A STUDY ON FINANCIAL PERFORMANCE OF AGRICULTURE DEVELOPMENT BANK LIMITED (ADBL)

By:

LESHKUMAR SHRESTHA

Roll No: 1421 / 061

T. U. Reg. No: 1559 – 92

Shanker Dev Campus

Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

In Partial Fulfillment of the Requirements for the Degree of

Masters of Business Studies (M. B. S)

Kathmandu, Nepal

June, 2010

RECOMMENDATION

This is to certify that the thesis:

Submitted by

LESHKUMAR SHRESTHA

Entitled

A STUDY ON FINANCIAL PERFORMANCE OF AGRICULTURE DEVELOPMENT BANK LIMITED (ADBL)

Has been prepared as approved by this department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

______________________	________________	__________________
Asso. Prof Dr. Shilu Manandhar Bajracharya	Prof. Bisheshwor Man Shrestha	Prof. Dr. Kamal Deep Dhakal
(Thesis Supervisor)	(Head of Research Department)	(Campus Chief)

Date: ………………………..

VIVA - VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by

LESHKUMAR SHRESTHA

Entitled

A STUDY ON FINANCIAL PERFORMANCE OF AGRICULTURE DEVELOPMENT BANK LIMITED (ADBL)

And found the thesis to be the original work of the student written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for Master's Degree in Business Studies (M.B.S.)

Viva-Voce Committee

Head of Research Department ……………………………

Member (Thesis Supervisor) ....…......................

Member (Thesis Supervisor) ....…......................

Member (External Expert) …………………………….

DECLARATION

I here by declare that the work reported in this thesis entitled “A STUDY ON FINANCIAL PERFORMANCE OF AGRICULTURE DEVELOPMENT BANK LIMITED (ADBL).” submitted to Office of the Dean, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfillment of the requirement of Master of Business Studies (MBS) under the guidance and supervision of Associate Professor Dr Shilu Manadhar Bajracharya of Shanker Dev Campus.

Researcher

LESHKUMAR SHRESTHA

Roll No: 1421 / 061

ACKNOWLEDGEMENT

This entitled thesis “A STUDY ON FINANCIAL PERFORMANCE OF AGRICULTURE DEVELOPMENT BANK LIMITED (ADBL)” has been prepared for the partial fulfillment of the requirement of Master’s Degree of Business Studies (M.B.S) under the Faculty of Management, Tribhuvan University, is based on research models involving the use of quantitative as well as qualitative aspect of Investment practices.

I wish to extend my deep sense of indebtedness to my thesis supervisor Associate Prof. Shilu Manandhar Bajracharya of shanker Dev of College who provided me valuable guidelines, insightful comments, encouragement and generous treatment to complete this thesis. Similarly, I also extremely indebted to all the lecture of Shankar Dev Campus, who encourages me in my entire academic attempt.

I express my heartfelt gratitude to my parents and all my family members as well as all friends and colleagues. Without their cordial cooperation this work could have been very difficult for me. Similarly, at last special thanks goes to Mr Ram Limbu to help me to every step of thesis work.

Thank You.

LESHKUMAR SHRESTHA

Roll No: 1421 / 061

TABLE OF CONTENTS

LIST OF TABLE

LIST OF FIGURE

Page No

ABBREVIATION

ADBL	Agricultural Development Bank Limited
AGM	Annual General Meeting
BOK	Bank of Kathmandu Limited
BPS	Book-value Per Share
BS	Bikram Sambat (Abbreviation of Bikram Era)
CEO	Chief Executives Officer
CV	Coefficient of Variation
DPS	Dividend per Share
EBL	Everest Bank Limited
EPS	Earning Per Share
GDP	Gross Domestic Product
HBL	Himalayan Bank Limited
G/N	Government of Nepal
IMF	International Monetary Fund
MBL	Machhapuchre Bank Limited
MPS	Market Price of Share
NABIL	Nabil Bank Limited
NBL	Nepal Bank Limited
NEPSE	Nepal Stock Exchange

NIB	Nepal Investment Bank Limited
NICB	Nepal Industrial & Commercial Bank Limited
NPV	Net Present Value
NRB	Nepal Rastra Bank
PE	Price Earnings
RBB	Rastra Banijya Bank
SBI	Nepal State Bank of India Limited
SCBNL	Standard Chartered Bank Nepal Limited
SEBO/N	Security Board of Nepal

CHAPTER – I

INTRODUCTION

1.1 Background of Study

A bank is a financial institution, which can play significant role in the upliftment of the economic situation of the developing country like Nepal. Bank plays a vital role to encourage thrift and discourage hoarding by mobilizing the resources and removing the habit of hoarding. They peruse economic growth rapidly, developing the banking habit among the people by collecting small scattered resources in one bulk, using them in further productive purpose and rendering the valuable services to the country. Commercial bank deals with the offer of collected deposits and provides the loan for commercial purpose. Commercial Bank Act (2031BS) states, "Accepting deposits granting loan and performing commercial banking functions are the main motto of commercial bank". In the other words, commercial bank's facilities also become right hand for the growth of trade and industry of national economy of developing country like Nepal.

In case of the history of bank, an institutional banking system came in to existence in Nepal only in the 19th century. Nepal Bank Limited was the first financial institutional of Nepal established on the 30th of Kartik 1994 B.S. Being a commercial bank, it focuses on income generating and profit maximization. As it was only one commercial bank has to look the economic condition of the country. Only one Nepal bank Limited was not sufficient to look all the sector of country. So in 2013 BS another bank names "Nepal Rastra Bank" was established as the central bank of Nepal to regulate and control banking management system of country. Then in 2022 B.S. "Rastriya Banijya Bank" was established under Rastrya Banijya Bank Act 2021. This act is now revised as commercial bank act 2031B.S. For the development of industry, commerce and trade, Nepal Industrial Development Corporation was established under Industrial Development Corporation act 2016. For the development of agricultural sector, Agricultural Development Bank was established on Magh 7th 2024 B.S., under Agricultural Bank Act 2024.

The joint venture bank was introduced in Nepal (2041 B.S.) with the establishment of Nabil Bank Ltd. Nepalese government kept on liberalizing the economic policies and improving the infrastructure. As a result, Nepal Indosuez Bank Limited and Nepal Grindlays Bank Limited were established in 6th Magh 2042 B.S. and 16th Marga 2043B.S. respectively. Nepal Grindlays bank Limited is now being operated with new ownership and name, Standard Chartered Bank Nepal Limited. After restoration of democracy in Nepal in 2046B.S government adopted liberalized and market oriented economic policies that created conductive environment for the development of banking sector. As a result various joint venture commercial banks are established one after another. Up to FY2009/2010 there are twenty seven commercial banks are operating their banking activities.

Commercial banks are major financial institution, which occupy quite an important place in the framework of every economy because they provide capital for the development of industry, trade and business and other resources deficit sectors by investing the saving collected as deposit. Beside the, commercial banks render numerous services to their customers in view of facilitating their economic and social life. Commercial banks, by playing active roles, have changed the economic structure of the world. Thus commercial bank became the heart of financial system.

The role of commercial banks in economy is obviously prime requisite in the formulation of bank's policy. A key factor in the development of the country is the mobilization of domestic resources and their investment for productive use to the various sectors. To make it more effective commercial banks formulate sound investment policies, which eventually contribute to the economy of a country. The sound investment policies help commercial banks to maximize quality and quantity of investment and thereby, achieve the own objectives of profit maximization and social welfare. The banking sector has to play development role to boost the economy by adopting the growth oriented investment policy and building up the financial structure for future economic development. Formulation of sound investment policies and coordinated and planned effort forward the forces of economic development because it ensures efficient allocation of funds to achieve the material and economic well being of the society as a whole. In this regard, commercial banks investment policy is also a push drive to achieve priority of industries in the context of Nepal's economic development. Investment policy is one fact of the overall spectrum of policies that guide banks investment operation. A healthy development of any bank depends upon its investment policy.

A good investment can be effective on for the economy to attain the economic objective directed towards the acceleration of the pace of development. A good investment pattern attracts both borrowers and lenders, which helps to increase the volume and quality of deposit, loan and investment. The load provided by commercial bank is guided by several principles such as length of time, their purpose, profitability, safety etc. These fundamental principles of commercial banks investment are considered while making investment policy. Nepalese commercial banks lag far behind fulfilling the responsibilities to invest in the crucial sector of the economy for the enlistment of the national economy. Thus the problem has become very serious one in developing countries like Nepal, which can be solved through formulation of sound investment policy. Sound investment policy can minimize interest rate spread and non-performing assets, which cause the tank failure. Good investment policy ensures maximum amount of investment to all sectors with proper utilization. Formulation amount of investment policies and co-ordinate and planned efforts depends upon the growth of not only a particular bank but also of a society.

1.2 Brief Profile of Agriculture Development Bank (ADBL)

With the main objective of providing institutional credit for enhancing the productivity of the agricultural sector in the country, the Agricultural Development Bank, Nepal was established in 1968 under the ADBL Act 1967, as successor to the cooperative Bank. The Land Reform Savings Corporation was merged with ADBL Act 1967, as successor to the cooperative Bank. The Land Reform savings corporation was merged with ADBL in 1973. Subsequent amendments to the Act empowered the Bank to expand the scope of financing to promote cottage industries. The amendments also permitted the bank to engage in commercial banking activities for the mobilization of domestic resources. Agricultural Development Bank Limited (ADBL) is an autonomics organization largely owned by Government of Nepal. The bank has been working as a premier rural credit institution since the last three decodes, contributing as more than 67% institutional credit supply in the country. Hence, rural finance if the principle operational area of ADBL. Besides it has also been executing small farmers Development program (SFDP) was initiated for financing small formers on group liabilities in order to boost up the socio-economic condition of rural populace. In 1984, the amendment of the Act also permitted ADBL to extend its wing in commercial banking activities so as to mobilize urban resources in the rural areas of the country. In 1993, ADBL initiated farmers’ co-operative approach by transferring SFDP into the small Farmers’ cooperative Limited (SFCL).

The enactment of Bank and Financial Institution Ordinance (BAFIO) in February 2004 abolished all Acts related to financial institutions including the ADBL Act, 1967. In line with the BAFIO, ADBL has been incorporated as a public limited company on July 14, 2005. Thus ADBL operates as a “A” category financial institution under the legal framework of BAFIO and the company ct, 2053. ADBL is a sole financial institution in the country maintaining its activities by three major windows namely Development financing, Commercial Banking and Small framers development. Through these sectors it is contributing more than 79% of institution credit to the real populace by strengthening its network in the entire geographical region the mountains the Hills and the Tarai.

ADBL operates as an autonomous body that has been controlled by the Ministry of finance. The ADBL has in total 13 billion rupees of an authorized capital, by which Rs. 11.2 Billion rupees is paid-up Capital.

Capital	**Present (**Amount**)**
Authorized Equity capital	13000 million
Issued Equity capital	11900 million

Paid up Equity capital	10777 million

Vision:-

ADBL aims to be the pre-eminent bank, providing banking services through out Nepal.

Mission:-

To deliver comprehensive bank and financial services capitalizing on in expensive network with particular reference to the development the rural economy.

Objective:-

To provide quality banking and financial services to links through the adoption of a market driver strategy delivering sustained and competitive return on investment.

Main Function of the ADBL:

The Major functions of the ADBL are to:

- Provide a full and balanced range of financial products and services that satieties the needs of the customers on a profitable and sustainable basis.
- Strive constituting to provide improved products and services to its clients at reasonable cost using modern unified banking communication and information technology.
- Execute full fledged commercial banking functions using the concept of unified banking operation.
- Provide short, medium and long term agricultural credit to individual farmers, small farmers groups and co-operative societies.

- Provide project loan for agricultural business, cottage and small scale industries, alternative energy based on feasibility study.
- Provide credit on non- agricultural business and other marketing facilities.
- Develop mutually acceptable relationship with government in the pursuit of improvement in living standards in rural areas while respecting best financial practices.
- Provide credit to priority sector program of Government of Nepal.
- Develop competent and professional human resources.
- On the way of executing its main function in the financial market,

1.3. Statement of Problems

Various numbers of commercial banks are increasing in Nepal day by day. There is high flow of money in the market but less viable and investable projects. In the current situation there is mismatch of deposit and investable funds of banks. Therefore, the introduction of a new bank is just sharing a cake rather than pumping new capital or new technology, as Nepalese market is almost felt safeguarded. Few commercial banks are continuously making profit and satisfying their shareholders and returning them adequate profit. This has attracted the potential customers to power their money into banks, as there are very few sectors to make profitable investment and the investors are always reluctant to risk. They do not take initiation to invest in other sectors. Therefore, commercial banks have a lot of deposits but a very little investment opportunity.

There are 27 commercial banks operating in Nepal. They collected adequate amount from the mass, however they could not find or locate new investment sectors required to mobilize their funds on the changing context of Nepal. Many banks are increasing liquidity, has caused a downward trend in investment sectors.

It has ensued bad impacts on interest rate to the depositors, lower dividend to the shareholders, lower contribution to national revenues market value of shares etc. For the assessment of such adverse impact, this study has liquidity position of commercial banks

It is difficult to solve the credit problems of the country through commercial banks. Which are reluctant to enter rural and agriculture area. To overcome these challenges Agricultural

Development Bank Ltd. has started various programs with various wings of the Agricultural Development Bank Ltd. with opening branches in rural areas. Small farmers who are involving in agro-sector are benefited by the small farmers development program (SFDP). Large-scale farming facilitates from the development sector of the Agricultural Development Bank Ltd., Nepal and urban people facilitate by the commercial banking sector of ADBL.

Thus, the present study will make an attempt to analyze comparative study on financial performance of ADBL bank ltd. Special problem related the commercial banks in Nepal have been presented briefly as follows:

- What are the financial and investment position of ADBL?
- What is the liquidity, efficiency of assets management, profitability and risk position of concerned commercial banks?
- What are the conditions of the ADBL investment and collection (principal and interest) procedure?
- What is the condition of bank in order to fund mobilization and investment policy for more effective and efficient?
- What is the empirical relationship between the variables that affect financial performance of banks?
- What is the condition of the non-performing assets (NPA) of ADBL?
- What is the relationship of investment, loan and advances with total deposits and net profit?

1.4 Objectives of the Study

The basic objective of this study is the evaluation of the financial performance ADBL. The specific objectives of this study are as follows:

- To identify the financial position and investment activities of ADBL
- To evaluate the financial performance in terms of the liquidity, activity, profitability, leverage and assets utilization as well as non-performing assets of ADB
- To see the relation and trend of total deposit and loan and advance, investment asset and net profit of ADBL.

- To recommend suggestions for the better performance of the banks based on the findings of the analysis.

1.5 Significant of the Study

This study mainly filling gap the study of financial performance of concerned banks. Especially, this study deals with comparative study of investment policy of Agriculture Development Bank Ltd. of Nepal. The ADBL is mandated by Government of Nepal to provide financial services to the rural population to stimulate income and generate employment in remote areas. This study will find the strengths and weaknesses of the Bank by analyzing the opportunities and threats in its overall conduct in the real ground. This study will also be an important support to the management owner clients, steak holders and other interest groups in analyzing the Bank's economic strength and performance efficiency. As it is a well know fact that the Development Banks can affect the economic condition of the whole country .It will be helpful to the policy makers while formulating the policy regarding ADBL and people can understand how benefit is taking by them from the semi-government banks. The study is basically confined to review the financial performance and investment polices of the banks during the five years period. This study is expected to provide a useful feedback to the policy maker of banks and also to the government and central bank (NRB) to formulate the appropriate strategies for improvement in the performance of banks. Moreover, this study can also be used as reference point by the international organization like ADB, World Bank etc.

1.6 Limitation of the Study

This study is about the financial performance of ADBL. Every research has its own limitation, which are as follows: this research done for Partial Fulfillment of the Requirements for the Degree of Masters of Business Studies (M. B. S). The main limitations are as follows

1. The study is mainly based on secondary data collected from the banks. Research based on secondary data may be far from accuracy due to inherent character.
2. A whole study is based on the data of five years period i.e. from fiscal year 2004 to 2009 and hence the conclusion drawn confines only to the above period.
3. This study concentrates on Deposit, Loan and Advances, Investment on Securities, Total Assets, Equity Capital, Net Profit and Market Price per Share related to investment.
4. This study is focused on financial performance of ADBL.
5. Source of data are mostly dependent on published annual report, annual programmed and budget of the bank, thus it is based on the secondary data.

1.7. Organization of the Study

The present study is organized in such way that the stated objectives can easily be fulfilled. The structure of the study will try to analyze the study in a systematic way. The study report has presented the systematic presentation and finding of the study. The study report is designed in five chapters which are as follows:

Chapter-I: Introduction

This chapter describes the basic concept and background of the study, commercial bank in Nepal, introduction of sample bank. Similarly, statement of problems, objectives of the study and need or significance of the study. It is oriented for readers for reporting giving them the perspective they need to understand the detailed information about coming chapter.

Chapter-II: Review of literature

The second chapter of the study assures readers that they are familiar with important research that has been carried out in similar areas. It includes review of books, review of related articles and studies and previous thesis as well.

Chapter-III: Research Methodology

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. It describes about the various source of data related with study and various tools and techniques employed for presenting the data.

Chapter-IV: Presentation and Analysis of data

This chapter analysis the data related with study and presents the finding of the study and also comments briefly on them.

Chapter-V: Summary, Conclusion and Recommendation

On the basis of the results from data analysis, the researcher concluded about the performance of the concerned organization for better improvement.

Bibliography and other appendixes used in statistical results have been attached at the end of the study.

CHAPTER - II

REVIEW OF LITERATURE

In this part, focus has been made on the conceptual framework and the review of literature that is relevant to the financial performance of commercial banks. This chapter is basically concerned with review of literature relevant to the comparative study of financial performance of ADBL. So, every possible effort has been made to grasp knowledge and information that is available from libraries, document collection centers, magazines and concerned commercial banks.

Reviewing and studying process has helped to take adequate feedback to broaden the information bases and inputs to this study. Here mainly two parts conceptual framework & review of related research work are included for the bases and to make the study more purposive.

1. Conceptual Review
2. Review of Journal and articles
3. Review of Thesis

2.1 Conceptual Review

2.1.1 Bank

Banking, transactions carried on by any individual or firm engaged in providing financial services to consumers, businesses, or government enterprises. In the broadest sense, banking consists of safeguarding and transfer of funds, lending or facilitating loans, guaranteeing creditworthiness, and exchange of money. These services are provided by such institutions as commercial banks, savings banks, trust companies, finance companies, and merchant banks or other institutions engaged in investment banking. A narrower and more common definition of banking is the acceptance, transfer, and, most important, creation of deposits. This includes such depository institutions as commercial banks, savings and loan associations (more common in the United

States), building societies, and mutual savings banks. All countries subject banking to government regulation and supervision, normally implemented by central banking authorities. For further information on central banks and investment banking, see the relevant articles.

2.1.2 Concept of Commercial Bank

Commercial banks are the heart of the financial system. They hold the deposits of many persons, government establishment and business units. They make fund available through their lending and investing activities to borrowers, individual business firms and services from the producers to customers and the financial activities of the government. They provide a large portion of the medium of exchange and they are media through monetary policy is affected. These facts show that the commercial banking system of the nations is important for the functioning of the economy.

Banks are business firm; like Frisbee Manufacturer, fast food chains and textbook publishers, bankers buy inputs, message them a bit, burn a little incense, say the magic words, and out pop some output from the oven. If there lick holds, they sell the finished product for more than it costs to buy the raw materials in the first place. For bankers, the raw materials are money.

Evaluation of financial performance is a study of overall financial position of any organization. It is closely related to the decision making. In the modern context, it gives vital support for the investment decisions, financing decisions and dividend decisions. Financial performance analysis is undergone with the help of periodically made financial statements of the firm.

2.1.3 Financial Statements

“The Financial Statements are the means of presentation of a firm's financial condition and basically consist of two types of statements - The Balance Sheet & Income Statement. These are prepared to report the overall business activities as well as financial status of the firm for a specified period to its stakeholders. These contain summary of information regarding financial affairs that is organized systematically. The top management is responsible for preparing these statements.

The basic objective of financial statements is to assist in decision making. The analysis and interpretation of financial statements depend on the nature and type of information available. Hence financial statement refers to any formal and original statement that discloses the financial information related to any business concern during a period. The income statements and balance sheet usually prepared at the end of each financial year show the firm's position.

A) Balance Sheet

Balance sheet is one of the basic financial statements of an enterprise. It is also called the fundamental accounting report. As the name suggests, the balance sheet provide information about financial standing or a position of a firm at a particular point of time usually end of the financial year. It can be visualized as a snapshot of the financial status of a company.

Balance sheet summarizes the assets, liabilities and owner's equity of a business at a moment of time, usually at the end of the financial year. Balance sheet is a financial statement, which contains information regarding different capital expenditures made on purchase of assets on particular date and information regarding various sources of funds acquired by the business concern to finance these assets and also the different sources of capital and liabilities at that particular point of time.

B) Income Statement

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

2.1.4 Financial Performance Analysis

Financial Analysis is the process of determining financial strengths and weaknesses of a company by establishing strategic relationship between the components of a balance sheet and profit and loss statement and other operative data.

Financial Statement Analysis involves the use of various financial statements. These statements perform several things. First, the balance sheet summarizes the assets, liabilities and owner's equity of a business at a moment in time, usually the end of a year or a quarter. Next, the income statement summarizes the revenues and expenses of the firm over a particular period of time, again usually a year or quarter. While the balance sheet represents a snapshot of the firm's financial position at a moment in time, the income statement depicts a summary of the firm's profitability over time. From these two statements certain derivate statements can be produced, such as statement of retained earnings, a sources and uses of funds statements and a statement of cash flows.

"Financial Analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account" *(Pandey; 2004:560).* "Analyzing financial statements is a process of evaluating relationship between component parts of financial statements to obtain a better understanding of a firm's position and performance" *(Metcalf; 1976:157).*

"Financial Statement Analysis allows managers, investors and creditors as well as potential investors and creditors to teach conclusion about the recent and current status of a corporation.

The checking of financial performance in a business deserves much attention in carrying out the financial position. It also requires to retrospective analysis for the purpose of evaluating the wisdom and efficiency of financial planning. Analyzing of what has happened should be of great value in improving the standards, techniques and procedures of financial control involved in carrying out finance function” *(Kuchhal; 1982).*

The four basic statements contained in the annual report are the balance sheet, the income statement the statement of the retained earnings and the statement of cash flows. Investors use the information contained in these statements to form expectations about the future levels of earnings and dividends and about the risks of these expected values. Financial statement analysis generally begins with the calculation of a set of a financial ratios designed to reveal the relative strength and weakness of a company as compared to other companies in the same industry, and to show whether the firm's position bas been improving or deteriorating over time. Financial analysis is that sort of calculation, which is done with the help of annual report and the annual report would contain the essentials for such analysis. So the data retrieved from the annual report is indispensable for the financial analysis. It is both an analytical and judgmental process that helps answer questions that have been properly posed. Therefore, it is means to end. Apart from the specific analytical answer, the solutions to financial problems and issues depend significantly on the views of the parties involved, the related importance of the issue and on the nature and reliability of the information available

Financial appraisal is a scientific evaluation of profitability and financial strength of any business concern. Financial appraisal is the process of scientifically making a proper, critical and comparative evaluation of the profitability and financial health of a given concern through the application of the techniques of financial statement analysis. A complete financial analysis and interpretation of financial statement involves the assessment of past business performance, an evaluation of the present condition of the business and the predictions about the future potential for achieving expected or desired results.

“Financial statement analysis involves a comparison of firm’s performance with that of other firms in the same line of business which often is identified by the firm's industry classification. Generally speaking, the analysis is used to determine the firm's financial position in order to identify its current strengths and weakness and to suggest actions that might enable the firm to take advantage of the strengths and correct its weaknesses” *(Weston and Fred; 1996:78).*

Financial Performance Analysis is used primarily to gain insight into operating and financial problems confronting the firms with respect to these problems. We must be careful to distinguish between the cause of problem and symptom of it. It is thus an attempt to direct the financial statements into their components on the basis of purpose in the one hand and establish relationships between these components and between individual components and totals of these items on the other. Along with this, a study of various important factors over the past several years is also undertaken to have clear understanding of changing profitability and financial condition of the business organization.

Much can be learnt about business performance and financial position through appraisal of financial statements, the appraisal or analysis of financial statements spotlights the significant facts and relationship concerning managerial performance, corporate efficiency, financial strength and weakness and credit worthiness that would have otherwise been buried in a maze of details.

2.1.5 Objectives of Financial Performance Analysis

Financial Analysis enables us to explore various facts related to the past performance of business and predicts about the future potentials for achieving expected results. Major objectives of analysis of financial statement are to assess various factors in relation to the business firm as presented below.

- The present and future earning capacity or profitability of the concern
- The operational efficiency of the concern as a whole, and of its various parts or

departments.

- The short-term and long-term solvency of the concern.
- The comparative study regarding to one firm with another firm.
- The possibility of developments in the future making future forecasts and preparing budgets.
- The financial stability of business concern,
- The rea1meaning and significance of financial data,
- The long term liquidity of its fund.

2.1.6 Need of Financial Performance Analysis/ Financial Statement Analysis

The need for the Analysis of financial statement arises in order to address the following questions.

