percent to 36.65 percent with the average of 30.25 percent, for Nabil Bank it ranges from 6.77 percent to 14.15 percent with the average of 10.03 percent and for LBL it ranges from 6.57 percent to 19.60 percent with the average of 11.98 percent. This shows that the CRR distribution of Nabil Bank is highly fluctuated. If the trend of CRR

maintenance remains same, the bank gets loss. If the bank can't meet the standard as prescribed by NRB, it will be charged and if it is very high then it can loss opportunity gain. Lower level of ratio indicates liquidity crunch and very high level CRR indicates idle money which do not generate any income.

14. The CDR of ADBL ranges from 92.90 percent to 104.06 percent with the average of 93.44 percent, the CDR of Nabil Bank ranges from 64.43 percent to 82.66 percent with the average of 72.62 percent and the CDR of LBL ranges from 73.13 percent to 93.79 percent with the average of 81.68 percent. ADBL always cross the NRB standard but Nabil Bank and LBL had below the NRB standard for some years and they suffer liquidity problem.

The conclusion of this analysis is that it would be important for the central bank to strengthen further its prudential oversight of weak commercial banks. Poorly rated banks appear to be providing financial services that are otherwise lacking in the system and therefore central bank interventions must be weighed against possible adverse impacts on the availability of bank credit.

CHAPTER – V
CONCLUSION

5.1 Summary

The study was conducted with objective to analyze the comparative financial performance analysis of Agricultural Development Bank Ltd., Nabil Bank Ltd. and Laxmi Bank Ltd. Seven year's data are covered in the study. The study is based on secondary data and the data obtained were analyzed using various financial tools. The bank's financial soundness is judged being based on some factors capital adequacy, asset quality, management efficiency, earning capacity and liquidity position.

The study is conducted with the general objective to assess the performance of Nepalese Commercial banks with reference to the ADBL, Nabil Bank and LBL. Moreover, the specific objectives of the study were to analyze and compare the financial strengths and weaknesses of the selected commercial banks, to evaluate the profitability and operating efficiency of Agricultural Development Bank Ltd., Nabil Bank ltd. and Laxmi Bank Ltd and to provide suggestions on the basis of findings for the future growth of the banks under study in the period of 2011/012 to 2017/018.

The research covers only seven years data from the year 2011/012 to 2017/018. It is concerned with the financial performance analysis of the commercial bank. For the purpose of study, Agricultural Development Bank Ltd., Nabil Bank Ltd. and Laxmi Bank Ltd. are taken as study unit by applying convenient sampling technique out of 28 commercial banks. The required data and information were collected from secondary sources. Financial ratios have been implied to get the meaningful result of the collected data in this research work.

The core capital adequacy ratio of all the three banks has met the NRB standard. In comparison of the banks, ADBL has higher average than Nabil bank and LBL. The overall average of Nabil Bank is higher than that of ADBL and LBL which is not good for bank. If there is bankruptcy occurs, Nabil Bank will suffer more than ADBL and LBL. All sample banks are able to meet their non-performing loan obligations

which was directed by NRB i.e. 3%. CRR of ADBL ranges from 23.33 percent to 36.65 percent with the average of 30.25 percent, for Nabil Bank it ranges from 6.77 percent to 14.15 percent with the average of 10.03 percent and for LBL it ranges from 6.57 percent to 19.60 percent with the average of 11.98 percent.

5.2 Conclusions

This study concluded that the total capital adequacy ratio disclosed that all the three banks have maintained the adequate throughout the study period. The core capital ratio of the banks is above the NRB standard in the entire study period. It showed that the core capital adequacy ratio of the bank is adequate and sufficient. The supplementary capital ratio of the bank showed that ADBL, Nabil Bank and LBL have to meet the requirement as prescribed by the NRB. However, all the three banks have adequate capital to meet their requirements. The ratio of nonperforming loan to total loan of ADBL, Nabil Bank and LBL showed that the quality of assets is satisfactory from the perspectives of NPAs. It was decreasing trend of ADBL and Nabil Bank and fluctuation trend of LBL. The overall average of Nabil Bank is higher than that of ADBL and LBL which is not good for bank. If there is bankruptcy occurs, Nabil Bank will suffer more than ADBL and LBL. Loan loss provision of Nabil Bank and LBL is less than 3 percent which shows the qualitative assets and ADBL is greater than 3 percent. Loan loss coverage ratio is more than 100 percent is good for the solvency. All the three banks have maintained it.

