CHAPTER I
INTRODUCTION

1.1 Background of the study

The role of money in an economic is very important. Proper and well-planned management of money directs, determines and enhances the health and productivity of total financial sector and the performance financial sector affects the growth of economy. The economy of a country indicates the development of the country. The financial sector plays an important role in the development of the country and mobilization of financial resources. Hence, money is a subject to manage, and banks are the manager. Therefore, bank as manager collects, disperse and controls the flow of money. Banks collect the fund from financial sector organizes the scattered domestic financial resources and invests them in different sectors. Economic development depends upon various factors however, the major are capital formation and proper utilization of the capital. The organized financial sector collects the fund, mobilize and invest the fund in the best possible manner.

Banks play an important role in the economic growth of a country. Banking, when properly organized, aids and facilitates the growth of trade and industry. The issue of development always rests upon the mobilization of resources. Banks function of lending ensures required volume of capital to resources mobilization. In the modern economy, banks are to be considered not as dealers in money but as the leaders of development. “Banks are not just the storehouse of the country’s wealth but are the reservoirs of resources necessary for economic development. Bank renders valuable services to trade and industry. The economic growth of a country depends on the growth and development of trade and industry, Industrial development can take place only if sufficient money is invested in industries. Banks undertake the stupendous task by mobilizing the savings of the people and lending the same to the trades and industrialists. The banks help in the uniform development of the different regions in the country. *(Kulkarni; 1981: 141).*

Therefore, a bank is an institution that deals with money by accepting various types of deposits, disbursing loan and rendering other financial services. Since banks are rendering a wide range of services to the people from different walk of life, they have become an essential part of modern society. In other words, bank is an institution that accepts the deposits from people and in turn advance loan by creating credit. In this process, they earn interest and commission, out of which they pay interest to the depositors i.e. People who deposits fund with them. Banks have opened their branches in towns and villages offering different types of services to the different level of people. Banks' debt-usually referred as 'Bank Deposit' that is commonly accepted in final settlement of debt of other people. It is different from other financial institution in the sense that they cannot create credit though they may be accepting deposits and making advances. Thus, bank's business was basically to buy and sale of credit. Credit instruments are kept on stock-in-trade also on the basis of its own credit and banks create money transferred by credit instruments. They must gain the confidence and trust of the people to create credits. It is said that the flow of credit is very much important like the circulation of blood in human life. If the circulation of blood is not smooth it will do irreparable harm to the body. Similarly, unsteady and unevenly flow of credit harms the economy. Bank came in existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sectors and causing an overall economic development. That mobilized deposits contribute to the development of economic infrastructure of the nation. Banks are not just storehouses of the wealth but are reservoir of resources. The contribution of the bank has been very substantial in increasing production and employment by motivating people to save and in collecting the scattered saving in the form of deposits. The bankers have the responsibility of safeguarding the interest of the depositors, the shareholders and the society they are serving. (Kulkarni; 1981: 121)

The development of banking is relatively recent in Nepal. In case of Nepal too there were merchants, goldsmiths and moneylenders working as ancestors of modern banking. In Nepal, the origination of banks started through Sahu (Goldsmith).Even though the specific date of the beginning of money and banking deal in Nepal is not obvious, it is speculated that during the Lichhavi period, King Guna kam dev had borrowed money from the rich people to build the city. The historical record shows that Guna kama dev, the king of Kathmandu, borrowed money to rebuild his kingdom in 780 BS. Some fifty-seven years thereafter, a merchant 'Shankhadhar' introduced 'Nepal Sambat' by clearing all the indebtedness of the people in 937BS. This clearly proved that money-lending practices were prevalent at that time. Later, during the regime of Mallas, money-lending business became more penetrating and popular. Towards the end of the 14th century, Jayasthiti Mallas, the ruler of Kathmandu, divided the people in sixty-four classes on the basis of their occupation. Among them one was Tankadhari and the people belonging to this class were engaged in money lending business. It is believed that the money lending business became quite popular in the reign of Mallas, particularly in financing the trade with Tibet and India. Thus, the role of Tankadhari was akin to that of a banking agent. However, these moneylenders advanced loan against personal security of land, building etc. As they were free to charge any amount as interest and other charges on the loan advances. Naturally, the interest rate was higher, discriminatory and unfair. Of course, this gave birth to malpractices, frauds and exploitation in the whole Nepalese society. Even today, such practices of usury are prevalent in Nepalese village, which are beyond the purview of modern banking system. Thus, it was the duty of government to control the malpractices of the moneylenders and to set up a financial institution to make easy credit facilities for the general people. As a result, with growing consciousness and awareness of this, ‘Tejarath Adda’ had been established as an institution, during the period of Rana , under the Prime Minister of Ranodip Singh in 1933 B.S.

As a result, with growing consciousness and awareness of this, during the time of the Prime Minister Ranodip Singh in 1933 B.S an institution called "Tejarath Adda" was established for simple banking against the security of gold, silver and ornaments. However, it accepted no deposit from public. For the development of commercial sector "Tejarath Adda" was converted into Nepal Bank Ltd. in 1994 B.S.

Modern baking started with the inception of NBL under the Nepal Bank Act 1936 in 1994 B.S. NBL had Herculean responsibilities of attracting people towards the banking system from pre-dominant moneylenders and to expand banking services. Being a first Commercial Bank it was natural that NBL paid more attention to profit generating business and opened branches at urban centers. So, the establishment of central bank had become immensely an urgent task. The Government however, has onus of stretching banking services to the nook of the country and also managing financial system in a proper way. Thus, Nepal Rastra Bank (NRB) was set up in 14th Baishk 2012 B.S. as a central bank with an authorized capital of Rs 10 million fully subscribed by the HMG under Nepal Rastra Bank Act 2012 B.S. It has been functioning as the government's bank and has contributed to the growth of financial sector. The major challenge before Nepal Rastra bank today is to ensure the robust health of financial institutions. Nepal Rastra Bank, the central bank of Nepal regulates, inspects, supervise and monitor the whole functions of bank and financial companies of Nepal. The second commercial bank Rastriya Banijaya Bank was established in 2022 B.S. The two commercial banks extended their operation extensively throughout the country.

Nepal Industrial Development Corporation (NIDC) and Agriculture Development Bank were established to facilitate development activities by providing loans and equity capital. The former Industrial Development Center was established in 2013 B.S. and was converted into NIDC in 2016 B.S. to finance equity and loan capital to industries that are going to be established in the country. Agricultural Development Bank Nepal was established in 2004 to finance agricultural sector as well as agro-based industries within the country.

In modern times , commercial banks , which are facilitated, regulated and supervised by the Central bank, confined them and concentrated in their activities of fulfilling the financial needs of their customers. With the opening of NABIL bank in1985 A.D. the door of opening commercial banks was opened to the private sector. As the commercial banks grew they stopped entertaining small projects. Thus a scope for opening finance companies emerged. In 2042 B.S., finance company Act was passed; but private sector kept stony silence till 2049 B.S. The first break came in the month of Shrawan of that year, when the first company Nepal Housing and Finance Company came. The second came in the Poush of the same year, Nepal Finance and Saving Company. Now there are altogether 79 finance companies operating in Nepal.

After the financial liberation in the 1980's the reform measure were undertaken .Such measures include deregulation in interest rate determination, portfolio management, market-based tenders for government securities sales, non-subsidized credits etc. the market would determine the cost of funds and rate of lending .Better use funds, easy availability of funds to the entrepreneurs, better returns to the depositors, professional approach towards customer satisfaction. *(www.nrb.com.np)*

1.1.1 Role of Banks in the National Economy

Banks are the major component in the financial system. They work as the intermediary between depositors and lenders and facilitate in overall development of the economy, with major thrust in industrial development. So, commercial banks are those that accept deposits and finance to the business and finance to the business and project. They provide short term and long- term finance. As per Commercial Bank Act 2031 B.S, "*A commercial Bank means the bank which deals in exchanging currency, accepting deposits, giving loans and doing commercial transactions.*"

Commercial Banks play the role of financial intermediary collecting the fund from surplus unit and supplying the to deficit units (investors). Commercial banks help the process of saving and of the holding of saving in a socially describe form. Though their advances bank also help the creation of the incomes which further saving by the community and further growth potentials emerge for the good of economy. In a planned economy, bank emerges for the good economy and makes the entire planned productive process possible by providing funds for all types of production incorporated in the plan, regardless of whether the production is in the public sector or whether the production is undertaken by one type of organization or another. All employment income distribution and other objectives of plan are as far as possible subsumed into production plan which banks finance. The importance of commercial banks is directing the economic activities in the system is indeed overwhelming with the establishment of commercial banks the flood gates of development promising great hopes for people in the life open.

However, poor economy may be there will be needed for institution, which allows such saving as are currently forthcoming to be invested conveniently and safely and which ensure that they are channeled into the most useful purpose. Therefore, the tasks of commercial banks in underdeveloped countries are almost self-evident. Their purpose is to provide a collecting point for saving of a relatively small average amount from a large number of individual sources so long as the means to utilize saving safely and profitably are not available within an economy, funds will either to be directed aboard, sterilized in useless hoards of cash or precious metals or more likely still will not accumulated all. (Pandey; 1991: 37).

1.2 Brief Introduction of 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 2025 under the ADB Act 1967, as successor to the cooperative Bank. The Land Reform Savings Corporation was merged with ADB/N Act 1967, as successor to the cooperative Bank. The Land Reform savings corporation was merged with ADB 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 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 decades, 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 ADB/N to extend its wing in commercial banking activities so as to mobilize urban resources in the rural areas of the country. In 1993, ADB/N 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 ADB/N Act, 1967. In line with the BAFIO, ADBL has been incorporated as a public limited company on July 14, 2005. Thus ADBL operates as an "A" category financial institution under the legal framework of BAFIO and the company act, 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 Terai.

ADBN operates as an autonomous body that has been controlled by the Ministry of finance. The ADBL has in total 12 billion rupees of an authorized capital, by which Rs. 11.2 Billion rupees is paid-up Capital.

1.2.1 Vision

ADBL aims to be a Mass-based Complete Bank serving from Urban to Rural

1.2.2 Mission

To deliver comprehensive banking solution strengthening its extensive network.

1.2.3 Objective

- To provide quality banking services,
- To adopt market driven strategy,
- To obtain sustained and competitive return on investment.

1.2.4 Organization and Management of the ADBL

The Board of Director (BOD) is the apex of the bank. The major functions of BOD are to formulate policies, strategies rules and regulation of the institution. The General Manager executes day-to-day operation of the bank. Deputy General Managers, Division chiefs, Directors and Board secretary closely assist the General Manager Policy decisions made by the board are put into operation by the field offices under the supervision of Regional offices.

At present, the Board consists of seven members including Chairperson of the ADBL. Other members included a representative each from the Ministry of Land Reform and Management, Ministry of Agriculture and co-operatives, the expert in banking sector from the list of Nepal Rastra Bank (NRB) and remaining two board members as per MOU of the Bank.

As a part of implementing its new business modality especially following the financial and operation review and restructuring, the organizational set up and the operational network is guided by the following principles.

1.2.5 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 support the poverty alleviation program of Government of Nepal.
- Develop competent and professional human resources.

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

1.2.6 Reform and Restructuring program

i) Reforms in Brief

Closely observing the domestic and international market scenario, reform and restructuring processes have been inevitable part of development procedures. On the way of analyzing the domestic market, we have several examples of restructuring processes which ultimately tend to bring positive impact in overall business environment. Formally reform and restructuring in Nepalese financial sector begins with the financial and operation review of two big government owned commercial banks under the financial support of World Bank. Later on, it is followed by the restructuring of ADBL of NIDC under the financial support of Asian Development Bank. In fact, restructuring is nowadays has become a familiar procedure in Nepalese financial sector.

In context of ADBL, restructuring reengineering reformation has already been taken is the past based on situational demand. Basically the main strength of ADBL is its flexibility to adopt the change in changed business environment. Had there been no flexibility in ADBL operation modality the existence in the financial market would have been quite impossible. Some of the examples of its flexibilities and innovativeness can be recalled as follows.

- Overcome the weak capital based by stepping into external borrowing ,
- Innovate the poor targeted small farmers Development Program when bank financing services reached only limited number of relatively better off households,
- Align with the technology front when financing didn't sufficiently translate into technological improvements through linkage alone,
- Federate the small farmers Development program into farmers owned managed and planned small farmers co-operative limited when operation lost hit the alarming state.
- Restore deposits for rural credit with the initiation of the commercial banking activities when external financers began putting up unnecessary and difficult conditions,
- Made a time appropriate decision by introducing Firm Reform program in 1997 when loan default rates were increasing,
- Follow International Accounting system and Directives of the Nepal Rastra Bank with the implementation of second Reform program in 2001 when financial viability and sustainability has become the main slogan for its existence.

In addition, after the liberalization in the financial market, ADBL also made prosperity to the recommendation of financial and operational review team of ADBN (TA-3580-HEP) and the directives of NRB. In that prospective, ADBL has made the following improvisations in policies within a small span of time.

- Adopt comprehensive reform by reducing and amalgamating the offices as per restructuring policy.
- Impose the voluntary retirement scheme (VRS) in 2061 by utilizing its own internal resources to bring the staff under optimum size without creating any deterioration in the business performance.
- Adopt cash basis income recognition policy in commercial banking and development branches.
- Forward an aggressive and effective loan write off policy from FY 2060/61

These timely adopted reforms have displayed positive changes in the working environment there by upgrading the status of the ADBL. As a result, a group of consultants under the TA component of the Asian Development Bank (ADB), Manila has assisted the management till March 2006 to carryout its capacity building in various areas of ADBL. Recently Asian Development Bank Manila and ADBL have signed memorandum of understanding as a part of restructuring ADBL.

ii) Restructuring

With the beginning of the new millennium, the financial sector in Nepal has materialized a drastic change in Rural Finance as well as in Legal and Regulatory Framework. The government in the year 2000, published the financial sector strategy statement (FSSS) aiming to focus on two main activities. First to develop favorable operational and legal environment in the financial sector for fair and equal footing environment and secondly enhancing institutional capacity. As a result, in 2002, NRB Act-2002and Bank and Financial Institutional ordinance (BFIO) 2003 were promulgated to refocus on ADBL's core business functions especially target on strengthening organizational flexibility, enhancing skill and knowledge of its management and operational staff. In this context, in 2002 and 2004, two consequent technical assistances supported by the Asian Development Bank had been initiated with the aim of helping ADBL in identifying its financial and operational weakness; and , strengthening its operational knowledge through training and capacity building activities.

The first intervention under the TA-3580-NEP as on operational and financial review of ADBL focused on the following five major areas of ADBL.

- Governance
- Organization
- Operational policy and procedures
- Management Information System
- Financial Performance

The review addresses the weakness of ADBL with focusing areas for improvement and recommended the commercialization/restructuring. As a result, the second intervention is implemented from early 2004 towards the end of 2005 under the institutional strengthening of selected Rural Finance Institutions. The TA focused on the institutional development capacity building for central training institute and Regional Training centers of ADBL. The active participatory discussions and problem solving skills have helped both consulting teams and ADBL management in reaching a common program in terms of developing programs in operational areas such as:

- Risk Management
- Training Management Internal Audit
- Credit Management
- Business planning
- Accounting

Altogether 749 management and operational staff have been trained and new operational procedures have been applied at both regional and branch levels. In the mean time the following major activities are taken into consideration under the Rural Finance Sector Development cluster program.

- Financial Recapitalization
- Organizational Restructuring
- New policy, procedures and standards
- New MIS system
- Continuous Training and comprehensive Human Resource Management
- New operational and Financial performance Targets.

1.3 Statement of the Problems

In our country, the industrialization is still in its infancy and therefore the concept of profit planning has not even been familiarized in the most of the business concerns. By proper profit planning a business can be managed more effectively and efficiently. Banks play vital role in economic growth of a country. As being a financial institution, bank must make profit out of its operations for its survival and fulfillment of the responsibilities assigned. Bank major activities include mobilization of resources, which involves cost, and profitable deployment of those resources, which generates income. The differential interest income over the interest cost, which is popularly called as Interest Margin or Spread, can be considered as the Contribution Margin in the Profit of the bank. The other operational expenses form a burden to the Contribution Margin, which, the banks are attempting to compensate by other income, generated out of non fund based business activities of the Bank. The present study has tried to analyze and examine the profit planning side of Bank taking a case of Agricultural Development Bank. Furthermore, the study has tried to answer the following research questions:

- Does ADBL have appropriate profit planning system?
- What is the condition of Bank in terms of fund mobilization and investment policy?
- Does the Bank deploy the resources generating satisfactory yield?
- What is the relationship of investment, loans and advances with total deposits and net profit?
- Does the bank giving proper attention toward non-funded business activities thereby generating satisfactory amount of other income?

1.4 Objectives of the Study

The basic objective of this study is to make profitability analysis of ADBL. The following are the specific objectives of this study.

- To examine the resource mobilization and deployment for income generating activities.
- To analyze the relationship e.g. investment, loan and advances with deposit and profitability.
- To study the growth of the business of the Bank over the period

- To find return rate and expected return to shareholders

1.5 Significance of the Study

The present study is the analysis of profitability of Agricultural Development Bank limited. The ADBL is mandated by Nepal Government to provide financial services to the rural population to simulate 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 and other interest groups in analyzing the bank's economic strength and performance efficiency. As it is a well known 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 now benefit its taking by them from the semi-government banks.

1.6 Limitation of the Study

The study has the following limitations.

- This study is mainly based on secondary data provided by the bank so the study is concerned on that extent.
- This study is based on the data of five years period i.e. from F/Y 2063/064 to 2067/068.
- This study is focused only on the profitability analysis of ADBL.
- The accuracy of the study is based on the data published on annual report, annual programmed and budget of the bank.
- Only ADBL is taken into consideration in this study.
- Many financial & statistical tools are used to study the financial performance. But this study has used limited tools.

1.7 Organization of the study

This study has been organized in to five chapters in the following order.

Chapter 1: Introduction

Chapter 2: Review of literature

Chapter 3: Research Methodology

Chapter 4: Presentation and Analysis of data
Chapter 5: Summary, recommendation and conclusion.

The first chapter contains the general background, introduction of ADBL, statement of problems, objectives of study, significance and limitations of the study.

The second chapter presents the analysis of related literature that includes especially conceptual framework and review of other research articles and thesis.

The third chapter deals with the research methodology. It includes research design population and sample, data collection procedure, method of analysis and data period covered.

The fourth chapter will contain presentation and analysis of data. It also includes the major findings of study.

Finally, the fifth chapter deals with the summary, recommendation and conclusion.