- How was the firm doing in the past? Was there any problem? If so, in what Area?
- How it is doing at present? Is it doing better compared to the past performance, competitors and industry average? Is there any problem at present? If so, in what areas?
- What about the future? Is there any likely problem on the way in the future and what will its position be in the future?
- What corrective actions can be taken now to solve the problems and improve the performance? How will the recommendation of any course of actions or changes in the policy or practice help solve problems and improve the company's position?
- What are the expected results of recommendations? Are there any improvements?

2.1.7 Significance of Financial Analysis

Significance of Analysis lies on the objectives of financial analysis of any firm. The facts discovered by the analysis are perceived differently by different groups associated with the concern. The facts and the relationships concerning managerial performance, corporate efficiency, financial strengths and weaknesses and credit worthiness are interpreted on the basis of objectives in the hand.

Such Analysis leads management of an enterprise to take crucial decisions regarding operative policies, investment value of the firm, internal financial control system and bargaining strategy for funds from external sources.

"The parties that are benefited by the results or conclusion drawn from the analysis of financial performance can be numerated as

4. Top Management
5. Creditors
6. Shareholders
7. Economists
8. Labor Unions

A) Top Management

The responsibility of the top management is to evaluate:

1. Are the resources of the firm has been used effectively and efficiently?
2. Is the financial condition of the firm sound enough?
3. On the basis of past facts, firms can anticipate their future. Hence, top management can measure the success or failure of a company's operations, determine the relative efficiency of various departments, process and products appraise the individual's performance and evaluate the system of internal audit.

B) Creditors

The creditors can find out the financial strength and capacity of the borrower to meet their claims. Trade creditors are interested in the firm's ability to meet their claims over a short span of time. The suppliers of long term debt focus upon the firm's long term solvency and survival. A lending bank through and analysis of these statements can decide whether the borrower retains the capacity of refunding the principal and paying interest in time or not.

C) Shareholders

The shareholders, who have invested their money in the firm' s shares are most concerned about the firm's earning. They evaluate the efficiency of the management and determine about the necessity for the change. In large company the shareholder's interest is to decide whether to buy, sell or hold the shares. They wish to buy the shares in case of sound performance of the firm where as they simply intend to hold the shares in the condition of satisfactory performance. But they are hurried to sell the shares in case of poor performance.

D) Economists

To diagnose the prevailing status of business and economy, economists analyze the financial statements (of any firm). The government agencies analyze them for the purpose of price regulation; rate setting and similar other purposes.

E) Labor Unions

Productivity is the synonym of well-motivated labors. Labor unions are interested in rights and benefits of labor to enhance the moral of labors. For further motivation they expect increase in wages, fringe benefits and so on. These benefits are affected by the company's profitability condition. Therefore the union assesses the financial condition of the firm to determine whether the firm is in the situation or not to make such facilities available.

2.1.8 Process of Financial Performances Analysis

Financial Analysis basically financial statement analysis, is a technique of answering various questions regarding the performance of a firm in the past, present and the future on the basis of past performance. The analysis recommends the steps to be taken by financial managers while undergoing the assessment of financial position.

The questions, that as elucidated above create the need to follow certain steps such as first identification and analysis of problem in order to come up with appropriate recommendations, and then to project the expected results and examine them if there are improvements before implementing such recommendations. The following chart presents the process to be followed in the analysis of financial statements.

2.1.9 Types of Financial Performance Analysis

The nature of financial Analysis differs according to the purpose of the analyst. a distinction may be drawn between various types of financial analysis either on the basis of material used for the same or according to the modus operandi of the analysis.

A) According to material used

1. External Analysis

It is made by those who do not have access to the detailed records of the company. This group, which has to depend almost entirely on published financial statements, includes investors, credit agencies and governmental agencies regulating a business in a nominal way.

2. Internal Analysis

The internal analysis is accomplished by those who have access to the books of accounts and all other information related to the business. While conducting this analysis, the analyst is a part of the enterprise he is analyzing. Analysis for managerial purpose is the internal type of analysis and is conducted by executives and employee of the enterprise as well as governmental and court agencies which may have major regulatory and other jurisdiction over the business.

B) According to Modus Operandi Analysis

1. Horizontal Analysis

When Financial Statements for a number of years are reviewed and analyzed, the analysis is called horizontal analysis. As it is based on data from year to year, rather than on one date or period of times as a whole, this is also known as dynamic analysis.

2. Vertical Analysis

It is frequently used for referring to ratios developed for one date or for one accounting period. It is also called static analysis.

C) According to Objective

1. Long Term Analysis

This is made in order to study the long term financial stability, solvency and liquidity as well as profitability and earning capacity of a business concern. For the long run success of a business concern, this analysis helps in the long term financial planning.

2. Short Term-Analysis

This is made to determine the short-term solvency, stability and liquidity as well as earning capacity of the business. This analysis is helpful for short term financial planning.

2.1.10 Techniques of Financial (Statement) Analysis

The fundament of the analytical technique is to simplify or reduce the data under review to the understandable terms. There are various tools and techniques of financial statement analysis, each of which is used according to the purpose for which the analysis is carried out. The widely used techniques are as follows:

a. Ratio Analysis

b. Du Pont System of Financial Statement Analysis

c. Common Size Analysis

d. Funds Flow Analysis

e. Cash Flow Analysis

a. Ratio Analysis:

Ratio Analysis has been used as a major tool in the interpretation and evaluation of financial analysis. The term ratio refers to the numerical quantitative relationship between the two items/variables. A ratio is calculated by dividing one item of the relationship with the other base. In financial analysis, a ratio is used as a yardstick for the evaluation of financial performance of the firm. "The analysis of financial ratio involves two types of comparison. First, the present ratio may be compared with the past and expected future ratios for the same company and second, the method of comparison involves comparing the ratios of one firm with those of similar firm or with industry averages at the same point, in time. Such comparison gives insight into the financial performance of the firm." Ratio analysis is widely in use. It may not give the entire picture of an enterprise. Ratios themselves are not conclusion. They are only the means. The Ratios are calculated from data available in the financial statement of an enterprise. The Ratio completed from the available data are numerical, there should not be the tendency to regard them as a precise portrayals of a firm true financial status. For some firms, accounting data may closely approximate economic reality, for others, it is necessary to go beyond the figures in order to obtain their financial condition of performance.

Types of Ratios

Different Ratios can be calculated from the available data in the financial statement. Broadly Ratios are classified in four groups. They are:

i) Liquidity ratios

ii) Capital structure/leverage ratios

iii) Activity (assets management) ratios

iv) Profitability ratios

i) Liquidity Ratio

Liquidity refers to the ability of enterprises to pay its current liabilities. Liquidity implies the utilization of such funds of the firm which are idle or in very little amount. A proper balance between the two contradictory requirements i.e. liquidity and profitability are required for the efficient financial management. The more current assets associated with high liquidity and low profitability and vice versa. The less current Ratio and quick Ratio are the most widely used ratios for the general purpose to measure the liquidity position of an enterprise.

ii) Capital Structure/Leverage Ratios

The Capital Structure/Leverage Ratio is associated with the long -term solvency of an enterprise. The long -term creditors would judge the soundness of a firm on the basis of long term financial strength measured in terms its ability to pay the interest regularly as well as repay the installment of principal due to dates or in one lump sum at the time of maturity. Leverage Ratios show how much of an enterprise's fund are financed by debt & equity. These Ratios also show the prospects for future financing.

The Capital Structure Ratio indicates the soundness of capital structure of an enterprise. It can be calculated on two ways. The first approach is to examine what proportion of borrowed capital occupies the capital structure i.e. calculated the Debt to Total Capital Ratio. The second approach is to examine the number of times the interest earned covered by earnings and to calculate the fixed charges covered by earnings.

iii) Activity Ratio

An Activity Ratio may be defined as the test of relationship between sales and various types of Activity Ratios. Activity Ratios are employed to evaluate the efficiencies with which the firm manages and utilizes its assets. These Ratios are also called Turnover Ratios because they indicate the speed with which the assets are being covered or turned over into sales. So Activity

Ratios presume that there exists an appropriate relationship between sales and various assets. The more important Activity Ratios for general -purpose analysis are Inventory Turnover Ratio, Total Assets Turnover Ratio, Fixed Assets Turnover Ratio, Capital Employed Turnover Ratio etc.

iv) Profitability Ratio

Profitability is very important aspect of management of any enterprise. It shows the overall performance of an enterprise. The Profitability Ratios are calculated to measure the operative effectiveness of an enterprise. Besides management of the company, creditors and owners are interested in the Profitability Ratios of the firm. Profitability Ratios can be calculated on the basis of either sales or investment. The important Profitability Ratios, calculated in relation to sales are Net Profit Margin, Gross Profit Margin, and Operating Expenses Ratio etc. Similarly, the important Profitability Ratios, calculated in relation to investment are Return on Shareholders' Equity, Return on Capital Employed, and Return on Fixed Assets etc. Together these Ratios indicate the firm's efficiency of operation *(Panday; 1998: 133).*

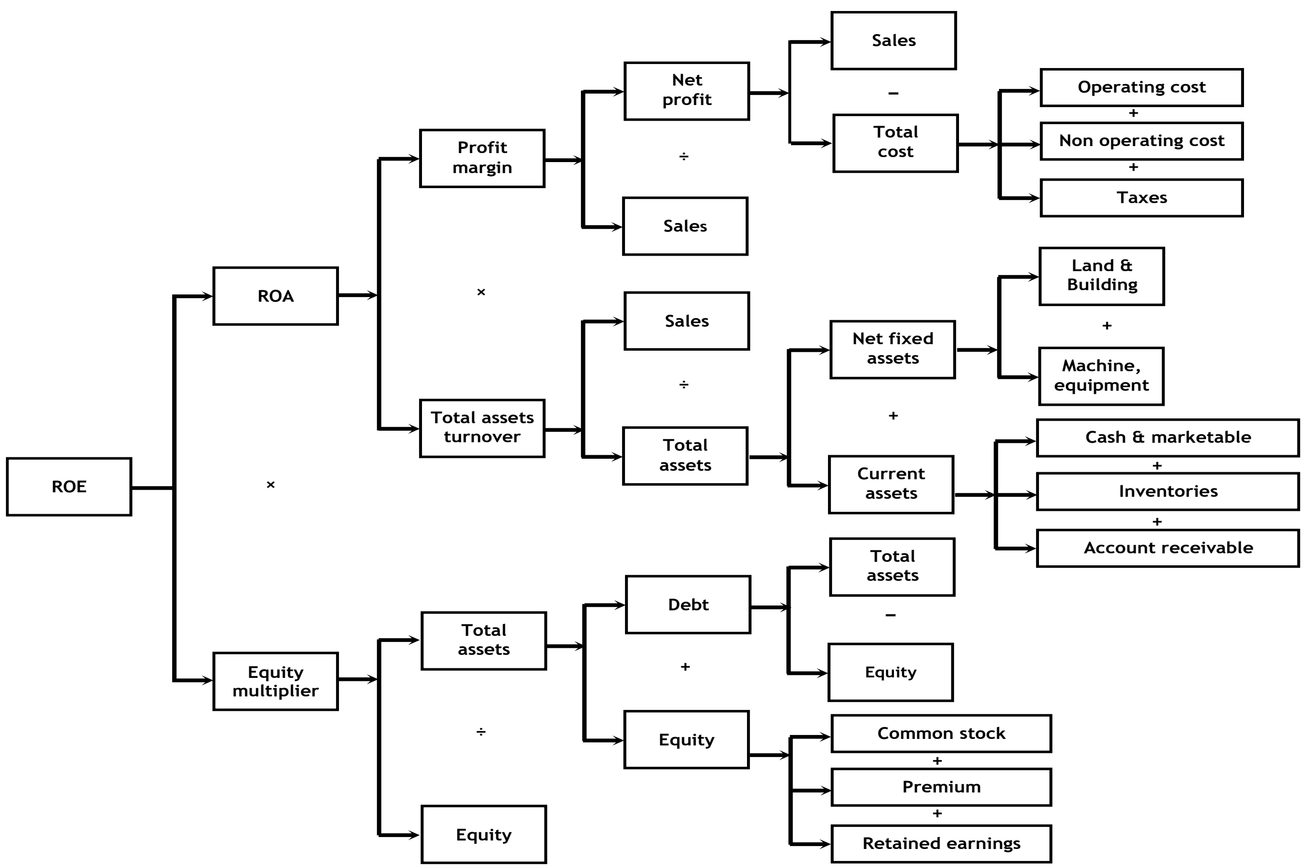
b. Du Pont System of Financial Statement Analysis

“The Du Pont system is designed to show how the profit margin on sales, the assets turnover ratio and the use of debt interact to determine the rate of return on equity” *(Weston;1996-307)*

The Du Pont system of financial statement analysis is developed by the financial experts of the Du Pont Company by putting together the effects of profitability, investment and the equity ratios. The approach is based on the relationship among the three basic areas of the firm such as (i) cost controlling area (ii) Assets management area and (iii) Financial leverage area. The directed to address the concern of the shareholders; hence its main focus is on the return on equity (ROE)The ROE is analyzed in terms of the factors that directly affect the ROE. The factors such as costs, assets utilization and leverage ratio are the grounds on which several test are made to see how the ROE is affected by such factors. The following modified Du Pont Chart presents the relationship among these factors and ROE.

Figure 2.1

Du Pont System of Financial Analysis



Source: Weston and Brigham; 9th Edition: P99.

For a business firm, the return on assets (ROA) is the rate of return on the total investment that includes both equity and debt capital. The ROA does not reflect the actual rate of return to equity holders. What reflects the return for stock holders is the return on their money (i.e. ROE), which is generally higher than the ROA. Thus ROA is an overall measure and reflects the overall performance of the company. The Du Pont system addresses the concerns of stockholder and focuses on ROE.

Du Pont equation defines ROE as a product of ROA and equity multiplier and ROA as a product of profit margin and total assets turnover.

The Du Pont equation is as follows:

ROE = ROA x equity multiplier

= profit margin x total assets turnover x equity multiplier

= Net profit/sales x sales/total assets x total assets/ equity

c. Common Size Analysis

The common size analysis is another technique of analyzing the items of financial statement on relative terms. Under this method, the percentage of every item in the income statements and balance sheets is carried out for past several years to determine the performance trend of each item during the period under analysis. After analyzing the rising, falling or constant trend of efficiency in the business operation one can make comparison with the industry average or competitors.

The common size analysis is carried out for a period of one or more. The income statement items are divided by sales and expressed as a percentage of sales. The balance sheets items are divided by total assets and expressed as percentage of total assets. These percentages for a company are compared with the standard measures such as percentages calculated in the same manner industry and the competitors. Thus, the comparison shows the company's performance relative to competitors as well as compared to it own past record.

d. Funds Flow Analysis

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

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

Method of preparing funds flow statement depends essentially upon the sense in which the term 'fund" is used. There are three concept of fund: cash concept, total resources concept and working capital concept. According to cash concept, the word fund is synonymous with cash. Total resources concept refers total assets and resources as fund. The term' fund" represents only to working capital on the stated last concept However, working capital concept of fund has gained wide acceptance as compared to the other concepts. Therefore any transaction that increases the amount of working capital is taken as source of fund while conducting funds flow analysis. Any transaction that decreases working capital is treated as application. But, any transaction that affects current liabilities or current assets without resulting any changes in working capital is not taken as sources or use.

e. Cash Flow Analysis

This statement is carried out to know clearly the various items of inflow outflow of cash. It is different from funds flow analysis in the sense, the analysis relates to the movement of cash rather than the inflow and outflow of working capital.

It deals the causes of changes in cash position for the period of two balance sheets date in brief. At the time of preparing cash flow statement, only cash receipt from debtors against credit deals are considered as the source of cash. Similarly, cash purchases and cash payments to suppliers for credit purpose are regarded as the uses of cash. The same holds true for expenses and incomes outstanding and prepaid expenses are not to be considered under this analysis.

2.1.11 Limitations of Financial Performance Analysis

Financial Performance Analysis is of great significance for investor, creditor, management, economist, and other parties having interest in business. It helps management to evaluate its efficiency in past performance and takes decision relating to the future. Its limitations are listed below.

(a) Historical nature of financial statements:

The basic nature of statements is historical. Past can never be a precise and can never be perfectly helpful for the future forecast and planning.

(b) No subject for judgment:

Financial analysis is a tool to be used by experts, analysts etc. to evaluate the financial performance of firm. That's why it may lead to faulty conclusion if used by unskilled analyst.

(c) Reliability of figures:

Reliability of Analysis depends on reliability of the figures of the financial statements under scrutiny. The entire working of analysis will be vitiated by manipulation in the income statement, window dressing in the balance sheet, questionable procedures adopted by the accountant for the valuation of fixed assets and such other facts.

(d) Single year analysis is not much valuable:

The analysis of these statements relating to single year only will have limited use and value. From this, one can not draw meaningful conclusion.

(e) Result may have different interpretation: Different users may differently interpret the result derived from the analysis. For example, a high current ratio may suit the banker but it may be the cause of inefficiency of the management due to under-utilization of fund.

(t) Change in accounting methods:

Analysis will be effective if the figures derived from the financial statements are comparable. Due to change in accounting methods the figures of current period may have no comparable base, and then the whole exercise of analysis will become futile.

(g) Pitfall in inter-firm comparison:

When different firms are adopting different procedures, records, objectives, policies and different items under similar heading, comparison will be more difficult. If done, it will not provide reliable basis to assess the performance, efficiency, profitability and financial condition of the firm as compared to the whole industry.

(h) Price level change reduces the validity of analysis:

The continuous and rapid changes in the value of money, in the present day, economically also reduces the validity. Acquisition of assets at different level of prices make comparison useless as no meaningful conclusion can be drawn from a comparative analysis of such items relating to several accounting periods.

(i) Selection of appropriate tool

There are different tools of analysis available to the analyst. The tools to be used in a particular situation depend on skill, training, intelligence and expertise of the analyst. If wrong tool is used, it may lead to wrong conclusion. This may be harmful to the interest of business.

2.2 Review of Journal and Articles

Under this heading, reviews of research papers of researchers are analyzed to find out the investment policies of commercial banks.

Similarly, Shrestha (2055, BS) in the article, “*lending operation of commercial banks of Nepal and its impact on GDP*" presented with the objectives to make an analysis of contribution of commercial bank’s lending to the gross domestic product (GDP) of Nepal. The researcher set hypothesis that there has been positive impact of lending of commercial banks to GDP. In research methodology, the researcher considered GDP as the dependent variable and various sectors of lending like agriculture, industrial, commercial, service and social sectors as independent variables. A multiple regression technique had been applied to analyze the contribution.

The multiple analyses had shown that all the variables except service sectors lending has positive impact on GDP. Thus, in conclusion the researcher accepted the hypothesis i.e. there had been positive impact by the lending of commercial banks in various sectors of economy except service sector investment.

Thapa (1994), expresses his views in his research paper "*Financial System of Nepal*" that the commercial banks including foreign joint venture banks seem to be doing pretty well in mobilizing deposits. Likewise, loans and advances of these banks are also increasing. But compared to high credit needs particularly by newly emerging industries, the bank still seems to lack adequate funds. The banks are increasing their lending to non –traditional sectors along with the traditional sectors. Out of all commercial banks (excluding two recently opened regional commercial banks), Nepal Bank Ltd. and Rastriya Banijya Bank are operating with a nominal profit, the later turning towards negative from time to time. Because of growing competition and limitation of investment sectors, the spread between interest income and interest expenses is declining. These banks have not been able to increase their income from commission and discount. On the contrary, they have got heavy burden of personal and administrative overheads. Similarly, due to accumulated overdue and defaulting loans, profit position of these banks has been seriously affected. On the other hand, the foreign joint venture banks have been functioning in an efficient way. They are making profit year after year and have been distributing bonus to their employees and dividends to their shareholders.

He concludes that by its very nature of the public sector, these two domestic banks couldn't compete with the private sector banks, so only remedy to the problems of these banks, as the government decided, is to hand over the ownership as well as the management of these banks to the private hands.

Similarly, Sharma (2000) found same result that all the commercial bank are establishing and operating in urban areas. In this study, "*Banking the future of competition*", the writer's achievements is:

1. Commercial banks are establishing and providing their services in urban areas only. They do not have interest to establish in rural areas. Only the branch of Nepal Bank Limited and Rastrya Banijya Bank Ltd. are running in these sectors.
2. Commercial banks are charging higher interest credit lending.
3. They have maximum tax concession.
4. They do not properly analyze the credit the credit system.

According to the writer, due to the lack of investment avenues, banks are tempted to invest without proper credit appraisal and on personal guarantee, whose negative side effect would show colors only after four or five years. He has further included that private commercial banks have mushroomed only in urban areas where large volume of banking transaction and activities are possible.

Pradhan (2003) in his research paper *"Role of Saving, Investment and Capital Formation in Economic Development, A case of Nepal,"* has studied about the strong role and impact of saving, investment and capital formation on economic development of Nepal. This study is based on secondary data only. The necessary data on saving, investment, capital formation and gross domestic product has been collected for the period of 1974/75 to 2000/01. The role and impact of saving, investment and capital formation on economic development were analyzed by using various regression models. The regression equations used in this study have been estimated at current prices as well as in real terms with the entire study period divided into different sub periods.

The results presented in this paper suggest that in all cases, GDP is significantly associated with saving, investment and capital formation both at current prices and in real terms. The results of the empirical analysis led to three important conclusions: First, saving, investment and capital formation have positive impact on economic development. Second, the current values and past values of saving, investment and capital formation have positive impact on economic development but the current values have the largest impact. Third, there is a strong role played by saving and capital formation on economic development while weak role-played by investment.

2.3 Review of Thesis

Tuladhar, U. (2000) conducted a study on "*A Study on Investment Policy of Nepal Grindlays Bank Limited in Comparison to Other Joint Venture Banks of Nepal*" with the objective of:

1. To study the fund mobilization and investment policy with respect to fee-based off – balance sheet transaction and fund based on balance sheet transactions.
2. To study the liquidity, efficiency of assets management and profitability position.
3. To evaluate the growth ratios of loan and advances and total investment with respective growth rate of total deposit and net profit.
4. To perform an empirical study of the customer's views and ideas regarding the existing services and adopted invested policy of the Joint venture banks.

The study is mainly based on secondary data and in some aspects of the study primary data are also collected through questionnaire survey of 100 respondents.

The research findings of the study are as follows:

- From the analysis of primary data concerning in which sector should JVBs invest; 28.37% respondents emphasized on educational sector to be invested by these JVBs as the potential investment sector. Consequently poverty stricken and deprived sector was given second priority (26.24), whereas industrial sector (18.44), tourism sector (16%), agricultural sector (16%) , and construction sector (4.25) are given third, fourth, fifth and sixth priority respectively.

- The mean of total investment to total deposits ratio of Nepal Grindlays Bank Ltd. Is higher than the other JVBs. The mean of the loan and advances to total deposits ratio of Nepal Grindlays Bank Ltd. is less and inconsistent than NABIL Bank Ltd. and Himalayan Bank Ltd.
- Loan and advances to working fund ratio of Nepal Grindlays Bank Ltd. was found less than the mean ratio of other banks. Investment on government securities to working fund ratio of Nepal Grindlays Bank Ltd. had the highest mean ratio than NABIL Bank Ltd. and Himalayan Ltd. during the study period.
- It was found that total Off-balance sheet operation to loan and advances ratio of Nepal Grindlays Bank Ltd. is found to be of highest mean ratio than that of NABIL Bank Ltd. and Himalayan Bank Ltd. it means Nepal Grindlays Bank Ltd. used to perform highest off-balance sheet operation than the other two JVBs i.e., used to give priority to provide letter of credit, guarantee and others (e.g. trade finance) excessively than to others. The mean of investment on shares and debentures to total working fund ratio of Nepal Grindlays Bank Ltd. was found less than NABIL Bank Ltd. but higher than Himalayan Bank Ltd.
- The profitability position of Nepal Grindlays Bank Ltd. is higher than NABIL Bank Ltd. and Himalayan Bank Ltd. as well as it use to provide interest to the customers for different activities consistently. The volume of growth ratio of loan and advances of Nepal Grindlays Bank Ltd. is found higher than that of NABIL Bank Ltd. but lower than Himalayan Bank Ltd. It indicates that all the JVBs used to provide loan and advances in increasing manner. From the analysis of growth ratio of total investment it is found that Nepal Grindlays Bank Ltd. and NABIL Bank Ltd. have negative growth ratio i.e., they Used to reduce the investment during the study period. But it is increasing in the case of Himalayan Bank Ltd.
- The growth ratio of net profit of Nepal Grindlays Bank Ltd. seemed to be more Satisfactory than NABIL Bank Ltd. but in case of Himalayan Bank it seemed to be very high.

Kapadi, R.B. (2002) has conduct research on "*A Comparative Study on Performance of NABIL Bank Ltd and Standard Chartered Bank Limited.*" The study of this thesis is the descriptive analytical method. The core objective of this thesis is to analyze the financial performance of NABIL bank and SCBNL this includes the examining of liquidity capital structure and activity and profitability ratios of the ratio joint venture sample banks.

The specific objectives of his research are:

1. To examine the trend of deposits and loan and advances of NABIL bank and SCBNL.
2. To study the liquidity profitability capital structure activity and capital adequacy position of NABIL bank and SCBNL.
3. To suggest and recommended some measures by evaluating and finding financial performance of NABIL bank SCBNL on the basis of finding.

From the detail analysis the research finds the following findings of the study.

He found that most of the capital structure ratios show that the capital structure of both the banks is highly leveraged.