Earning per employee of ADBL is slightly low with comparison of Nabil Bank and LBL. The fluctuating trend in earning per employee of ADBL, Nabil Bank and LBL reflects the inefficiency of staffs as well as management quality as average. The expenses per employee of LBL is higher than that of ADBL and Nabil Bank, which shows the relative inefficiency of staff and less productivity. The ROA of ADBL and Nabil Bank is stronger than LBL which indicates that ADBL and Nabil Bank have the better productivity than LBL in all the years. The ROE of the entire three banks are high. Net income to loan and advance of ADBL and Nabil are stronger than LBL which shows that ADBL and Nabil Bank have higher contribution of loan and advance in income generation than LBL. The cash reserve ratio of ADBL is very high

than Nabil Bank and LBL. The cash deposit ratio of ADBL always cross the NRB standard whereas Nabil Bank and LBL became failed to maintain the NRB standard in the starting years of the study.

5.3 Implications

The following recommendations and suggestion are made based on conclusions to overcome the weakness as regard to financial performance of ADBL, Nabil Bank and LBL.

1. All banks (ADBL, Nabil Bank and LBL) have maintained adequate capital to meet the probable risk arising from market operation and credit expansion. It is recommended that the sample banks need to increase the supplementary capital to make the formation of capital more appropriate and more profitable as the supplementary capital as cheap cost capital.
2. The asset quality of Nabil Bank and LBL is strong but that of ADBL is poor. If ADBL cannot increase the quality of asset from the final year position, it may suffer problem later on. ADBL should improve the quality of loan invest and convert nonperforming loan to performing loan. ADBL should improve the productivity of assets and try to be high standard commercial bank as Nabil Bank and LBL do.
3. Income per employee of Nabil Bank is better than other two banks. The expenses per employee of LBL is very higher than other two banks. This shows the need of making employee more productive. LBL should engage in providing proper training to staffs and not to increase the number of employee.
4. The ROA and ROE of Nabil Bank is stronger than other two banks. This indicates that Nabil has the better productivity of assets rather than other bank. It is recommended that Nabil should maintain their productivity and assets quality.
5. The CRR and CDR of ADBL is higher than Nabil Bank and LBL. It shows that ADBL was lower money supply than other bank. The results of the study reveals that cash reserve ratio affect the performance of banks. It is recommended that ADBL should maintain their liquidity position of bank.

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Appendix-I

A list of commercial banks which have been licensed from Nepal Rastra Bank

1. Nepal Bank Ltd.
2. RastriyaBanijya Bank Ltd.
3. Agricultural Development Bank Ltd.
4. Nabil Bank Ltd.
5. Nepal Investment Bank Ltd.
6. Standard Chartered bank Ltd.
7. Himalayan Bank Ltd.
8. Nepal SBI Bank Ltd.
9. Nepal Bangladesh Bank Ltd.
10. Everest Bank Ltd.
11. Bank of Kathmandu Lumbini Ltd.
12. Nepal Credit and Commerce Bank Ltd.
13. Machhapuchre Bank Ltd.
14. Kumari Bank Ltd.
15. Laxmi Bank Ltd.
16. Siddartha Bank Ltd.
17. Global IME Bank Ltd.
18. Citizens Bank International Ltd.
19. Prime Commercial Bank Ltd.
20. NIC Asia Bank Ltd.
21. NMB Bank Ltd.
22. Prabhu Bank Ltd.
23. Mega Bank Nepal Ltd.
24. Sunrise Bank Ltd.
25. Janata Bank Nepal Ltd.
26. Sanima bank Ltd.
27. Civil Bank Ltd.
28. Century commercial Bank Ltd.