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

CHAPTER-II
REVIEW OF LITERATURE

This chapter is basically concerned with review of literature relevant to the topic profitability analysis. The purpose of reviewing of literature is to develop some expertise in one's area, to see what new contribution has made and to receive some ideas for developing a research design. Thus, previous studies cannot be ignored as they provide the foundation of the present study. This chapter highlights the literature that is available in concerned subject as to my knowledge, research work, and relevant study on this topic, review of journals and articles and review of thesis work performed previously.

Review of literature refers the survey of materials which means reviewing research studies or other relevant propositions in the related area of the study. So that all past studies, their conclusion and deficiencies may be known and the further research can be conducted. It is an integral and mandatory process in research work. **(**Joshi P.R, 2003:107)

In other words, review of literature is finding the pertinent fact with the available literature in ones fields of research. The study of the material available on research topics is called review of literature. Review of literature not only provides solid information on the topic but also guides along the future stream of action. The textual constraints would help it to support area of research in order to explore the relevant and true facts for the reporting purpose.

The study aims to analyze the profitability of ADBL. For the purpose it needs to review of literatures on the concern area. There are several studies have been already done from which the researches can make clear ideas and concepts. What is other opinion and concepts? What is the outcome of others researches? What has done and written? These all and other related questions are reviewed in this chapter, which is the guideline and inputs of the study. This chapter includes conceptual framework from review of related books and articles, review of different masters' theses and research gap.

2.1 Conceptual Framework

Conceptual framework deals with the theoretical aspects of working profit, profitability, liquidity, theory of profit, need for profit, tradeoff between profitability and liquidity, financial statement of commercial bank, profit and loss a/c, income statement etc.

Reviewing the literature, it is empirical to state that the literatures are focused on the financial indicators which are very much in alignment with the prudential practices. Some literatures emphasize that the variables such as deposit, assets, debts, equity have significant relationship with financial performance and profitability of the bank. Some other literatures show that level of planning are responsible for the profitability and financial performance of the banks and financial institutions. In the meantime, some literatures suggest that there was no relationship between these variables. However, the literature cited above does not explain the deposit collection in terms of bank's performance; it gives an idea that the banks overall performance is directly or indirectly related with the amount of deposit collection. This study tries to see the implication of factors affecting deposit collection and mobilization as this is the major driving force that leads the organization in earning optimum profit. In light of this background this study was undertaken.

2.1.1 Evolution of Banking:

Economists do not have exact records about the origin of the word “Banking”. The term bank is derived from the Latin word “Bancus” which refers to the bench on which the banker would keep his money and records. Some Economists says its origin to the French word” Banque” and the Italian word “Banco” which means a bench for keeping, lending and exchanging of money or coins in the market place by money lenders.The invention of money was a milestone in the history of economy and developing the banking as a habit people. It has made economic and business activity more precise and efficient. This gave the emergence of non-institutional banking activities. Merchants, Money Lender and Goldsmith were the ancestors of modern bankers. During the early periods, although the banking business was mostly done by private individuals, many countries established public banks either for the purpose of facilitating, commerce or to serve the government. The Bank of Venice established in

1157, is supposed to be the most ancient bank. Originally, it was not a bank in modern sense being simply an office for the transfer of public debt.

During 1401, a public bank was established in Barcelona. It used to exchange money, receive deposits and discount bill of Exchange, both for the citizen and foreigners. During 1407, the Bank of Geneva was established. In 1609, The Bank of Amsterdam was established. It was established to meet the needs of merchants of the city. The Bank also adopted a plan by which depositors receive a kind of certificate entitling them to withdraw his deposit within six months. The most of European banks now in existence were found on the model of Bank of Amsterdam.

2.1.2 Profit & Profitability

Generally profit is defined as the excess of revenue over cost. In other words, profit is the residual income, which is equal to sale proceeds minus costs. Profit is the resources left to the firm for future growth and explanation or reward to be distributed to the entrepreneurship in the form of dividends etc. In a simple term, profits mean the residual balance of earning expected to be available with the firm that is obtained after deducting entire expenses, costs, charges and provision from total revenue of a period of time.

It is lifeblood of each type of business. Every business organization should earn profits to survive and grow over the long period of time. Obviously, organization will have no future if it is unable to make reasonable profit from its operation. As a matter of fact, the overall efficiency of an organization is reflected in its profits. Profits to the managements are the test of efficiency and a measurement of control: to the owners, a measure of worth of their investment; to the creditors, the margin of safety to the employees; a source of fringe benefits to the Government, a measure of fixed paying capacity and the basis of legislative action; to customers, a hint to demand for better quality and price cuts; to a bank, less burden some source if finance existence and finally to the country, profit are index of economic progress. Thus, if an organization fails to make profit, capital invested erodes and if this situation prolongs it ultimately cease to exist.

Profit has been universally recognized and accepted as a measure of business efficiency. Thus, the larger the profits, the more efficiency and profitable the business organization is deemed to be. This criterion has the greater advantage that it provides a common standard of measuring the efficiency if different bank. Regarding this, Laxmi Narayan clearly states, “Profit is the simple, convenient and the most popular yardstick of jugging the efficiency of private and public business enterprises. Profit helps in judging the overall efficiency and is easy to calculate. Even through profit maximization, unlike private enterprise, is not objective of public enterprises, yet profit services as a well accepted criterion for the judging the overall efficiency of public enterprises too.” (Narayan, 1980 A.D., P.260).

The profit is the ultimate measure of effectiveness. A profitable company is likely to offer not only security of employment but also promotion prospects, job opportunities and the intense personnel motivation that comes from being associated with success. John Argent observes, “Profit is the barometer of the success of business. It is, indeed, a magic eye that mirrors all aspects of entire business organizations including the quality output.” (Argent, 1968 A.D., P.34)

The term ‘profitability’ is composed of two words profit and ability. It reflects the capacity of a business organization to earn profit. It is also referred to as earning capacity or earning power of the concern investment. Thus, the term profitability may be taken as the ability to earn profit. According to Howard and Upton, “The word profitability may be defined as the ability of a given investment to earn return on its use.”

It may be mentioned that the term ‘profitability’ is distinguished from the word profit. Profit refers to the absolute quantum of profit whereas profitability alludes to the ability to earn profit. The former is an absolute measure in itself while the latter is a relative one. According to W.M. Harper, the profitability is a relative measure. It indicates the most profitable alternative. The profit, on the other hand is an absolute measure. It indicates the overall amount of profit earned by transaction. As the profitability is the relative measure, it is used to judge the degree of operational efficiency of management. Furthermore, it is essentially employed to measure the relative efficiency of different trading systems or different investments within one system. In the profitability analysis, the profit making ability of an organization is measured in terms of size of investment in it or its sales volume. Such an analysis of profitability reveals how particularly such a position stand as a result of transactions made during the year. It is particularly interesting to the suppliers of funds who can evaluate their investment and take necessary decision thereon.

The state of profitability is a variable thing like the temperature and humidity of a day. The determination of profitability by an accountant or analyst is very much similar to temperature reading and study of humidity by a meteorologist. A meteorologist records the weather on daily basis with an intention to forecast its future prospects. Likewise, an analysis records yearly profit of a bank with a view to make prediction of the future prospects.

The purpose of profitability measurement is to see whether a bank has effectively used its resources to achieve its profitability objectives. The profitability objectives refer not to the maximum profit the business can produce but to the minimum it must produce. The minimum profit is the profit at the minimum rate required for the desired type of investment in the bank. However, there mustn‟ t be enough profit to yield the capital in the market rate of return on money, which is already sunk in business, but also to provide additional capital needed to cover the cost of staying in business.

2.1.3 Meaning of Profit

Profit, from Latin means “to make progress”. It is defined in various ways. In economics, profit is the concept of reward of the entrepreneur for risk taking and management. In business operations, it is the gain from manufacturing, merchandising and selling operations after all expenses are met. Since profit is added to net worth, it may be measured by the increase in net worth over that of the previous accounting period. The amount of concern’s profit thus may be determined not only through the profit and loss statement but also by the comparison of the earned surplus or net worth in the balance sheet which, however, is the residue of profits after dividends and any other appropriations and does not reveal details of sources of income and expenses, which are found in profit and loss account. In speculative transactions, profit is the excess of the net selling price over the costs (including all charges) of the security or commodities traded in. (Woelfel, 1999 A.D., P.540)

Profit is a motivating factor behind many managerial activities. Much has been written about the role (as opposed to the method of calculation) of profit. Profit plays three roles in the capitalistic society. Profit is the financial reward of risk taking; profit is the financial reward for having monopoly power; profit is the financial reward for the efficient management. The promise of profit provides a strong incentive to owners and managers to act efficiently. "Profit is essential for every enterprise to survive in the long run as well as to maintain capital adequacy through retained earning. It is also necessary to accept market for both debts and equity to provide funds for increased assistance to the productive sectors." (Robinson, 1951 A.D., P.21-22)

Account and economics are two disciplines in which profit is viewed in different concept. Pure economic profit is the increase in wealth that an investor has from making an investment, taking into consideration all costs associated with that investment including the opportunity cost of capital. Accounting profit is the difference between retail sales price and the costs of manufacture. A key difficulty in measuring either definition of profit is in defining costs. Accounting profit may be positive even in competitive equilibrium when pure economic profits are zero.

In economics, a firm is said to be making an economic profit when its revenue exceeds the total (opportunity) cost of its inputs. According to Adam Smith (The father of economics), "Profit is the sum remaining after the payment of all wages (wage) in economics includes payments to officers of corporations, to proprietors, to partners and to farmers, as well as to what we today term(labor), and rent on the unimproved value of land, as the return to capital."

Profit in the accounting sense is the net figure of difference between all types of measurable revenues and all measurable costs. In accounting, profit is expressed only on explicit and measurable accounting terms and on the book value basis. However, in economics, profit is measured in the realizable terms. "Profit in the accounting sense is the excess of revenue receipts over the costs incurred in producing this revenue. This concept of profit is also known as residual concept. But, in economics, both implicit and explicit costs are deducted from total sales revenue in determining profits.” (Cauvery, 1997 A.D., P.122-123) As a matter of fact over the years there has been quite an evolution as to what particular items should be deducted from gross income to arrive at an “accounting” profit. Thus, “accounting” profit is a concept of man-made legislation, of the courts, of the Security of Exchange Commission, of accounting organizations; a concept, which has always been in evolution. “Economic” profit on the other hand, is a concept of a natural law of economics, and like the law of gravitation has remained and will remain unchanged over the ages. However, the profit under discussion is concerned with accounting profit, which in a simple language, is the positive and fruitful difference between two revenues and total expenses over a period of time, Multiple meaning of the word "profits" have always been troublesome. Accountants have made energetic efforts in recent years to discard the word for that purpose and to refer to the conventional concept as business income a natural term at avoids any overlap with economic theory. The most important points of difference between the economists and accountants are as follows:

- The inclusiveness of costs i.e. what should be subtracted from revenue to get profit.
- Meaning of depreciation
- The treatment of capital gains and losses
- The price level basis of valuation of assets and liabilities
- Although there may be arguments in favor and against profit generating almost all firms require earning it. Their rate of earning differs from firm to firm and time to time.

2.1.4 Theories of Profit

Economists have propounded several theories of profits to explain profits of entrepreneurs. Most of the theories are centered on the controversy about the role of the entrepreneur. In the following section some of the fundamental theories of profit have reviewed in brief.

1. **Theory of Risk and Uncertainty Bearing:-** It was F.B. Hawley who first developed the theory of risk bearing and concluded that profit is a reward of the entrepreneurs for bearing risks. But, the theory was picked up b

Professor F.H. Knight who divided risk into insurable risk and uncertainties. Thus according to Knight, profit is a reward to the entrepreneur for his non-transferable function of bearing non-insurable risk and uncertainties.

2. **Dynamic Theory of Profit:-** This theory was propounded by J.B. Clark. According to this theory, 'dynamic changes' in the economy are the basic causes of emergence of profits. There is no profit in the static economy as no changes take place. In a dynamic economy there are constant changes in population, capital, methods of production and industrial set up. These changes multiply wants of consumers, which earn profits to the entrepreneur.
3. **Innovation theory of profit:-** Joseph Schumpeter singled out 'innovation' from the dynamic theory of profits and developed economy and innovation in the changing world gives rise to profits. In his views, the entrepreneur plays an important role of introducing innovation in an economy and profits are the rewards for his role as an innovator. The innovation could be changes or techniques that reduces cost of production or increases demand for the product.

2.1.5 Need For Profit

Profit is necessary for the following reasons:

1. **Measurement of Performance:**- Profit is only factor to measure the management efficiency, productivity and performance. Profit is the most widely used yardstick to see what really is to be achieved and where the firm is to go in the future.
2. **Premium to cover costs of staying in Business:-** Business environment is full of risks and uncertainties. to grasp the globally changing technologies, to stay in the market uncertainties, to replace and acquire assets and enhancing business scope etc. require a profit margin.
3. **Ensuring Supply of Future Capital**:- Profit is necessary to plough back in the investments like innovations, business expansion and self-financing. It also attracts investors for further investment.
4. **Return to the investors**:- Shareholders provide equity capital to the business because they expect the entity will provide return to their funds at least equal or above market rate of return. To maintain the shareholders expectation, it is

most important that a firm should earn sufficient profit so that it can distribute dividends.

2.1.6 Profitability of Commercial Banks

Banks today are under great pressure to perform to meet the objectives of their stockholders, employees, depositors, and borrowing customers, while somehow keeping government regulators satisfied that the bank" s policies, loans, and investments are sound." (Rose, 1991 A.D, P.155) The majority of the needs of the stakeholders are related with the profitability of the banks. For example, in case the bank earns profits, the investors get dividends, employees get bonus, government gets benefits in forms of taxes etc. Thus, the foremost objective of the banks is the profit maximization. As other types of business entity, commercial banks are also inspired by the profit.

The major source of funds of the bank is the public deposit. Commercial banks invest public deposits on those sectors where they can attain the maximum income or higher rate of return as the bank is liable to pay certain rate of interest to the public in their deposit. Hence the investment or granting of loan and advance by them are highly influenced by profit margin. Generally the profit of commercial bank depends upon the interest rate of the bank, volume of loan provided, time period of loan, and nature of investment in different securities. However, the bank at the same time has to ensure that their investment is safe from default.

Aspiration of profit to commercial banks seem reasonable as the bank has to cover all the expenses as interest to the depositors and other administrative costs, they should make payment in the form of dividend to the shareholders who contributed to build up the banks capital and keep aside for the provision and reserves. For this the bank calculates the cost of fund and likely return, if the spread is enough irrespective of risk involved and absorbs its liquidity obligations, it will go ahead for investment.

A successful bank is one who invests must of its funds in different earning asset standing safely from the problem of liquidity i.e. keeping cash reserve to meet day-to-day requirements of the depositors. After all the commercial bank is simply a business corporation organized for the purpose of maximizing the value of the shareholders wealth invested in the firm at an acceptable level of risk. So bank has to make a crucial decision regarding a mixture of liquidity and profitability cause lower the liquidity higher the profitability and higher the liquidity lower the profitability and both are equally important, banks cannot afford to ignore any of them.

2.1.7 Liquidity

In banking, liquidity is the ability to meet obligations when they come due without incurring unacceptable losses. In other words, the capacity of bank to pay cash against any upcoming obligations is called liquidity. Managing liquidity is a daily process requiring bankers to monitor and project cash flows to ensure adequate liquidity is maintained. Maintaining a balance between short-term assets and short-term liabilities is critical as the commercial banks have liability to the deposits collected and they immediately should give it in the time when the depositors asked. Banking is the business of financial dealing whose major source of financing is the public deposit. Deposit accounts represent the primary funding in traditional commercial banks, and the loan portfolio represents the primary asset. The investment portfolio represents a smaller portion of assets, and serves as the primary source of liquidity. Investment securities can be liquidated to satisfy deposit withdrawals and increased loan demand. Banks have several additional options for generating liquidity, such as selling loans, borrowing from other banks, borrowing from a Central Bank and raising additional capital. Most banks are subject to legally-mandated reserve requirements intended to help banks avoid a liquidity crisis.

A large part of bank deposits are withdrawn on demand and hence the bank must be prepared with sufficient degree of liquidity of its assets. Once the confidence is lost in depositors eye, they may withdraw all the deposits within the brief period when the bank is unable to generate adequate cash without incurring substantial financial losses since most of assets of the bank are attached in the loan and advances. Even the best bank can hardly survive in such a situation. Confidence depends upon the ability of bank to meet the readily demand for cash made by customers. Commercial banks maintain liquidity in all or any forms of following:

1. Cash in self vault and in other banks-specially in NRB (First Line of Defense).
2. Overnight placements, moony at call or short notice or any other very short term placements (Second Line Defense).

3. Investment in marketable securities like government securities, which can be easily sold and readily convertible into cash (Third line of Defense,Dahal & Dahal, 1996 A.D., P.41).

2.1.8 Trade off between Profitability and Liquidity

Profitability of commercial banks is highly dependant on the optimum utilization of available resources and invests the deposit collected in safe and profit generating assets like loan, and advances and investments. However, banks can not ignore the necessity of maintaining a portion of the deposits in their cash vault, or in the immediate approach like in the account of central banks or in any highly liquid assets like government treasury bills, other government bonds that can be easily sellable without loosing and further value.

A sound liquidity position of the bank satisfies the demand of the deposit holder, which maintains the goodwill of the banks. Since, banks are faithfully considered as the last resort for monetary needs of the public, the incapability of fulfilling their demands will loose the faith of the depositors/ public. Once any signaling effect is negatively attached in the perception of the depositors, they tend to doubt in the bank" s dependability and that can consequent in the bank run. Further, banks must maintain the certain portion of deposits in the vault and in NRB.

However, liquid assets are almost all idle. They do not generate any profits. The cash in the vault meets any upcoming obligations immediately but banks will not be able to generate any returns in such a case. Further, banks do not get any interests or other returns in the accounts maintained in the central banks, NRB in our case.

Profitability and liquidity maintain a highly negative co-relation. Since both are equally important for commercial banks, banks cannot ignore any of them. So, the crucial decision for the management of the banks is to trade-off between them. The more liquidity the less will be the profitability and vice versa.

2.1.9 Financial Statement of a Commercial Bank

The financial statement of a commercial bank includes balance sheet, profit and loss account, cash flow statement and other relevant disclosures. Merely presenting the financial statement does not satisfy the aim of the study as financial statements are just of financial information to this analysis. Thus, the focus of the study will go to the analysis of the financial statements of the bank, especially on profitability of the bank. This will make some attempts to identify the financial position of the bank and to give necessary suggestions thereto.