- Total debt to equity ratio of both the banks reveals that the claims of the outsider exceeds mere than that of the owner's over the bank asset. However NABIL bank seems to be more leveraged than SCBNL.
- Total debt to total assets ratio of both the banks has always been over 88, which indicates the excessively geared capital structure. Comparatively NABIL bank has used a little more debt financial than SCBNL. Long-term debt to total assets ratio of NABIL bank is seems to be greater as per mean, which shows more use of long-term debt by NABIL bank than by SCBNL.
- Long-term debt to net worth ratio of both the banks is following the fluctuating trend. The mean proportion of outsiders fund and owners fund employed in the total

capitalization of NABIL bank is higher than that of SCBNL. This implies that it is following an aggressive strategy of higher risk higher return policy.

- The fixed asset to net worth ratio of NABIL bank is higher than that of SCBNL as per mean ratio. But the investment of owners' equity in fixed assets for both the banks are minimum as is commonly seen in various financial institutions.

Loudari S. R. (2003) conducted a study on "*A Study on Investment Policy of Nepal Indosuez Bank Ltd. in Comparison to Nepal SBI Bank Ltd."* with the objective of:

1. To examine the liquidity, asset management and profitability position and investment policy of NIBL in comparison to Nepal SBI Bank Ltd.
2. To study the growth ratios of loans and advances and investment to total deposit and net profit of NIBL in comparison to Nepal SBI bank ltd.
3. To analyses relationship between deposit and investment, deposits and loan & advances, net profit and outside assets of Nepal Indosuez Bank Ltd. In comparison to Nepal SBI Bank Ltd.

The research findings of the study are as follows:

- Current ratios for both the banks are satisfactory.
- Nepal SBI Bank ltd. has increased investment in government securities where as Nepal Indosuez Bank has decreased.
- Nepal Indosuez Bank Ltd. has maintained both current ratio and cash reserve ratio better than Nepal SBI Bank Ltd. But its cash and bank balance, investment in government securities and loan and advances in comparison to current assets are lower than that of Nepal SBI Bank Ltd.
- Deposit utilization of Nepal Indosuez Bank Ltd. is less effective than that of Nepal SBI Bank Ltd. Further Nepal Indosuez Bank Ltd. has invested lesser amount on government securities and shares and debenture than that of Nepal SBI Bank.
- Nepal Indosuez Bank Ltd. did a better performance in return on total assets and loan and advances and interest earning, but it paid lower interest amount to working fund.

- The analysis of growth ratios shows that growth ratios of total deposit, loan and advances, total investment and net profit of Nepal Indosuez Bank are less than that of Nepal SBI Bank.
- The trend value of loan and advances to total deposits ratio is decreasing in case of both banks. The trend value of total investment to total deposits ratio is also decreasing in case of both banks

Shrestha,D. G. (2004) on his thesis entitled "*Role of Rastriya Banijya Bank in Priority Sector Credit & It's Recovery*" has tried to reveal the following objectives:

1. To identified the compliance of the target loan limit to be invested in priority sector credit as prescribed by NRB.
2. To analyze the relationship of credit (loan & advances) with total deposit & also with PSC of RBB.
3. To examine the situation of deprived sector credit (DSC) of RBB.
4. To analyze the disbursement, recovery status & NPA position under Priority Sector Credit (PSC) of RBB.(Purpose wise)

The major findings made by the researcher are as follows:

- Bank's total no of borrowers in PSC about 76 % to 78 % of borrowers lie under DSC & out of the total loan outstanding of RBB invested on PSC about 28 % to 29 % has been invested under DSC.
- RBB is very much success in complying the NRB policy.
- Bank was not able to fully utilize the collected deposits in a proper way.
- The study reveals that the disbursement & recovery under DSC is in decreasing trend; however the ratio of repayment to disbursement is in increasing trend.
- Loan repayment under DSC was more satisfactory from industry sector that the agriculture sector & services sector.
- The trend valves of recovery of RBB under PSC shows that the recovery position of the bank is in downward sloping whereas its overdue loan under PSC is in increasing trend which brings no return to the bank.

Shrestha, S. (2005) in his thesis *"Financial Performance Analysis of Nepal Bangladesh Bank ltd"* In this study, various financial research and statistical tools have been used to achieve the objective of the study. The analysis of data will be done according to the pattern of data available. Likewise, some financial tools such as ratio analysis and trend analysis have also been used for financial analysis.

The specific objectives of his research are:

1. To analyze the functions, objectives procedure and activities of the NB bank
2. To analyze the lending practices and resources utilizations of NB bank.
3. To determine the impact of growth in deposit on liquidity and lending practices.
4. To examine the lending efficiency and its contribution to profit.
5. To make suitable suggestions based on the findings of this study. The financial and statistical tools are used.

The researcher found that NB bank has sufficient liquidity. It shows that bank has not got investment sectors to utilize their liquid money. Now, in Nepal many banks and other financial institution are functioning to collect deposits and invest money somewhere in the investable sectors. Therefore, miniaturization has been increased since liberalization policy taken by the government. Heavy remittance has also helps to increase the amount of deposits in bank. On the other hand, due to political crisis, economic sectors have been fully damaged.

The research findings of the study are summarized as:

- NB bank has utilized most funds in the form of credit and advances. More than 75% of total deposits of the bank have been forwarded to customers as a credit and advances.
- The major part of utilizing deposits and income generating sectors. If the bank has high deposits, bank can provide money to its customers as credit and advances. Therefore, there is highly positive correlation between total deposits and credit and advances of NB bank

- Bank is providing different schemes to attract good customers. After attracting deposits from the customers, bank has issued the deposits to the needy area to make profit for the bank.

Gautam S. P. (2006) has conduct research on "*A Comparative Study on Financial Performance of Standard Chartered Bank Limited and Nepal Bangledesh Bank Limited*" Financial performance is analyzed with two important tools. The first most important tools are the financial tools, which includes ratio analysis and other is a statistical tools, which is bankruptcy score.

The objectives of his research are:

1. To study the existing capital structure of financial position of selected joint venture commercial banks and to analyze its impact on the profitability.
2. To access the debt servicing of the joint venture commercial bank.
3. To examine the correlation and the signification of their relationship between different ratios related to capital structure.
4. To provide suggestions and recommendations for the optimal capital structure of the joint venture commercial bank.
5. To obtained the objectives, some financial, statistical and accounting tools.

He has found his study were the joint venture banks are operating in Nepal as commercial merchant banks. The growth is still going on as so many new banks are coming into existence after this study. Therefore, JVB's are operating with higher technology and new efficient methods in banking sector. However, this study has been undertaking only three JVB's viz. SCBNL and NBBL to examine and evaluation the financial data.

The research findings of the study are as follows:

- The research sample JVB's have used high percentage of total debt in raising the assets. The higher ratio constitutes that the outsider's claim in total assets of the bank is owner's claim.
- The on an average, NBBL bank constitutes 16.27 times of P/E ratio, which should be reduce as quickly as possible.
- The financial risk of the banks NBBL average degree of finance leverage constitutes 3.73 times which indicates the higher degree of financial risks 3.73 times which indicates the higher degree of financial risks.
- The average ROE of JVB's i.e. SCBL and NBBL area 37.36% and 21.75% respectively.

Now, in Nepal many banks and other financial institution are functioning to collect deposits and invest money somewhere in the investable sectors. Therefore, efficiency has been increased since liberalization policy taken by the government. Heavy remittance has also helps to increase the amount of deposits in bank

Gupta, R. (2007) conducted a research study entitled *"Comparative Analysis of Financial Performance of Commercial Banks in Nepal"*. The researcher had taken Everest Bank Limited, Bank of Kathmandu and Nepal Standard Chartered Bank Limited as sample. The major objectives of the study are as follows

- To evaluate Liquidity Ratio, Activity Ratio, Profitability Ratio and other market related ratios of these sample banks.
- To analyses relationship between deposit and investment, deposits and loan & advances, net profit and outside assets of EBL, BOK and SCBNL
- To find out the trend analysis of deposit, investment, loans and advances and net profit.
- To provide suggestions for the improvement based on findings.

The researcher had used descriptive and analytical research design in writing the research study. The research had also used F-Test in testing the hypothesis.

The researcher study concluded that among three sample bank BOK maintained the highest liquidity position during the research period in comparisons to other two banks. The study further added that SCBNL had the excellent assets utilization in order achieve the goal of maximizing the shareholder's wealth. In the same way SCBNL generated the highest net profit and paid the highest dividend per share to shareholders.

The study further stated that there is no significance difference among the commercial banks in terms of net profit of total assets ratio, and dividend payout ratio. The review of above relevant thesis has not doubt enhanced the fundamental understanding and foundation knowledge base, which is prerequisite to make this study meaningful and purposive.

Limbu, Ram. (2008) in his dissertation "*Credit Management of NABIL Bank Limited"* highlighted that aggregate performance and condition of Nabil bank. In the aspect of liquidity position, cash and bank balance reserve ratio shows the more liquidity position. Cash and bank balance to total deposit has fluctuating trend in 5 years study period. Cash and bank balance to current deposit is also fluctuating. The average mean of Cash and bank balance to interest sensitive ratio is able to maintain good financial condition

The main objectives of the research study are as follow.

1. To evaluate various financial ration of the Nabil Bank.
2. To analyze the portfolio of lending of selected sector of banks
3. To determine the impact of deposit in liquidity and its effect on lending practices.
4. To offer suitable suggestions based on findings of this study.

In the statistical tools analysis, average mean, correlation analysis and trend analysis have been calculated. Correlation coefficient between total credit and total assets shows high degree of positive correlation. Correlation coefficient between total deposit and loan & advances has high degree of positive correlation it is concluded that increasing total deposit will have positive impact towards loan & advances.

The research findings of the study are as follows:

- Assets management position of the bank shows better performance in the recent years. Non–performing assets to total assets ratio is decreasing trend. The bank is able to obtain higher lending opportunity during the study period. Therefore, credit management is in good position of the bank.
- In leverage ratio, Debt to equity ratio is in an increasing trend. High total debt to total assets ratio posses' higher financial risk and vice-versa. It represents good condition of Total assets to net worth ratio.
- In the aspect of profitability position, total net profit to gross income, the total interest income to total income ratio of bank is in increasing trend. The study shows the little high earning capacity of NABIL through loan and advances.
- Earning per share and The Price earning ratio of NABIL is in increasing trend. These mean that the better profitability in the coming last years. It represents high expectation of company in market and high demand of share.
- Loan loss provision to total loan and advances ratio and None-performing loan to total loan and advance ratio of NABIL is in decreasing trend. The ratio is continuously decreasing this indicates that bank increasing performance. Thus, credit management is in a good position.

The study is conducted on credit management of Nabil Bank, which is one of the leading banks in Nepal. NABIL has been maintaining a steady growth rate over this period. In the study every aspect of banks seems to be better and steady in every year. Its all analysis indicates better future of concern bank.

Subba, Muna (2009) conducted a research study entitled *"The Comparative Analysis on Financial Performance of NABIL and EBL Banks Limited"*. The overriding objective of this dissertation is to study the financial performance of NABIL and EBL. To be more specific, this proposed study keeps the following objectives;

- To compare and analysis of various ratio between NABIL and EBL
- To examine the relative financial performance of NABIL and EBL in terms of different kinds of ratios.
- To assess the financial performance of these banks
- To provide a package of suggestions and possible guideline to improve the performance of EBL and NABIL.

The analysis of data will be done according to the pattern of data available. Likewise, some financial tools such as ratio analysis and trend analysis have also been used for financial analysis. From the detail analysis the research finds the following findings of the study.

- The current ratio of the two banks, NABIL and EBL is considerable. This can be regarded as good liquidity position. The liquidity position affects external and internal factors such as prevalent investment situations, central bank requirements and so on. The mean current ratio of NABIL is 1.89 and EBL is 1.14 the current ratio of NABIL is little higher than EBL. It is indicate better liquidity position of NABIL
- Return on equity of NABIL is higher than EBL i.e.31.88% > 22.7% which shows that NABIL is more successful to earn high profit through the efficient utilization of its equity capital.
- Liquidity position of EBL is comparatively better than NABIL. Lower liquidity position of NABIL shows that the current assets have been utilized in some profit generating sectors, but EBL has over liquidly position.
- Investment on government securities to total assets ratio of NABIL is little higher than EBL i.e. 18.68% > 18.1%. This indicates that NABIL has invested more portions of total assets on government securities.
- The liquidity risk of the bank defines its liquidity need for deposit. The average mean ratio of EBL is greater than that of NABIL (i.e. 10.7% > 5.67%). It signifies that EBL has sound liquid fund to make immediate payment to the depositors

- EPS and DPS play a vital role to determine the market price of the share and also indicate the financial performance of banks. Higher EPS and DPS indicate the higher performance of banks. so Both Nabil and EBL has able to provide good returns

In the light of growing competition in the banking sector both bank NABIL and EBL should be customer oriented. It should strengthen and activate its marketing function as it is an effective tool to attract and retain the customers. For the purpose, the bank should develop an innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient and satisfactory way by optimally utilizing the modern technology and offering new facilities to the customers at competitive prices.

2.4 Research Gap

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make this study meaningful and purposeful. There are various researchers conduct on lending practice, credit policy, financial performance, credit management and liquidity mobilization of various commercial banks. In order to perform those analysis researchers have used various ratio analysis. in the past research topic on financial performance the researcher has focused on the limit ratios which are incapable of solving the problems. In this research various ratio are systematically analyzed and generalized. Past Researchers are not properly analyzed about investment aspect and mobilization of fund and its impact on the profitability. The ratios are not categorized according to nature. Here in this research all ratios are categorized according to their area and nature.

In this study of financial performance of ADBL Bank ltd. is measuring by various ratios, trend analysis and various statistical tools as well and financial tools are used for analyzing survey data. Since the researcher have used data only five fiscal year but all the data are current and fact. Clearly these are the issue in Nepalese commercial bank the previous scholar could not the present facts. This study tries to define of financial performance by applying and analyzing various financial tools like liquidity ratio, asset management, activity ratio, profitability ratio, credit risk ratio and other ratio as well as different statistical tools like coefficient of correlation and trend analysis. Probably this will be the appropriate research in the area of financial performance of Bank and financial institutions.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

In this chapter research methodology is presented for achieving the predetermined objective which is already stated. One various statically and financial instrument will be used for the required purpose. It counts on the resources and techniques available and to the extent of their reliability and validity in this chapter. This research methodology has done to fulfill the objective of comparative study of financial performance of Agricultural Development Bank ltd (ADBL). The research methodology adopted in this chapter follows some limited but crucial steps aimed to achieve the objective of the research. Research methodology refer to the various sequential steps (along with a rationale of each such steps) to be adopted by researcher in studying a problem with certain objective in view.

The main objective of this topic is to identifying the tools to analyze, examine, highlight and compete the financial performances and recommend suggestions for improvements. This chapter looks into the research designs, nature and sources of data, data collection, procedures and tools and techniques of analysis.

3.2 Research Design

Research is a theory building activity. Research design is the plan, structure and strategy of investigations conceived so as to obtain answer to research questions and to control variances.

"A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combined relevance to the research purpose with economic in procedure" (Kothari, 1989:59).

Since the main objectives of this study is to analysis financial performance of the banks, all the indicators that shows the financial performance of the banks were calculated using data obtained from the five year end internally generated accounting records maintained by sampled Banks. The study depends on the secondary data. Various financial parameters and effective research techniques are employed to evaluate the financial performance of the banks. Furthermore, various descriptive as well as analytical techniques are used. The study is designed as to give a clear picture of the Bank's financial circumstances with the help of available data with useful suggestions and recommendation.

3.4 Population and Sample

Twenty-seven Commercial banks are operating in Nepal. All the commercial banks that are operating in Nepal are considered as the population. It is not possible the study all the data related with all banks because of the limited time period and showed also taken in to consideration of the partial fulfillment of the Master’s Degree. Thus her Agriculture Development Limited ADBL has been selected for the present study.

3.4 Nature and Sources of data

The study is mainly conducted on secondary data relating to the study of financial performance of selected Banks, as they are they are available at concerned Banks. For the purpose of the study, various related books, booklets, magazine, journals, newspaper and thesis made in this field have been referred. Besides necessary suggestions are taken from various experts both inside and outside the bank whenever required.

3.5 Data Collecting Procedures

The annual reports of the concerned banks were obtained from their head office and their websites. NRB publication, such as Banking and Financial Statistics Economic Reports, Annual Reports of NRB etc .has been collected from the personal visit of concerned department of NRB at Baluwatar. Besides, a details review materials are collected from the library of Shanker Dev Campus and central library of T.U.

3.6 Tools and Techniques used

"The analysis of data consists of organizing, tabulating, and performing statistical analysis" (Wolf and Pant, 1998:201)

In this study, various financial and statistical tools have been used to achieve the objective of the study. According to the pattern of data available, the analysis of data will be done. The various tools applied in this study have been briefly presented as under:

3.6.1 Financial Tools

Financial performance is analyzed through the use of two important tools. The financial tool is one of the most important tool, which includes ratio analysis and the other one financial statement analysis have been used in this study. Financial tools are used to examine the financial strength and weakness of bank. Although there are many financial ratios, only selected ratios are used in this study.

3.7 Analysis of Financial Rations

The techniques of ratio analysis in of considerable significance in studying the financial stability, liquidity, profitability and the quality of management of the business and industrial concerns, the important ratios that are studied for this purpose are given below.

3.7.1 Liquidity Ratio

Liquidity ratio measures the ability of the firm to meet its current obligations. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community.

Liquidity provides honor strength health and prosperity to an organization. It is extremely essential for an organization to meet its obligations as they become due. A firm should ensure that it has not lack of liquidity and also that it is not too much highly liquid.

The following ratios are evaluated and interpreted under liquidity ratios:

i) Current Ratio

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

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilitie s}}$$

Where, current assets = cash in hand, cash at bank, bills receivable, sundry debtors or account receivable, short term loan & advances, inventories , prepaid expenses etc.

Current Liabilities = Bills Payable, Sundry Creditor, Accrued expenses, Bank overdraft, short term loan, provision for taxation, etc.

ii) Cash and Bank balance to Current Assets Ratio

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

$$\text{Cash and Bank balance to Current Asset Ratio} = \frac{\text{Cash and Bank balance}}{\text{Current Asset}}$$

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

iii) Cash and Bank Balance to Total Deposit Ratio:

Cash and Bank Balance is said to be the first defense of every banks. Cash and bank balance are the liquid current assets. This ratio measures the percentage of liquid fund with the bank to make immediate payment to the depositors. Both higher and lower ratios are not desirable. The reserve requirement below 10% of deposit liabilities is noted as fully liberalized, 10%-15% as largely liberalized, 15%-25% as partially repressed and above 25% as completely repressed, it is ranked by 3, 2, 1 and 0 respectively

Cash and bank Balance to total Deposit ratio = $\dfrac{Cash\ and\ Bank\ Balance}{Total\ Deposit}$

iv) Investment of Government Securities to Current Assets Ratio

Government securities are slightly liquid assets as well as confidential investment until the state is living. So it is also a very important and very near cash item of current assets. Investments on Government securities to current assets ratio visualize the proportion of investment on government securities to current assets.

Investment of Government Securities to Current Assets Ratio

$$= \frac{\text{Investment on Government Security}}{\text{Current Asset}}$$

v) Loan and Advances to Current Assets Ratio

Loan and advances to current assets ratio reflects the capability of bank discounting and purchasing the bill, loans and overdraft facilities to the customer to make a profit, mobilization its fund in the best way. A commercial bank should not keep its all collected funds as cash and bank balance but they should be invested as loan and advances to the customers.

$$\text{Loan and Advance to Current Asset Ratio} = \frac{\text{Loan and Advance}}{\text{Current Asset}}$$

3.7.2ActiviRatio

Activity or turnover ratio measures the efficiency of the bank to manage its assets in profitable and satisfactory manner. These ratios are employed to evaluate the efficiency with which the firm manages and utilize its assets.

A commercials bank must manage its assets properly to earn high profit.

Under this chapter following ratios are studied.

i) Loan and Advance to Total Deposit Ratio

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

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

ii) Total Investment to Total Deposit Ratio.

This ratio measures the extent to which the banks are able to mobilize their deposit on investment on various securities. A high ratio indicates the success in mobilizing deposits in securities and vice versa.

$$\text{Total Investment to Total Deposit Ratio} = \frac{\text{Total Investment}}{\text{Total Deposit}}$$

iii) Loan and Advances to working Fund Ratio

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

$$\text{Loan and Advance to Working Fund Ratio} = \frac{\text{Loan and Advances}}{\text{Total Working Fund}}$$

Total working fund is the total assets. It composed up of current assets, fixed assets, miscellaneous assets, investment, loan for development bank etc.

iv) Loan and Advances to Fixed Deposit Ratio:

Credit and advances clearly state that it is the assets of the bank and fixed deposit is the liability. It’s also known as loan and advance ratio. So, this is the ratio between assets and liability. This helps to show the ratio of Loan & advances to fixed deposit. We can also conclude that what part of the credit and advances is initiated against fixed deposit.

$$\text{Credit \& advances to fixed deposit} = \frac{\text{Credit and Advances}}{\text{Fixed Deposit}}$$

3.7.3 Profitability Ratio

Profitability ratio indicates degree of success in achieving desired profit level. Profitability ratio, which measures management overall effectiveness, are shown by the returns generated on sale and investment. A bank should be able to earn profit to survive and grow over a long period of time. Profit is the indicator of effective operation of a bank. The banks acquire profit by providing different services to its customer or by making investment of different kind. Profitability ratio measures the efficiency of bank. Higher profit ratio shows higher efficiency of the bank. The following profitability ratios are related to study in this heading.

i) Return on Loan and Advances Ratio

It is major part of bank and financial institution. Its measures the earning capacity of commercial banks on its total deposits mobilized on loan and advances. It measures the return contributed by loan and advances

$$\text{Return on Loan \&Advances Ratio} = \frac{\text{Net Profit}}{\text{Loan and Advances}}$$

ii) Return on Total Assets Ratio

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

Where,

Net profit includes the profit that is left to the internal equities after all costs, charges and expenses.

$$\text{Return on working Fund} = \frac{\text{Net Profit}}{\text{Total Asset}}$$

iii) Return on Equity (ROE)

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

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

Equity Capital includes paid up equity, Profit & Loss Account, Various Reserve, General loan, loss provision etc.

iv) Interest Earned to Total Assets Ratio

This ratio reflects the extent to which the banks are successful in mobilizing their total assets to generate high income as interest. A high ratio is indicator for high earning power of the bank on its total working fund and vice versa.

$$\text{Interest Paid to Working Fund Ratio} = \frac{\text{Interest Earned}}{\text{Total Asset}}$$

v) Interest Paid to Total Assets Ratio

This ratio measure the percentage of total interest paid against the total Assets. A high ratio indicates the higher interest expenses on total working fund and vice versa.

$$\text{Interest Paid to Total Assets Ratio} = \frac{\text{Interest Paid}}{\text{Total Asset}}$$

vi) Interest Earned to Operating Income Ratio

This ratio reflects the extent to which the banks have successfully mobilized its fund in interest bearing assets. It measures the magnitude of interest income in total income. Where, Total operating income includes the interest income, commission & discount, income from dividend, foreign exchange income and others.

$$\text{Interest Earned to Operating Income Ratio} = \frac{\text{Total Interest Earned}}{\text{Total Operating Icomr}}$$

3.7.4 Lending Efficiency Ratio

This ratio is concerned with measuring the efficiency of bank. This ratio also shows the utility of available fund. One following is the various types of lending efficiency ratio.

i) Loan Loss Provision to Total Loan and Advances ratio

Loan loss provision to total loan and advances describes the quality assets that a bank holding. The provision for loan loss reflects the increasing probability of non-performing loan. The provision of loan mean the net profit of the banks will come down by such amount. Increase in loan loss provision decreases in profit result to decreases in dividends but its positive impact is that strengthens financial conditions of the bank by controlling the credit risk and reduced the risks related deposits. So, it can said that loan suffer it only for short term while the good financial conditions and safety of loans will make banks prosperity regulating increasing profits for long term. The low ratio indicates the good quality of assets in total volume of loan and advances. High ratio indicates more risky assets in total volume of loan advances.

$$\text{Loan loss provision to total loan and advances} = \frac{\text{Loan loss provision}}{\text{Total loan and advances}}$$

ii) Non-Performing Loan to Total Loan and Advances

This ratio shows the relationship of Non-Performing loan and total loan and advances and is to determine how efficiently the total loan and advances have been used by management. Higher ratio shows the low efficient operating of the management and lower ratio shows the more efficient operating of credit management.

$$\text{Non-performing loan to total loan and advances} = \frac{\text{Non-performing loan}}{\text{Total Loan and advances}}$$

iii) Interest Expenses to Total Deposit Ratio

This ratio measures the percentage of total interest paid against total deposit. A high ratio indicates higher interest expenses on total deposit. Commercial banks are dependent upon its ability to generate cheaper fund. The cheaper fund has more the probability of generating loans, advances, and vice versa.

$$\text{Interest Expenses to Total Deposit Ratio} = \frac{\text{Interest Expenses}}{\text{Total Deposit Ratio}}$$

3.7.5 Leverage Ratio:

These ratios are also called capital structure ratio or solvency ratio. These ratios indicate mix of funds provided by owners and lenders. As a general rule, there should be an appropriate mix of debt and owner's equity in financing the firm's assets. To judge the long-term financial position of the firm, leverage ratios are calculated. This ratio highlights the long-term financial health, debt servicing capacity and strength and weaknesses of the firm. Following ratios are included under these advantage ratios.

i) Total Debt to Equity Ratio:

Total debt is the liability of the firm and it is payable toward its creditors. Debt includes the value of deposits from customers, loan & advances payable, Bills payable and other liabilities. Equity is the share capital and reserves of the firm. This ratio shows the comparison in between total debt and equity.