Source: https://nrb.org.np/bfr/pdffiles/List_of_BFIs_April2017_English.pdf

Appendix-II

Year	ADBL's CCAR (%)	Nabil's CCAR (%)	LBL's CCAR (%)
2011/012	15.72	9.30	9.52
2012/013	13.61	9.98	9.15
2013/014	12.49	9.74	9.62
2014/015	15.17	10.18	9.17
2015/016	15.19	10.51	9.79
2016/017	18.61	11.70	12.43
2017/018	19.28	11.81	11.32

Source: Annual Reports of ADBL, Nabil Bank & LBL

Appendix-III

Year	ADBL's SCAR (%)	Nabil's SCAR (%)	LBL's SCAR (%)
2011/012	3.28	1.71	1.50
2012/013	2.72	1.61	3.08
2013/014	2.44	1.50	2.29
2014/015	1.99	1.39	1.65
2015/016	1.99	1.22	1.36
2016/017	1.80	1.20	1.15
2017/018	0.38	1.19	1.11

Source: Annual Reports of ADBL, Nabil Bank & LBL

Appendix-IV

Year	ADBL's CAR (%)	Nabil's CAR (%)	LBL's CAR (%)
2011/012	19.00	11.01	11.02
2012/013	16.34	11.59	12.23
2013/014	14.93	11.24	11.91
2014/015	17.16	11.57	10.81
2015/016	17.18	11.73	11.15
2016/017	20.41	12.42	13.58
2017/018	19.66	13.00	12.43

Source: Annual Reports of ADBL, Nabil Bank & LBL

Appendix-V

Year	ADBL's NPLTL (%)	Nabil's NPLTL (%)	LBL's NPLTL (%)
2011/012	8.98	2.33	0.62
2012/013	5.85	2.13	1.51
2013/014	5.46	2.23	1.15
2014/015	5.35	1.82	1.30
2015/016	4.36	1.14	0.80
2016/017	4.60	0.79	0.93
2017/018	3.41	0.55	1.29

Source: Annual Reports of ADBL, Nabil Bank & LBL

Appendix-VI

Year	ADBL's NPLE (%)	Nabil's NPLE (%)	LBL's NPLE (%)
2011/012	13.76	15.11	12.52
2012/013	18.67	18.35	13.40
2013/014	13.54	15.18	16.42
2014/015	10.96	18.77	10.47
2015/016	16.33	14.38	8.59
2016/017	15.23	17.34	11.56
2017/018	15.12	13.76	12.84

Source: Annual Reports of ADBL, Nabil Bank & LBL

A COMPARATIVE FINANCIAL PERFORMANCEANALYSIS OF AGRICULTURAL DEVELOPMENT BANK, NABILBANK AND LAXMI BANK

A Thesis Proposal

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1.1 Background of Study

Nepal is a least developed country in the world. A large number of populations are still below the poverty line. The agro-dominated economy is further worsened by the complex geographical situation. Various factors like the landlocked situation, poor resource mobilization, lack of entrepreneurship, lack of institutional commitment, erratic government policies and political instability, etc. are responsible for the slow pace of development in Nepal.

Banking system occupies an important role in the economic development of a country. A banking institution is indispensable in a modern society. It plays a vital role in the economic development of a country and focus the core of the money market in an advance country. The basic function of the bank is to collect deposits as much as possible from customers and mobilize it into the most preferable and profitable sector like industry, commerce, agriculture, entertainment etc. Like other countries, Goldsmiths, merchants and moneylenders were the ancient bankers of Nepal. Tejarath Adda established during the tenure of the Prime Minister Ranoddip Singh (B.S. 1993) was the first step towards the institutional development of banking in Nepal. Tejarath Adda did not collect deposits from the public but gave loans to employees and public against the bullion. But the concept of modern banking institution in Nepal was introduced when the first commercial bank, Nepal Bank Limited (NBL) was established in 1994 B.S. under Nepal Bank act 1993 B.S. Being a commercial bank, it was natural that NBL paid more attention to profit generating business and preferred opening branches at urban areas. Nepal Rastra Bank (NRB) was set up in 2013 B.S. as a central bank under NRB act 2012 B.S. Since then it has been fluctuating as the government's bank and has contributed to the growth of financial sector. After this, government set up Rastriya Banijya Bank (RBB) in B.S. 2022 as a fully government owned commercial bank.