- **Balance sheet**

Balance sheet is not an account but it is a statement of assets and liabilities of business enterprises at the given date. It is a statement summarizing the financial position of the firm. The balance sheet is prepared at the end of accounting period. Bank's balance sheet is composed of shareholder's fund, borrowings, debentures and other liabilities and provision on the liabilities side and cash and bank balance, stock, debtors, loan and advances, branch accounts, investment and fixed assets on the assets side. The brief explanation on accounting heads of the balance sheet is provided below:

A. Capital and Liabilities Side

1. **Share Capital**:- The amount of paid up capital of the bank should be mentioned under this head. The amount received against calls made should be credited in this share capital account.
2. **Reserves and Funds**:- This accounting head shall contain the amount of reserves appropriated from profit, as well as created through any other process and accumulated profit. Generally, this account shall be credited by debit to profit & loss appropriation account and utilization of such reserves shall be debited to the concerned reserve and fund accounts. The following account heads fall under this heading.

- **General reserve fund:-** This is a stationary reserve. Under this head, only the amount appropriated from profit as per Commercial Banking act shall be credited. Currently, 20% of the net proft should be transferred to this account. Distribution of dividend by utilizing this fund is restricted and approval of Nepal Rastra Bank shall be obtained for the use of this fund for any other purposes. (NRB, 2062 B.S., P.29).
- **Capital Reserve Fund:-** Profit on revaluation of assets and capital assets received in grant from other shall be accounted under this head.

- **Share Premium:-** This represents the amount of money collected on issue of shares in excess of its face value. The outstanding amount in this account shall not be considered eligible for distribution of dividends. However, it may be used for issue of bonus shares under approval of Nepal Rastra Bank.
- **Other Reserves:-** Funds and reserves, other than those mentioned above shall be included under this head.
- **Accumulated Profit/Loss:-** Under this head, the balance of the accumulated profit or loss as per shown in the Profit and Loss Appropriation account shall be shown.

3. **Borrowing**:- The borrowed funds of the bank shall be disclosed under this head. Bank borrowings, placements, overnight placements, borrowing from central banks, foreign banks falls under this heading.
4. **Deposits:-** The principal liability of a commercial bank is its deposits collected from general public, business and government agencies. Deposits received from the depositors as well as the interest payable on the deposits shall be credited to the account of the depositors. The deposit liabilities accepted by the bank shall be exhibited under this head.
5. **Bills Payable**:- Under this head, the outstanding amounts pertaining to draft, telex transfer. Payment orders issued by one branch to another branch of the bank, as well as bills drawn on the bank by other local and foreign banks shall be accounted.
6. **Other Liabilities:-** Other than the capital and liabilities mentioned above, all other liabilities of whatsoever mature shall be included under this heading. Any other accounting heads that could not be exhibited elsewhere may be included under this head as required.

B. Assets Side

1. **Cash Balance:-** The most liquid assets held by any commercial bank is cash. This heading shall be used for showing the total amount of cash-in-vault, consisting of local and foreign currency. Since cash is the most liquid asset, it is used to cover deposit withdrawals, handle credit demands from customers, and to meet all regular and emergency expenses.

2. **Balance with banks**:- The balances of amounts in non-interest bearing accounts maintained by the bank with Nepal Rastra Bank as well as with other local and foreign banks shall be exhibited under this head.
3. **Money at call or short notice**:- The amount of all interest bearing placement with other banks with maturity of less than 7 days with stipulated condition for payment at call or at short notice (48 hours) shall be exhibited under this head.
4. **Investments**:- As a line of defense to meet demands for cash and serve as a quick source of funds, banks invest certain proportion of funds in the liquid assets. These typically include holding of shorter-term government bonds like treasury bills, development bonds etc. and other securities purchased in the open market and readily convertible into cash in the financial market. Other forms of investment include investment in the shares and debentures of other companies. These investments are mainly made for their ability to generate income. The investments are to be valued at market price or cost price whichever is lower.

   Commercial banks invest the funds to the shares, debenture and bond of the other company. They generally do so when there is excess of funds than required and there are no alternative opportunities to make investment in the profitable sector. Now-a- days the commercial banks of Nepal have purchased share and debenture of regional development bank, NIDC and other development banks etc. these type are mainly held for their income-generating power and for other advantage like tax shelter etc. The investments are to be valued at market price or cost price whichever is lower.
5. **Loan Advances and Bill Purchased**:- This is a primary source of income and most profitable asset to a bank. The sum outstanding of all loans and advances extended to the customers as well as bills purchased and discounted bills less the amount of provisions made shall be exhibited. However, the loans extended to the staffs shall not be disclosed under this head and should be shown under other assets.
6. **Fixed Assets**:- All assets of long-term nature owned by the bank (land & buildings, machinery, vehicles, office equipments etc) shall be accounted under this head and be exhibited in the balance sheet at written down value after deducting the depreciation from the total cost.

7. **Other Assets**:- The heading shall be used for accounting of any other tangible or intangible assets, not mentioned above. Stationery stock, accrued interest on investment, accrued on loan, sundry debtors, assets in transit, non-banking assets, expenses not written off etc.

❖ Profit & Loss Account

The bank's profit & loss account is composed of interest, administrative expenses, provision for possible losses, bonus provision, tax provision, investment provision, etc. as expenses and interest, discount, commission, charges etc, as incomes. The summary of the heads of account in the profit and loss account in the profit and loss account of a commercial bank is given below.

A. Expenses Side

1. **Interest Expenses**:- Payment of interest on deposits accepted by the bank and on the borrowings is shown under this head. Interest is regularly expensed off for various deposits; inter bank borrowings, central bank borrowings and other external obligations.
2. **Employee expenses**:- All expenses related to the employees of the bank for the specific period shall be included under this head. Expenses included are salary, allowances, pension, gratuity, training expenses, uniform expenses etc.
3. **Office Overhead Expenses**:- All expenses related to the office overhead of the bank during the specific period shall be included under this head. Some of the expenses under this head are house rent, insurance, audit expenses, newspapers and magazines, advertisement etc.
4. **Exchange loss**:- The negative balance in exchange fluctuation gain/loss account shall be exhibited under this head.
5. **Non-Operating Expenses**:-These are the expenses that have no direct relationship with the operation of banking transaction. Some of the examples are loss on sale of investment and loss on sale of assets.
6. **Bad debts written off**:- Where the bank has written off loans on account of being unrecoverable, such written off amount to the extent not covered by loan loss provision shall be charged to profit and loss account under this head.
7. **Provision for Possible Loss**:- This is one of the most important heads of account related to the profitability of the bank. As per the directive of the Nepal Rastra Bank, the banks are required to make provision for loan losses.

The provisions are to be made on the basis of the expiry dates on the principal amount of the loans and advances. As per the directive the provisions to be made is as follows.

Category	Provision required	Criteria
Pass	1%	due upto 3 months
Substandard	25%	due upto 3 - 9 months
Doubtful	50%	due for 9 months - 2 year
Loss	100%	due for more than 2 years

However, in case of bills purchased items, provision is to be provided at 1% if it stands due for 90 days and in case it remains due for more than 90 days 100% provision is required. (NRB, 2062 A.D, 36)

8. **Provision Staff Bonus**:- The amount of bonus set aside for payment to staffs is disclosed under this head. As per the Nepal Rastra Bank directives the bank is entitled to make provision for the staff bonus at 10% on the net profit after adjustment for loan loss provision.
9. **Provision for Income Tax**:- The amount of income tax on net taxable profit for the period shall be determined through this head. Taxable profit has to be determined considering the allowable and disallowable expenses as per the prevailing income tax act and finance bill.
10. **Net Profit**:- This figure represents the excess of total income over total expenses of the bank during the period.

B Income side

1. **Interest Income**:- This is the primary source of income of any commercial bank. Under this head the interest received from the customers on behalf of the loans and advances and on the investments of the bank is exhibited. However, Nepal Rastra Bank has established several criteria for he recognition as interest income.

- The interest income should be recognized on cash basis.
- The amount of interest accrued but not received, have to be credited tothe interest suspense account.

- In cast of the interest accrued is realized within one month from the date of closure of fiscal year, such amount may be recognized in the income of the earlier fiscal year.
- The interest on loans and advances should not be recovered by overdrawing the borrower's current account or where overdraft limit has been extended by overdrawing such limit.

2. **Commission and Discount**:- The total amount of commission, service charges and discount earned by the bank from the transactions during the period shall be exhibited under this head. Some examples are commission on issue of guarantees, commission on issuance of L/C etc.
3. **Exchange Gain:-** Banks deal with foreign currencies. Foreign currencies are remitted outwards and inward. Banks involve in trade while dealing this transaction. Banks make trading gain while selling and buying foreign currency stocks for their trade as well as banks gain from revaluation the stock whenever the exchange rates are in their favor. Both the trading gain and revaluation gain are exhibited under this head.
4. **Non-Operating Income**:- Income or profit that has no direct relationship with the operation of banking transaction has to be recognized into profit and loss account under this head. These incomes are casual source of income and are not from regular course of business but from other sources where the business entity can be involved legally as prescribed by the directives if related government authority. Nepalese commercial banks are allowed to invest in the share of another entity like other commercial banks, rural development banks, financial institution and other government institutions. The investing bank receives dividend income and other income.
5. **Other income**:- Receipts of all other income not specifically provided under the income heads as above shall be booked under this head e.g. rental income of safe deposit boxes, income from telex, service charge, renewal charges etc.
6. **Net loss:-** The figure represents the excess of total expenses over total income of the bank during the period.

2.2 Review of Related Studies

2.2.1. Review of Articles

Poudel (2052) *"The People's Republic of China Commercial Bank Law"* was promulgated formally defined as the nature of commercial banks in financial firms. Since it is a business, of course we wanted to pursue profit maximization as its operating principles and the ultimate goal to "make their own decisions, self-financing, self-risk," As a result, the banking sector non-performing assets become increasingly apparent. In the banking system before the transition is not bad assets, but this risks the country, the banking sector, the exposure to the country under the umbrella; mechanism for the transition, the non-performing assets to themselves and resolved by the banking sector, banking left the "umbrella", then the risk of non-performing assets also exposed. China has joined the WTO, countries want development, we must move forward with ease; the banking industry to develop and compete with foreign banks, we must improve the "body", the key lies in doing the banking sector non-performing assets disposal. "Solution-maker," and in order to effectively dispose of non-performing assets, we must thoroughly understand the root cause of the problem, the eradication of bad assets of soil, blocking the source of bad assets. Non-performing assets like fire accidents, we cannot bear to prevent the occurrence of fire accidents, but the accident rate can be reduced to a minimum. What caused the non-performing assets of the banking industry into being? Writer after in-depth reflection that the non-performing assets of the banking sector problems arise deep root system, where the existing system of property rights reasons, but also the credit system and institutional reasons. In the final analysis is the inefficient allocation of financial resources results.

The disposal of non-performing assets should be divided into two, on the one hand to block the source of bad assets, that is incremental to solve problems; the other hand, has been formed for the effective disposal of non-performing assets, that is to solve the problem of stock. In the incremental and stock issues should insist on treating the symptoms, clear the stock of non-performing assets, treatment is standard, while the control of the new non-performing assets continue to generate is the. Banking non-performing assets should not be a good and bad assets, the accounting rates, non-performing assets and asset stripping of the packaging and sale of a simple process, which also includes institutional reforms, banking system reform, reconstruction of the relationship between banks and enterprises, etc. , in particular the production of non-performing assets of banking system has profound roots, only deepening the reform of banking systems in order to achieve the purpose of effecting a permanent cure.

Pradhan (2058) in his article "*NPA: Some Suggestions to Tackle Them*" found saying that unless the growth in NPA is kept in control, it has the potential to cause systematic crisis. He has mentioned that a dream of globalization led to huge investment which unfortunately could not be utilized properly due to hesitant liberalization policies. Large corporate misused the credits and delayed payments and contributed indirectly for enhancing NPA ratio. He further argues the lack of vision in appraisal of proposal while loan sanctioning, reviewing or enhancing credit limits, absence of risk management policy of financing, concentration of credit in few group of parties and sector. Lack of initiatives to take timely action against willful defaulters, indecision on existing out of bad loans for fear of investigating agencies like special police, CIAA, Public Accounts committee of the parliament have also contributed in whatsoever measures to the worsening situation of NPA front. He further pointed out that most crucial reason for the increase in the NPA is the shabby and defaulter friendly legal system. Suggesting the remedy of NPA he adds that administrative system should be strengthened, Legal reforms should be made and Assets Reconstruction Company should be formed, Henderson (2003), CEO of RBB turnaround is restructuring and collection of NPA.

Though these studies are found to be quite useful in their own side but the question of NPA and its cause as well as effect on various aspects in commercial banks is yet to be reviewed. In view of these, this study has been based on the various contributing factors that increase NPA level in commercial banks in Nepalese perspective and its effect on profitability position of the banks.

Dhungana (2063), in his well article, "*Problems of NPL's and the need of Financial Discipline in the Nepalese Banking System"*, has concluded that poor credit management and deterioration in the quality of loans give birth to non-performing assets. The internal measures play significance role to control the growth of NPL.

Best credit practices, culture and policies are required to strengthen the internal factors. The banks should have a proper system and competency on risk management and should ensure that risk are accurately identified, assessed and controlled properly. A proper risk management is un doubtly an important tool for a good banking and NPL management.

He further states that it can be expected that the financial sector reforms will lower down the level of NPL from the existing level and strengthening the banks and financial institution internally to manage the credit portfolio efficiently and support will be continued to make a good credit culture in the system.

Shrestha (2060) "*ex-governor of Nepal Rastra Bank"* in his article published in The Boss magazine says the management of bad loan is a high prioritized exercise in the country for past 10 years. But the remarkable achievements have not been sighted yet. Handover of management of two big government banks is an example of financial sector reform action in the country. It has been almost 4 years of handover of management of two big government banks to the foreign expert but the achievement is not satisfactory. He identifies not only government banks but private sector banks are also slowly affected by the non-performing loan. Therefore a strong focus should made by management to reduce the level of NPL. He believes in co-ordination between the borrower and the lender. He further says if a viable project is not being completed in time and not being able to pay its interest in time the bank and the project owner should sit together and find out the way to complete it rather than blacklisting and running towards the legal action.

2.2.2 Review of Previous Thesis

Various studies have been conducted on the financial performance of commercial banks of Nepal. Many of them are concentrated to Nepalese commercial banks and only few are focused on joint venture bank especially comparative studies. In this chapter, different previous studies have been reviewed so that the chances of duplication will be avoided from the present study and some newness can be created in this field of study.

Sapkota (2063), completed the study *"Profitability Benchmarking of NB Bank"* and submitted to Shanker Dev Campus in partial fulfillment of the requirement of Degree of Master in Business Studies.

His Main Objectives are as follows

- To examine the profitability situation of the JV bank industry as a whole and sample banks.
- To analyze the profitability trend of NB Bank and the JV bank industry over the last five years.
- To ascertain the comparative position of profitability of NB Bank with respect to other JV Banks.

His Research Methodologies are as follows

Research methodology is the focal part of the study. Ranges of financial and statistical tools are used to analyze the collected data and to achieve the objectives of the study. The analytical statistical tools such as graph, percentage, coefficient of correlation, regression analysis and the technique of least square are adopted in this study. Financial tools such as ratio analysis and trend analysis have also been used for financial analysis.

The major findings of the study are as follows

- A serious effort has to be made towards the NPA management. The assets quality is the most serious issue in the organization and the sincere effort of the management is to be concentrated in the matter if the bank is to sustain and performs well in the forthcoming days.
- The increasing NPA indicates that the bank seems to be lacking in the conduct of detailed and proper credit appraisal and monitoring process. The bank before extending the facilitates needs to make detailed analysis about various aspects like feasibility of the party, creditworthiness of the client, collateral offered and previous performances.
- The risk inherent in the loans and advances is high. So, the complete dependence on the interest income is not an appropriate strategy. The contribution of interest income to total income in year 2062/63 is 78.59%

while the rest contribute only 21.4%. So, the bank should look to increase the fee-based income as it provides safe and good returns.

- NB Bank Ltd. has always been at the top in cost of deposits. The high cost of deposits not only incurs additional interest expenses but have other indirect effects. The banks in order to make a return have to set interest rate on loans and advances at a higher level than the market. So, the risk of potential NPAs at a future data is high.
- Interest payout ratio refers the proportion of interest expenses to the interest income. Higher the ratio, lower is the profitability. The interest payout ratio of NB Bank is at 68.34%, the highest of the lot. Therefore the bank should look to minimize this ratio preferably by obtaining low cost funds.

Poudel (2063) in his thesis paper, *"Comparative financial performance appraisal of joint venture banks"* with references to Everest bank limited and Nepal Arab Bank Ltd

His Main Objectives are as follows

- To analyzed relations between different ratios.
- To examine the proportion of Comparative financial performance appraisal of joint venture banks
- To give suggestions and recommendations for the betterment of commercials banks.

His Research Methodologies are as follows

Research methodology is the focal part of the study. Ranges of financial and statistical tools are used to analyze the collected data and to achieve the objectives of the study. The analysis of the data will be done according to pattern of data available. Because of limited time and resources, simple analytical statistical tools such as graph, percentage, coefficient of correlation, regression analysis and the technique of least square are adopted in this study. Financial tools such as ratio analysis and trend analysis have also been used for financial analysis.

His Major Findings are as follows

- His study especially concentrated on the deposit collection of the bank and disbursement of the fund as loan and advances.
- He has focused on utilization and mobilization of funds and resources of Nepal Bank Ltd.
- He recommended that the bank should try to mobilize its resources efficiently by creating new business
- Service ideas which will certainly help for the better utilization of ideal resources and for the economic development of the country.

Mandal (2064) in his thesis paper, *"Comparative financial performance appraisal of joint venture banks"* has studied mainly three banks i.e. Nepal Arab Bank Ltd (NABIL), Nepal Indosuez Bank Ltd.(NIBL), and Nepal Grindlays Ltd. (SCBNL). His main finding is that both SCBNL and NABIL have mobilized the debt funds in proper way for generating more return but NIBL could not do so as good as NABIL and SCBNL. He has recommended enhancing banking facilities in rural areas by encouraging small entrepreneurs development programmers, to play merchant banking role to mobilize.