Total debt = Debentures & Bonds + Borrowings + Deposits + Bills Payable + Proposed & Undistributed Dividends + Income Tax Liabilities

Total Equity = share capital + Reserve and surplus

$$\text{Total debt to equity} = \frac{\text{Total Debt}}{\text{Equity}}$$

ii. Total Debt to Total Assets Ratio:

It examines the relationship between borrowed funds (i.e. total debt) and total assets. It shows the relative extent to which the firm is using borrowed money. A lower ratio is preferable since it reduces the distress of the creditors by using more amount of equity on total assets. Total debt includes both current liabilities and long term debt. Creditors prefer low debt ratios because the lower the ratio, the greater the cushion against creditors losses in the event of liquidation. Stockholders on the other hand may want more leverage because it magnifies expected earnings. It is computed as:

$$\text{Total Debt to Total Assets Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}} \times 100\%$$

iii. Total Assets to Net worth Ratio:

The ratio is calculated to find out the proportion of owner's fund to finance for the total assets. Total Assets comprises of the total value of the assets side of balance sheet where as net worth is the sum of the share capital plus reverses and retained of the bank. It is calculated to see the amount of assets financed by net worth.

$$\text{Total Assets to Net Worth Ratio} = \frac{\text{Total Assets}}{\text{Net Worth}} \times 100\%$$

3.7.6 Lending Efficiency Ratio

This ratio is concerned with measuring the efficiency of bank. This ratio also shows the utility of available fund. One following is the various types of lending efficiency ratio.

i). Loan Loss Provision to Total Loan and Advances ratio

Loan loss provision to total loan and advances describes the quality assets that a bank holding. The provision for loan loss reflects the increasing probability of non-performing loan. The provision of loan mean the net profit of the banks will come down by such amount. Increase in loan loss provision decreases in profit result to decreases in dividends but its positive impact is that strengthens financial conditions of the bank by controlling the credit risk and reduced the risks related deposits. So, it can said that loan suffer it only for short term while the good financial conditions and safety of loans will make banks prosperity regulating increasing profits for long term. The low ratio indicates the good quality of assets in total volume of loan and advances. High ratio indicates more risky assets in total volume of loan advances.

$$\text{Loan loss provision to total loan and advances} = \frac{\text{Loan loss provision}}{\text{Total loan and advances}}$$

ii). Non-Performing Loan to Total Loan and Advances

This ratio shows the relationship of Non-Performing loan and total loan and advances and is to determine how efficiently the total loan and advances have been used by management. Higher ratio shows the low efficient operating of the management and lower ratio shows the more efficient operating of credit management.

$$\text{Non-performing loan to total loan and advances} = \frac{\text{Non-performing loan}}{\text{Total Loan and advances}}$$

iii). Interest Expenses to Total Deposit Ratio

This ratio measures the percentage of total interest paid against total deposit. A high ratio indicates higher interest expenses on total deposit. Commercial banks are dependent upon its ability to generate cheaper fund. The cheaper fund has more the probability of generating loans, advances, and vice versa.

$$\text{Interest Expenses to Total Deposit Ratio} = \frac{\text{Interest Expenses}}{\text{Total Deposit Ratio}}$$

iv) Non-Performing Assets to Total Assets Ratio

This ratio shows the relationship of Non-Performing aaet and total asset and it is determine how efficiently the total asset used by management. Lower the non-performing assets ratio is good and higher the ratio is bad. This ratio measures lending opportunity of the bank

Non-Performing Assets to Total Assets Ratio = $\frac{Non-perfor\min g\ Asset}{Total\ Asset}$

3.8 Statistical Tools

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

3.8.1 Arithmetic Mean

An average is a single value related from a group of values to represent them in someway, a value, which is supposed to stand for whole group of which it is a part, as typical of all the values in the group. There are various types of averages. Arithmetic mean (AM, Simple & Weighted), median, mode, geometric mean, harmonic mean are the major types of averages. The most popular and widely used measure representing the entire data by one value is the AM

Mathematically:

Arithmetic Mean (AM) is given by,

$$\overline{X} = \frac{\sum X}{n}$$

Where, $\overline{X}$ = Arithmetic mean

$\sum x$ = Sum of all the values of the variable X

n = Number of observations

3.8.2 Correlation Coefficient (r):

Correlation may be defined as the degree of linear relationship existing between two or more variables. These variables are said to be correlated when the change in the value of one results change in another variable. Correlation is categorized three types. They are Simple, Partial and Multiple correlations. Correlation may be positive, negative or zero. Correlation can be classified as linear or non- linear. Here, we study simple correlation only." In simple correlation the effect of others is not included rather these are taken as constant considering them to have no serious effect on the dependent.

Formula

$$r_{x1x2} = \frac{N\Sigma X_1X_2 - (\Sigma X_1)(\Sigma X_2)}{\sqrt{[N\Sigma X_1^2 - (\Sigma X_1)^2]}\sqrt{[N\Sigma X_2^2 - (\Sigma X_2)^2]}}$$

Whereas,

r_{x1x2} = Correlation between X_1 and X_2

$N\Sigma X_1X_2$ = No. of Product observation and Sum of product $X_1$and X_2

$\Sigma X_1 \Sigma X_2$ = Sum of Product $X_1$and sum of Product X_2

3.8.3 Coefficient of variation (c.v.):

The coefficient of variation is measures the relative measures of dispersion , hence capable to compare two variables independently in term of variability**.**

$$c.v. = \frac{ó}{x} * 100$$

σ = Standard deviation

x = sum of the observation

3.8.4 Probable Error:

The probable error of the coefficient of correlation helps in interpreting its value. With the help of probable error, it is possible to determine the reliability of the value of the coefficient in so far as it depends on the conditions of random sampling. The probable error of the coefficient of correlation is obtained as follows:

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

Here,

r = Correlation coefficient

N = Number of pairs of observations

If the value of 'r' is less than the probable error, there is no evidence of correlation, i.e., the value of 'r' is not at all significant. Then, if the value of 'r' is more than six times of the probable error, the coefficient of correlation is practically certain, i.e., the value of 'r' is significant.

3.8.5 Trend Analysis

The least square method to trend analysis has been used in measuring the trend analysis. This method is widely used in practice. The straight line trend of a seires of data is represented by the following formula.

Y= a + bx

Here,

Y is the dependent variable, a is y intercept or value of y when x=0, b is the slope of the trend line or amount of change that comes in y for a unit change in x.

Where,

y= Dependent variable

x = Independent variable

a = Y – intercept

b = Slope of the trend line

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter pact with the analysis, presentation, interpretation and major finding of relevant data of concern bank in order to fulfill the objectives of research study. To obtain better result, the data have been analyzed according to the research methodology as mentioned in third chapter. The purpose of this chapter is to introduce the mechanics of data analysis and interpretation. With the help of this analysis, efforts have been made to highlight the financial performance of Agriculture Development Bank Ltd. (ADBL). For analysis, different types of analytical methods and tools such as financial ratio analysis as well as statistical analysis are used. This chapter deals with the various aspects of financial performance tools such as financial ratios, impact of deposit in liquidity, asset management ratios, lending efficiency ratio and other various ratio as well as correlation and trend analysis.

4.2 Financial Statement Analysis

Financial analysis is done by applying various financial tools in order to clear picture on the viability of the project. The financial analysis is done to ascertain the liquidity, profitability, leverage, debt servicing and interest servicing ability of the firm. The concept of financial statement analysis has been already discussed in previous chapter. Here, we study and analyze the data by using accounting tools.

4.2.1 Liquidity Ratio

Liquidity ratio measures the ability of the firm to meet its current obligations. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community. Liquidity provides honor strength health and prosperity to an organization. It is extremely essential for an organization to meet its obligations as they become due. A firm should ensure that it has not lack of liquidity and also that it is not too much highly liquid.

The following ratios are evaluated and interpreted under liquidity ratios:

i) Current Ratio

Current ratio indicates whether the concern has instant ability to payout the current liabilities as they mature. The ratio is the yardstick t judge the soundness of the short term financial position of the business unit or industry. High ratio indicates sound liquidity position of the bank and vice-versa. But too high ratio is not good for bank since it reveals the under utilization of fund. Standard of current ratio is 2:1.

In the following table, we can see the data relating to Current Ratio of EBL.

Table No 4.1

Current Ratio of ADBL

(Amount in 00000)

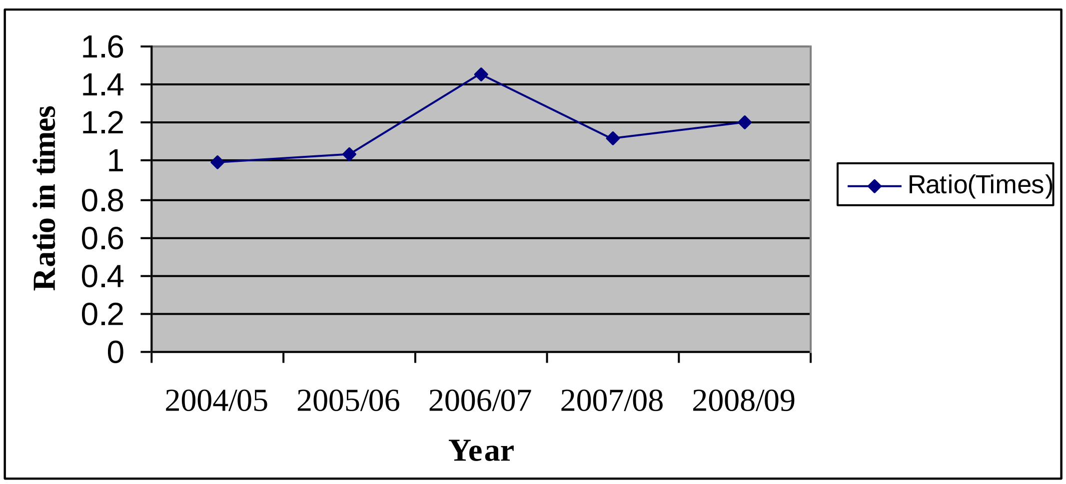
Year	Current Assets	Current Liabilities	Ratio(Times)
2004/05	304068	304866	0.99
2005/06	344155	330783	1.04
2006/07	359535	247819	1.45
2007/08	431295	383514	1.12
2008/09	495931	414936	1.20
Mean			1.16
S.D.			0.178
C.V.			0.154

Source: Annual Report of ADBL

In above table shows that the current ratio ie current asset to current liability of ADBL is in fluctuating trend. The ratios are 0.99, 1.04, 1.45, 1.12 and 1.20 respectively. The average mean ratio is 1.16 times in the study period. . The highest ratio is 1.45 times in year 2006/07 and the lowest ratio 0.99 times in year 2004/5. These all ratio shows that the bank is maintain the acceptable liquidity position of the bank. The liquidity position of the bank is satisfactory because the current ratios of the different years are about to meet to the standard. Higher current ratio means the better liquidity position. 2:1 considered to be an adequate ratio. Current assets and current liabilities manage the current ratio. It is necessary that every business entity must manage the good liquidity position.

Figure No. 4.1

Current Ratio of ADBL



ii) Cash and Bank balance to Current Assets Ratio

Cash and Bank balance to current assets ratio reveals the position of cash and bank into cash and bank balance in total of current assets. In the present study cash and bank balances includes cash on hand including foreign cheques other cash item and balance with domestic banks and abroad. Cash and bank balances are highly liquid assets than other current assets. So this ratio scans higher liquidity position than current ratio. Following table shows the data relating to cash and bank balance to current assets.

Table No 4.2

Cash and Bank balance to Current Assets Ratio

(Amount in 00000)

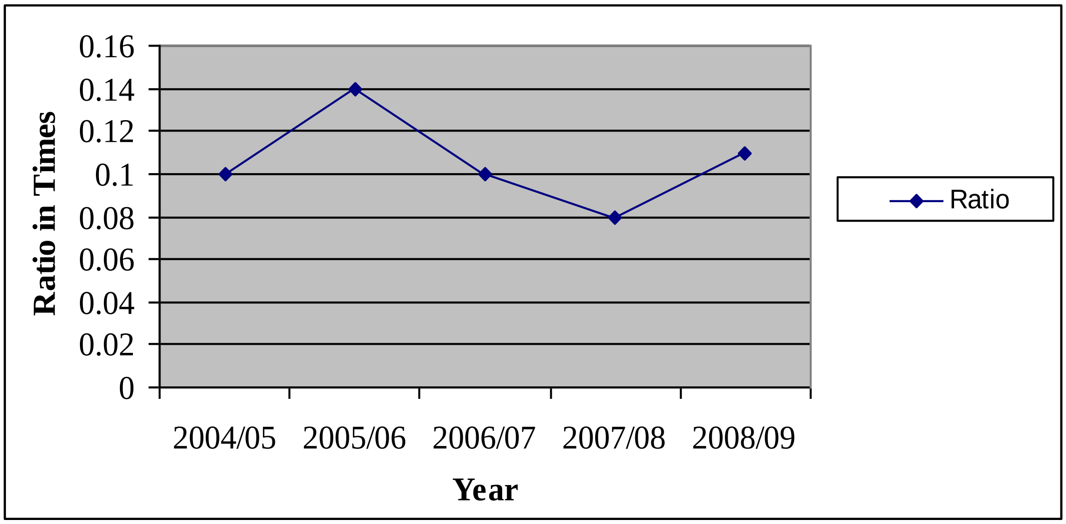
Year	Cash and Bank balance	Current Assets	Ratio(Times)
2004/05	30350.38	304068	0.10
2005/06	47717.01	344155	0.14
2006/07	36893.21	359535	0.10
2007/08	36239.98	431295	0.08
2008/09	52076.53	495931	0.11
Mean			0.106
S.D.			0.022
C.V.			0.207

Source: Annual Report of ADBL

Above Table shows the calculation of Cash and bank balance to current asset of ADBL. The ratios are 0.10, 0.14, 0.10, 0.08 and 0.11 times respectively over the study period. The mean average calculation is 0.106 times, which means consistency in this ratio during the research period. Cash and bank balance would not sufficient to meet the demand of current depositors. Therefore, here seems to be making more cash and bank balance to meet the current asset. Cash and Bank balance to Current Assets Ratio is represented in figure as follow.

Figure No 4.2

Cash and Bank balance to Current Assets Ratio



iii) Cash and Bank Balance to Total Deposit Ratio:

Cash and bank balance are the liquid current assets. This ratio measures the percentage of liquid fund with the bank to make immediate payment to the depositors. Both higher and lower ratios are not desirable. The reserve requirement below 10% of deposit liabilities is noted as fully liberalized, 10%-15% as largely liberalized, 15%-25% as partially repressed and above 25% as completely repressed, it is ranked by 3, 2, 1 and 0 respectively. This ratio measures the ability of bank to meet future withdrawals of deposits. Higher ratio shows the greater ability of the bank to meet the demand of customers on their deposits. The following table shows the cash and bank balance to total deposit ratio

The following table shows the ratio measurement of the years.

Table No 4.3

Cash and Bank balance to Total Deposit Ratio

(Amount in 00000)

Year	Cash and Bank balance	Total Deposit	Ratio(Times)
2004/05	30350.38	272230.46	0.11

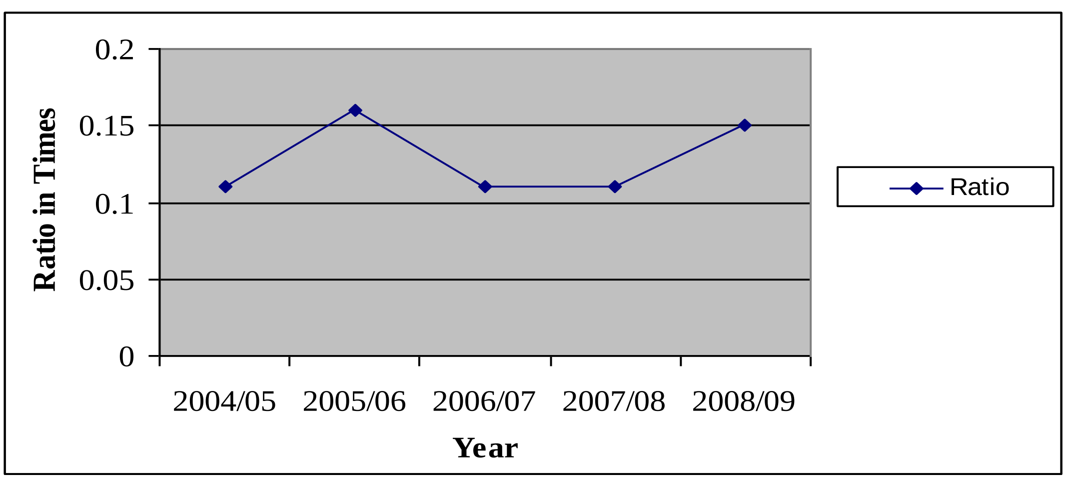
2005/06	47717.01	296318.17	0.16
2006/07	36893.21	324163.58	0.11
2007/08	36239.98	325532.75	0.11
2008/09	52076.53	351596.10	0.15
Mean			0.128
S.D.			0.0249
C.V.			0.195

Source: Annual Report of ADBL

The above table shows the cash and bank balance to total deposit ratio of ADBL. The cash and bank balance to total deposit ratio of ADBL is in fluctuating trend. The ratios are 0.11, 0.16, 0.11, 0.11, and 0.15 respectively. The average mean ratio is 0.1128 times in the study period. The highest ratio is 0.16 times in year 2005/06 and the lowest ratio 0.11 times in year first third and fourth year respectively over the study period.

Figure No 4.3

Cash and Bank balance to Total Deposit Ratio



iv) Investment of Government treasury bills to Current Assets Ratio

Government securities are slightly liquid assets as well as confidential investment until the state is living. So it is also a very important and very near cash item of current assets. Investments on Government treasury bills to current assets ratio visualize the proportion of investment on government securities to current assets.

The following table shows the figure of this ratio

Table No 4.4

Investment on Government treasury bills to Current Assets

(Amount in 00,000)

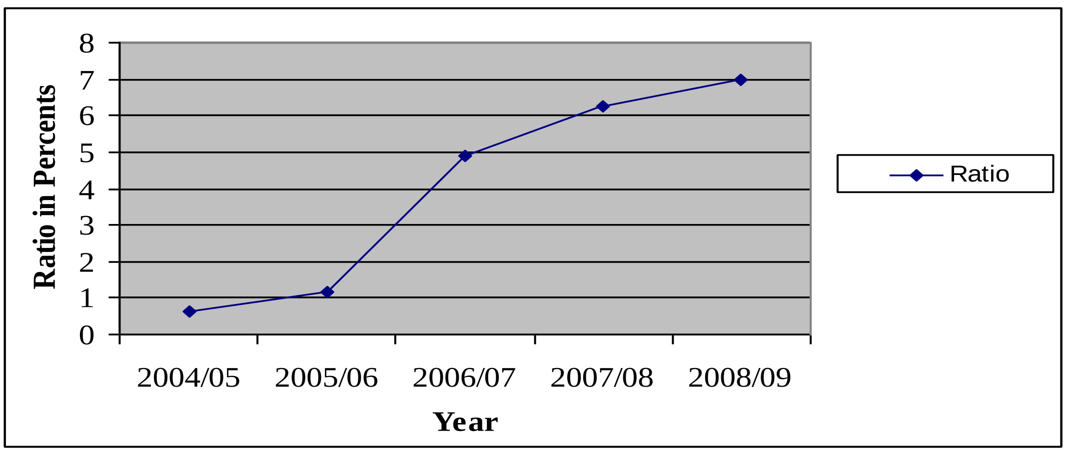
Year	Investment on Gvt. securities	Current Assets	Ratio (%)
2004/05	1981.92	304068	0.65
2005/06	3970.11	344155	1.15
2006/07	17596.15	359535	4.89
2007/08	27063.09	431295	6.27
2008/09	34737.89	495931	7.00
Mean			3.99
S.D.			2.928
C.V.			0.733

Source: Annual Report of ADBL

Above table shows that the investment on government treasury bills to current assets of ADBL are in increasing trend. The ratios are 0.65, 1.15, 4.89, 6.27 and 7.0 respectively according to consecutive year. The mean ratio is 3.99 percent. The highest ratio is 7.00 percent in the year 2008/09 and lowest ratio is 0.65 percent in the year 2004/5. Investment in Gvt. Securities is increasing but it recommended to invest more in these heading to be more risk free. The investment on government treasury bills to current assets is presented following diagram

Figure No 4.4

Investment on Government treasury bills to Current Assets



v) Loan and Advances to Current Assets Ratio

Loan and advances to current assets ratio reflects the capability of bank discounting and purchasing the bill, loans and overdraft facilities to the customer to make a profit, mobilization its fund in the best way. A commercial bank should not keep its all collected funds as cash and bank balance but they should be invested as loan and advances to the customers.

The table below shows the ratio of loan and advance to current assets ratio.

Table No 4.5

Loan and Advance to Current Assets Ratio

(Amount in 00000)

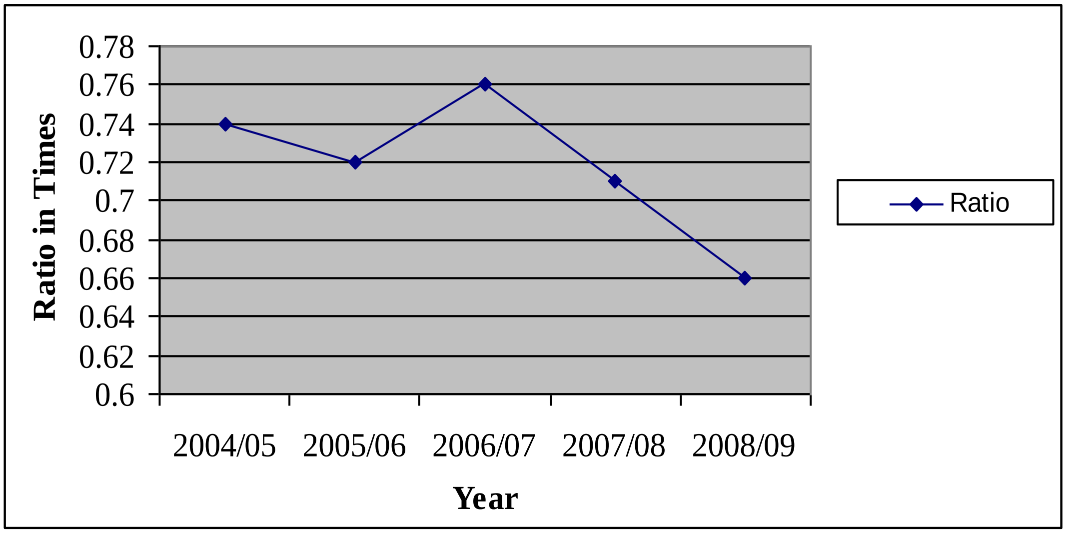
Year	Loan and Advance	Current Asset	Ratio(Times)
2004/05	226382.55	304068	0.74
2005/06	249009.62	344155	0.72
2006/07	272523.33	359535	0.76
2007/08	305894.28	431295	0.71
2008/09	326030.96	495931	0.66
Mean			0.718
S.D.			0.0377
C.V.			0.0523

Source: Annual Report of ADBL

From the above table shows the ADBL has generally decreasing trends of loan and Advances to Total Assets ratio beside year 2006/07 under the study period. The ratios are 0.74, 0.72, 0.76, 0.71 and 0.66 times in during the study period. The highest ratio is 0.76 times in the year 2006/07 and the lowest ratio is 0.66 times in % year 2008/09. The average mean ratio is 0.718times. It shows that bank has capability in utilizing current assets in the form of loan and advances. Consistency in the utilization of assets in the form of loan and advance is satisfactory. Loan and advances to current assets ratio is represented in figure as follow

Figure No 4.5

Loan and Advance to Current Assets Ratio



4.2.2 Activity Ratio:

Asset management means manage or utilization of all about of asset. It is also known as turnover or efficiency ratio or assets management ratio. It measures how efficiently the firm employs the assets. Turnover means; how much number of times the assets flow through a firm's operations and into sales Greater rate of turnover or conversion indicates more efficiency of a firm in managing and utilizing its assets, being other things equal. There are some ratios are examined under.

i) Loan and Advance to Total Deposit Ratio

Credit and advances is the investing activities of the bank and total deposit is the deposit amount of the bank collected from its customers or depositor. So, we are trying to find out the ratio between credit & advances to total deposit. This ratio measures the extent to which the bank is successful to manage its total deposit on loan and advances for the purpose of income generation. A high ratio indicates better mobilization of collected deposit and vice-versa. However, it should be noted that too high ratio might not be better from liquidity point of view.