Hence, Industrial Development Center (IDC) was set up in 2013 B.S. for industrial development. In 2016, IDC was converted to Nepal Industrial Development Corporation (NIDC). Similarly, Agricultural Development Bank (ADB) was established in B.S. 2024 to provide finance for agricultural produces so that

agricultural productivity could be enhance by introducing modern agriculture techniques. The banking activities are getting very much dynamic as well as complex. Because of the higher return on investment, entrepreneurs were interested in setting of new bank including branches of foreign banks. However, current political and economic scenario of the country coupled with new prudential norms of Nepal Rastra Bank and stiff competition may make the entrepreneurs give a second thought to the idea of establishing banks.

1.2 Statement of the Problems

Establishment of banks concentrate only in urban area, like Kathmandu, Pokhara, Birgung, Hetauda, Biratnagar, etc. has raised certain questions. This application is not able to contribute the socio- economic development of the country where around 80% people live in rural and 79% of the population depends upon agriculture. These banks should expand their operation in rural areas. NRB, as the central bank has ruled that banks should invest 10% of their total investment in the rural areas. These banks are inclined to pay fines rather than investing their resources to such less profitable sector. The main objective of the bank is to collect deposits as much as possible from the customer and to mobilize into the most profitable and preferable sector.

The present study basically focused on the financial performance of Agricultural Development Bank Ltd (ADBL), Nabil Bank Ltd and Laxmi Bank Ltd (LBL).In Nepal, many banks and financial companies have opened up within a span of few years. Although, these three banks have managed to perform better than other local commercial banks within the short period of time they have been facing a neck competition against one another. Therefore, it is necessary to analyze the profitability position of ADBL, Nabil Bank Ltd. and LBL.Thus the present study seeks to explore the efficiency and comparative financial performance of ADBL, Nabil Bank Ltd. and LBL.

In Nepal, the profitability rate, operating expenses and dividend distribution rate among the shareholders has been found different in the financial performance of the threebanks in different period of time. The problem of the study will ultimately find

out the reasons about difference in financial performance. A comparative analysis of financial performance of the banks would be highly beneficial for pointing out their strengths and weaknesses. Although banks are considered efficient, but how far are they efficient? This question does emerge in banking sector. At present we have twenty eight commercial banks. In spite of rapid growth, some indicators show performance is not much encouraging towards the service coverage. In such a situation the study tries to analyze the present performance of banks, which would give the answers of following queries.

a) What are the financial strengths and weaknesses of ADBL, Nabil Bank Ltd. and LBL?
b) What is the current position of profitability and operating efficiency of Agricultural Development Bank Ltd., Nabil Bank ltd. and Laxmi Bank Ltd.

1.3 Objectives of the Study

The main objectives of the study is to evaluate and analysis the financial performance of these two banks i.e. ADBL, Nabil Bank Ltd. and LBL. And to recommend the suitable suggestion for improvement.

c) To analyze and compare the financial strengths and weaknesses of the selected commercial banks.
d) To evaluate the profitability and operating efficiency of Agricultural Development Bank Ltd., Nabil Bank ltd. and Laxmi Bank Ltd.

1.4 Significance of the Study

Commercial banks are not one of the major core components of modern economy. They give greater contribution to GDP too. The production of finance and real – estate sub sector is increasingly comparatively. However various financial sector liberalization programmes such as SAP and ESAP has been initiated with the loan and assistance of World Bank, IMF and ADB, the banking sector continued to be in though in this situation too. The slowdown in the economic segments has a definite impact on the banking sector too. Globalization and accession to WTO, South Asia

Free Trade Area (SAFTA) and BIMSTEC membership has invited more challenges as well as opportunities.