His Main Objectives are as follows

- To analyze the lending practices and resources utilizations of NB bank.
- To examine the correlation and the signification of their relationship between different ratios related to capital structure

His Research Methodologies are as follows

In this research, data are analyzed by using different types of tools. As per topic requirements, emphasis is given on statistical tools rather than financial tools. So for this study following statistical tools and financial tools are use such as Loans and advances to Total Risk Weighted Assets Ratio, non-performing Loan to Total Loans and advances Ratio, Loan Loss Provision to Non Performing Loan, Arithmetic Mean Standard Deviation and Hypothesis Test.

His Major Findings are as follows:

- Hence, the bank has been suggested to manage its investment portfolio efficiency
- Operational efficiency of the bank is indicate by the operational loss has been found unsatisfactory.

Tuladhar (2065) on his thesis entitled, *"A study on Investment policy of Nepal Grindlays Bank Ltd. in comparison to other Joint Venture Banks (NABIL and HBL).*" The study found that NGBL has been successful to maintain in the best way both liquidity position and their consistency among three banks. Profitability position of NGBL is better than NABIL and HBL.

His Main Objectives are as follows:

- To analyze the impact of investment policy selected commercials banks.
- To examine the correlation and the signification of their relationship between different ratios related to capital structure

His Research Methodologies are as follows:

In his thesis the data are analyzed by using different types of tools. As per topic requirements, emphasis is given on statistical tools rather than financial tools. So for this study following statistical tools and financial tools are use such as Debt to Equity ratio, Debt Ratio Interest Coverage Ratio, Earnings per Share, Price Earnings Ratio, Return on Total Assets, Return on Share Holder's Fund or Equity, Arithmetic means, Standard Deviation and Correlation Coefficient.

His Major Findings are as follows:

- On the basis of this feedback information, regular changes or implementation of new rules and regulations can be easily carried out.
- NRB should also encourage frequent training to new entrants to provide orientation on the conceptual dimensions and practical aspects of operation of the banks

- Constraints of socio- economic political system on one hand and that of issues and challenges of JVBs commanding significant banking business of other spectrum
- The collection of deposit and loan investment done by the commercial banks also to sustain themselves in the environment of competitions,
- They should introduce novel technology and equipment's to collect deposit.

Regmi (2066) on his thesis entitled**,** *"A comparative study of financial performance of Himalayan Bank Ltd and Nepal Bangladesh Bank Ltd."* He conducted a study between HBL and NBBL. Some of the findings of the researcher are that HBL has better profitability position than NBBL, so it is recommended to NBBL to utilize its resources more effectively.

His Main Objectives are as follows:

- To examine the relationship between different ratios.
- To calculated and analyzed the financial and statistical tools.
- To give recommendations and suggestions.

His Research Methodologies are as follows:

The research, data are analyzed by using different types of tools. For this study following statistical tools Arithmetic mean, Standard Deviation, Correlation Coefficient, Probable Error and Regression Analysis and financial tools Earnings per Share, Price Earnings Ratio, Return on Total Assets and Return on Share are also use.

His Major Findings are as follows:

- He has further suggests that both the banks should extends their resources to rural areas to promote development
- Hence, the bank has been suggested to manage its investment portfolio efficiency
- These are indeed significant milestone in the financial development process to the economy
- But keeping in mind, the social and economic structure of our country, we should not turn a deaf ear to regional balance.

Pokhrel (2067) on his thesis entitled, *"A comparative study on financial performance of Nepal Bangladesh bank Ltd and Everest Bank Ltd."* was concluded to analyzes, examine an interpret the financial performance of NBBL and EBL for the study. The study finds out that the average net profit margin remains greater in NBBL. Higher CV in EBL suggests greater fluctuation in the ratio over the period. EBL found to be weaker in utilizing the bank assets for the profit generation. EBL holds greater capacity in paying immediate obligation as revealed by the higher cash and bank balance to current assets ratio.

His Main Objectives are as follows:

- To analyze the impact of financial performance of Nepal Bangladesh bank Ltd and Everest Bank Ltd
- To examine the correlation and the signification of their relationship between different ratios related to capital structure

His Research Methodologies are as follows:

The research is analyzed by using different types of tools such as statistical tools and financial tools ie. Earnings per Share, Price Earnings Ratio, Return on Total Assets Return on Share, Holder's Fund or Equity, Arithmetic mean, Standard Deviation Correlation Coefficient, Probable Error and Regression Analysis.

His Major Findings are as follows:

- Therefore, there should be the awareness program, regularly conduced in terms of seminars
- Workshop from well experienced personnel such as top executives from banks and concerned regulating authorities.
- They should introduce novel technology and equipment's to collect deposit.
- His study especially concentrated on the deposit collection of the bank and disbursement of the fund as loan and advances.
- Financial credit worthiness of the borrower must be evaluated properly before granting the loans.

Adhikari (2068) in his study entitled, *"Evaluating the financial performance of Nepal Bank Limited"* has calculated and analyzed the different ratios by observing figures of balance sheets of Nepal Bank Limited for the period FY 2038/39 to 2049/50. He remarked that the bank is not found to have been able to utilize its fund effectively and efficiently for the development of the economy.

His Main Objectives are as follows:

- To examine the Evaluating the financial performance of Nepal Bank Limited
- To calculated and analyzed the financial and statistical tools by using secondary and primary data.

His Research Methodologies are as follows:

The research is analyzed by using different types of tools. For this study following statistical tools and financial tools are use such as Loans and advances to Total Risk, Weighted Assets Ratio, Non-performing Loan to Total Loans and advances Ratio, Loan Loss Provision to Non Performing, Loan Ratio Loan Loss Provision to Total Loans and Advances, Arithmetic mean, standard Deviation, Correlation Coefficient, Probable Error, Regression Analysis and Test of Hypothesis.

His Major findings are as follows:

- The collection of deposit and loan investment done by the commercial banks also to sustain themselves in the environment of competitions.
- The deposit funds in productive sectors and to grants more priority to the local manpower.
- Economic development of a country cannot be imagined without the development of commerce and industry
- He has focused on utilization and mobilization of funds and resources of Nepal Bank Ltd.

2.3 Research Gap

Today's world is marketed by rapid changes and new developments, as such researchers conducted a few years back may not be adequate to explain current phenomena. Thus continuous attempt needs to be taken and new researches had conducted to build our existing knowledge base, interpret and analyze events in the face of dynamism. The past financial institution were depends only the interest margin but in present economic dynamism, only the interest margin is not sufficient to improve profitability so this research has tried to analyze the extra ordinary items of income generation in financial institution. To find the new developments and to bridge the gap between the past research and the present situation, this research has been set out to conduct the research in this stimulating topic. The researcher has been through many literature reviews and given the best to fulfill this work. In this research effort had been made to understand the Profitability analysis of ADBL and hope this research will be fruitful for future researchers as reference.

CHAPTER-III
RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is a sequential procedure and collection of scientific methods to be adopted in a systematic study. In other words, research methodology describes the methods and process applied in the entire of the study. It is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it we study the various steps that are generally adopted by us in studying his/ her research problem along with the logic behind them. It consists of research design, population and sampled source of data, data processing procedure and tools & techniques of analysis of data.

3.2 Research Design

Research Design is a method of defining the research problem. According to C.R. Kothari, "Research design is a plan, structure and strategy of investing conceived so as obtain answer to research question and to control variances". Research design refers to the framework of the study. It is the blue print for any kinds of studies. "Research design is the arrangement of condition and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.

Research design is plan for collection and analysis of data. The purpose of design is to provide answer to research questions and control variance. Some financial & statistical tools will be used to examine the facts and descriptive techniques to evaluate the financial performance of three banks and comparing between themselves. This study aims to find out the relation of financial performance of three commercial banks fully managed and owned by Nepalese entrepreneurs. The research design used for is basically, a historical, empirical, descriptive-cum-analytical research methodology.

3.3 Populations and Sample

Currently, there are 32 commercial banks in Nepal. So this study chooses the Agricultural Development Bank Limited as sample for study. The financial statements of latest five years (i.e. from 2063/2064 to 2067/2068) have been taken as sample data for analyzing the financial performance.

3.4. Nature and Sources of Data

The study is mainly based on secondary data. Data relating to financial performance of the bank is directly obtained from concerned bank and their websites. The supplementary data were obtained from unpublished official records of concern bank, bank's staff, booklets, and journals and other sources viz. Security Exchange Center and Nepal Rastra Bank.

3.5 Data Processing Procedure

The data analysis tools are applied as simple as possible. Data obtained from the various sources cannot directly be used in their original form. They need to further verified and simplified for the purpose of analysis. Data, information, figures and facts so obtained need to be checked, rechecked, edited and tabulated for computation. According to the nature of data, they have been inserted in meaningful Tables, which have been shown in appendices. Homogeneous data have been sorted in one Table and similarly various Tables have been prepared in understandable manner, odd data are excluded from the Table. Data have been analyzed and interpreted using financial and statistical tools. The detail calculations that cannot be shown in the body part of the report are presented in appendices at the end of the report.

3.6 Tools and Techniques of Analysis

On the basis of historical data financial and statistical tools are used to analysis of different variables.

3.6.1. Financial Tools

Financial tools are those, which are used for the analysis and interpretation of financial data. These tools can be used to get the prescribe knowledge of business which in turn are fruitful in exploring the strength and weakness of the financial policies and strategies. In order to meet the purpose of study, various financial tools have been used. Financial formulas are as follows:

i. Actual LABP status to Actual Deposit Collection

As it is understood that the major source for resources mobilization of the bank is the customer deposit and similarly, the major outlet for deployment portfolio is for loan, advance and bills purchase (LABP), it is desirable to analyze the comparative status of the same.

$$= \frac{\text{Actual LABP Status}}{\text{Actual Deposit Collection}}$$

ii. Interest Expenses to Total Deposit

Interest expenses are the expenditure incurred for making payment of interest to the deposit collected by the bank. As the customer deposit holds a major share on total resources of the bank, interest is also highest among others in total expenses of the bank. This is calculated by interest expenses by total deposit.

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

iii. Interest Income to LABP

As interest income contributes the major portion of Total revenue mix, this study attempts to analyze the interest income amount with other relevant data. Interest income is generated out of the loan and advances made by the bank. This is calculated by interest incomes to LABP By equity capital. This can be presented as,

$$= \frac{\text{Interest Income}}{\text{LABP}}$$

iv. Current Assets to Current Liabilities

The ability of a firm to meet its obligation in the short term is known as liquidity. It reflects the short term financial strength of the firm. Now the current ratio to measure relationship of current assets & current liabilities. It is calculated by dividing the total current assets by total current liabilities

$$= \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

v. Debt Equity Ratio to Equity Capital

The relationship between borrowed fund and owner's equity is known as debt equity ratio. The standard ratio of debt ratio is 4:1. This shows the capital structure of any organization. This ratio is calculated by debt equity by equity capital. This can be presented as,

$$= \frac{\text{Debt Equity}}{\text{Equity Capital}}$$

vi. Return on Equity (ROE)

It shows the overall efficiency of the organization. It also shows the profitability position of the bank. This ratio is calculated as net income after tax divided by total equity capital. ROE ratio, on the other hand, is a measure of the rate of return flowing to the Bank s shareholders.

$$= \frac{\text{Net Income}}{\text{Equity Capital}}$$

vii. Return on Assets (ROA)

This ratio measures the overall profitability of Total assets. It is also known as Return on Assets (ROA). This ratio is calculated by dividing net profit (loss) by total assets. This can be presented as,

$$= \frac{\text{Net Income}}{\text{Total Assets}}$$

viii. Earnings per share (EPS)

EPS refers to net profit divided by total numbers of share outstanding. EPS measures the efficiency of a firm in relative terms. It is a widely used ratio, which measures the profit available to the ordinary shareholder on per share basis. The amount of EPS measures the efficiency of a firm in relative terms. This ratio is calculated as,

$$= \frac{\text{Net Income}}{\text{No of Share}}$$

3.6.2 Statistical Tools

Various statistical tools can be used to analyze it. These tools are used in order to draw the reliable conclusion through the analysis of financial data. Following tools are used for this purpose.

3.6.2.1 Arithmetic Mean

An average is a single value selected from a group of values to represent them in same way, which is supposed to stand for whole group of which it is a part, as typical of all the values in the group (Waugh A.E). Out of various measures of the central tendency, arithmetic mean is one of the useful tools applicable here. It is easy to calculate and understand and understand and based on all observations.

Arithmetic mean of a given set of observations is their sum divided by the number of observation. In general, if X_1, X_2, X_3-----------Xn are the given observations, then arithmetic mean usually denoted by X is given by;

$$X = \frac{X_1 + X_2 + X_3 + \ldots\ldots X_n}{n} = \frac{\sum X}{n}$$

Where, n = number of observation.

3.6.2.2 Standard Deviation

Average like other mean, mode and medium gives us the idea of concentration of the items around the central part of distribution. But average do not gives clear picture about the distribution because two distributions with same average may differ in the scatter ness of the items from the central value. To remove this drawback, dispersion is used. Dispersion is defined as the measure of variation I the item from the central value. Among various measure of dispersion, standard deviation is widely used. Standard deviation is absolute measure of dispersion, which defined as the positive square root of the mean of the square of deviation taken from the arithmetic means, if X1, X2, X3------Xn are the given observations, then standard deviation denoted by σ is given by;

$$\sigma = \sqrt{\frac{\sum X^2}{n} - \left(\frac{\sum X}{n}\right)^2}$$

Where, n= number of observation in series X

ΣX =Sum of observation in series X

ΣX^2 = Sum of squared observations in series X

Standard deviation is the absolute measure of dispersion. The relative measure of dispersion based on the standard deviation is known as the Coefficient of Standard deviation.

Coefficient of S.D. = $\frac{S\tan dard\ deviation}{Mean} = \frac{\sigma}{\overline{\overline{X}}}$

The coefficient of dispersion based on standard deviation multiplied by 100 is known as

Coefficient of Variance and written, as C.V is given by;

C.V = $\frac{\sigma}{\overline{\overline{X}}} \times 100$

It is independent unit. So two distributions can bitterly compared with the help of C.V. for their variability. Less the C.V more will be the uniformity consistency etc and more the C.V less will be the uniformity consistency etc.

According to Prof. Karl Pearson, coefficient of variation is the percentage variation in mean, standard deviation being considered as the total variation in the mean. It is one of the relative measures of dispersion that is useful in comparing the amount of variation in data groups with different mean.

For comparing the variability of two distributions, we compute the coefficient of variation for each distribution. A distribution with smaller CV is said to be more homogeneous or uniform or less variable than other. Conversely, a series with greater CV is said to be more variable or heterogeneous than the other (Gupta, S.C. 2000:769).

3.6.2.3. Correlation Coefficient Analysis

If the distribution consists of two variables then correlation is used to find out the relation between them. Two variables are said to correlation when they are so related that the change in the value of one variable is accompanied by the change in the value of other. Correlation is the measure of relationship between two or more characteristics of population or sample. It is simply measure the chance between the phenomenon’s (Joshi, R.P. 2001).

Correlation is a statistical tools with the help of which we can determine whether or not two or more variable are correlated & if they are correlated the degree (extent) and direction of correlation is determined (Shrestha S and Silwal D.P)

Correlation is the statistical tools that we can used to describe the degree of which one variable is linearly related to another. The coefficient of correlation measures the degree of relationship between two set of figure. Among the various method of finding out coefficient (i.e. Karl Pearson’s Coefficient of Correlation, Spearman’s Rank Correlation Coefficient, Kendall’s Tau etc); **Karl Pearson’s** method is applied in this study.

If two variables vary in the same direction i.e. if increase (or decrease) in the value of one variable result increase (or decrease) in the value of other variable, then two variables are said to have positive correlation. Similarly, the two variables are said have negative correlation if they very in the opposite direction i.e. if increase (or decrease) in the value of one variable result decrease (or increase) in the value of other variable.

One of the widely used mathematical methods of calculating the correlation coefficient between two variables is Karl Pearson’s Correlation coefficient. It is also known as Pearson’s correlation coefficient & denoted by rxy or, simply r. if x be the one variable and y be the other variable with n number of observation then r is defined;

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

Where,

n = number of observation in series X and Y

ΣX= Sum of observations in series X

ΣY= Sum of observation in series Y

ΣX^2= Sum of squared observations in series X

ΣY^2= Sum of squared observations in series Y

ΣXY= Sum of the product of observations in series X and Y

The result of correlation coefficient is always lies between –1 & +1

When, r = +1, there is positively perfect correlation between two variables

When, r = -1, there is negatively perfect correlation between two variables

When, r = 0, there is no correlation between two variables or the variables are uncorrelated.

Neither the value of r to +1, closer will be relationship between two variables nor will the value of r to 0 lesser be the relationship between two variables.

Probable Error of Correlation Coefficient

Probable error of correlation coefficient is an old measure of testing the reliability of an observed value of correlation coefficient. It is calculated to find the extent to which correlation coefficient is dependable as it depends upon the condition of random sampling.

Probable error of correlation coefficient denoted by P.E(r) is obtained as;

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

where,

$\frac{1-r^2}{\sqrt{n}}$ = Standard Error

Reasons for taking 0.6745 is that in a normal distribution 50% of observation lie in the range $\mu \pm 0.6745\ \sigma$ where, μ and σ denoted the populations mean and standard deviation.

P.E(r) is used to test if an observed value of sample correlation coefficient is significant of any correlation in the population. It is used to interpret whether the calculated value of r is significant or not.

If r>P.E; correlation is insignificant. So there is no evidence of correlation

If r>6P.E. r is definitely significant.

3.6.2.4 Trend Analysis

Trend analysis is a very useful and commonly applied tool to forecast the future event in quantitative term, on the basis of the tendencies in the dependent variable in the past period.

The straight-line trend implies that irrespective or decrease by absolute amount per unit of time. The linear trend values form a series in arithmetic progression.

The tools that are used to show gradually increase or a decrease of variable over a period of time is known as trend analysis. With the help of trend analysis the tendency of variables over the period can be seen clearly.

Mathematically, Y= a + bx

Where,

Y = the value of dependent variable

a = Y-intercept, b = slope of the trend line

X = value of the independent variable i.e. time = Year-2006/07 (with regard to the data used in the study)

Normal equations fitting above equation are;

$\Sigma Y = Na + b\Sigma X$

$\Sigma XY = a\Sigma X + b\Sigma X^2$ since $\Sigma X = 0$ $a = \frac{\sum X}{N}$, $b = \frac{\sum xy}{\sum X^2}$

For this study, the following variables are used: Total Deposits, Loans and Advance, Performing Assets, Net Profit and Net worth etc.

3.6.2.5 Diagrammatic & Graphical Representation

Diagrams and graphs are visual aids that give a bird's eye view of a given set numerical data. They present the data in simple and readily comprehensive form.