Table No 4.6

Loan and Advance to Total Deposit Ratio

(Amount in 00000)

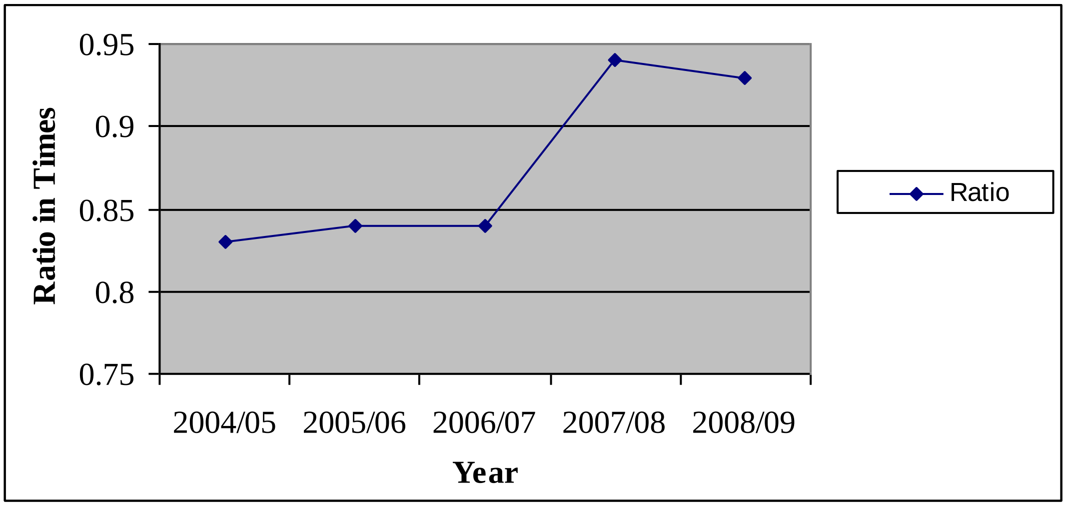
Year	Loan and Advance	Total Deposit	Ratio(Times)
2004/05	226382.55	272230.46	0.83
2005/06	249009.62	296318.17	0.84
2006/07	272523.33	324163.58	0.84
2007/08	305894.28	325532.75	0.94
2008/09	326030.96	351596.10	0.93
Mean			0.876
S.D.			0.054
C.V.			0.062

Source: Annual Report of ADBL

Above Table shows that the total loan advances to total deposit ratio of ADBL is in increasing trend. The highest ratio is 0.94 times in year 2007/8 and lowest ratio 0.83 times in year 2004/05. The average mean ratio of ADBL is 0.876 times in the study period. This means the bank is able to proper mobilization of collected deposit. According to NRB directives above 70% to 90% of loan and advances to total deposit ratio is able to better mobilization of collected deposit. So all of the year the bank has tries to meet the NRB requirement or it has utilized its deposit to provide loan. This means that credit management is in good position of the bank. Loan advances and total deposit are presented in the line diagram.

Figure No 4.6

Loan and Advance to Total Deposit Ratio



ii) Total Investment to Total Deposit Ratio

This ratio measures the extent to which the banks are able to mobilize their deposit on investment on various securities. A high ratio indicates the success in mobilizing deposits in securities and vice versa.

The following table exhibits the ratio of Total Investment to Total Deposit.

Table No 4.7

Total Investment to Total Deposit Ratio

(Amount in 00000)

Year	Total Investment	Total Deposit	Ratio(Times)
2004/05	13558.33	272230.46	0.05
2005/06	15113.30	296318.17	0.05
2006/07	31774.60	324163.58	0.10

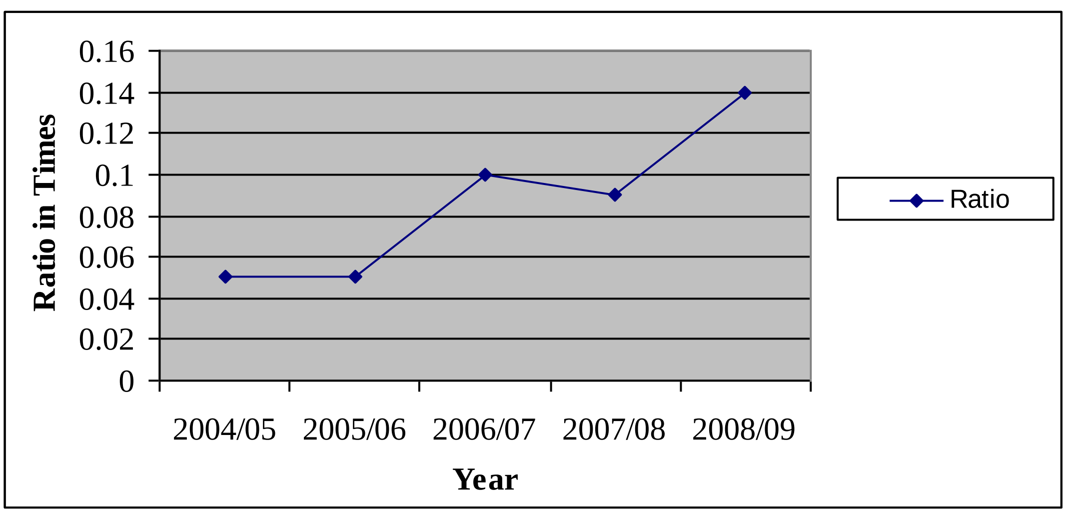
2007/08	28816.59	325532.75	0.09
2008/09	48960.62	351596.10	0.14
Mean			0.086
S.D.			0.0378
C.V.			0.439

Source: Annual Report of ADBL

Table shows that the total investment to total deposit ratio of ADBL is in increasing trend beside second last year. The ratios are 0.05, 0.05, 0.10, 0.09 and 0.14 times respectively. The highest ratio is 0.14 times in year 2008/09 and lowest ratio 0.05 times in year 2004/05. The average mean ratio of ADBL is 0.0.086 times in the study period. This means the bank is less to proper mobilization of collected deposit. This means that credit management is in not enough good position of the bank. Investment to total deposit is presented in the line diagram.

Figure No 4.7

Total Investment to Total Deposit Ratio



iii) Loan and Advances to working Fund Ratio

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

Total working fund is the total assets. It composed up of current assets, fixed assets, miscellaneous assets, investment, loan for development bank etc.

The following table exhibits the ratio of loan & advances to total working fund.

$$\text{Credit \& advances to total assets} = \frac{\text{Credit \& advances}}{\text{Total assets}} \times 100\%$$

Table No 4.8

Loan and Advances to Total Working Fund

(Amount in 00000)

Year	Loan and Advance	Total Asset	Ratio(Times)
2004/05	226382.55	312229.75	0.73
2005/06	249009.62	352976.23	0.71
2006/07	272523.33	381602.11	0.71
2007/08	305894.28	440859.57	0.69
2008/09	326030.96	518187.39	0.63
Mean			0.694
S.D.			0.0385

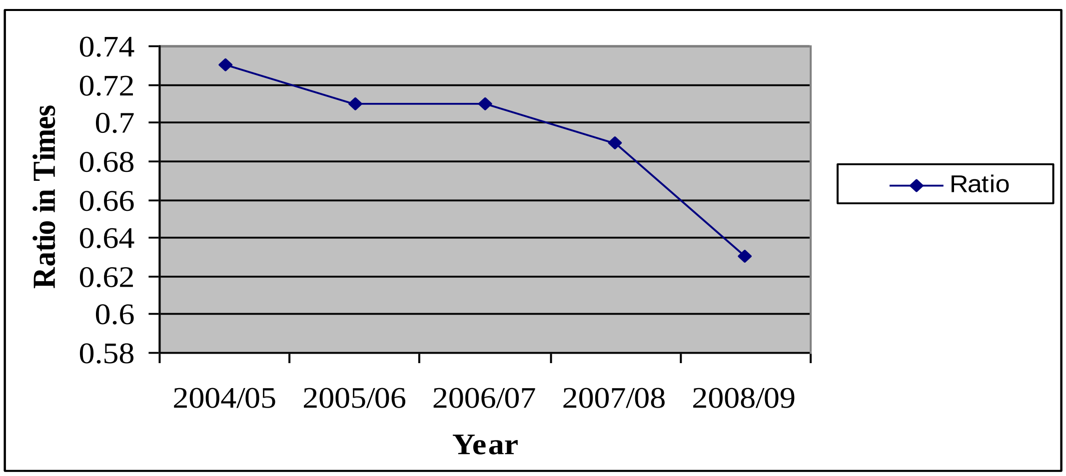
C.V.		0.0555

Source: Annual Report of ADBL

From the above table shows the ADBL bank has generally decreasing trends of loan and advances to total assets ratio under the study period. The ratios are 0.73, 0.71, 0.71, 0.69 and 0.63 times in their respective year. The highest ratio is 73% in the year 2004/05 and the lowest ratio is 63 % year 2008/09. The average mean ratio is 69.4%. It shows that bank has capability in utilizing total assets in the form of credit and advances. Consistency in the utilization of assets in the form of credit and advance is satisfactory because the fluctuation of the ratio is minimum. Loan and advances to total assets ratio is represented in figure as follow

Figure No 4.8

Loan and Advances to Total Working Fund



iv) Loan and Advances to Fixed Deposit Ratio:

Credit and advances clearly state that it is the assets of the bank and fixed deposit is the liability. It's also known as loan and advance ratio. So, this is the ratio between assets and liability. This helps to show the ratio of Loan & advances to fixed deposit. We can also conclude that what part of the credit and advances is initiated against fixed deposit.

Credit & advances to fixed deposit = $\frac{\text{Credit and Advances}}{\text{Fixed Deposit}}$

Table No 4.9

Loan and Advances to Fixed Deposit Ratio

(Amount in 00000)

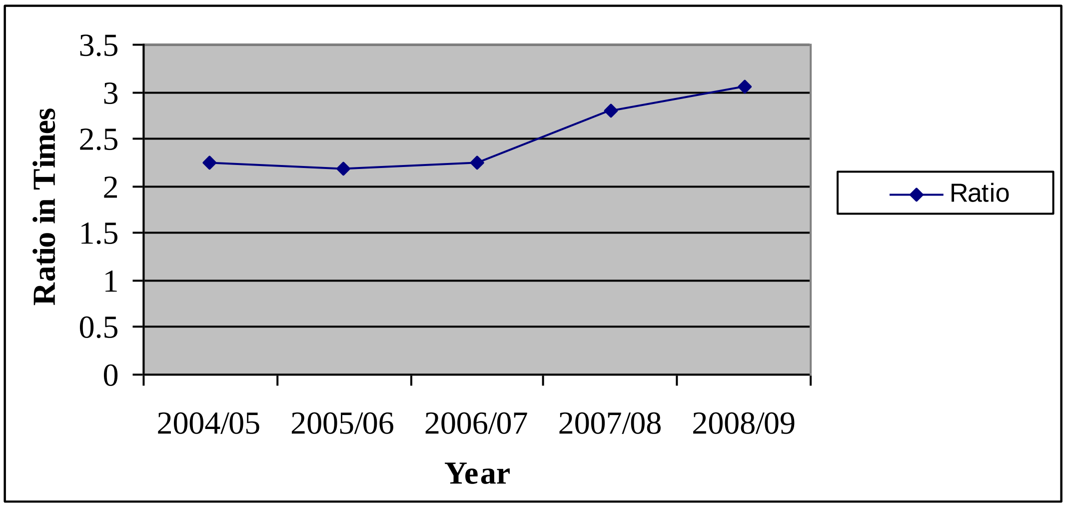
Year	Loan and Advance	Fixed Deposit	Ratio (Times)
2004/05	226382.55	100885.69	2.24
2005/06	249009.62	114261.95	2.18
2006/07	272523.33	121052.03	2.25
2007/08	305894.28	109810.35	2.79
2008/09	326030.96	106725.88	3.05
Mean			2.20
S.D.			0.899
C.V.			0.409

Source: Annual Report of ADBL

From the above table it is visualized that Loan and advances to fixed deposits ratio are increasing trend beside second year in study period. The highest ratio is 3.05 in 2008/09 and lowest ratio is 2.18 times in 2005/06 years respectively. The mean average of ADBL is 2.20 times at research period. Credit and advance to fixed deposit ratio is represented in figure as follow.

Figure No 4.9

Loan and Advances to Fixed Deposit Ratio



4.2.3 Profitability Ratio

Profit is major objective of any business organization. Profit is engine that drives the business enterprises. Profitability ratios are very helpful to measure the overall efficiency in operation of a financial institution. Profitability ratio is calculated based on sales and investment. In the context of banks, no bank can survive without profit. Profit is one the major indicates or efficient operation of a bank. The banks acquire profit by providing different services to its customers or by providing loan and advances and making various kinds of investment opportunities. Profitability ratios measure the efficiency of bank. A higher profit ratio shows the higher efficiency of a bank. The following ratios are calculated:

i) Return on Loan and Advances Ratio

Its measures the earning capacity of commercial banks on its total deposits mobilized on loan and advances.

The following table shows the figure of this ratio

Table No 4.10

Return on Loan and Advances Ratio

(Amount in 00000)

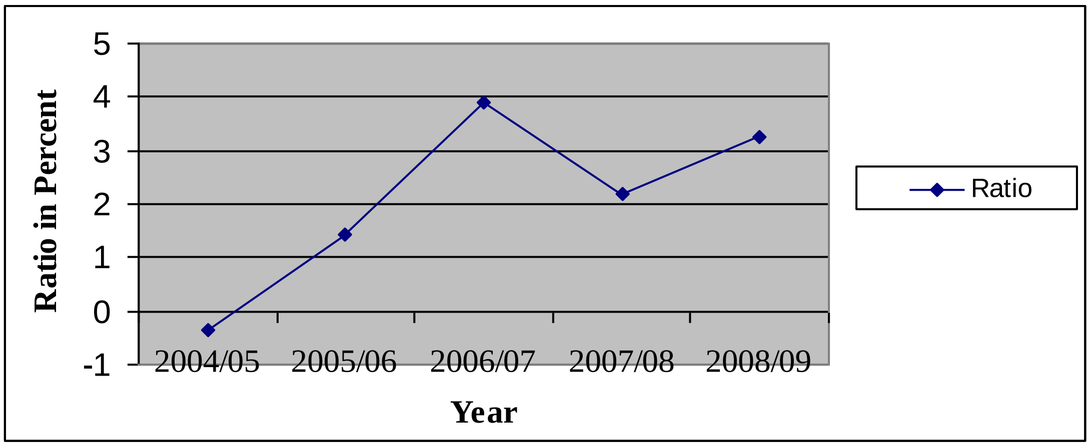
Year	Net Profit	Loan and Advance	Ratio (%)
2004/05	(786.33)	226382.55	-0.35
2005/06	3535.25	249009.62	1.42
2006/07	10584.49	272523.33	3.88
2007/08	6692.39	305894.28	2.19
2008/09	10576.10	326030.96	3.24
Mean			2.076
S.D.			1.654
C.V.			0.79655

Source: Annual Report of ADBL

The above table shows that return on loan and advances ratio of ADBL is in fluctuating trend. The highest ratio is 3.88% in the year 2006/7 and lowest ratio -0.35% in the year 2004/05. The average mean ratio is 2.076%. The Ratios are 1.42%, 3.88%, 2.19 and 3.24% in years 205/06, 2006/07, 2007/8 and 2008/09 respectively. The first year 2004/05 has negative due to loss. These show the little earning capacity of ADBL Bank through loan and advances. Thus, credit management is not enough good position. Net profit and loan advances are represented in the bar diagram as follows.

Figure No. 4.10

Return on Loan and Advances Ratio



ii) Return on Total Assets Ratio

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

Net profit includes the profit that is left to the internal equities after all costs, charges and expenses. Following tables shows the figure of this ratio.

Table No 4. 11

Return on Total Assets Ratio

(Amount in 00000)

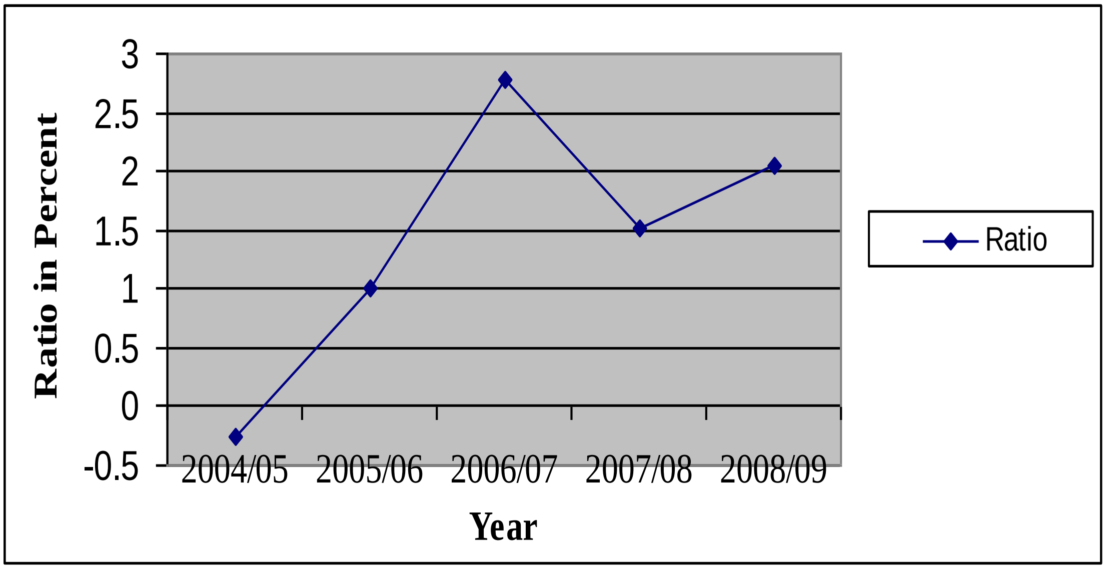
Year	Net Profit	Total Asset	Ratio (%)
2004/05	(786.33)	312229.75	-0.25
2005/06	3535.25	352976.23	1.00
2006/07	10584.49	381602.11	2.77
2007/08	6692.39	440859.57	1.52
2008/09	10576.10	518187.39	2.04
Mean			1.416
S.D.			1.138
C.V.			0.804

Source: Annual Report of ADBL

In above table shows that the Net profit to total assets ratio of ADBL is in fluctuating trend. The ratios are -0.25%, 1.00%, 2.77%, 1.52% and 2.04% in years 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. The highest ratio is 2.77 in 2006/07 and lowest ratio is -0.25% in the year 2004/05. The mean ratio is 2.04%. This shows the low earning capacity through asset utilization. In above the five-year research period net profit and total assets both are fluctuating trend.

Figure No 4.11

Return on Total Assets Ratio



iii) Return on Equity (ROE)

It measures the profit available to equity shareholders on per share basis i.e. the amount they can get each share held. The objective of computing this ratio is to measure the profitability of the firm on per equity share basis. This ratio is commutated by dividing the net profit after preference dividend by the number of equity. If banks can mobilize its equity capital properly, they can earn high profit. The return on equity capital measures the some extend to which a bank is successful to mobilize its equity.

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

Table No 4.12

Return on Equity Ratio (ROE)

(Amount in 00000)

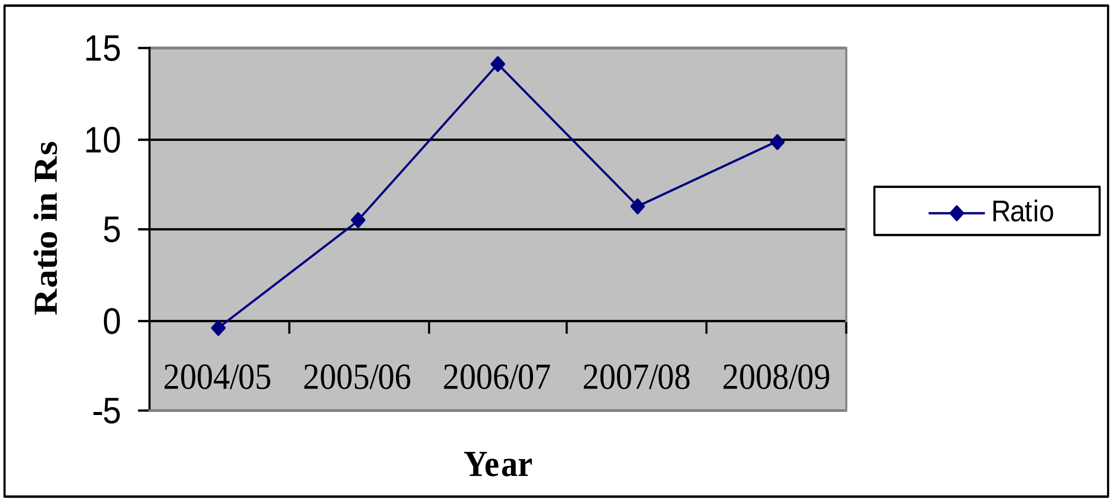
Year	Net profit	Equity shares	Ratio (Rs)
2004/05	(786.33)	161776.147	-0.49
2005/06	3535.25	64779.998	5.46
2006/07	10584.49	75280.00	14.06
2007/08	6692.39	107775.00	6.21
2008/09	10576.10	107775.00	9.81
Mean			7.01
S.D.			5.404
C.V.			0.771

Source: Annual Report of ADBL

Above table shows, that Earning per share of ADBL is in fluctuating trend. The highest EPS is RS 14.06 in year 2006/07 and lowest EPS Rs. -0.49 in year 2004/5. The average means EPS of ADBL Bank is Rs. 7.01 in the study period. This shows the fluctuating profitability in the study periods. Therefore, credit management and overall performance of company is not good position. Earning per shares is represented in the following diagram.

Figure No. 12

Return on Equity Ratio



iv) Interest Earned to Total Assets Ratio

This ratio reflects the extent to which the banks are successful in mobilizing their total assets to generate high income as interest. A high ratio is indicator for high earning power of the bank on its total working fund and vice versa.

Table No 4.13

Interest Earned to Total Assets Ratio

(Amount in 00000)

Year	Interest Earned	Total Asset	Ratio (%)
2004/05	39152.25	312229.75	12.54
2005/06	40335.45	352976.23	11.43
2006/07	46230.96	381602.11	12.11
2007/08	33637.31	440859.57	7.63

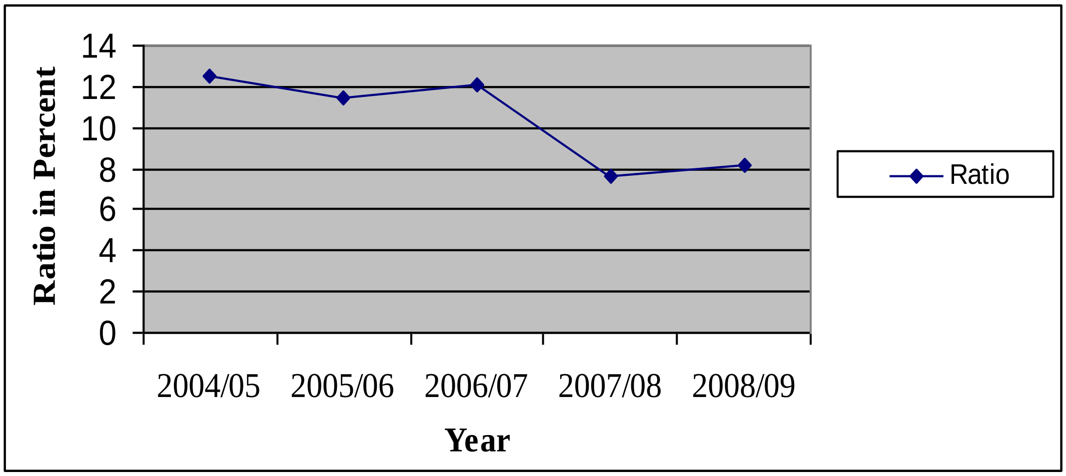
2008/09	42311.43	518187.39	8.17
Mean			10.376
S.D.			2.303
C.V.			0.222

Source: Annual Report of ADBL

Above table shows that the interest earned to total asset ratio of ADBL is in fluctuating trend. The highest ratio is 12.54% in the year 2004/05 and lowest ratio 7.63% in the year 2007/08.The average mean ratio over the period is 10.376. This shows the high earning in 2004/05 and 2006/07. Lower earning of ADBL in 2007/08 and 2008/09 through total asset. The S.D. and C.V. are 2.303 and 0.222 respectively. In present condition ratio are seems lower, it seems less conscious about managing its assets in order to earn more interest ratio. Interest Earned to Total Assets Ratio is represented in figure as follow.

Figure No 4.13

Interest Earned to Total Assets Ratio



v) Interest Paid to Total Assets Ratio

This ratio measure the percentage of total interest paid against the total Assets. Total asset ratio means total working fund ratio. A high ratio indicates the higher interest expenses on total working fund and vice versa.