At this situation, the commercial banks should be more competitive. They should become financially strength/ healthy and must have growth potentially. In such a situation, this study tried to analyze and indicate the overall financial health whether they are capable to compete the challenges and grab to opportunities or not. So, the study basically covered the commercial banks falling in the same strategic group to be more meaningful. This study was conducted on based on top three, public sector, joint-venture andprivate sector commercial banks ranking by NEPSE according to their market capitalization ratio. Thus the study may be more fruitful and rationale totheir stakeholders at present situation, where the commercial bank becomes advancing through IT – integration.

1.5 Limitations of the Study

The following are the limitation of the present study:

- This study is limited to the comparative study of financial performance of three banks, ADBL, Nabil Bank Ltd. and LBL.
- This study is based on secondary data.
- This study has analyzed and evaluated of data to the latest seven years period.
- In this study, only selected financial and statistical tools and techniques are used.

1.6 Review of Literature

This section deals with the review of books, journals, articles and research works by different management experts relating to comparative financial performance analysis of two commercial banks from Nepal as well as from another countries.

Ogbari (2018) examined the comparative analysis of small business strategic orientations based on the presence of aggressiveness, futurity, riskiness, proactiveness and analysis and defensiveness for performance. This study

formulated four hypotheses for proper projection. Survey research design, purposive and simple random sampling technique were adopted for the study. Data were collected from selected Covenant University strategic business Units through the administration of questionnaires were sorted and analyzed using descriptive statistics, regression and Pearson correlation analysis. The study found that a positive effect between the various variables; product innovation and revenue turnover; research development and customer patronage; technological innovation and return on investment. It is recommended that SMEs need to be innovative and proactive as possible to enable their optimal navigation and improved productivity in whatever business environments they operate and also to foster more strategic improvisational actions that can bring out change, enhance operational efficiency and contribute to organizational performance and competitive advantage.

Rani (2017) examined the financial performance of Axis and ICICI Bank, both are private sector bank. This study is descriptive and analytical in nature. The data used for this study was entirely secondary nature. This study is conducted to compare the financial performance of Axis and ICICI Bank on the basis of ratios such as credit deposit, net profit margin etc. The period of study taken is from the year 2012-13 to 2016-17. This study found that Axis is performing well and financially sound than ICICI Bank but in context of deposits and expenditure ICICI bank has better managing efficiency than Axis bank. This study concluded that Axis Bank is more profitable deployed and operationally efficient than ICICI Bank. It is recommended that the banks invest more in interest bearing assets, mainly loans, to fully utilize their revenue generating capacity.

Hunjra (2014) examined the financial performance of Islamic and Conventional banks to support depositors, bank managers, shareholders, investors, and regulators by providing true picture of financial position of Islamic as well conventional banks in Pakistan. This study used ratio analysis technique to analyze financial performance of both banks. Data is collected from annual financial statements i.e. Balance sheet and Income statement for the period of 2008- 2012. Nineteen ratios were estimated to measure these performances in terms of profitability, liquidity, risk and solvency,

capital adequacy, operational, deployment and cash flow. Independent sample t test was used to determine significance of mean differences of these ratios between two banks. This study found that Conventional banks are more profitable, deployed and operationally efficient while less liquid and more risky as compared to Islamic Banks and also found a significant mean difference in profitability, capital adequacy, and cash flow ratio of both banks. The banks are recommended to increase performance of banks should conduct internal evaluation to improve its activities and to overcome weaknesses.

1.7 Methodology

Research methodology will follow to achieve the objectives of this research paper. The research methodology includes research design, population and sample, sources of data, data collection & processing procedure and data analysis tools & techniques. The research methodology is the way to solve the research problem in order to make any type of research systematically, which fulfils the objective of the study. This study will be based on both descriptive an analytical study in order to achieve the objective of the study. The relevant and needed data will collected through journals, newspapers, periodicals, bulletins, magazines, published, and unpublished reports from various sectors.