Diagrams are primarily used for comparative studies and can't be used to study the relationship between the variables under study. This is done through graphs.

3.7 Period Covered

This study covers a period of five years from FY 2063/64 to 2067/68 of ADBL.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

In this chapter, various elements and variables related with profit of ADBL are analyzed. This study is mainly focused on analysis of revenue collection, deposit, loan and advances, investment, assets etc. by using financial and statistical tools, such as mean, standard deviation, coefficient of variation, variance analysis, correlation analysis and ratio analysis. For this purpose, data of 5 years period from F/Y 2063/64 to 2067/68 of ADBL are used.

4.2 Resource Mobilization

The term resources have been used for the sources of fund required by the bank for its activities. Bank mobilizes its resources from the following sources:

- Deposit collection
- Loan and borrowing from others
- Capital fund

Among the above sources, the deposit collection is the major source of resource mobilization, which is in fact, one of the most important activities of a commercial bank. Loan and borrowing are obtained from local banks, foreign banks, central bank and other financial institutions generally for a short period of time.

The capital fund which includes reserve fund also is raised from shareholder's equity. This is the net worth of the bank capital fund of commercial bank is divided into two categories viz. core capital and supplementary capital.

Following table shows the resources mobilized by the bank over the period of study.

Table 4.1

Status of Resource mobilization

Amount in Rs '000'

F/Y	63/64	64/65	65/66	66/67	67/68
Capital	7,528,000	10,777,500	10,777,500	9,437,500	9,474,300
% Share	17.06	22.10	20.97	19.23	18.36
Deposit	32,416,358	32,553,827	35,149,610	32,472,568	34,394,627
% Share	73.46	66.76	68.40	66.17	66.64
Borrowing	373,947	257,372	198,250	259,562	243,701
% Share	0.85	0.53	0.39	0.53	0.47
Other liabilities	3,812,070	5,174,995	5,261,986	6,902,673	7,496,652
% Share	8.64	10.61	10.24	14.07	14.53
Total	44,130,375	48,763,694	51,387,346	49,072,303	51,609,280

Source: Auunal report of ADBL 063/64-067/68

The table 4.1 shows that the status of resource mobilization from the fiscal year 2063/64 to 2067/68. It could be said that the bank has substantially fund collection from deposit collection. The bank has increased capital fund every year except in the F/Y 2066/67. Other liability is in fluctuating trend over the study period. From the table, it was observed that the customer deposit collection contributes the major share in resource mobilization, which was more than 65 %. Therefore, total source of resources mobilization comprised of two categories as follows:

a. From Customer Deposit Collection (Deposit)

b. From other sources than Customer Deposit (RCOD)

4.2.1 Deposit Collection

Customer Deposit is the major source of resource mobilization of the bank. The contribution of customer deposit to total resources is high. Deposit is collected form various sectors such as licensed institutions, other organized institutions, individual and others, which qualify to open an account in the Bank. If deposits are utilized properly, it will increase the profit of the bank. As per the data of study period, the contribution of customer deposit to total resources of ADBL is 73.46 %, 66.75%, 68.40% and 66.17% and 66.64% in F/Y 2063/064 to

F/Y 2067/068 respectively. Deposits are collected on customer's accounts, which are opened as per the bank's policy. The customer's deposit accounts are of two types: One is non-interest bearing deposit account and another is interest bearing deposit account.

1. Non Interest Bearing Account
    i. Current Deposits A/C
    ii. Margin Deposits A/C
    iii. Other Deposits A/C
2. Interest Bearing Account
    i. Saving Deposits A/C
    ii. Fixed Deposits A/C
    iii. Call Deposits A/C

Table 4.2

Deposit Position of ADBL

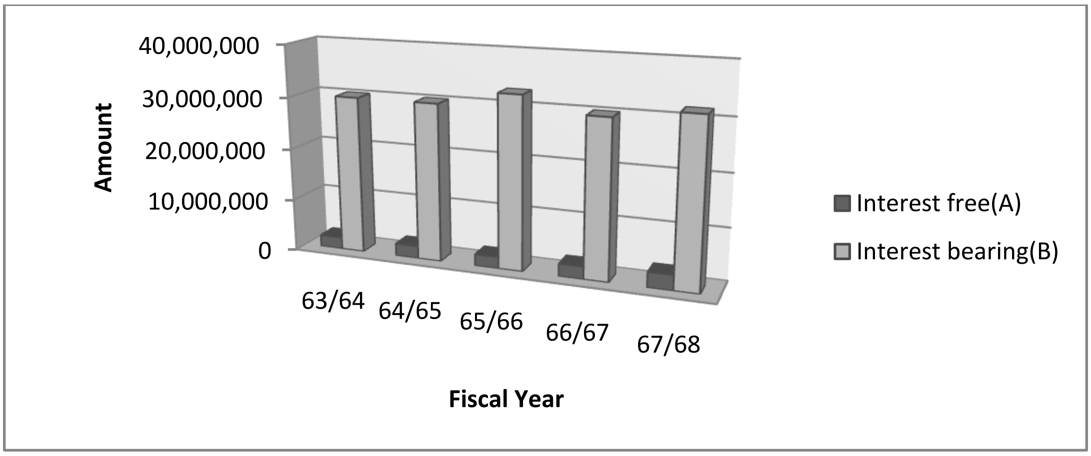
Amount in Rs '000'

Fiscal Year	Interest free(A)	Interest bearing(B)	Total
63/64	2,262,859	30,153,498	32,416,357
64/65	2,397,401	30,156,425	32,553,826
65/66	2,246,743	32,912,867	35,159,610
66/67	2,415,763	30,056,805	32,472,568
67/68	2,929,201	31,765,426	34,694,627

Source: Auunal report of ADBL

Figure 4.1

Deposit Position of ADBL Bank



Source: Table: 4.2

The table 4.2 and figure 4.1 show that percentage of interest free deposit is almost equal all over the research period from F/Y 2063/064 to F/Y 2067/68. Similarly, percentage of interest bearing deposit is also in same trend. This indicates that the overall management system of the bank is efficient. This also indicates the planning system of deposit is also good. Good customer services, quality services, adequate and trained human resources, goodwill of the bank and good governance are the main feature of the efficient management system and ADBL is considering all those to attract the customers and increase the deposit position.

4.2.1.1 Trend analysis of deposit

Table 4.3

Trend analysis of deposit

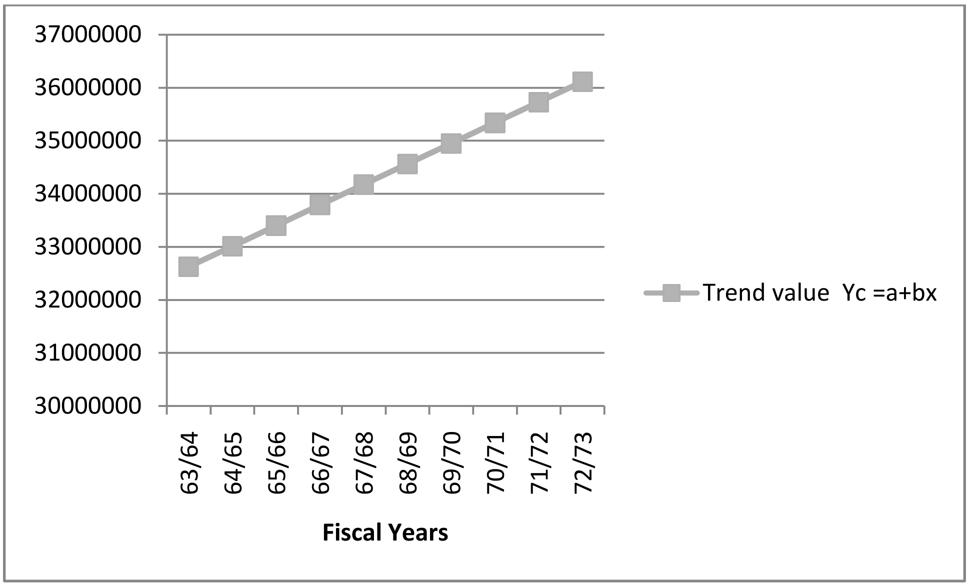
Amount in Rs '000'

Fiscal Year	Deposit (Actual value)	Trend value $Y_c = a + bx$
63/64	32,416,358.40	32624343
64/65	32,553,827.50	33011871
65/66	35,159,610.20	33399398
66/67	32,472,568.50	33786926
67/68	34,394,627.50	34174454
68/69		34561982
69/70		34949510
70/71		35337038
71/72		35724566
72/73		36112094

Source: Annex- 4

Figure: 4.2

Trend analysis of deposit



Source: Table 4.3

The table 4.3 and figure 4.2 show that the trend analysis of deposit from the fiscal years 2063/064 to 2071/72. The trend line of deposit is increasing trend in the starting to end years. The trend value is 32624343 in the fiscal years 2063/64 and 35724566 in the fiscal years 2071/72.

4.2.2 Resource other than Customer Deposits

Resources other than customer deposit (ROCD) are formed with the capital fund, borrowings, reserve fund and other liability. The following table shows the ROCD over the period of study.

Table 4.4

Resource other than Customer Deposits

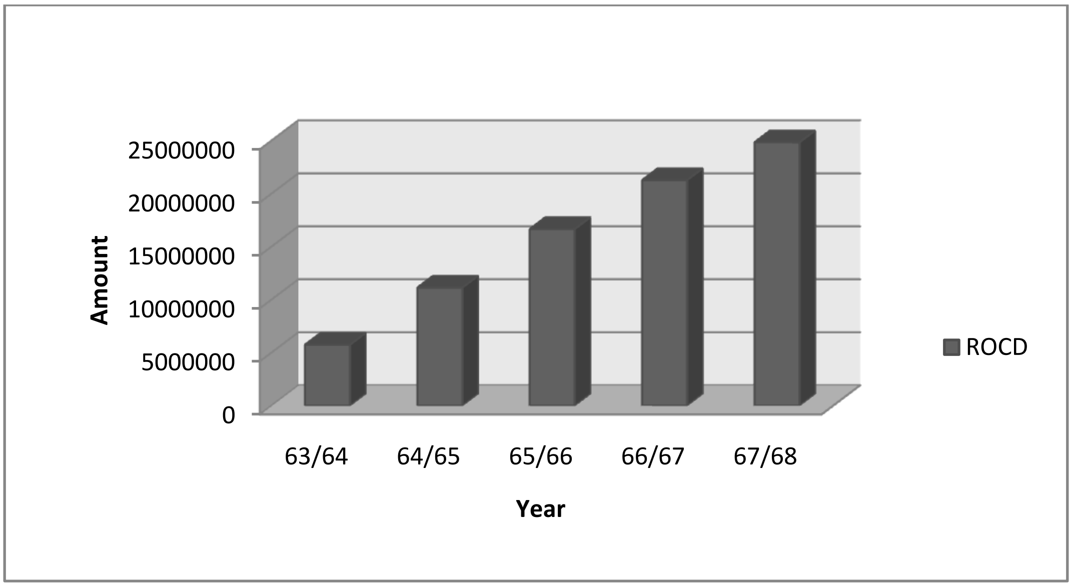
Amount in Rs '000'

Fiscal Year	ROCD	Change in Amount	% Change
63/64	5,743,853		
64/65	11,132,922	5,389,069	93.82
65/66	16,659,128	5,526,206	49.63
66/67	21,277,658	4,618,530	27.72
67/68	24,846,737	3,569,079	16.77

Source: Auunal report of ADBL

Figure 4.3

ROCD of ADBL



Source: Table 4.4

The table 4.4 and figure 4.3 show that ROCD is fluctuating trend. In F/Y 2065/066, it was increased by 49.63 % than previous year. The bank has made maximum increment in borrowings, capital fund and reserve fund therefore, the ROCD is highly fluctuating. Minimizing its borrowings level and increasing its capital fund and reserve fund is good for the bank. The bank should also try to increase its other source of resources. In the recent year there is only very less fluctuation which shows the bank is trying to maintain stability in its resources other than customer deposit. The chart also shows that ROCD is increasing trend due to bank's policy to decrease borrowings and to decrease debt ratio and increase capital fund and reserve fund.

4.2.2.1 Trend analysis of Resource other than Customer Deposits

Table 4.5

Trend analysis of ROCD

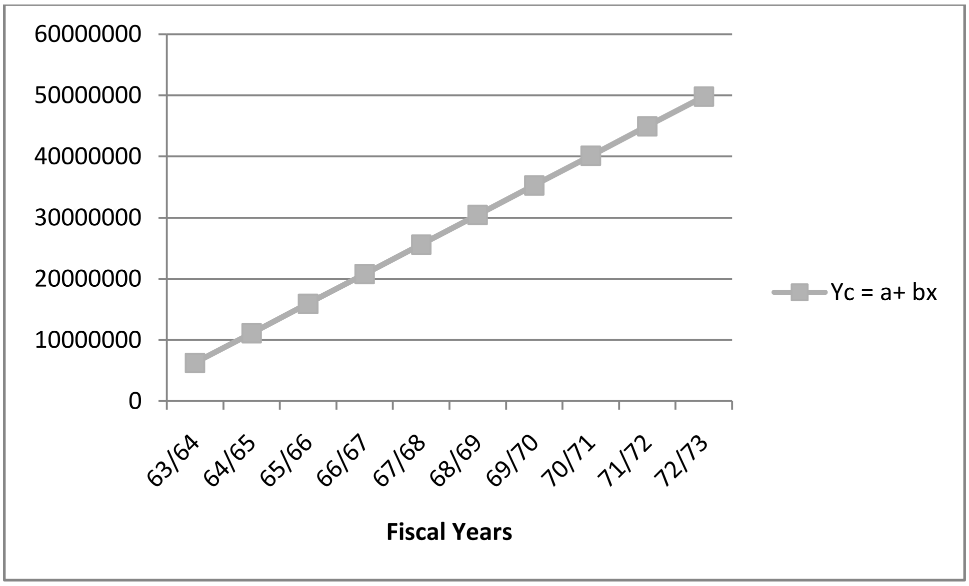
Amount in Rs '000'

Fiscal Year	ROCD (y)	$Y_c = a + bx$
63/64	5,743,853	6261959
64/65	11,132,922	11097010
65/66	16,659,128	15932060
66/67	21,277,658	20767110
67/68	24,846,737	25602161
68/69		30437211
69/70		35272262
70/71		40107312
71/72		44942362
72/73		49777413

Source: Annex- 5

Figure: 4.4

Trend analysis of Resource other than Customer Deposits



Source: Table 4.5

The table 4.5 and figure 4.4 show that the Trend analysis of Resource other than Customer Deposits from the fiscal years 2063/64 to 2071/72. The trend line is increasing trend in the every year. The trend value is 6261959 in the starting years and 44942362 in the ending years.

4.3 Resource Deployment

Deployment of the resources refers to the reasonable allocation of the resources for making comfortable liquidity as well as investing in income generating activities. Besides these, some investments have to be made in fixed assets and other operating assets for the bank. The deployment of available resources can be objectively categorized as below.

1. Deployment for liquidity:

This is made for meeting expected withdrawal and other kind of payments obligations of the bank. The resource for this purpose is kept in liquid form such as cash in vault, cash at bank etc. generally, there is no yield on this type of deployment expecting in the case money placed in interest bearing accounts. The central bank of Nepal, NRB has instructed commercial bank to maintain approximately 20% of their customer deposit liability as liquid form (Cash in Vault and at NRB). For this study, cash and bank is grouped in one deployment portfolio.

2. Deployment for income generating activities:

Bank deploys the major portion of the resources for income generating activities popularly called as fund based exposure. Fund base exposure is taken by the bank in following two portfolios:

(i) Loans, Advances and Bills purchased (LABP)
(ii) Other Investments

LABP includes all loans, advances, overdraft, bills purchased/discounted and other types of loan availed to the borrowers of the bank in return of which the bank earns interest income. Other investment includes investment shares, treasury bills, placement of fund on call market etc.

3. Deployment in other assets:

This includes the deployment of the resources towards the non yielding assets such as fixed assets, other capital expenditure subject to write off in future course of time, income receivable; advance payments, sundry debtors etc. Following table shows the status of resources deployed by the bank over the study period.

Table 4.6

Status of Resource deployed

Amount in Rs '000'

Resource Deployed	63/64	64/65	65/66	66/67	67/68
Cash and Bank Balance	3,689,320	3,623,997	5,207,651	4,161,405	4,808,953
% Share	9.71	8.30	10.50	7.94	8.12
LABP	27,252,333	30,589,428	32,603,095	33,876,956	34,459,918
% Share	71.72	70.10	65.77	64.64	58.20
Investment	3,177,460	4,757,096	4,896,061	4,540,083	7,267,285
% Share	8.36	10.90	9.88	8.66	12.27
Fixed assets	788,867	781,149	803,332	968,744	1,022,893
% Share	2.08	1.79	1.62	1.85	1.73
Other assets	3,090,629	3,885,081	6,064,397	8,861,692	11,655,022
% Share	8.13	8.90	12.23	16.91	19.68
Total	**37,998,609**	**43,636,751**	**49,574,536**	**52,408,880**	**59,214,071**

Source: Auunal report of ADBL

LABP was the major area for deployment of resources of the bank. After LABP, investment and other assets were the second major area for deployment of resources. The bank has been investing mainly in the Treasury Bills and Security Bonds issued by Nepal Govt. The Banks seems to have maintained certain amount as cash and bank balance as well.