The following table shows the figures of this ratio

Table No 4.14

Interest Paid to Working Fund Ratio

(Amount in 00000)

Year	Interest Paid	Total Asset	Ratio (%)
2004/05	14874.99	312229.75	4.76
2005/06	14398.44	352976.23	4.08
2006/07	16058.67	381602.11	4.21
2007/08	10438.07	440859.57	2.37

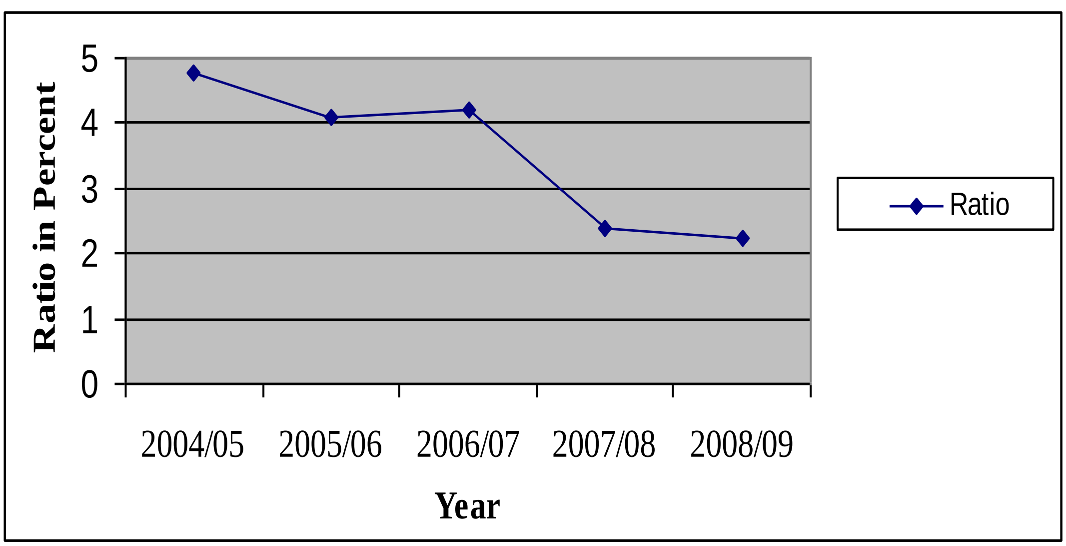
2008/09	11570.71	518187.39	2.23
Mean			3.53
S.D.			1.152
C.V.			0.327

Source: Annual Report of ADBL

Above table and figure shows interest paid to total asset ratio of ADBL. Further more interest paid to total asset ratio is decreasing during studied period except in 2006/07. The highest ratio is 4.76 in 2004/05 and lowest ratio is 2.23 in 2008/09. The higher ratios indicate higher paying in its fund or less conscious about borrowing cheaper fund. The average interest paid to total asset ratio is 3.53. The interest paid to total asset ratio is decreasing trend it indicate better doing performance by ADBL and minimizing its cost of fund. The S.D. and C.V. of ADBL is 1.152 and 0.327 respectively. Interest Paid to Working Fund Ratio is represented in figure as follow.

Figure No 4.14

Interest Paid to Working Fund Ratio



vi). Interest Earned to Operating Income Ratio

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

The following table shows the figure of this ratio

Table No 4.15

Interest Earned to Operating Income Ratio

(Amount in 00000)

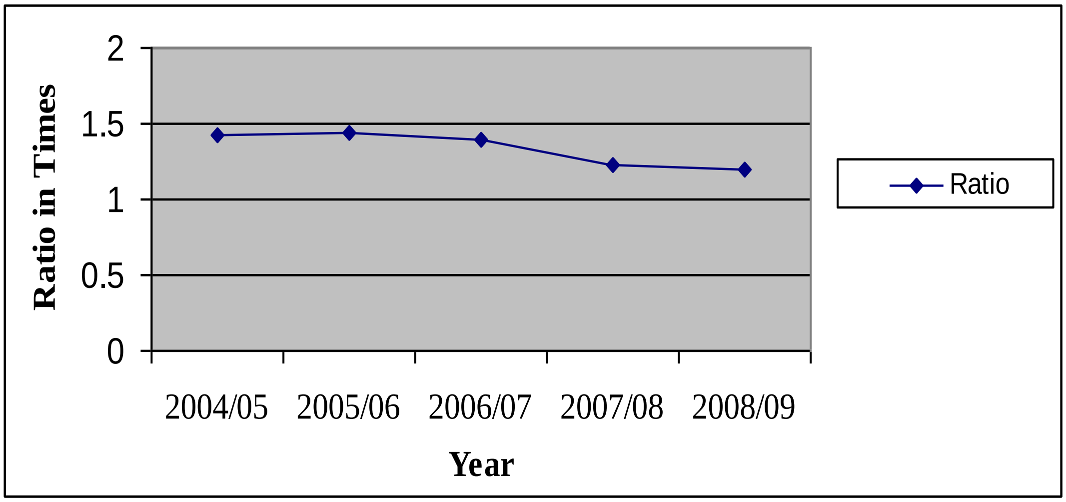
Year	Interest Earned	Operating Income	Ratio(Times)
2004/05	39152.25	27566.86	1.42
2005/06	40335.45	28036.58	1.44
2006/07	46230.96	32990.80	1.40
2007/08	33637.31	27536.94	1.22
2008/09	42311.43	35684.59	1.19
Mean			1.33
S.D.			0.119
C.V.			0.089

Source: Annual Report of ADBL

Above table shows the interest earned to operating income ratio of ADBL. The interest earned to operating income ratio of ADBL is fluctuating and decreasing during the study period. The mean ratio of ADBL is 1.33 respectively. The highest ratio is 1.44 and lowest ratio is 1.19 in 2005/06 and 2008/09 respectively. The higher ratio, it indicates the high contribution in operating income made by lending and investing activities (core banking activity). But ADBL is decreasing so it indicates that high contribution in operating income do not made by lending and investing activities (core banking activity). The S. D. and C. V. of ADBL is 0.119 and 0.089 respectively. Lower C. V. indicates lower fluctuation of its variable. Interest Earned to Operating Income Ratio is represented in figure as follow.

Figure No 4.15

Interest Earned to Operating Income Ratio



4.2.4 Leverage Ratio:

These ratios are also called capital structure ratio or solvency ratio. These ratios indicate mix of funds provided by owners and lenders. As a general rule, there should be an appropriate mix of debt and owner's equity in financing the firm's assets. To judge the long-term financial position of the firm, leverage ratios are calculated. This ratio highlights the long-term financial health, debt servicing capacity and strength and weaknesses of the firm. Following ratios are included under these advantage ratios.

i) Total Debt to Equity Ratio:

Total debt is the liability of the firm and it is payable toward its creditors. Debt includes the value of deposits from customers, loan & advances payable, Bills payable and other liabilities. Equity is the share capital and reserves of the firm. This ratio shows the comparison in between total debt and equity.

Total debt = Debentures & Bonds + Borrowings + Deposits + Bills Payable + Proposed & Undistributed Dividends + Income Tax Liabilities

Total Equity = share capital + Reserve and surplus

$$\text{Total debt to equity} = \frac{\text{Total Debt}}{\text{Equity}}$$

Table No 4.16

Total Debt to Equity Ratio:

(Amount in 00000)

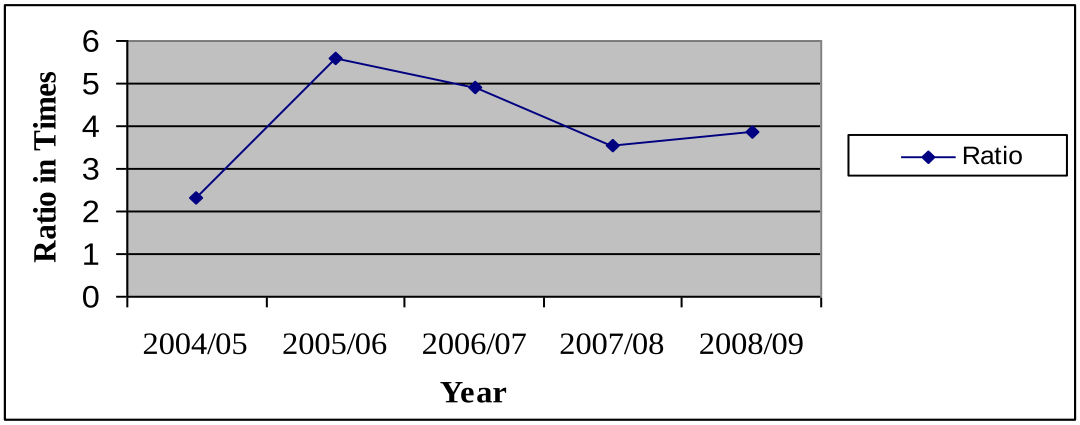
Year	Total Debt	Total Equity	Ratio(Times)
2004/05	372122.44	161776.147	2.30
2005/06	361329.82	64779.998	5.58
2006/07	368871.20	75280.00	4.90
2007/08	383514.39	107775.00	3.56
2008/09	414935.66	107775.00	3.85
Mean			4.038
S.D.			1.265
C.V.			0.313

Source: Annual Report of ADBL

Above table shows the Debt to total equity ratio of ADBL. The ratio is fluctuating over the study period. The ratio are 2.30, 5.58, 4.90, 3.56 and 3.85 in the year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. The average mean ratio is 4.038 times. The highest ratio is 5.58 in 2005/06 and lower ratio is 2.30 in 2004/05. the S. D. and C.V. is 1.265 and 0.313. Excess amount of debt capital structure results heavy burden in payment of interest. Risk of liquidation increase if the debt cannot be repay in the time. High gearing ratio may provide high return to the equity shareholders if the bank makes profit. Ratio is represented in figure as follow.

Figure No 4.16

Total Debt to Equity Ratio



ii) Total Debt to Total Assets:

A metric used to measure a company's financial risk by determining how much of the company's assets have been financed by debt. Calculated by adding short term and long-term debt and then dividing by the company's total assets. In general creditors prefer a low debt ratio & owner prefer a high debt ratio in order to magnify their earning on one hand and to maintain their concerned control over the firm on the other hand.

Table No 4.17

Total Debt to Total Assets

(Amount in 00000)

Year	Total Debt	Total Asset	Ratio(Times)
2004/05	372122.44	312229.75	1.19
2005/06	361329.82	352976.23	1.02
2006/07	368871.20	381602.11	0.97

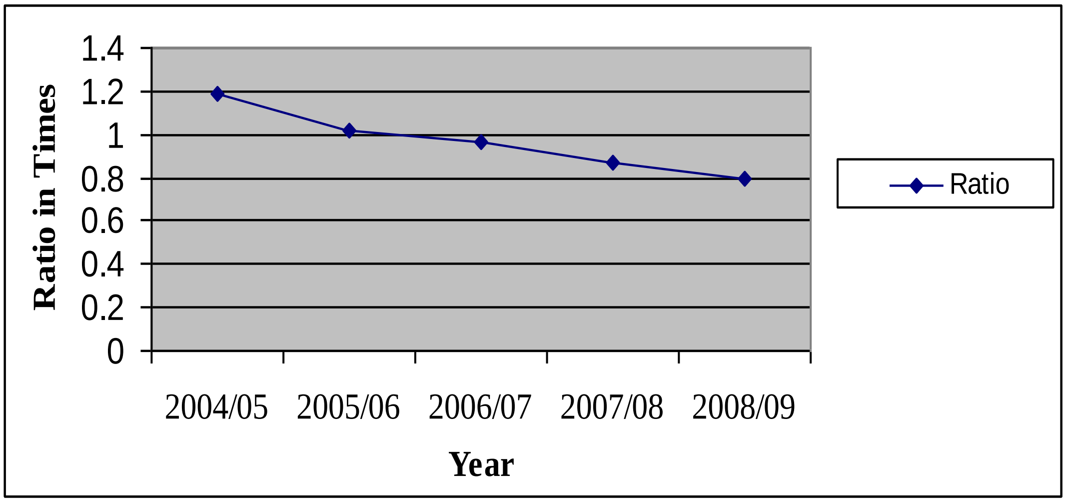
2007/08	383514.39	440859.57	0.87
2008/09	414935.66	518187.39	0.80
Mean			0.97
S.D.			0.149
C.V.			0.154

Source: Annual Report of ADBL

In above table show the total debt to total asset ratio of the ADBL. The ratio is continuously decreasing trend. It is found 1.19 times, 1.02 times, 0.97 times, 0.87 times and 0.80 from 1st to 5th year of the study period 2004/05 to 2008/09 respectively. The highest ratio is 1.19 in 2004/05 and lowest ratio is 0.87 in 2008/09. The average mean ratio is 0.97 times in study period. It means almost 97% of total assets is contribute by debt or outsider's funds. The portion of total debt is continuously decreasing condition its means ADBL minimizing cost and doing better performance. The S. D and C.V. is 0.149 and 0.154 respectively. It means there is not much deviation in the ratio for the five years study period but continuously decreasing the debt. Total debt to total asset ratio is represented in figure as follow.

Figure No 4.17

Total Debt to Total Assets



iii) Total Assets to Total Book Net worth Ratio:

The ratio is calculated to find out the proportion of owner's fund to finance for the total assets. Total Assets comprises of the total value of the assets side of balance sheet where as net worth is the sum of the paid-up capital plus reverses and retained of the bank. It is calculated to see the amount of assets financed by net worth

Table No 4.18

Total Assets to Net Worth

(Amount in 00000)

Year	Total Asset	Net Worth	Ratio(Times)
2004/05	312229.75	(59892.68)	-5.21
2005/06	352976.23	(8353.58)	-42.25
2006/07	381602.11	12730.91	29.97
2007/08	440859.57	57345.19	7.69
2008/09	518187.39	103251.73	5.02

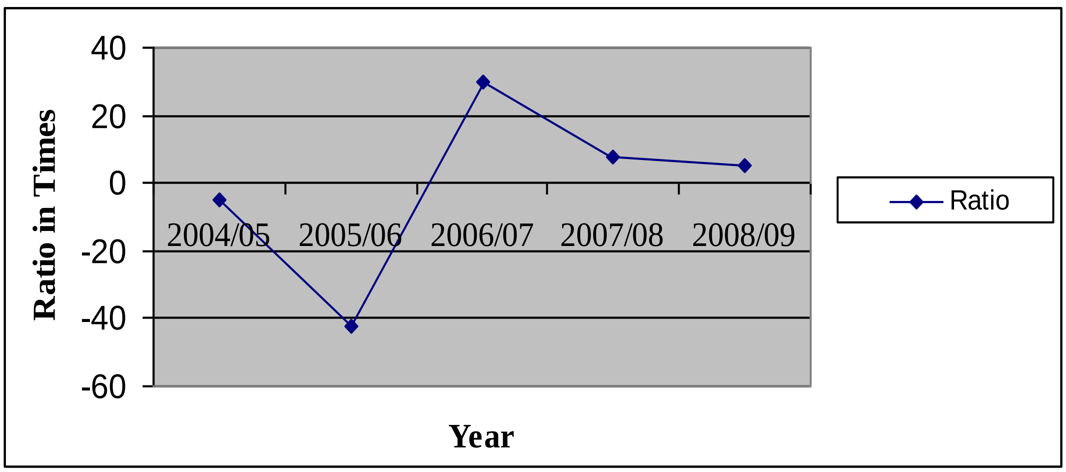
Mean		-0.956
S.D.		26.41
C.V.		27.63

Source: Annual Report of ADBL

Above table shows Total assets to net worth ratio of the bank are highly fluctuating trend. In firs two year ratio is negative due to negative net worth. The lowest ratio is -42.25 in first year 2004/05 and highest ratio is 29.97 times in the third year 2006/07. In over all the study period the average ratio at that time is -0.956 times. The average ratio also negative due to high negative value in two year.. It represents bad condition of Total assets to net worth ratio. The S. D. and C. V. of ADBL is 26.41 and 27.63. It indicates high risky and high volatile as worse as inconsistency. The figure shows the Total assets to net worth ratio of the bank.

Figure No 4.18

Total Assets to Net Worth



4.2.5 Lending Efficiency Ratio

Lending Efficiency indicate the how properly or efficiently use the asset and funds. It's also known as risk ratio. The efficiency of firm depends largely on the efficiency with which its assets are managed and utilized. This ratio is concerned with measuring the efficiency of bank. This ratio also shows the utility to available fund. The following are the various type of lending efficiency ratio:

i) Total Loan Loss Provision to Total Loan and Advances Ratio

Loan loss provision to total loan and advances describes the quality of assets that a bank holding. The amount of loan loss provision in balance sheet refers to general loan loss provision. The provision for loan loss reflects the increasing probability of non-performing loan. The provision of loan means the profit of the banks will come down by such amount. Increase in loan loss provisions decreases in profit result to decrease in dividends but its positive impact is that strength financial conditions of the banks by controlling the credit risk and reduced the risks related to deposits. Therefore, it can be said that banks suffer it only for short-term loan while the good financial conditions and safely of loans will make bank's prosperity resulting increasing profit for long term. Loan loss provision is not more than 1.25% of risk bearing assets.

Table No 4.19

Loan Loss Provision to Total Loan and Advances Ratio

(Amount in 00000)

Year	Total Provision	Loan and Advance	Ratio (%)
2004/05	86708.19	226382.55	38.30
2005/06	84098.33	249009.62	33.77
2006/07	71880.36	272523.33	26.38
2007/08	60152.89	305894.28	19.66
2008/09	56980.07	326030.96	17.48
Mean			27.12

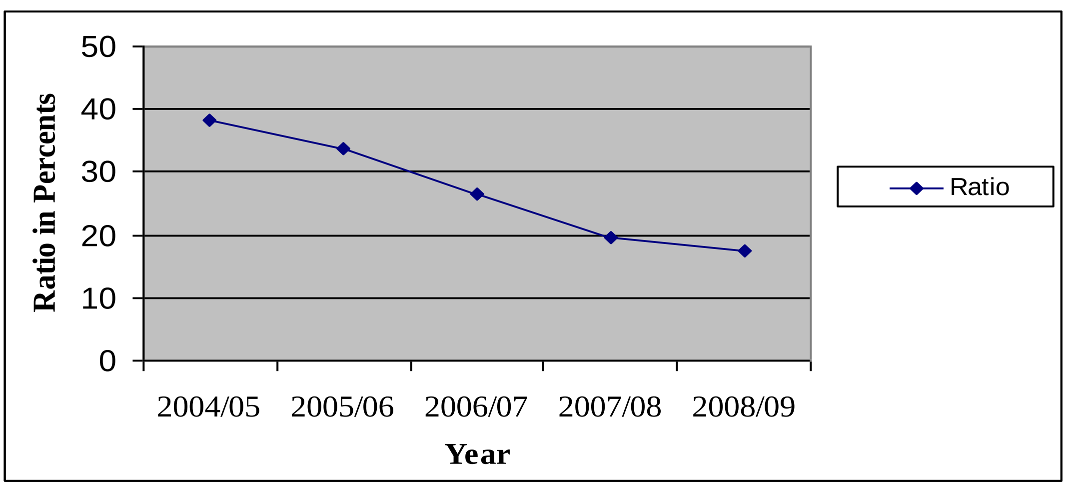
S.D.		8.921
C.V.		0.329

Source: Annual Report of ADBL

Above table shows, that loan loss provision to total loan and advances ratio of ADBL is in decreasing trend. The highest ratio is 38.30% in year 2004/5 and lowest ratio 17.48% in year 2008/09. The mean ratio of the study period is 27.12%. This much high portion of provision indicates bad quality of assets in total volume of loan and advances. The ratio are 38.30, 33.77, 26.38, 19.66 and 17.48 in the year 2004/05, 2005/06 2006/07, 2007/08 and 2008/09 respectively. The S.D. and C.V. are 8.921 and 0.329. These indicate the maximum portion loan and advances in bad sector. The continuously decreasing ratio indicates that bank increasing performance. Here every year over value than the NRB requirement. Loan loss provision and total loan and advances are represented in the following diagram clearly.

Figure No 4.19

Loan Loss Provision to Total Loan and Advances Ratio



ii) Non-Performing Loan to Total Loan and Advances Ratio

This ratio shows the relationship of Non-performing loan and total loan and advance. It is known as unproductive loan. Non-performing loan is also known as doubtful loan it is determine how efficiently the total loan and advance have been used by the management. Higher ratio shows the low efficient operating of the management and lower ratio shows the more efficient operating of credit management.

Table No 4.20

Non-Performing Loan to Total Loan and Advances

(Amount in 00000)

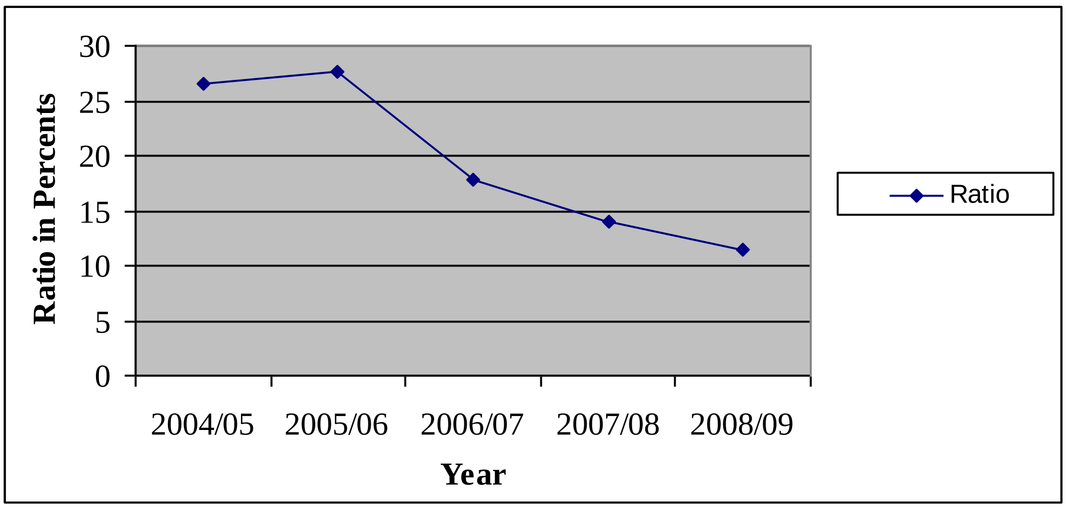
Year	Non-performing loan	Loan and Advance	Ratio (%)
2004/05	60039.93	226382.55	26.52
2005/06	68589.94	249009.62	27.55
2006/07	48529.95	272523.33	17.81
2007/08	42808.10	305894.28	13.99
2008/09	37207.74	326030.96	11.41
Mean			19.456
S.D.			7.293
C.V.			0.375

Source: Annual Report of ADBL

Above table shows that None performing loan to total loan and advance of ADBL is in decreasing trend. The ratios are 26.52%, 27.55%, 17.81%, 13.99% and 11.41 in consecutive year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. The highest ratio is 27.55% in the year 2005/06 and lowest ratio is 11.41% in the year 2008/09. The average non-performing loan to total loan and advances ratio of ADBL is 19.456% during the study period. C.V. of ADBL is 0.375. This ratio indicates that high portion of NPL. Ratios are decreasing trends it indicate the bank is decreasing the non-performing loan from total loan. Every ratio is higher than the NRB requirement. So it is recommended to decrease the NPL less than 5%. Non- performing loan to loan and advances ratio present clearly in following figure.

Figure No 4.20

Non-Performing Loan to Total Loan and Advances



iii) Interest Expenses to Total Deposit Ratio

The ratio measures the percentage of total interest against total deposit. Commercial banks are dependent upon its ability to generate cheaper fund. The cheaper fund has more the probability of generating loans and advances and vice-versa. It measures the interest expense towards the deposit.

Table No 4.21

Interest Expenses to Total Deposit Ratio

(Amount in 00000)

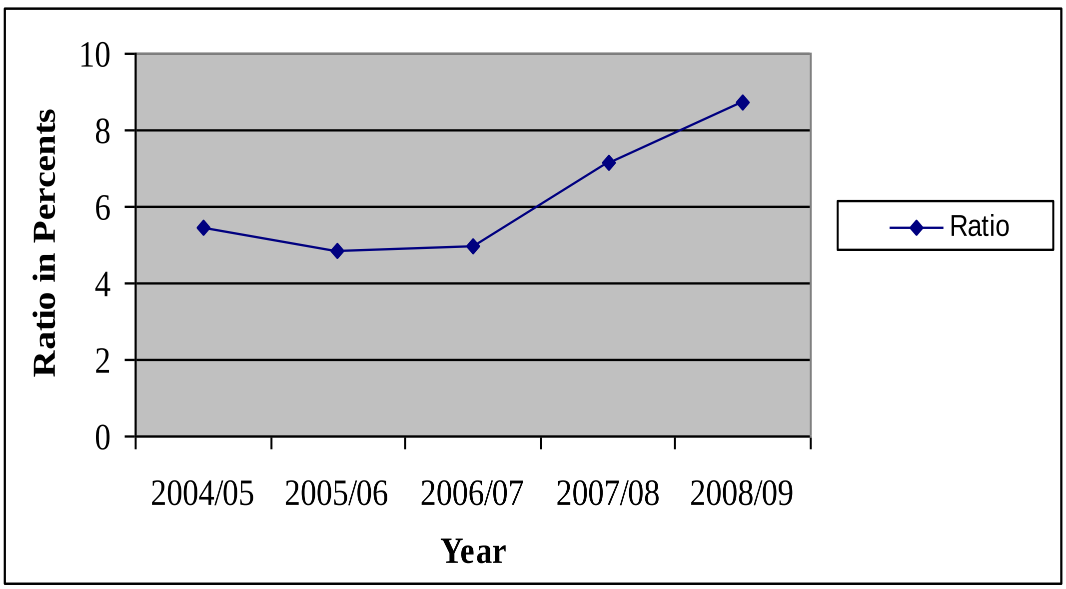
Year	Interest expenses	Total Deposit	Ratio (%)
2004/05	14874.99	272230.46	5.46
2005/06	14398.44	296318.17	4.86
2006/07	16058.67	324163.58	4.95
2007/08	23199.24	325532.75	7.13
2008/09	30740.72	351596.10	8.74
Mean			6.228
S.D.			1.675
C.V.			0.269

Source: Annual Report of ADBL

Above table shows that interest expenses to total deposit ratio of ADBL is in increasing trend beside first year. The highest ratio is 7.13% in the year 2008/09 and lowest ratio is 4.86% in the year 2005/06. The average mean point of interest expenses to total deposit ratio is 6.228% during the study period. The S.D. and C.V. of ADBL is 1.675 and 0.269. It indicates lower volatility. This increasing ratio indicates higher interest expenses on total deposit. ADBL has using high interest bearing fund rather than cheaper fund. So it is recommend to use cheaper fund to generate high profit. Interest expenses to total deposit ratio is represented in figure as follow

Figure No 4.21

Interest Expenses to Total Deposit Ratio



iv) Non-Performing Assets to Total Assets Ratio

Lower the non-performing assets ratio is good and higher the ratio is bad. This ratio measures lending opportunity of the bank.