1.7.1 Research Design

It includes an outline of what the investigator will do from writing hypotheses and their operational implications to the final analysis of data. The structure of the research is more specific. It is the outline, the scheme and the standard of the operations of the variables, when we draw diagrams that outline the variables and their relation and just a position, we build structural schemes for accomplishing operational research purposes. Strategy, as will be used in research is also more specific than plan. In other words, strategy implies how the research objectives will be reached and how the problem encountered in the research will be tackled.

1.7.2 Nature and Source of Data

Mainly, the study will be conducted on the basis of secondary data. The required data will be extracted from balance sheet, profit and loss account and different financial schedules of concerned banks' annual report. Other supplementary data will be collected from a number of institutions and regulatory authorities like Nepal Rastra Bank, Nepal Stock Exchange and Security Board of Nepal and from different related websites. This study will be based on the historical data of 7 years periods.

1.7.3 Population and Sample

Population of this study will be all listed development banks in Nepal. At present, there are 28 commercial banks have been listed their shares in NEPSE which will have only been considered as population for the study, 3 commercial banks are selected as sample banks randomly. They are Agricultural Development Bank Limited, Nabil Bank Limited and Laxmi Bank Limited. In this research work, seven years period is taken. The annual reports of concerned banks for seven years are taken for the purpose of study and analysis. It covers the fiscal year from 2010/2011to 2016/2017.

1.7.4 Tools for Analysis

The accounting, financial and statistical tools will be applied for the analysis and interpretation of the data.

1. **Statistical tools**

   The following statistical tools will be applied for the analysis and interpretation of data.

a) **Mean**

Mean is a tool under the measures of central tendency. It is a quantitative average figure for a given series of data. In this thesis, this tool will be used to measure the periodic average of different components.

b) Standard deviation

Standard deviation is an absolute measure of dispersion. This helps to show thedeviation or risk in a series of data.

c) Coefficient of variation

Coefficient of variation is a relative measure of dispersion. It is the deviation or risk in per of data.

2. Financial tools

A. Capital Adequacy

a) Total Capital Adequacy Ratio(CAR)
b) Core Capital Adequacy Ratio (CCAR)
c) Supplementary Capital Ratio(SCR)

B. Asset Quality

a) NPLs to Total Loans
b) NPLs to Equity
c) Loan Loss Provision Ratio
d) Loan Loss Coverage Ratio

C. Management Efficiency

a) Net Income Per Employee
b) Expenses Per Employee

D. Earning Capacity

a) Return On Equity(ROE)
b) Return On Asset(ROA)
c) Net Income to Loan and Advance

E. Liquidity

a) Cash Reserve Ratio(CRR)
b) Credit Deposit Ratio(CDR)

1.8 Chapter Plan

The study is structured into five chapters:

Chapter I: Introduction

This chapter includes the background information of the subject matter of research undertaking to provide a general idea of its history. Likewise it also includes statement of problem, objectives of study, significance of the study, limitation and organization of study.

Chapter II: Literature Review

This chapter comprises the reviews of relevant previous writing and studies to find the existing gaps. It includes conceptual framework regarding banks and performance analysis of financial institutions, and review of related studies. Review of journal, books, thesis and newspaper is also included in this chapter.

Chapter III: Methodology

This chapter describes about the methodology used in the study. This includes the population, sample, sampling procedures and sources of data. It also comprises the research design employed along with the various financial and statistical tools used in the study.

Chapter IV: Results

This chapter is the main part of this study; it presents the data and information collected from secondary sources. Chapter four comprises of presentation and analysis of data and major findings. The data collected after processing have been presented using figures and results of statistical analysis are interpreted in this chapter.

Chapter V: Conclusions

This chapter is for major findings, summary, conclusion and recommendation. Finally, references and appendices are also included at the end of the study.

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