From the above analysis, it could be said that the bank has increasing deployment of resources significantly. The bank could able maintained to balance the cash and bank balance within limit prescribed by NRB guidelines of at least of 20% of deposit collection. Likewise, LABP and Investment are major deployment sector of the bank. In this study, deployment has been segregated into following three categories:

- Deployment in LABP
- Deployment in Investment

- Deployment in other portfolio (OP)

4.3.1 Deployment in loans, advance and bills purchase (LABP)

Table 4.7

Deployment in loans, advance and bills purchase (LABP)

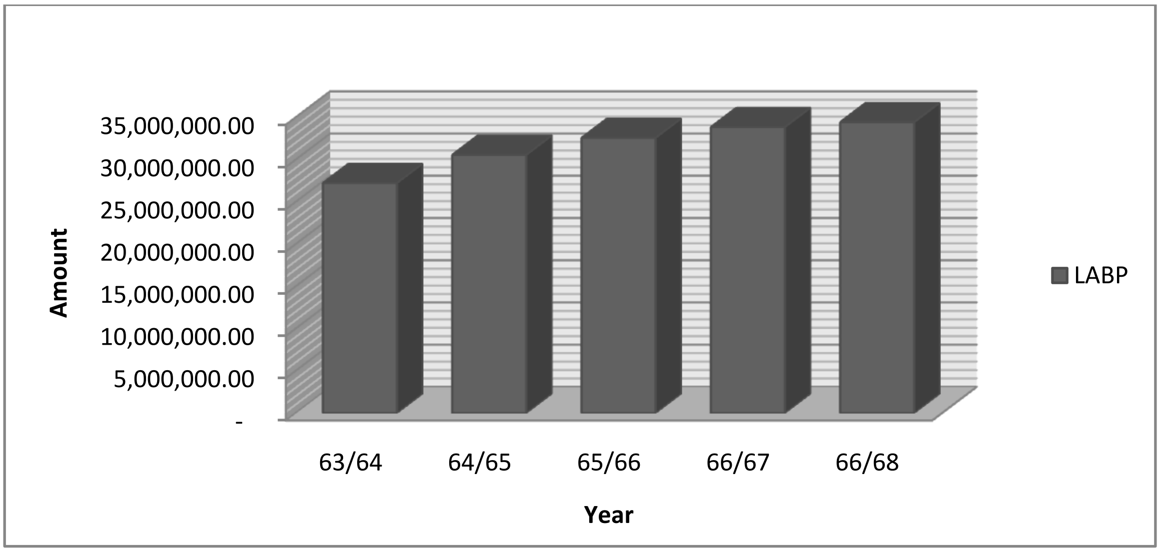
Amount in Rs '000'

Fiscal year	LABP	Change in LABP	% Change
63/64	27,252,333.00	-	-
64/65	30,589,428.00	3,337,095	12.25
65/66	32,603,095.00	2,013,667	6.58
66/67	33,876,956.00	1,273,861	3.91
67/68	34,459,918.00	582,962	1.72

Source: Auunal report of ADBL

Figure 4 .5

Deployment in loans, advance and bills purchase (LABP)



Source: Table 4.7

The table 4.7 and figure 4.5 shows that total amount of LABP is fluctuating every year. In F/Y 2066/067, it was increased by 3.91% and 1.72% in the F/Y 2067/68 than previous year. The main reason of increasing was political and business environment of the country. Due to political stability and market share, LABP was in increasing trend over the period of study but the increment is in the decreasing trend in each year as shown in the table.

4.3.1.1 Trend analysis of LABP

Table 4.8

Trend analysis of LABP

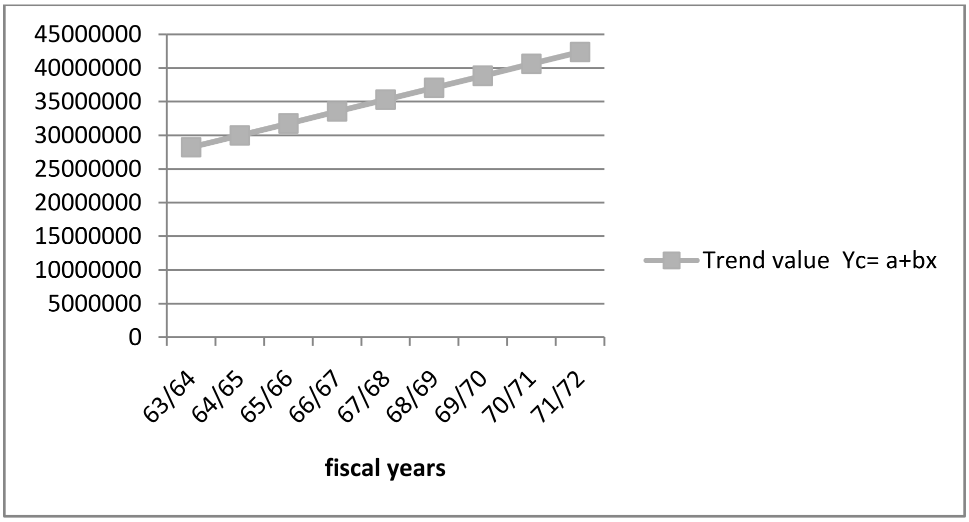
Amount in Rs '000'

Fiscal Year	LABP (actual value)	Trend value Y_c= a+bx
63/64	27,252,333.00	28215806
64/65	30,589,428.00	29986076
65/66	32,603,095.00	31756346
66/67	33,876,956.00	33526616
67/68	34,459,918.00	35296886
68/69		37067155
69/70		38837425
70/71		40607695
71/72		42377965
72/73		282700616

Source: Annex- 6

Figure: 4.6

Trend analysis of LABP



Source: Table 4.8

The table 4.8 and figure 4.6 show that the trend analysis of LABP from the fiscal years 2063/64 to 2071/72. The trend analysis of LABP is increasing trend from the starting years to last years. Its show the good result for present and future.

4.3.2 Deployment in Investment

Investment was the major area for deployment of resources of the bank. Increase in investment will increase return so bank should try to invest in secured sector.

Table 4.9

Resource deployed in investment

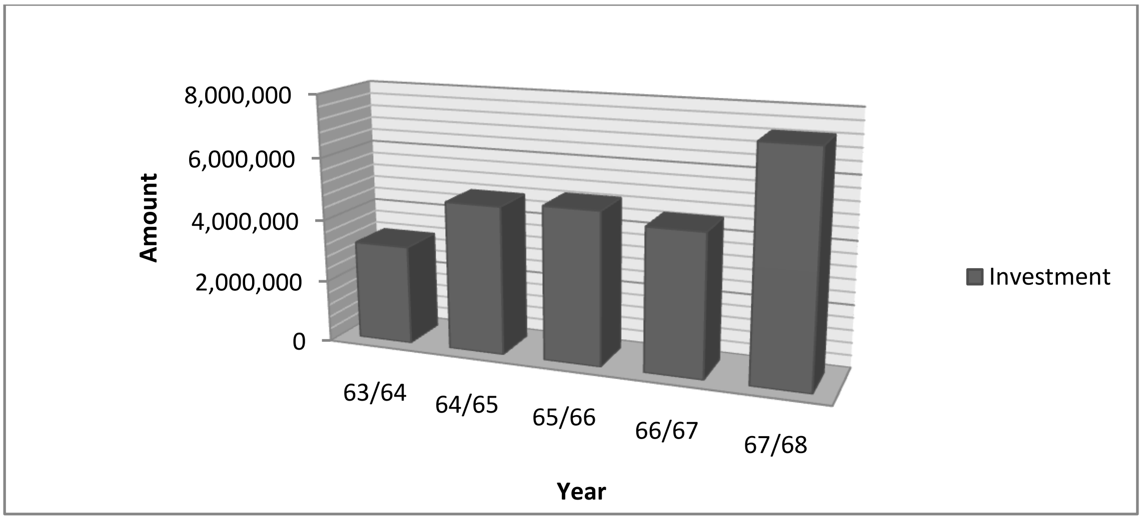
Amount in Rs '000'

Fiscal Year	Investment	Change in investment	% Change
63/64	3,177,460		
64/65	4,757,096	1,579,636	49.71
65/66	4,896,061	138,965	2.92
66/67	4,540,083	-355,978	-7.27
67/68	7,267,285	2,727,202	60.07

Source: Auunal report of ADBL

Figure 4.7

Resource deployed in investment



Source: Table 4.9

The table 4.9 and figure 4.7 show that the investment is increasing in decreasing trend and became negative in the F/Y 066/67. It might be because of the political instability, global recessions and unfavorable business environment in the country as well as investment policy of the bank. This also indicates that bank invest in secured sectors only. Increase in investment in secured sectors will increase the return of the bank.

4.3.3 Deployment in other portfolio (OP)

Deployment in other portfolio includes cash and bank balance, fixed assets and other assets.

Table 4.10

Resource deployed in other portfolio

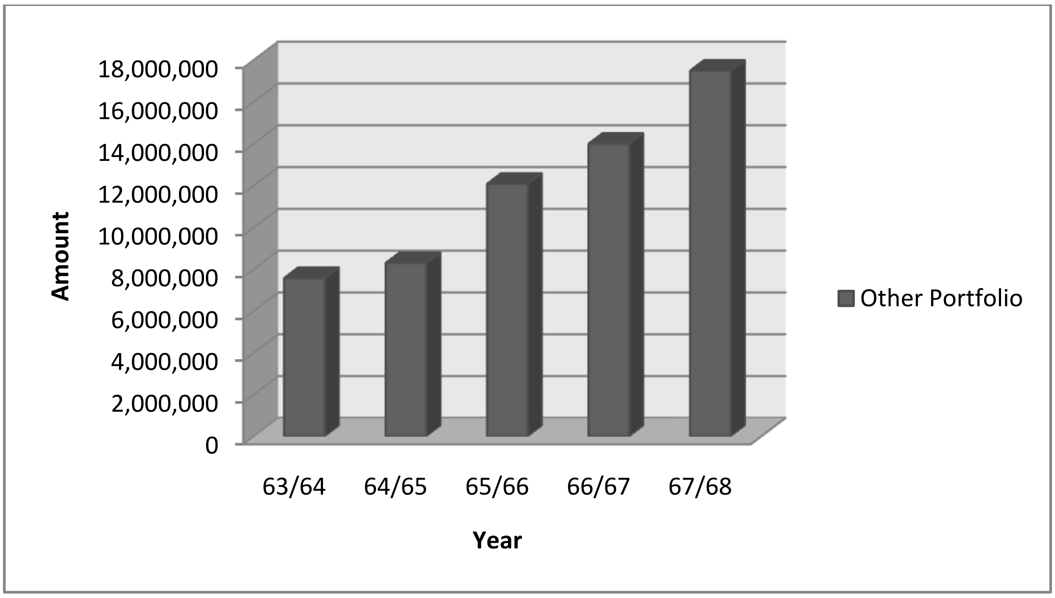
Amount in Rs '000'

Fiscal Year	Other Portfolio	Change in Portfolio	% Change
63/64	7,568,816	-	-
64/65	8,290,227	721,411	9.53
65/66	12,075,380	3,785,153	45.65
66/67	13,991,841	1,916,461	15.87
67/68	17,486,868	3,495,027	24.97

Source: Auunal report of ADBL

Figure 4.8

Resource deployed in other portfolio



Source: Table 4.10

The table 4.10 and 4.8 figure shows that the other portfolio is in fluctuating trend.

4.4 Actual deposit collection vs. Actual LABP Status of ADBL

As it is understood that the major source for resources mobilization of the bank is the customer deposit and similarly, the major outlet for deployment portfolio is for loan, advance and bills purchase (LABP), it is desirable to analyze the comparative status of the same.

Following table shows the actual balance of customer deposit collection by the bank and actual position of deployment towards LABP and the ratio of LABP to deposit (CD ratio) for the corresponding fiscal year

Table 4.11

Actual deposit collection vs. Actual LABP Status of ADBL

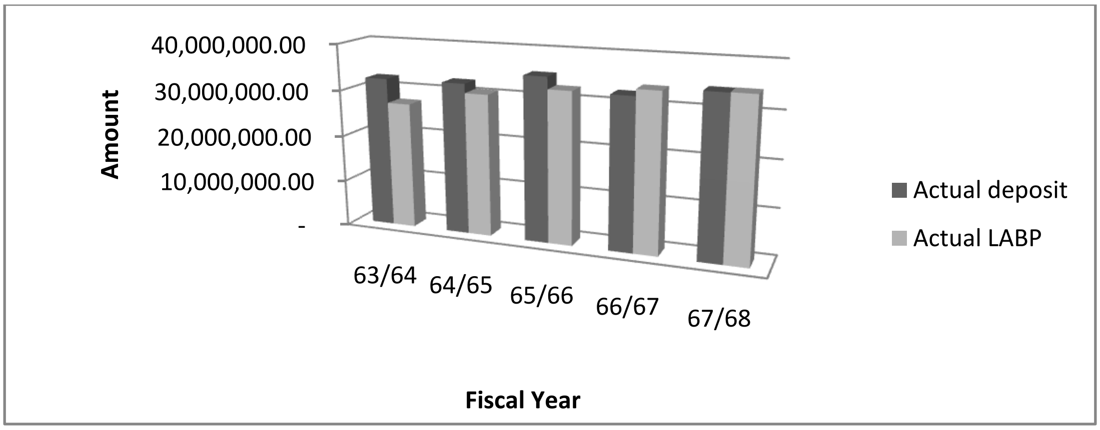
Amount in Rs '000'

Fiscal Year	Actual deposit	Actual LABP	LABP to deposit (%)
63/64	32,416,358.40	27,252,333	84.07
64/65	32,553,827.50	30,589,428	93.97
65/66	35,159,610.20	32,603,095	92.73
66/67	32,472,568.50	33,876,956	104.32
67/68	34,394,627.50	34,459,918	100.19

Source: Auunal report of ADBL

Figure 4.9

Actual deposit collection vs. Actual LABP



Source: Table 4.11

From the table 4.11 and figure 4.9 show it was observed that the LABP to Deposit ratio (CD ratio) was very high. The average CD ratio over the period of the study was above 90%. This implied that the bank was able to lend to customers from the deposit collection from the customers to the extent of average percentage of 90%. The study indicates that LABP to deposit ratio and actual deposit were fluctuating trend and outstanding LABP amount is increasing trend. LABP covers more than 90% of customer's deposits. Deposits are deployed in major two sectors. One is LABP and another is investment. The main reason of fluctuation was deployment policy of the bank.

The diagram shows that both actual deposit and LABP were in increasing trend. It is satisfactory for the bank. It is important to analyze the relationship between actual deposit and LABP. In order to find out the variability of actual deposit and LABP of different years, researcher has to calculate arithmetic mean, standard deviation and coefficient of variance technique. The detail calculations of these statistical tools are presented in Annex 1.

Table 4.12

Result of statistical analysis of Actual Deposit Vs LABP

Statistical Tool Actual	**Deposit (x)**	**Actual LABP (y)**
Mean	3,399,398.42	31,756,346.00
Standard Deviation	33,419,240.78	31,863,768.32
Coefficient of Variance	1.000594093	1.003382704
Coefficient of Correlation	0.506950861	
Probable Error (PE)	0.224122907	
6PE	1.344737444	

Source: Annex-1

Since, the actual LABP is lower than that of actual deposit. The actual LABP are more variable than actual deposits. Another statistical tool, coefficient of correlation was used to analyze the relationship between actual deposit and actual LABP. Karl Pearson's coefficient of correlation is denoted as r. By calculating r it can be examined whether correlation between actual deposit and actual LABP is positive or not. The value of r ranges -1 to +1. If the value of r is -1, then the relation is perfectly negative and if the value is +1, then the relation is perfectly positive, whereas 0 value denote no relation at all. The actual LABP will change the same direction as actual deposit if the correlation value is near to +1. For this purpose, actual deposit be denoted by X an independent variable and actual LABP be denoted by Y a depended variable. So that increase in actual deposit is support to increase in actual LABP or vice versa.

The calculated value of r is 0.50 and probable error is 0.22. Since, r<6PE i.e. 0.50<1.34, the value of r is significant and there is insignificant relation between actual deposit and actual LABP

4.5 Expenditure planning of ADBL

Planning for expenses is the most essential to maintain reasonable level to support the objectives and planned programs of the bank. Expenses planning focus on the relationship between expenditure and the benefits derived from this expenditure. The following table shows the status of expenditure incurred by the bank for the study period

Table 4.13

Expenditure incurred

Amount in Rs '000'

Fiscal Year	63/64	64/65	65/66	66/67	67/68
Interest expenses	1,605,867	1,641,207	1,157,070	1,507,997	2,116,489
% Share	42.71	24.88	17.83	19.87	27.26
staff expenses	1,306,804	1,849,133	2,486,716	2,679,861	2,209,114
% Share	34.75	28.03	38.32	35.32	28.46
other overhead expenses	277,546	288,019	300,690	330,022	376,622
% Share	7.38	4.37	4.63	4.35	4.85
provision for doubtful debt	337,782	2,677,476	2,184,687	2,582,233	2,504,030
% Share	8.98	40.59	33.67	34.03	32.25
provision for staff bonus	95,593	59,979	127,409	143,417	158,013
% Share	2.54	0.91	1.96	1.89	2.04
income tax provision	136,473	80,498	232,476	344,201	398,984
% Share	4	1	4	5	5.14
Total expenses	3,760,065	6,596,312	6,489,048	7,587,731	7,763,252

Fiscal Year	63/64	64/65	65/66	66/67	67/68
Interest expenses	1,605,867	1,641,207	1,157,070	1,507,997	2,116,489
% Share	42.71	24.88	17.83	19.87	27.26
staff expenses	1,306,804	1,849,133	2,486,716	2,679,861	2,209,114
% Share	34.75	28.03	38.32	35.32	28.46
other overhead expenses	277,546	288,019	300,690	330,022	376,622
% Share	7.38	4.37	4.63	4.35	4.85
provision for doubtful debt	337,782	2,677,476	2,184,687	2,582,233	2,504,030
% Share	8.98	40.59	33.67	34.03	32.25
provision for staff bonus	95,593	59,979	127,409	143,417	158,013
% Share	2.54	0.91	1.96	1.89	2.04
income tax provision	136,473	80,498	232,476	344,201	398,984
% Share	4	1	4	5	5.14
Total expenses	3,760,065	6,596,312	6,489,048	7,587,731	7,763,252

Source: Annual Report of ADBL

The table 4.13 shows that each type of expenses was in fluctuating trend. Interest expenses and staff expenses covered large portion of total expenditure. It is more than 50% each year. The increase and decrease in interest expenses would be affected accordance of the deposit collection amount during the year. Interest expenses fully depends upon the customer deposits so higher the customer deposit, it should be higher the interest expenses as well.

Provisions for possible losses are made as per NRB directive to cover the risk inherent in Bank s loan provision. The proportion of provision for staff bonus was fluctuating trend but the amount of provision for staff bonus is increasing every year. The staff bonus is based on net profit of the bank therefore, if bank earns more profit, staff bonus is increased subsequently.

The tax expense is also based on the profit of the bank. The proportion of provision for income tax was in fluctuating trend but the amount of Income tax provision was increasing every year. The bank has the profit in increasing trend therefore, the amount of income tax provision is also increasing rate

4.5.1 Interest Expenses to Total Deposit

Interest expenses are the expenditure incurred for making payment of interest to the deposit collected by the bank. As the customer deposit holds a major share on total resources of the bank, interest is also highest among others in total expenses of the bank. The customer deposit is one of the major sources for resources mobilization by the bank. There are various kinds of deposit account from non-interest bearing account to interest bearing accounts. The average cost incurred by the bank for making interest payment to the depositors is called as the cost of deposit (CoD) of the bank. For a bank lower CoD refers to better position in terms of profitability.