Table No 4.22

Non-performing assets to Total Assets ratio

(Amount in 00000)

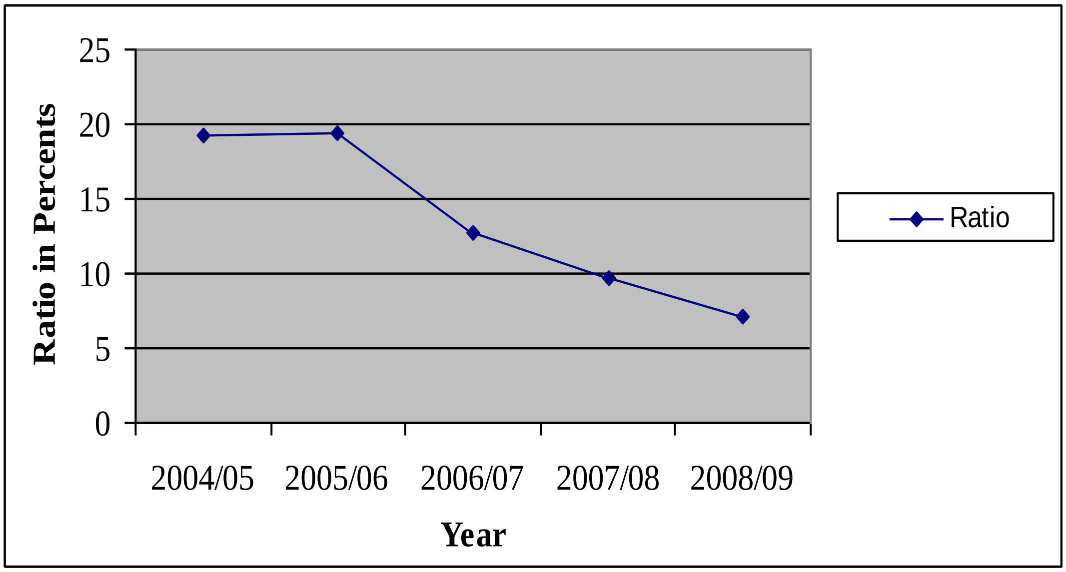
Year	Non-performing Asset	Total Asset	Ratio (%)
2004/05	60039.93	312229.75	19.23
2005/06	68589.94	352976.23	19.43
2006/07	48529.95	381602.11	12.72
2007/08	42808.10	440859.57	9.71
2008/09	37207.74	518187.39	7.18
Mean			13.654
S.D.			5.541
C.V.			0.406

Source: Annual Report of ADBL

Table no 4.7 shows that the total non-performing assets to total assets ratio of ADBL is in decreasing trend beside second year. The highest ratio is 19.43% in year 20050/6 and lowest ratio 7.18% in year 2008/09. The mean ratio is 13.645%. the ratios are 19.23, 19.43, 12.72, 9.71 and 7.18 in year 2004/05, 2005/06, 2006/07, 2007/8 and 2008/09 respectively. The portion of NPL is high therefore; credit management is not good position of the bank. According to the direction of NRB to the commercial banks, the ratio of non-performing assets to total assets should be about 5% or less. But it has higher than of that percent so its strongly recommended to decrease in its NPA. The S.D. and C. V. of ADBL is 5.541 and 0.406. Lower C.V. indicates less volatility. Non-performing assets to total assets ratio is represented clearly in the figure.

Figure No 4.22

Non-performing assets to Total Assets ratio



4.3 Statistical tools

In this chapter some statistical tools such co-efficient of correlation analysis between Deposit and loan and advances, deposit and total investment, total assets and net profit, net profit and total deposit, market value per share and book value per share are used to achieve the objective of the study.

i) Correlation Coefficient:

Correlation coefficient is used to define the relationship between two or more variable. Coefficient of correlation has been studied to find out whether the two available variables are inter-correlated or not. If the result falls with in the correlated point, the two variables are inter-correlated otherwise not. Now to find out the correlation coefficient between total lending and total assets, the widely used method of Karl Pearson's Coefficient of Correlation has been adopted.

Coefficient of Correlation (r) $$= \frac{N\sum xy - (\sum X)(\sum Y)}{\sqrt{N\sum X^2 - (\sum X)^2}\sqrt{N\sum Y^2 - (\sum Y)^2}}$$

Here,

N = Number of pairs of x and y observed.

x = values of credit and advances.

y = values of total assets.

r = Karl Pearson's Coefficient of Correlation.

ii) Probable Error

It is a method to determine the reliability of the value of Pearson's coefficient of correlation. It helps in interpreting the value of coefficient of correlation. If r is the calculated correlation coefficient in a sample of n pairs of observation, then its standard error, usually denoted by S.E. & is given by.

S.E. (r) = $\frac{1-r^2}{\sqrt{n}}$

Probable error of the coefficient of correlation can also be calculated from S.E. of the coefficient of correlation by the following formula:

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

Where r = coefficient of correlation

n = no of observations

The probable error is used to test whether the calculated value of correlation significant or not.

If r < 6 × P.E(r), then the value of r is not significant

If r > 6 × P.E(r), then the value of r is significant

A) Correlation between Total Deposit and Loan & Advances

Deposit have played vary important role in performance of a commercial banks and similarly loan & advances are very important to mobilize the collected deposits. Co-efficient of correlation between deposit and loan & advances measures the degree of relationship between these two variables. The main objectives of computing 'r' between these two variables is to justify whether deposit are significantly used as loan & advances in proper way or not. Coefficient of correlation determination between deposit and loan and advances of ADBL

Table No 4.23

Coefficient of Correlation between Deposit and Loan & Advance

Banks	**Evaluation Criterions**			
	Correlation Coefficient (**r**)	Coefficient of determination($\mathbf{r}^2$)	Probable error (P.Er.)	6 P.Er.
ADBL	0.958	0.918	0.0248	0.1488

Source: Through SPSS Data Editor

The above table shows that the correlation coefficient between deposit and loan and advances is 0.958. There is highly positive correlation between loan and advances and deposit collection. This indicate both variable move same direction. The coefficient of determination is 0.918, which depicts that 91.8% of loan has been explained by the deposit collection. It shows that increase in deposit highly lead to increase loan and advances. In accordance to increase in deposit ADBL's loan and advances is increasing in trend. Above data indicates that EBL has successfully mobilized their deposit in proper way as loan and advances

Probable error (P.E.) is 0.0248 and 6 P.Er. is 0.1488. Probable error of the correlation coefficient denoted by P.E. is the measure of testing the reliability of the calculated value of r. Here, 'r' is greater than 6 P.E. then there is evidence of significant correlation between loan and deposit. That further reveals there is significant relationship between loan and advances and deposit.

B) Coefficient of Correlation between Total Deposits and Total Asset

The coefficient of correlation between deposit and asset measures the degree of relationship between these two variables. The following Table No. 4.30 shows the coefficient correlation between deposits and total assets i.e. r, P. Er., 6 P. Er. and coefficient of determination (R^2) of ADBL during the study period.

The table 4.10 shows represent the correlation coefficient between Total Deposits and Total assets

Table No 4.24

Correlation between Total Deposits and Total Asset

Banks	**Evaluation Criterions**			
	Correlation Coefficient (**r**)	Coefficient of determination($\mathbf{r}^2$)	Probable error (P.Er.)	6 P.Er.
ADBL	0.942	0.887	0.0339	0.2039

Source: Through SPSS Data Editor

The above table shows that the coefficient of correlation between total deposit and total assets of ADBL is 0.942. This indicates both variable move same direction but proportionately. It shows the highly positive correlation. In addition, coefficient of determination of ADBL is 0.887. It means there is 88.7 percent of total assets is explained by total deposit. The correlation coefficient is significant because the correlation coefficient r is more than 6 P.Er i.e. 0.942 > 0.2039. It refers that there is significant relationship between total deposit and total Asset. From the above analysis, the conclusion can be drawn that ADBL has high degree positive correlation between total deposit and total Assets

C) Coefficient of correlation between deposit and investment

Deposit has played a very important role in performance of a commercial bank and similarly investment is important to mobilize the collected deposits. Coefficient of correlation between deposit and investment measure the degree of relationship between these two variables. In this analysis, deposit is independent variables (X) and investment is dependent variable(Y). The main objective of computing "r" between these two variables is to justify whether deposits are significantly used as investment in a proper way or not. The value of r and 6 PEr between deposit and investment of ADBL are presented below.

Table No 4.25

Coefficient of Correlation Between deposit and investment

Banks	**Evaluation Criterions**			
	Correlation Coefficient (**r**)	Coefficient of determination(**r** ^{2})	Probable error (P.Er.)	6 P.Er.
ADBL	0.951	0.9044	0.0288	0.1730

Source: Through SPSS Data Editor

The above table shows that the correlation coefficient between deposit and Investment is 0.951. There is highly positive correlation between loan and advances and deposit collection. This indicate both variable move same direction. The coefficient of determination is 0.9044, which depicts that 90.44% of investment has been explained by the deposit collection. It shows that increase in deposit highly lead to increase in its investments. In accordance to increase in deposit ADBL's investment is also increasing in trend. Above data indicates that EBL has successfully mobilized their deposit in proper way as investments. Probable error (P.E.) is 0.0288 and 6 P.Er. is 0.1730. Here, 'r' is greater than 6 P.E. i.e. 0.951 > 0.1730, then there is evidence of significant correlation between deposit and investment. That further reveals there is significant relationship between deposit and investment. Above data indicates that ADBL has successfully mobilized their deposit in proper way as investment.

D) Coefficient of Correlation between Total Debt and Total asset

Coefficient of correlation between total debt and total assets measures the degree of their relationship. In the, correlation analysis, investment is independent variable and net profit is dependent variable. The following Table shows the coefficient of correlation coefficient of determination, probable error and six times of P.Er.

Table No. 4.26

Correlation between Total Debt and Total Assets

Banks	**Evaluation Criterions**			
	Correlation Coefficient (**r**)	Coefficient of determination(**r** ^{2})	Probable error (P.Er.)	6 P.Er.
ADBL	0.894	0.7992	0.0601	0.3634

Source: Through SPSS Data Editor

Above table shows correlation coefficient between total Debt and total asset of ADBL is 0.894 which implies there is positive correlation between total Debt and Total assets. This indicates both variable move same direction but proportionately. In addition, coefficient of determination is 0.7992. It means 79.92 percent of Assets is contributed by Debt. Obviously, this correlation is significant at all due to coefficient of determination is higher than P.Error i.e. 0.894 > 0.3634. Thus it can be concluded that the degree of relationship between total debt and total assets of ADBL is positive correlation.

E) Co-efficient of Correlation between Loan and advance and Net Profit

Co-efficient of correlation between total assets and net profit is used to measure the degree of relationship between two variable i.e. Loan and advance and net profit of ADBL during the study period. Where Loan and advance is independent variable (X) and net profit is dependent variable (Y). The main objective of calculating this ratio is to determine the degree of relationship whether there the net profit is significantly correlated or not and the variation of net profit to loan and advance through the coefficient of determination.

Table No. 4.27

Correlation between Loan and advance and Net profit

Banks	**Evaluation Criterions**			
	Correlation Coefficient (**r**)	Coefficient of determination(**r** ^{2})	Probable error (P.Er.)	6 P.Er.
ADBL	0.807	0.651249	0.105202	0.6312

Source: Through SPSS Data Editor

The above table shows the correlation coefficient between net profit and loan and advances. The correlation coefficient between net profit and loan and advances is 0.807. There is positive correlation between net profit and loan and advances. The coefficient of determination is 0.6512, which depicts that 65.12% of profit is explained by the loan and advance. Probable error (P.E.) is 0.01052 and 6 P.E. is 0.6312. Probable error of the correlation coefficient denoted by P.E. is the measure of testing the reliability of the calculated value of r. Here, 'r' is greater than 6 P.E i.e. 0.807 > 0.6312. Then there is evidence of significant correlation between loan and profit. That further reveals there is significant relationship between loan and advances and total profit.

4.3.1 Trend Analysis:

Here, trend analysis of total deposits and loan and advances is projected for the five years. The measure of trend analysis shows the behavior of given variables in series of time. This trend analysis is carried out to see average performance of the banks for next five years.

Trend analysis is based on some assumptions;

All the other things will remain unchanged.

The bank will run in present condition.

The economy will remain in present stage.

N.R.B. will not change its guidelines to commercial banks.

A) Trend Analysis of Total Deposit:

Deposits are the important part in banking sector hence its trend for next seven years will be forecasted for future analysis. Here, the trend value of total deposit of ADBL has been calculated for further seven year. The following Table shows the actual and trend values of ADBL.

Let trend line be

Y = a + b x…………………… (I)

Where,

Y = dependent variable, a =Y- intercept, b = slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Table No 4.28

Trend of total Deposit

(Amount in million)

Year(x)	Total Deposit
2004/05	274379
2005/06	294174
2006/07	313968
2007/08	333763
2008/09	353557
2009/10	373352
2010/11	393147
2011/12	412941
2012/13	432736
2013/14	452530
2014/15	472325
2015/16	492120

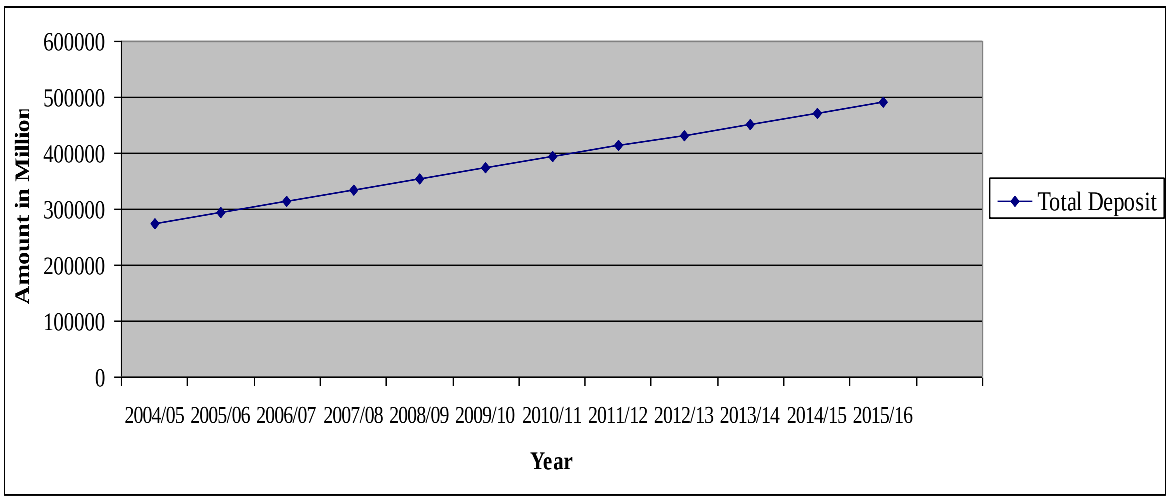
Source: Annul Report of ADBL

Appendix 1

The following graph helps to show the trend lines of total deposit for the projected five years. The equation is Yc = 313968.2+18794.59*X

Figure No 4.23

Trend line of Total Deposit



Above table and figure shows that total deposit of ADBL. The trend of total deposit of ADBL is in increasing trend. The rate of increment of total deposit for ADBL seems to be smoothly increasing trend. The trend analysis has projected deposit amount in fiscal year FY 2008/9 to FY 2015/16.

B) Trend Analysis of total Loan and Advance:

Loan and advance is the important part in banking sector hence its trend for next seven years will be forecasted for future analysis. Here, the trend values of Loan and advance of ADBL has been calculated for further seven year. The following Table shows the actual and trend values of ADBL.

Let trend line be

Y = a + b x…………………… (I)

Where,

Y = dependent variable, a =Y- intercept, b = slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Table No 4.29

Trend Analysis of total Loan and Advance

Year(x)	Loan and Advance
2004/05	224732
2005/06	250350
2006/07	275968
2007/08	301586
2008/09	327204
2009/10	352822
2010/11	378441
2011/12	404059

2012/13	429677
2013/14	455295
2014/15	480913
2015/16	506531

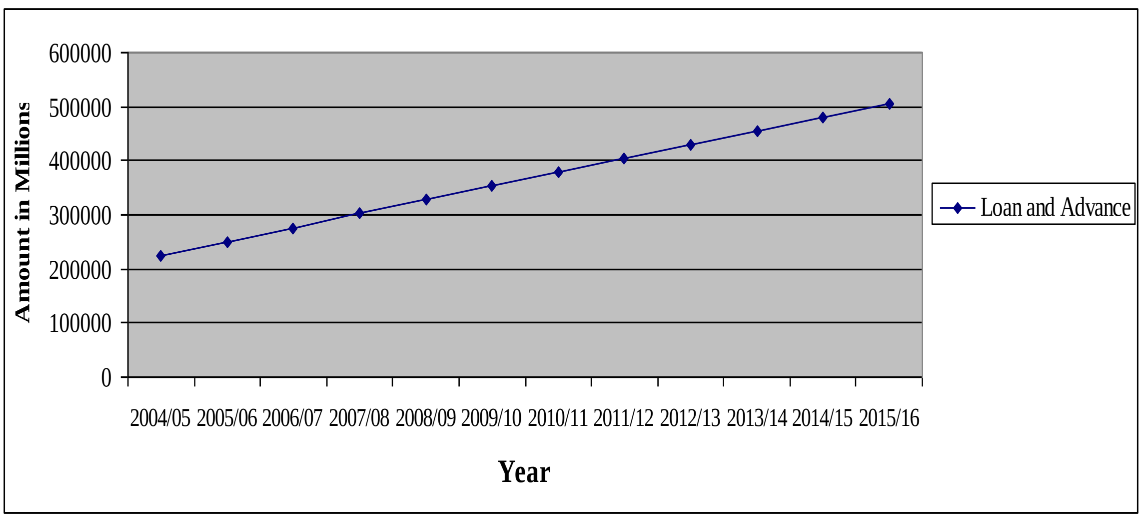
Source: Annul Report of ADBL

Appendix 2

The following graph helps to show the trend lines of Loan and advance for the projected five years. The equation is Yc = 275968+25618.15*X

Figure No 4.24

Trend line of Loan and advance



Above table and figure shows trend values of loan & advances of ADBL. The trend of trend values of loan & advances of ADBL is increasing trend. It is suggest to increase in loan and advance in same way to make better profit. The trend analysis has done amount in fiscal year FY 2004/05 to FY 2015/16 and projected from 2009/10 respectively.

C) Trend Analysis of Total Asset

Assets are the important part in banking sector hence its trend for next seven years will be forecasted for future analysis. Here, the trend value of total asset of ADBL has been calculated for further seven year. The following Table shows the actual and trend values of ADBL.

Let trend line be

Y = a + b x…………………… (I)

Table No 4.30

Trend Analysis of Total Asset

Year(x)	Total Assets
2004/05	301211
2005/06	351191
2006/07	401171
2007/08	451151
2008/09	501131
2009/10	551111
2010/11	601090
2011/12	651070
2012/13	701050
2013/14	751030
2014/15	801010
2015/16	850990

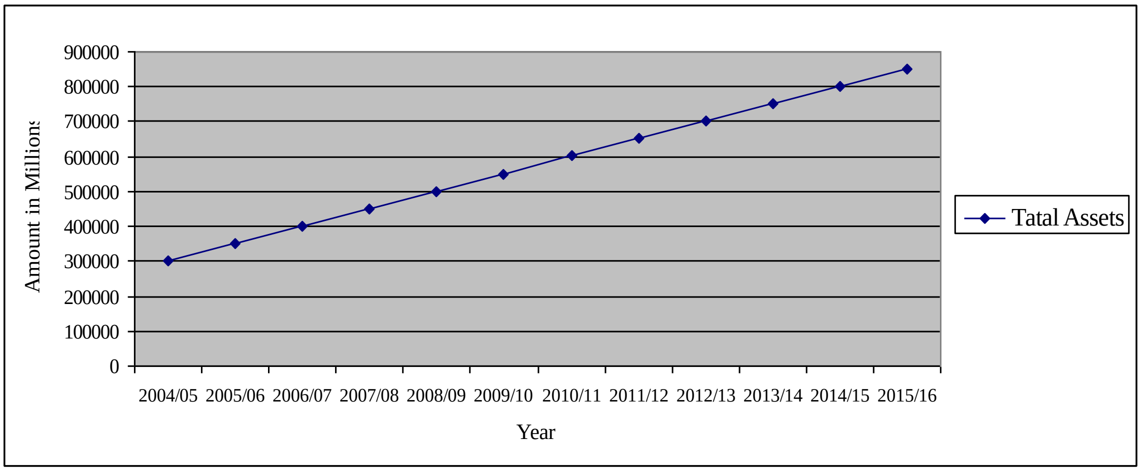
Source annul report of ADBL

Appendix 3

The following graph helps to show the trend lines of Total Asset for the projected five years. The equation is Yc = 401171+49979.86*X

Figure No 4.25

Trend Line of Total Asset



Above table and figure shows that Trends of Total Assets of ADBL. The trend of Total Assets of ADBL is in increasing trend. The rate of increment of Total Assets for ADBL seems to be average increasing trend. It is better for company. This type of increment should maintain regularly. The trend analysis has projected fiscal year FY 2008/09 to FY 2015/16 respectively.

D) Trend Line of Net profit

Profit is the important part in banking sector hence its trend for next seven years will be forecasted for future analysis. Here, the trend value of Net profit of ADBL has been calculated for further seven year. The following Table shows the actual and trend values of ADBL.

Let trend line be

Y = a + b x…………………… (I)

Where,

Y = dependent variable, a =Y- intercept, b = slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Table No 4.31

Trend Analysis of Net profit

Amount in million

Year(x)	Net Profit
2004/05	943.98
2005/06	3532.18
2006/07	6120.38
2007/08	8708.58
2008/09	11296.8
2009/10	13885
2010/11	16473.2
2011/12	19061.4
2012/13	21649.6
2013/14	24237.8

2014/15	26826
2015/16	29414.2

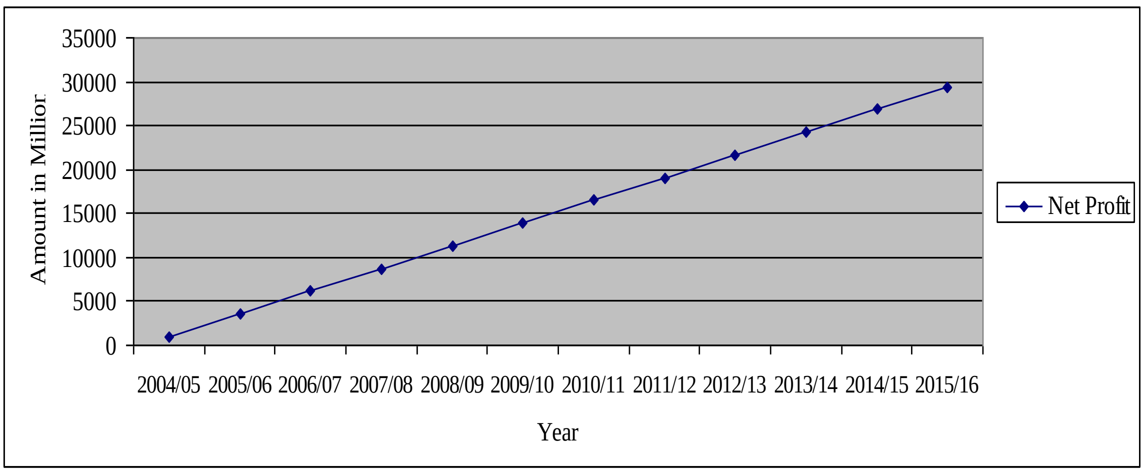
Source annul report of ADBL

Appendix 4

The following graph helps to show the trend lines of Net profit for the projected five years. The equation is Yc = 6120.38 + 2588.2 * X

Figure No 4.26

Trend line of Net Profit



Above table and figure shows the Total Profit of ADBL. The trend of Total Profit of ADBL is in increasing trend. The rate of increment of Total Profit for ADBL seems to be moderately increasing trend. It is better for company but this type of increment should maintain regularly. The trend analysis has projected net profit in fiscal year FY 2009/010 to FY 2015/16.

4.4 Major Finding of the Study

A. Liquidity Ratio

1. The current ratio of ADBL is in fluctuating trend. The average mean ratio is 1.16 times in the study period. These all ratio shows that the bank is maintain the acceptable liquidity position of the bank. The liquidity position of the bank is satisfactory because the current ratios of the different years are about to meet to the standard. Higher current ratio means the better liquidity position. 2:1 considered to be an adequate ratio. Current assets and current liabilities manage the current ratio.
2. The Cash and bank balance to current asset of ADBL fluctuating over the study period. The mean average calculation is 0.106 times, which means consistency in this ratio during the research period. Cash and bank balance would not sufficient to meet the demand of current depositors. Therefore, here seems to be making more cash and bank balance to meet the current asset.
3. The cash and bank balance to total deposit of the ADBL shows the fluctuating trend during the study period. The mean ratio is 0.113 times in the study period. Cash and bank balance to current deposit of the bank shows the fluctuating trend during the study period. This means that the bank has loer cash and bank balance as total deposit.
4. The investment on government treasury bills to current assets of ADBL is in increasing trend. The mean ratio is 3.99 percent. The highest ratio is 7.00 percent in the year 2008/09 and lowest ratio is 0.65 percent in the year 2004/5. investment in Gvt. Securities is increasing but it recommended to invest more in these heading to be more risk free.
5. The ADBL has generally decreasing trends of loan and Advances to Total Assets ratio beside year 2006/07 under the study period. The. The highest ratio is 0.76 times in the year 2006/07 and the lowest ratio is 0.66 times in % year 2008/09. The average mean ratio is 0.718times. It shows that bank has capability in utilizing current assets in the form of loan and advances.
6. The total loan advances to total deposit ratio of ADBL is in increasing trend. The average mean ratio of ADBL is 0.876 times in the study period. This means the bank is able to proper mobilization of collected deposit. According to NRB directives above 70% to 90% of loan and advances to total deposit ratio is able to better mobilization of collected deposit.