Table 4.14

Interest Expenses to Total Deposit

Amount in Rs '000'

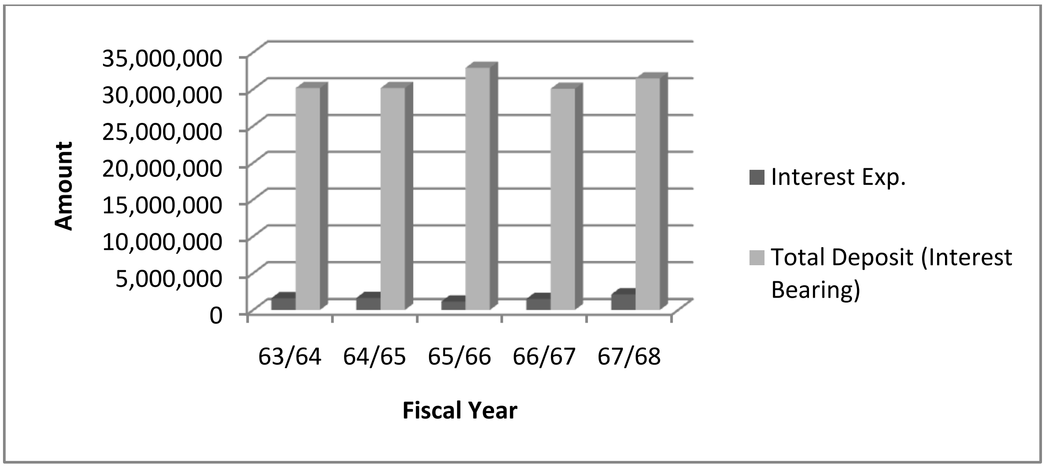
Fiscal year	Interest Exp.	Total Deposit (Interest Bearing)	COD
63/64	1,605,867	30,153,498	5.33
64/65	1,641,207	30,156,425	5.44
65/66	1,157,070	32,912,867	3.52
66/67	1,507,997	30,056,805	5.02
67/68	2,116,489	31,465,426	6.73

Source: Auunal report of ADBL

From the table 4.14 it was observed that cost of deposit (CoD) almost remains same over the study period except in F/Y 2065/66. It was 5.33%, 5.44%, 3.52% 5.02% and 6.73% in F/Y 2063/064 to 2067/068 respectively. In F/Y 2067/68 the CoD seems to be little bit higher than of other year. The reason might be due to the bank policy to collect the deposit and increasing marketing competition among banks.

Figure 4.10

Interest Expenses to Total Deposit



Source: Table 4.14

It is important to analyze the relationship between interest expenses and interest bearing deposit. In order to find out the variability of interest expenses and total deposit of different years, researcher has to calculate arithmetic mean, standard deviation, coefficient of variance and coefficient of correlation technique. The detail calculations of these statistical tools are presented in Annex 2.

Table 4.15

Result of statistical analysis of Interest Expenses to Total Deposit

Statistical Tool Actual	Total Deposit (x)	Interest Expenses (y)
Mean	33,399,398.42	1,605,726.00
Standard Deviation	33,419,240.78	1,634,916.56
Coefficient of Variance	1.000594093	1.018179044
Coefficient of Correlation (r)	-0.124787829	
Probable Error (PE)	0.296948345	
6PE	1.781690068	

Source: Annex-2

The table 4.15 shows the coefficient of variation of interest expenses is higher than actual deposit. Hence, the actual interest expenses are more variable than actual deposit. The calculated value of r is -0.326 which shows that there is imbalance in the deposit mix of ADBL. The value of r as tested with PE shows about negative correlation between deposit and interest expenses. Since, r<6PE (-0.326<1.61), the value of r is more insignificant and there is imperfect correlation between actual deposit and actual interest expenses.

4.5.2 LABP Vs Provision for doubtful debts

As per the directives of Nepal Rastra Bank, the commercial banks are required to set aside some amount form their operating profit at a fixed ratio against the outstanding LABP of the bank as prescribed by NRB from time to time. Such amount provided by against the LABP is based on the classification of the loans. As per NRB current directives, banks are required to classify their outstanding LABP on the basis of aging into four categories and the amount of provisioning that have to be made with effect from F/Y 2058/059 which are follows:

Pass:

Advances include in this category are those loan accounts which are within the validity or past due up to a period of three months. Amount of loan loss to be provided for is 1% of the outstanding loan failing under this category.

Substandard:

All loans and advances those are past due for a period of three months to six months shall be included in this category. The required provisioning is 25% of the outstanding loan falling under this category.

Doubtful:

All loans and advances those are past due for a period of more than six months to one year are included in this category and require provisioning of 50% of outstanding LABP falling under this category.

Loss:

All loans and advances chose are past due for a period of more than one year, are included in this category which shall to be provided for 100% of the LDO falling under this category.

All classified loans except Pass are called non-operating loan. The higher amount of non-performing loan consumes the profit of the bank, as they require higher amount of provisioning toward loan loss. Therefore, banks have to make reasonable effort for regularizing their loan to keep them performing in order to reduce the amount of provisions for those losses to enhance the profit. Further, internationally accepted standard rate of percent for total loan loss provision to total loan is as 3%.

Table 4.16

LABP Vs Provision for doubtful debt

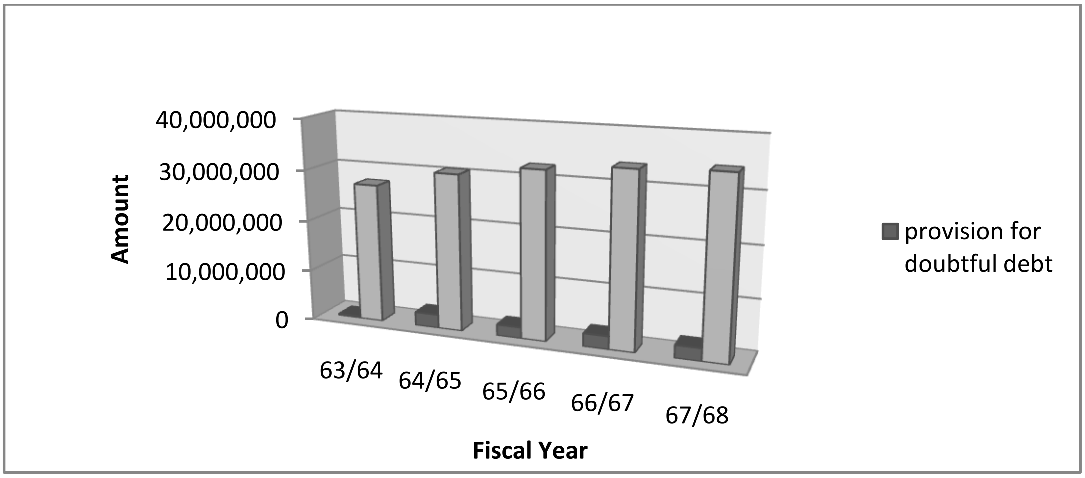
Amount in Rs '000'

Fiscal Year	Provision for Doubtful Debt	LABP	Prov. for Doubtful Debt to LABP
63/64	337,782	27,252,333	0.01
64/65	2,677,476	30,589,428	0.09
65/66	2,184,687	32,603,095	0.07
66/67	2,582,233	33,876,956	0.08
67/68	2,504,030	34,459,918	0.07

Source: Auunal report of ADBL

Figure 4.11

LABP Vs Provision for doubtful debt



Source: Table 4.16

The table 4.16 and figure 4.11 show that the percentage of provision for doubtful debts to total LABP was fluctuating over the years. Provision for doubtful debt to LABP is below 0.06% in average. This indicates that the bank in lending their deposits securely. This is the good sign for the bank. Both the directives of NRB and management are responsible to control loss provisions.

4.6 Revenue planning of ADBL

Bank generates its revenue from its income earning activities. Such activities are mostly fund based, that is generated out of the deployment of fund and some portion from non-fund based business activities. Income of bank can be broadly categorized into two types viz. and other income. Interest income is the interest earned from loan, advances and overdrafts provided to the borrowers, investments in government bonds etc. Interest income holds major share in total portfolio of the bank. Other income consist the income other than interest income, which are Income from commission and discounts, Dividend received from investment in shares, Foreign exchange gain and Various kinds of service fees and charges

Table 4.17

Revenue structure of ADBL

Amount in Rs '000'

F/Y	63/64	64/65	65/66	66/67	67/68
Interest income	4,623,095	3,961,131	4,231,143	5,464,856	6,101,187
% Share	95.94	54.52	56.07	56.58	60.24
commission and discount	49,818	71,139	90,044	279,555	261,740
% Share	1.03	0.98	1.19	2.89	2.58
forex income	-14,060	11,954	22,096	-5,576	-1,268
% Share	-0.29	0.16	0.29	-0.06	-0.01
other income	159,662	3,221,328	3,203,367	3,919,109	3,767,075
% Share	3.31	44.34	42.45	40.58	37.19
Total income	4,818,515	7,265,552	7,546,650	9,657,944	10,128,734

Source: Auunal report of ADBL

The table 4.17 shows that the revenue was increasing every year. Income from interest was the highest among the others in total revenue for each year. The average proportion of interest is above 50% of total revenue. It seems every year share of income from interest amount is decreasing for the bank. Overall, generation of interest income of ADBL is satisfactory. The interest income is based on the amount of LABP amount was also increasing every year. ADBL gives loan, advance and bill purchase in higher rate of interest and gives lower rate of interest to its depositors. The above table shows that commission & discount is in fluctuating trend but it was nominal fluctuation. This can be regarded as normal fluctuation only. The income from forex is very minimal. In the year 063/64, 066/67 and 067/68 there was a loss of in forex.

4.6.1 Interest Income to LABP

As interest income contributes the major portion of Total revenue mix, this study attempts to analyze the interest income amount with other relevant data. Interest income is generated out of the loan and advances made by the bank. Therefore, this proudly called Yield of Fund (YOF). Bills discounting is also one form of advances therefore, for this study purpose, researcher has grouped the outstanding loan, advances and overdraft and the bills discounted together to call LABP and have included commission too into the total interest income amount (YOF). Now researcher shall analyze the comparative status of total YOF with the total LABP with the help of following table and bar diagram.

4.6.1 Interest income to LABP

Table 4.18

Status of Interest Income to LABP

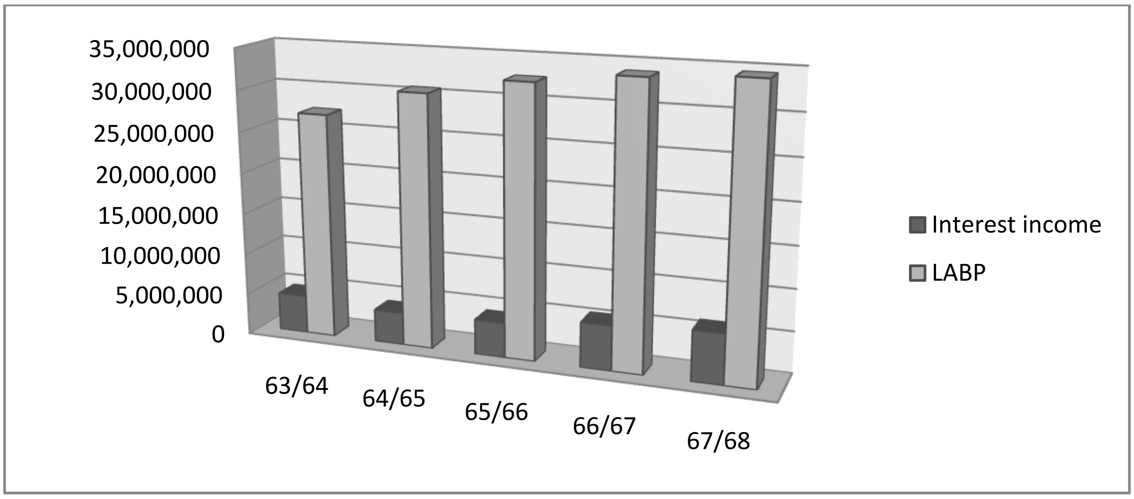
Amount in Rs '000'

Fiscal Year	Interest income	LABP	Interest Income to LABP
63/64	4,623,095	27,252,333	0.17
64/65	3,961,131	30,589,428	0.13
65/66	4,231,143	32,603,095	0.13
66/67	5,464,856	33,876,956	0.16
67/68	6,101,187	34,459,918	0.18

Source: Auunal report of ADBL

Figure 4.12

Status of Interest Income to LABP



Source: Table 4.18

From the table 4.18 and 4.12 observed that the yearly YOL of ADBL range form 13% to 17% in various years. The yield on LABP was 17% in F/Y 2063/064. The average YOF for the period of study was 15%. Due to poor market system, political situation and other instability, the bank is unable to increase its interest rate to mobilize its deposits. It is significant to analyze the relationship between interest income and total LABP. In order to find out the variability of interest income and total LABP of different years, arithmetic mean, standard deviation, coefficient of variance and coefficient of correlation technique have to be calculated. The detail calculations of these statistical tools are presented in Annex 3.

Table 4.19

Result of statistical analysis of Interest Income to Total LABP

Statistical Tool Actual	LABP (x)	Interest Income (y)
Mean	31,756,346.00	4,876,282.40
Standard Deviation	31,863,768.32	4,940,754.42
Coefficient of Variance	1.003382704	1.013221552
Coefficient of Correlation (r)	0.598304194	
Probable Error (PE)	0.193666136	
6PE	1.161996819	

Source: Annex- 3

The table 4.19 shows the coefficient of variation of total LABP is looks similar to interest income. Hence, the total interest incomes are more variable than LABP. The calculated value of r is 0.5983and probable error is 0.193. The value of r as tested with PE shows about insignificant correlation between total LABP and interest income. Since, r<6PE i.e. 0.5983<1.16, the value of r is more insignificant and there is unsatisfactory correlation between total LABP and interest income.

4.6.2 Interest Spread

Interest spread is the difference amount obtained by subtracting total interest expenses amount form the total interest income. In other words, it is the margin on interest or net interest income of the bank.

Table 4.20

Yearly Spread of ADBL

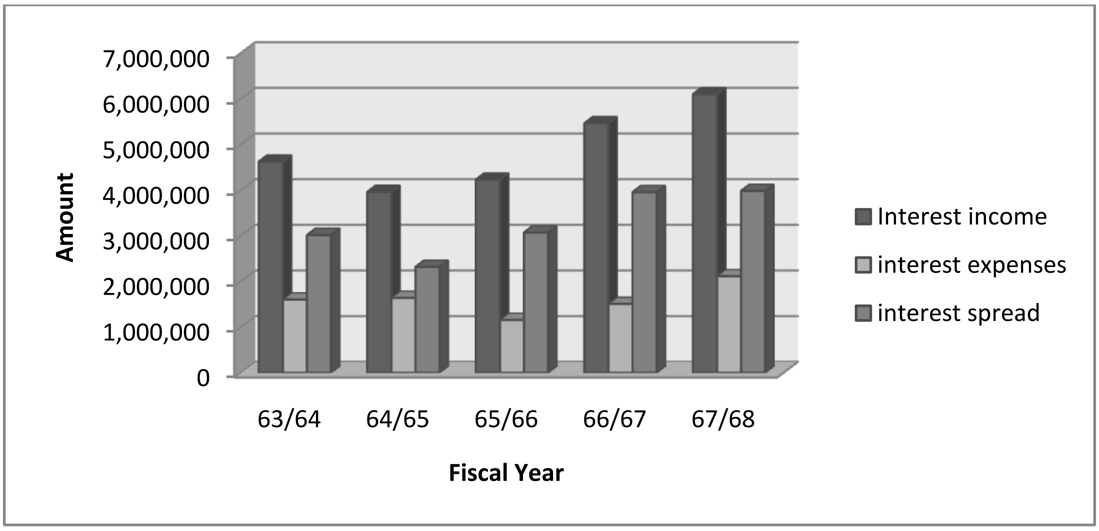
Amount in Rs ‘000’

F/Y	Interest income	Interest Expenses	Interest Spread	Growth in Amount	% growth
63/64	4,623,095	1,605,867	3,017,228	0	0
64/65	3,961,131	1,641,207	2,319,924	-697,304	-23.11
65/66	4,231,143	1,157,070	3,074,073	754,149	32.51
66/67	5,464,856	1,507,997	3,956,859	882,786	28.72
67/68	6,101,187	2,116,489	3,984,698	27,839	0.70

Source: Auunal report of ADBL

Figure:4.13

Yearly Spread of ADBL



Source: Table 4.20

The table 4.20 and figure 4.13 show that the status of interest income, interest expenditure and spread of the bank for the study period. It was observed that, the spread of the bank was Rs. 3,017,228,000 in F/Y 2063/064. It was Rs. 2,319,924 in F/Y 2064/065 which was decreased by 23.11% in F/Y 063/64. But again in F/Y 2065/066 it was increased by 32.51%. The amount of interest income and interest expenses both are in fluctuating trend. Therefore, growth of interest spread is also fluctuating too.

Diagram shows that interest income, interest expenses and interest spread are in fluctuating trend. ADBL has positive interest spread. This proves that the bank has sufficient income to pay the interest of deposit collected from customers, employee costs, operating costs, to pay capital providers etc.

4.6.3 Burden

Burden is the overall expenses of the bank except interest expenses incurred for the payment of deposit interest. That is the operating cost of the bank excepting interest cost is called the burden. The net burden is the net amount of burden cost obtained which is the difference between other expenses and other income. The nature of this cost is semi fixed where as interest cost is variable cost.