7. The total investment to total deposit ratio of ADBL is in increasing trend beside second last year. The average mean ratio of ADBL is 0.0.086 times in the study period. This means the bank is less to proper mobilization of collected deposit.
8. The ADBL bank has generally decreasing trends of loan and advances to total assets ratio under the study period. The ratios are 0.73, 0.71, 0.71, 0.69 and 0.63 times in their respective year. The average mean ratio is 69.4%. It shows that bank has capability in utilizing total assets in the form of credit and advances.
9. The Loan and advances to fixed deposits ratio are increasing trend beside second year in study period. The mean average of ADBL is 2.20 times at research period
10. The return on loan and advances ratio of ADBL is in fluctuating trend. The average mean ratio is 2.076%. These show the little earning capacity of ADBL Bank through loan and advances. Thus, credit management is not enough good position.
11. The Net profit to total assets ratio of ADBL is in fluctuating trend. The highest ratio is 2.77 in 2006/07 and lowest ratio is -0.25% in the year 2004/05. The mean ratio is 2.04%. This shows the low earning capacity through asset utilization.
12. The Earning per share of ADBL is in fluctuating trend. The highest EPS is RS 14.06 in year 2006/07 and lowest EPS Rs. -0.49 in year 2004/5. The average means EPS of ADBL Bank is Rs. 7.01 in the study period.
13. The interest earned to total asset ratio of ADBL is in fluctuating trend. The average mean ratio over the period is 10.376. The s. d. and c. v. are 2.303 and 0.222 respectively.
14. The interest paid to total asset ratio of ADBL is decreasing during studied period except in 2006/07. The higher ratios indicate higher paying in its fund or less conscious about borrowing cheaper fund. The average interest paid to total asset ratio is 3.53.
15. The interest earned to operating income ratio of ADBL is fluctuating and decreasing during the study period. The mean ratio of ADBL is 1.33 respectively. ADBL is decreasing so it indicates that high contribution in operating income do not made by lending and investing
16. The Debt to total equity ratio of ADBL is fluctuating over the study period. The ratios are 2.30, 5.58, 4.90, 3.56 and 3.85 in the study period respectively. The average mean ratio is 4.038 times. High gearing ratio may provide high return to the equity shareholders if the bank makes profit.

17. The total debt to total asset ratio of the ADBL is continuously decreasing trend. The average mean ratio is 0.97 times in study period. It means almost 97% of total assets is contribute by debt or outsider's funds. The S. D and C.V. is 0.149 and 0.154 respectively
18. The Total assets to net worth ratio of the bank are highly fluctuating trend. In firs two year ratio is negative due to negative net worth. In over all the study period the average ratio at that time is -0.956 times. The average ratio also negative due to high negative value in two year. The S. D. and C. V. of ADBL is 26.41 and 27.63.
19. The loan loss provision to total loan and advances ratio of ADBL is in decreasing trend. The mean ratio of the study period is 27.12%. This much high portion of provision indicates bad quality of assets in total volume of loan and advances. The S.D. and C.V. are 8.921 and 0.329.
20. The none-performing loan to total loan and advance of ADBL is in decreasing trend. The average non-performing loan to total loan and advances ratio of ADBL is 19.456% during the study period. C.V. of ADBL is 0.375. This ratio indicates that high portion of NPL.
21. The interest expenses to total deposit ratio of ADBL is in increasing trend beside first year. The average mean point of interest expenses to total deposit ratio is 6.228% during the study period. The S.D. and C.V. of ADBL is 1.675 and 0.269. This increasing ratio indicates higher interest expenses on total deposit.
22. The total non-performing assets to total assets ratio of ADBL is in decreasing trend beside second year. The mean ratio is 13.645%. The portion of NPL is high. The S.D. and C. V. of ADBL is 5.541 and 0.406. Lower C.V. indicates less volatility.
23. The correlation coefficient between deposit and loan and advances is positive 0.958. This indicate both variable move same direction. The coefficient of determination is 0.918, which depicts that 91.8% of loan has been explained by the deposit collection. There is evidence of significant correlation between loan and deposit.
24. The coefficient of correlation between total deposit and total assets of ADBL is 0.942 positive. This indicates both variable move same direction but proportionately. There is 88.7 percent of total assets is explained by total deposit. The relation is significant because the correlation coefficient r is more than 6 P.Er i.e. 0.942 > 0.2039.
25. The correlation coefficient between deposit and Investment is positive i.e. 0.951. The coefficient of determination is 0.9044, which depicts that 90.44% of investment has

been explained by the deposit collection. There is significant correlation between deposit and investment.

26. The correlation coefficient between total Debt net profits of ADBL is positive by 0.894. This indicates both variable move same direction but proportionately coefficient of determination is 0.7992. It means 79.92 percent of profit is contributed by Debt. The correlation is significant at all.
27. The correlation coefficient between net profit and loan and advances is 0.807. There is positive correlation between net profit and loan and advances. The coefficient of determination is 0.6512, which depicts that 65.12% of profit is explained by the loan and advance. There is evidence of significant correlation between profit and loan and advance.
28. The trend of total deposit of ADBL is in increasing trend. The rate of increment of total deposit for ADBL seems to be smoothly increasing trend.
29. The trend of trend values of loan & advances of ADBL is increasing trend. It is suggest to increase in loan and advance in same way to make better profit. The trend analysis has done amount in fiscal year FY 2004/05 from 2009/10 respectively.
30. The trend of Total Assets of ADBL is in increasing trend. The rate of increment of Total Assets for ADBL seems to be average increasing trend. It is better for company. This type of increment should maintain regularly.
31. The trend of Total Profit of ADBL is in increasing trend. The rate of increment of Total Profit for ADBL seems to be moderately increasing trend. It is better for company but this type of increment should maintain regularly. The trend analysis has projected to FY 2015/16.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION

The research is about the study on financial performances of ADBL. In this chapter, summary conclusion and recommendation are included. All the summary and conclusion are made according to obtained data from analysis. Recommendation has made which would be beneficial for the management of the bank and other stakeholder.

5.1 Summary

Banking sector plays an important role in the economic development of the country. It provides an effective payment and credit system, which facilitates the channeling of funds from the surplus and deficit in the economy. Investment operation of commercial banks is a very risky one. For this, financial performance of commercial banks have to pay due consideration while investment, mobilization of fund and use of resources. A healthy development of any commercial bank depends upon its financial performance. A good financial performance of a bank attracts both the borrowers and the lenders, which helps to increase the volume of quality deposits and investment.

A bank always puts in effort to maximize its profitability. The profit is excess of income over expenses. To maximize profit, income should be reasonably excess over expenses. The major source of income of a bank is interest income from loans, investments and fee based income. As loan and advances dominate the asset side of the balance sheet of any bank; similarly, earnings from such loan and advances occupy a major space in income statement of the bank. However, it is very important to be reminded that most of the bank failures in the world are due to the shrinkage in the value of loan and advances. Hence, loan is known as risky asset and investment operation of commercial banks, is a very risky one. Risk of non-performing loans erodes even existing capital. Considering the importance of lending to the individual banks and also to the society it serves, it is imperative that the bank meticulously plans its credit operations.

The main goal of the bank as a commercial organization is to maximize the surplus by the efficient use of its funds and resources. In spite of being a commercial institution, it has a responsibility (obligation) to provide social service oriented contribution for the social economic upliftment of the country by providing specially considered loans and advances towards less privileged sectors.

Commercial Banks offer various products for deposit mobilization and disburse the credit products as per the portfolio management. Customers as per their need purchase different types of product offered in the market. Deposit products offered to the customers are categorized into general products and special products, and credit products can be bifurcated into fund based products and non-fund based products. The fund based products in practice are developed from the credit products generally known as overdraft, working capital loan, Term loan, bills purchase or negotiation, export and import bills, import/trust receipt loan, export credit, loan against fixed deposit receipt, loan against shares, loan against securities, and loan against bank guarantee and deprived sector loan. The term loan used in practice generally addresses short term loam medium term loan and long term loan to be advanced in various forms such as housing loan, hire purchase loan and bridge financing. The non-fund based product is composed of letter of credit (LC) and bank guarantees with different forms (bid bonds, performance bonds, etc.)

Among the different banking products available in the market, the product with high demand are consumer credit, export and import credit, term loan, Project loan and syndicate loan. All banks and financial institution on the basis of their capital base and liquidity position offer these credit products but none of them so far have been found to have expertise in any one of them for marketing. Relying on any one of the product by portfolio seems more risky. Banks in foreign countries are known to bring out numerous products. As an example, the bank of America has a vast range of banking business serving individuals and small firms and a big share of the loan syndicate market. Banks in Nepal are weak in locating the existing market and in creating new markets too.

Loan disbursement is a trade of win game lenders and borrowers both get benefited out of it. Customers are the ultimate source of income not products. For the analysis of customers several questions need to be answered. These include questions such as which customer buys the product and how do they use it? Where do customers buy the product, when do customer buy, how do customers choose, why do they preferred that product, how do they respond, and will they buy it again. All these data available in the respective files of the customer make the marketing activities quite easier and effective.

5.2 Conclusions

On the basis of financial performance of two sampled commercial banks, using various statistical as well as financial tools following inferences had been drawn:

The liquidity positions of all the banks were strong and enough to meet their immediate needs of cash and short-term obligations. The current ratio of ADBL is in fluctuating trend. The average mean ratio is 1.16 times in the study period. These all ratio shows that the bank is maintain the acceptable liquidity position of the bank. The liquidity position of the bank is satisfactory because the current ratios of the different years are about to meet to the standard. Higher current ratio means the better liquidity position. 2:1 considered to be an adequate ratio. Current assets and current liabilities manage the current ratio. The Cash and bank balance to current asset of ADBL fluctuating over the study period. The mean average calculation is 0.106 times. Similarly cash and bank balance to total deposit of the ADBL shows the fluctuating trend during the study period. The mean ratio is 0.113 times in the study period. Cash and bank balance to current deposit of the bank shows the fluctuating trend during the study period. The investment on government treasury bills to current assets of ADBL is in increasing trend. The mean ratio is 3.99 percent. Investment in Gvt. Securities is increasing but it recommended investing more in these heading to be more risk free. The ADBL has decreasing trends of loan and Advances to Total Assets ratio. The average mean ratio is 0.718times. It shows that bank has capability in utilizing current assets in the form of loan and advances.

Asset management means manage or utilization of all about of asset. The total loan advances to total deposit ratio of ADBL is in increasing trend. The average mean ratio of ADBL is 0.876 times. This means the bank is able to proper mobilization of collected deposit.

The total investment to total deposit ratio and Loan and advances to fixed deposits ratio of ADBL is in increasing trend. The average mean ratio are 0.0.086 times and 2.20 in the study period. The ADBL bank has decreasing trends of loan and advances to total assets ratio under the study period. The average mean ratio is 69.4%. It shows that bank has capability in utilizing total assets in the form of credit and advances. The banks acquire profit by providing different services to its customers or by providing loan and advances and making various kinds of investment opportunities. Profitability ratios measure the efficiency of bank. A higher profit ratio shows the higher efficiency of a bank. The return on loan and advances ratio of ADBL is in fluctuating trend. The average mean ratio is 2.076%. These show the little earning capacity of ADBL Bank through loan and advances. The Net profit to total assets ratio of ADBL is in fluctuating trend.. The mean ratio is 2.04%. This shows the low earning capacity through asset utilization. The Earning per share and interest earned to total asset ratio of ADBL is in fluctuating trend.. The average means EPS of ADBL Bank is Rs. 7.01 and interest earned to total asset ratio is 10.376 in the study period. The average interest paid to total asset ratio is 3.53. The higher ratios indicate higher paying in its fund or less conscious about borrowing cheaper fund. The interest earned to operating income ratio of ADBL is fluctuating and decreasing. The mean ratio of ADBL is 1.33 respectively. ADBL is decreasing so it indicates that high contribution in operating income do not made by lending and investing

The Debt to total equity ratio of ADBL is fluctuating. The average mean ratio is 4.038 times. High gearing ratio may provide high return to the equity shareholders if the bank makes profit. The total debt to total asset ratio of the ADBL is continuously decreasing trend. The average mean ratio is 0.97 times in study period. It means almost 97% of total assets are contributed by debt or outsider's funds. The Total assets to net worth ratio of the bank are highly fluctuating trend. In firs two year ratio is negative due to negative net worth. The average ratio at that time is -0.956 times. The average ratio is negative due to high negative value in two year of the study period.

The efficiency of firm depends largely on the efficiency with which its assets are managed and utilized. This ratio is concerned with measuring the efficiency of bank. The loan loss provision to total loan and advances ratio of ADBL is in decreasing trend. The mean ratio of the study period is 27.12%. This much high portion of provision indicates bad quality of assets in total volume of loan and advances. The none-performing loan to total loan and advance of ADBL is in decreasing trend. The average non-performing loan to total loan and advances ratio of ADBL is 19.456%. This ratio indicates that high portion of NPL. The interest expenses to total deposit ratio of ADBL is in increasing. The average mean point of interest expenses to total deposit ratio is 6.228%. This increasing ratio indicates higher interest expenses on total deposit. The total non-performing assets to total assets ratio of ADBL is in decreasing. The mean ratio is 13.645%. The portion of NPL is high so its recommend to reduce its NPA.

The correlation coefficient between deposit and loan and advances is positive 0.958.. The coefficient of determination is 0.918, which depicts that 91.8% of loan has been explained by the deposit collection. There is significant relation between loan and deposit. The coefficient of correlation between total deposit and total assets, deposit and Investment and total Debt to net profits is positive of ADBL positive. This indicates both variable move same direction but proportionately. There is 88.7 percent of total assets is explained by total deposit. The relation is significant. The coefficient of determination is 0.9044, which depicts that 90.44% of investment has been explained by the deposit collection. There is significant relation between deposit and investment. The coefficient of determination is 0.7992. It means 79.92 percent of profit is contributed by Debt. The correlation is significant at all.. The correlation coefficient between net profit and loan and advances is 0.807. The coefficient of determination is 0.6512, which depicts that 65.12% of profit is explained by the loan and advance. There is significant relation between net profit and loan and advance.
This trend analysis is carried out to see average performance of the banks. The trend of total deposit of ADBL is in increasing trend. The rate of increment of total deposit for ADBL seems to be smoothly increasing trend. The trend of trend values of loan & advances of ADBL is increasing trend. It is suggest to increase in loan and advance in same way to make better profit. The trend of Total Assets of ADBL is in increasing trend. The rate of increment of Total Assets for ADBL seems to be average increasing trend. This type of increment should maintain regularly. The trend of Total Profit of ADBL is in increasing trend. The rate of increment of Total Profit for ADBL seems to be moderately increasing trend. It is better for company but this type of increment should maintain regularly.

5.3 Recommendations

Based on the analysis and finding of the study, the following recommendations can be made as suggestions to make financial performance of the ADBL effective and efficient.

- ADBL should minimize their existing level of excess liquidity by investing in more profitable sectors. Idle assets of theirs in form of excess cash or equivalents should be diverted in various investment opportunities available in the market. Those less risky investment sectors should be identified.

- ADBL need to bring in newer schemes to mobilize their higher amount of deposits in extending credit and investment.

- The ADBL has high portion of NPL and NPL. So its strongly recommended to minimize its NPA. ADBL should maintain the same level NRB direction.

- Being large network of ADBL, bank can not perform better job due to old infrastructure, human resource mobilization policy, government ownership, depend on aide etc. so bank recommended to consider in this topic.

- ADBL banks should try to increase their profitability by investing in more profitable sectors, and by increasing the quality of their extended credits. They should have to investigate thoroughly the wide range of investment opportunities in the market in order to improve their profitability situation. Especially, As formation of price is a very complex process, some extremely outstanding sectors such as management efficiency, profitability status, future perspective, bank's investment strategy, etc should be improved.

- NRB recommended following the NRB directives which will helps to reduce credit risk arising from defaulter, lack of proper credit appraisal, defaulter by blacklisted borrowers and professional defaulter. Government has established credit information bureau, which will provide suggestion to commercial bank. So ADBL are suggested to collect as much information about borrowers and only lend to non-risky area and to non-defaulter.

- Future ahead, the ADBL should improve its weaknesses by adopting the innovative approach to marketing. In the light of growing competition in the banking sector, the business of the bank should be customer oriented. It should strengthen and activate its marketing function as it is an effective tool to attract and retain the customers. For the purpose, the bank should develop an innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient and satisfactory way by optimally utilizing the modern technology and offering new facilities to the customers at competitive prices.

In this way the entitled thesis comparative study of on financial performances of ADBL bank is very use full to every person who concern to those company and research worker as well.

BIBLIOGRAPHY

Acharya, B. (1997). *A Comparative Study of Financial Performance of JVBs in Nepal especially on NABIL and NIBL*. Unpublished Master's thesis, Kathmandu. Central Department of Management, Tribhuvan University

Bhandari, D. R. (2003). *Principle and Practice of Banking and Insurance***.** Kathmandu: Asia Publications.

Bista, G.B. (2002). *To Examine and Evaluate the Financial Performance of NABIL Bank limited*. An Unpublished Master Degree Thesis, Kathmandu. Central Department of Management, T.U.

Brigham, E. F. Gapenski, L. C. & Ehrhardt, M. C. (1999). *Financial Management*"**.** Singapore: Harcourt Asia Pte Ltd.

Chandra, P. (1994). *Financial Management Theory and Practice***.** New Delhi: Tata McGraw Hill Publishing Co. Ltd

Gautam, S.P. (2006). *A comparative study on financial performance of standard Chartered Bank Limited and Nepal Bangladesh Bank Limited*. An Unpublished Master Degree Thesis, Kathmandu. Central Department of Management, T.U.

Gupta, Ruby (2007). *Comparative Analysis of Financial Performance of Commercial Banks in Nepal*. An Unpublished Master's Thesis. Butwal: Lumbini Banijya Campus. T.U.

Gitman, L. J. (1991). *Principles of Managerial Finance***.** Singapore: Harper Collins Publishers.

Grolier Incorporate. (1984). *Encyclopedia: The World Book*. New York: Grolier Incorporated.

Gupta, S. C. (1992). *Fundamentals of Statistics***.** Bombay: Himalaya Publishing House.

Hampton, J. J (1998). *Financial Decision Making*. New Delhi: Prentice Hall of India Pvt.Ltd.

Jain S. P (1996),*"Financial Management Accounting"*, New Delhi, Kalyani Publishers Pvt. Ltd.

Jain, S.P and Narang K.L (1989). *Financial and Management Accountancy*. New Delhi: Kalyani Publishers Pvt. Ltd.

Kapadi R. B. (2002). *A Comparative Study on Performance of NABIL Bank Ltd and Standard Chartered Bank Limited*" Unpublished Master's thesis, Kathmandu. Central Department of Management, Tribhuvan University.

Kothari, C. R (1989). *Quantitative Technique*. New Delhi: Vikash Publishing House Pvt. Ltd

Limbu, Ram (2008). *Credit Management of NABIL Bank Limited.* Unpublished Master's Thesis, Kathmandu. Shanker Dev Campus, Tribhuvan University.

Loudari, S. Raj (2003). *A study on investment policy of Nepal Indosuez Bank Ltd. in comparison to Nepal SBI Bank Ltd.* An Unpublished Master Degree Thesis, Kathmandu. Central Department of Management, T.U.

Pandey, I. M (1999). *Financial Management*. New Delhi: Vikash Publishing House Pvt .Ltd

Pradhan R. S. (2003). *Role of Saving, Investment and Capital Formation in Economic Development, A case of Nepal,"* Kathmandu: Kathmandu Book Palace

Sharma, P. K. & Chaudhary, A. K. (2002). *Statistical Methods***.** Kathmandu: Khanal Books Prakashan.

Shrestha, D. G. (2004). *Role of Rastriya Banijya Bank in priority sector credit & its recovery*. An Unpublished Master Degree Thesis, Kathmandu. Central Department of Management, T.U.

Shrestha, S. (2005) in his thesis *"Financial performance analysis of Nepal Bangladesh bank ltd"* An Unpublished Master Degree Thesis, Kathmandu. Central Department of Management, T.U.

Srivastava, R. M. (1984), *"Financial Decision Making: Test Problem and Cases"*' Sterling Publishers Pvt. Ltd., New Delhi.

Subba Muna(2009) *"The Comparative Analysis on Financial Performance of NABIL and EBL Banks Limited"* Unpublished Master's Thesis, Kathmandu. Shanker Dev Campus, Tribhuvan University.

Thapa, Govinda Bahadur. (1994). *Financial System of Nepal*. Development Division. Lalitpur: Patan Multiple Campus.

Tuladhar Upendra (2000) *A study on Investment Policy of Nepal Grindlays Bank Limited in comparison to other Joint venture Banks of Nepal*" Unpublished Master's thesis, Kathmandu. Central Department of Management, Tribhuvan University.

Upreti, D. R. (2001). *Comparative study of financial performance of Himalayan bank and Nepal Grindlays bank Ltd.* An Unpublished Master Degree Thesis, Kathmandu. Central Department of Management, T.U.

Van Horne, J. C (1955). *Financial Management and Policy*. New Delhi: Prentice Hall of India Pvt. Ltd.

Van Horne, J. C. (2000). *Financial Management and Policy***.** New Delhi: Prentice Hall of India.

Weston, J. F. & Brigham, E. F. (1987). *Essentials of Managerial Finance***.** Orlando: The Dryden Press.

Weston, J .F and Birgham, E. F (Ninth Edition). *Essentials of Managerial Finance*. Orlando: The Dryden Press.

Wolf, H. K. & Pant, P. R. (2000). *Social Science Research and Thesis Writing***.** Kathmandu: Buddha Academic Enterprises.

Web Sites

http://www.adbl.gov.np

http://www.nepalstock.com

http://www.nrb.org.np

http://www.sebonp.com

Appendix - 1

Calculation of ADB/L Bank

Year(x)	Total deposit (Y)	X=x-2063/64	X^2	XY
2004/05	272230	-2	4	-544461
2005/06	296318	-1	1	-296318
2006/07	324164	0	0	0
2007/08	325533	1	1	325532.8
2008/09	351596	2	4	703192.2
Tot n= 5	ΣY = 1569841	0	$\Sigma X^2 = 10$	ΣXY = 187945.9

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x…………………… (I)

Where x = X - Middle year

Here,

$a = \frac{SY}{N}$ $b = \frac{SXY}{SX^2}$

a = 313968.2

b = 18794.59

Where as

Yc = 313968.2 +18794.59 * X of ADB/N

Appendix - 2

Calculation of Standard Charter Bank Limited

Year(x)	Loan and advances(Y)	X=x-2063/64	X^2	XY
2004/05	226383	-2	4	-452765
2005/06	249010	-1	1	-249010
2006/07	272523	0	0	0
2007/08	305894	1	1	305894.3
2008/09	326031	2	4	652061.9
Tot n= 5	ΣY = 1379841	0	$\Sigma X^2 = 10$	ΣXY = 256181.5

Y= a + bx

Where,

Y= dependent variable,

a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

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

$$b = \frac{SXY}{SX^2}$$

a = 275968.1

b = 25618.15

Yc = 275968+25618.15* X of ADB/N

Appendix - 3

Calculation of Agricultural Development Bank Limited

Year(x)	Total Asset (Y)	X=x-2063/64	X^2	XY
2004/05	312230	-2	4	-624460
2005/06	352976	-1	1	-352976
2006/07	381602	0	0	0
2007/08	440860	1	1	440859.6
2008/09	518187	2	4	1036375
Tot n= 5	ΣY = 2005855	0	$\Sigma X^2 = 10$	ΣXY = 499798.6

Where,

Y= dependent variable,

a=Y-intercept,

b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x…………………… (I)

Where x = X - Middle year

Here,

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

$$b = \frac{SXY}{SX^2}$$

a = 401171

b = 49979.86

Yc = 401171 + 49979.86 X of ADB/L

Appendix - 4

Calculation of Agricultural Development Bank Limited

Year(x)	Net profit (Y)	X=x-2063/64	X^2	XY
2004/05	-786.33	-2	4	1572.66
2005/06	3535.25	-1	1	-3535.25
2006/07	10584.5	0	0	0
2007/08	6692.39	1	1	6692.39
2008/09	10576.1	2	4	21152.2
Tot n= 5	ΣY = 30601.9	0	$\Sigma X^2 = 10$	ΣXY = 25882

Y= a + bx

Where,

Y= dependent variable,

a=Y-intercept, b=slope of trend line or annual growth rate, X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

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

$$b = \frac{SXY}{SX^2}$$

a = 6120.93

b = 2588.2

YC = 6120.38 + 2588.2 * X   of ADB/L