Table 4.21

Net Burden of ADBL

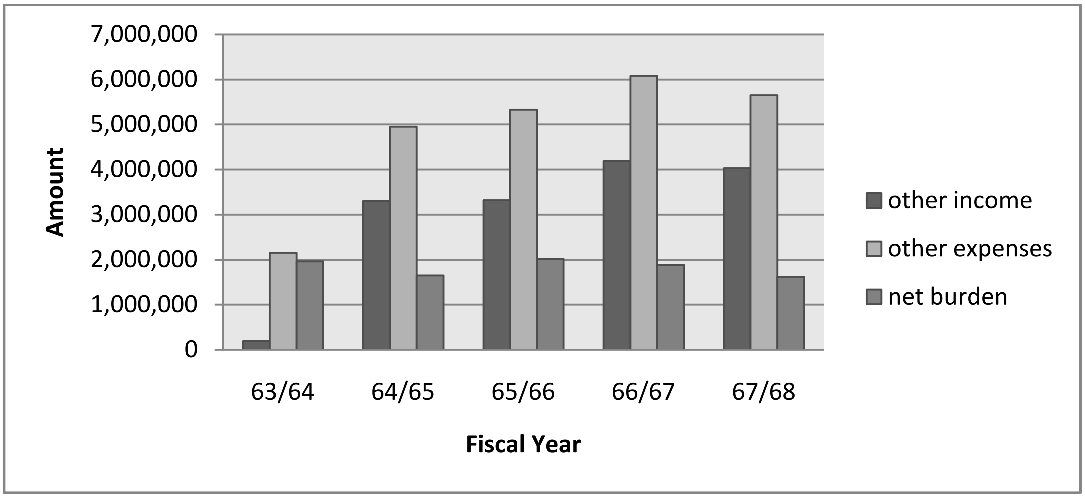
Amount in Rs '000'

F/Y	Other income	Other expenses	Net burden	Growth in Amt	%
63/64	195,420	2,154,198	1,958,778	-	-
64/65	3,304,421	4,955,105	1,650,684	-308,094	-15.72
65/66	3,315,507	5,331,978	2,016,471	365,787	22.15
66/67	4,193,088	6,079,734	1,886,646	-129,825	-6.43
67/68	4,027,547	5,646,763	1,619,216	-267,430	-14.17

Source: Auunal report of ADBL

Figure 4.14

Net Burden of ADBL



Source: Table 4.21

From the table 4.21 and figure 4.14 show that the net burden of the bank in F/Y 2063/064 was Rs. 1,958,778,000.00. it was Rs. 1,650,684,000.00 in F/Y 2064/065, which was decreased by 18.66% than the previous year. Similarly, the net burden was increased in F/Y 2065/066 by -15.72%. It was again decreased by 6.88% and -14.17% in the F/Y 2066/67 and in F/Y 2067/68 respectively. The major objective of this study was to find out whether other resources of income are maintaining the other expenses part or not. It was observed that the net burden of the bank was in fluctuating trend over the study period with fluctuating rate. The indication of the study showed that the other income are increasing or decreasing in respect to other expenses.

4.6.4 Net Profit

Profit is excess of income over expenses. In this context, this study has calculated the net profit being the excess spread over the net burden. Spread is the net interest income (excess interest income over the interest expenses), and the net burden is the difference amount from the other expenses and other income. Following table and graphs shows the status of spread, burden and net profit of various year of the study period.

Figure 4.22

Net Profit of ADBL

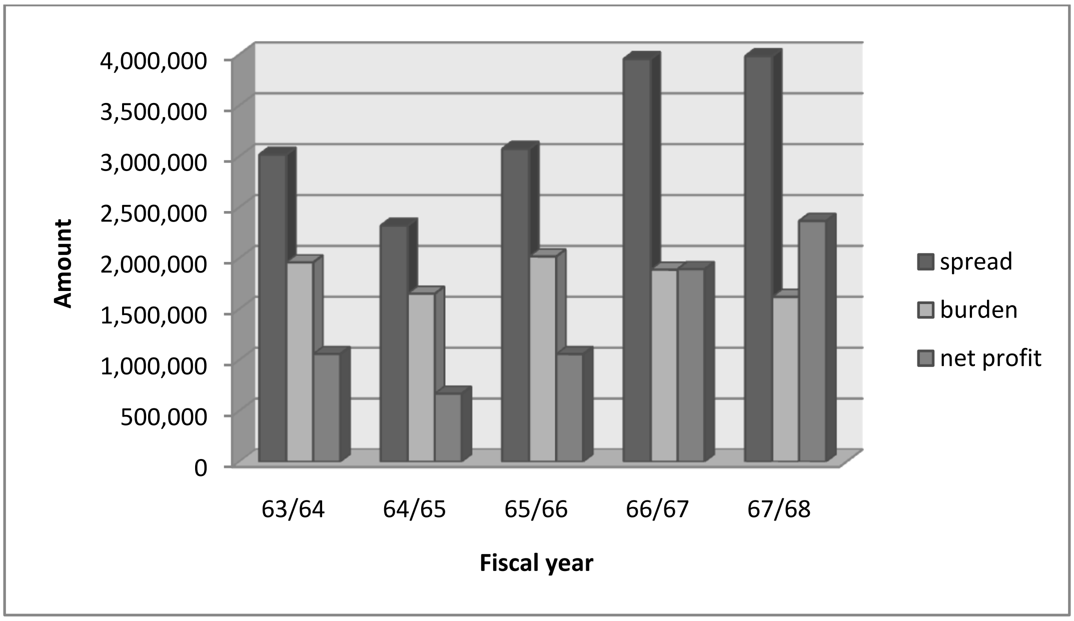
Amount in Rs '000'

F/Y	Spread	Burden	Net profit	Growth in Amt	% Growth
63/64	3,017,228	1,958,778	1,058,450	-	-
64/65	2,319,924	1,650,684	669,240	-389,210	-36.77
65/66	3,074,073	2,016,471	1,057,602	388,362	58.03
66/67	3,956,859	1,886,646	1,892,385	834,783	78.93
67/68	3,984,698	1,619,216	2,365,481	473,096	24.99

Source: Auunal report of ADBL

Figure 4.15

Net Profit of ADBL



Source: Table 4.22

The table 4.22 and figure 4.15 indicates that interest spread and Net profit both are in fluctuating trend. Burden of the bank is in fluctuating trend over the study period. As researcher analyzed earlier, burden is the difference amount of other income and other expenses and net income is the difference of total interest spread and total burden. Following diagrams will further clarify the net profit position of the bank. This shows the real success of the bank and bank s strategy for the expansion of its business. The net profit of the bank is in increasing trend every year over the study. This proved that the management of the bank is efficient.

4.7 Performance Evaluation of Bank

Performance evaluation is used as an important part of comprehensive budgeting system. All companies regardless of their size have reporting requirement to show their overall performance. Performance reporting is an important phase of control process. Researcher can use various techniques and criteria to evaluate performance of bank, which are as follows:

4.7.1 Ratio Analysis

The ratio analysis is a powerful tool of financial analysis. A ratio is defined as “The indicated quotient of two mathematical expressions” and as “The relationship between two of more things” (I.M. Pandey). An arithmetic relationship between two figures is known as ratio. Ratio analysis is a financial device to measure the financial positions, major strengths and weakness of a firm. To evaluate the performance of an organization by creating the ratios form the figures of different account consisting in balance sheet and income statement is known as ratio analysis. Following ratios are analyzed in this research.

- Current Ratio
- Debt Equity Ratio
- Return On Equity
- Return On Assets
- EPS

4.7.1.1 Current Ratio

The ability of a firm to meet its obligation in the short term is known as liquidity. It reflects the short term financial strength of the firm. Now the current ratio to measure relationship of current assets & current liabilities of ADBL were used. It is calculated by dividing the total current assets by total current liabilities

Table 4.23

Current Ratio

Amount in Rs '000'

Fiscal Year	Current Asset	Current Liabilities	Current Ratio
63/64	34,193,881	36,513,171	0.94
64/65	38,148,501	38,094,064	1.00
65/66	46,119,340	41,295,314	1.12
66/67	48,511,394	40,593,161	1.20
67/68	50,951,182	43,508,183	1.17

Source: Auunal report of ADBL

The table 4.23 shows that the ADBL has current ratio ranging from 0.94 to 1.17 during the study period. The highest current ratio was 1.20 times in F/Y 2066/067 and the lowest current ratio was 0.94 times in F/Y 2063/064. The company has positive working capital over the study period. It means the current assets are more than current liabilities over the study period. The bank is unable to maintained standard ratio 2:1. The bank has increased its investment in fixed assets that's why the bank was not able to maintain standard ratio.

4.7.1.2 Debt Equity Ratio

The relationship between borrowed fund and owner's equity is known as debt equity ratio. The standard ratio of debt ratio is 4:1. This shows the capital structure of any organization. For the purpose of analysis, the amount of borrowings and deposits liabilities of the bank has been taken as long term debt for the bank. Following table shows the bank s debt equity ratio status.

Table 4.24

Debt Equity Ratio of ADBL

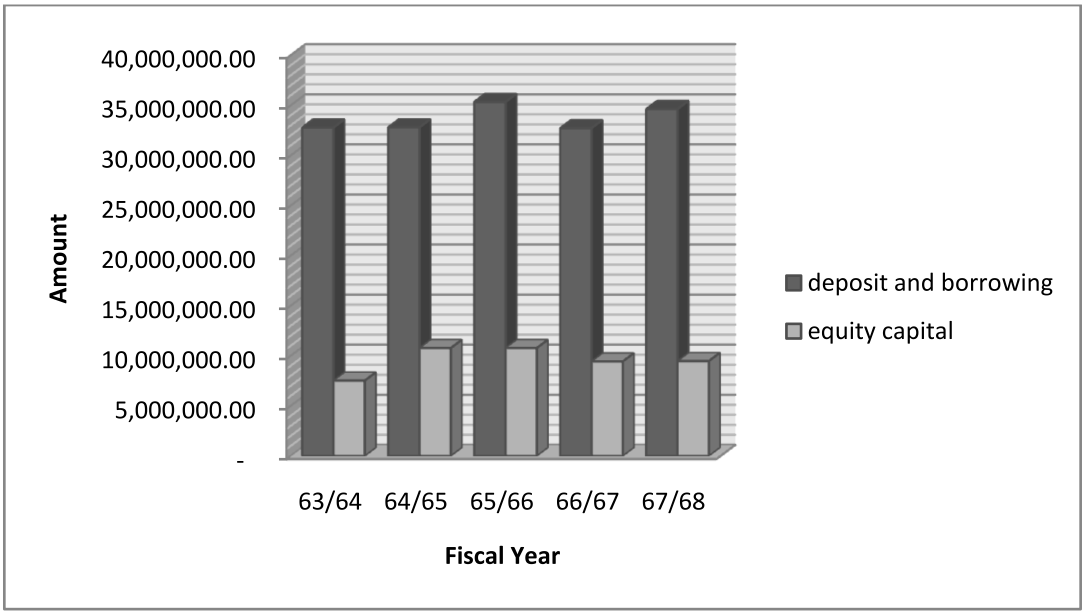
Amount in Rs '000'

F/Y	Deposit and Borrowing	Equity Capital	Ratio
63/64	32,790,305	7,528,000	4.36
64/65	32,811,199	10,777,500	3.04
65/66	35,347,860	10,777,500	3.28
66/67	32,732,130	9,437,500	3.47
67/68	34,638,328	9,474,300	3.66

Source: Auunal report of ADBL

Figure 4.16

Debt Equity Ratio of ADBL



Source: Table 4.24

From the table 4.24 and 4.16 show that the debt to equity ratio of the bank was in fluctuating trend. As per the guidelines given by NRB, the deposit collection and borrowing of the bank was restricted to 10 times of capital fund. But the current guidelines have not restricted limit for long-term debt collection by the bank. The debt equity ratio of the bank is under the prescribed guidelines of NRB which implied to the right proportion of debt to capital fund. The bank's one of the major function is to accept customer deposit, it is obvious that the bank will have higher debt equity ratio.

The debt ratio shows the proportion of a company’s assets which are financed through debt. If the ratio is less than one, most of the company’s assets are financed through equity. If the ratio is greater than one, most of the company’s assets are financed through debt. Companies with high debt ratios are said to be “highly leveraged,” not highly liquid as stated above. A company with a high debt ratio (highly leveraged) could be in danger if creditors start to demand repayment of debt. The standard ratio of debt ratio is 4:1. ADBL seems to be successful in maintaining standard. It shows that the bank is can easily manage the fund if creditors start to demand repayment.

4.7.1.3 Return on equity (ROE)

It shows the overall efficiency of the organization. It also shows the profitability position of the bank. This ratio is calculated as net income after tax divided by total equity capital. ROE ratio, on the other hand, is a measure of the rate of return flowing to the Bank s shareholders. It approximates the net benefit that the shareholders have received from investing their capital in Bank.

Table 4.25

Return on equity (ROE) of ADBL

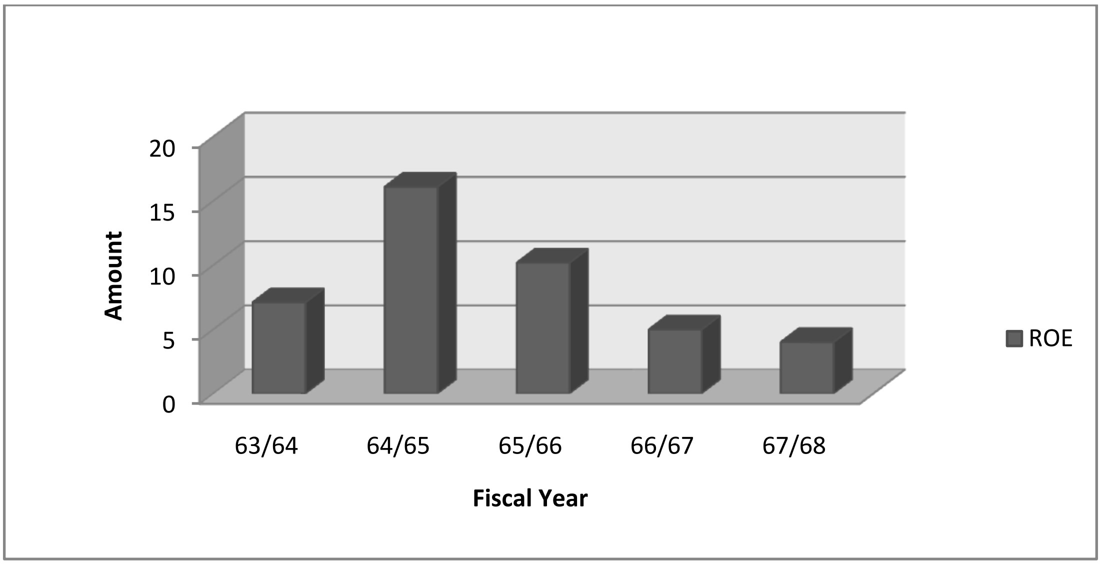
Amount in Rs ‘000’

Fiscal Year	Net Income	Equity Capital	ROE
63/64	1,058,450	7,528,000	7.11
64/65	669,240	10,777,500	16.10
65/66	1,057,602	10,777,500	10.19
66/67	1,892,385	9,437,500	4.99
67/68	2,365,481	9,474,300	4.01

Source: Auunal report of ADBL

Figure 4.17

Return on Equity (ROE)



Source: Table 4.25

Table 4.25 and figure 4.17 show the relationship between income after tax and total equity capital of the bank. The ROE of ADBL was in fluctuating trend. It was 7.11%, 16.10%, 10.19% 4.99% and4.01% in F/Y 2063/064 to F/Y 2067/068 respectively. It was observed that the net income and equity capital amount is fluctuating over the study period. Any organization having more than 10% ROE is good but its ROE level is not very satisfactory in recent year. In recent year it is in only 4.01% which is not satisfactory. ADBL should try to satisfy its shareholder and should maintain management efficiency of the bank.

4.7.1.4 Return of Assets (ROA) of ADBL

ROA ratio is primarily an indicator of managerial efficiency. It indicates how capable the management of the bank has been converting the firm's assets into net earning. It indicates how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage. Sometimes this is referred to as "return on investment" It is measured in terms of relationship between net profit and total assets. Higher ratio shows the higher return on the assets in the business thereby indicating effective use of the resources available and vice versa.

Table 4.26

Return of Assets (ROA) of ADBL

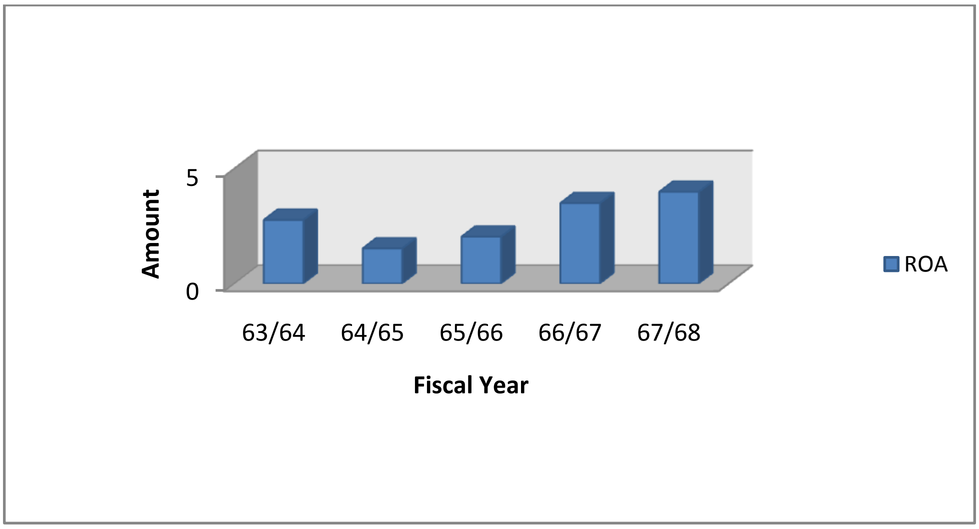
Amount in Rs '000'

Fiscal Year	Net Income	Total Asset	ROA
63/64	1,058,450	38,160,211.00	2.77
64/65	669,240	43,686,749.00	1.53
65/66	1,057,602	51,818,738.00	2.04
66/67	1,892,385	54,020,226.00	3.50
67/68	2,365,481	59,241,364.00	3.99

Source: Auunal report of ADBL

Figure 4.18

Return of Assets (ROA) of ADBL



Source: Table 4.26

The table 4.26 and figure 4.18 show that the ratio is in fluctuating trend. It was observed that the highest ROA was 3.99% in F/Y 2067/068 and the lowest ROA was 1.53% in FY 2064/065. The indication shows ROA level of the bank was fluctuating trend.

4.7.1.5 Calculation of Earnings per Share (EPS)

EPS is derived dividing net profit to numbers of share outstanding. The amount of EPS measures the efficiency of a firm in relative terms. It is a measuring tool of organizational overall performance and how far an organization is able to use its resources to generate profit. It is determined by the amount of profit it has earned. Thus, the EPS determines the market value of share; the attitude of outsides and high amount of EPS increases the goodwill of the organization. The following table shows EPS of the bank for the study period.

Table 4.27

EPS of ADBL

Amount in Rs '000'

F/ Y	Net Income	No. of Shares	EPS
63/64	1,058,450	16,250	65.14
64/65	669,240	20,775	32.21
65/66	1,057,602	20,775	50.91
66/67	1,892,385	30,375	62.30
67/68	2,365,481	30,375	77.87

Source: Auunal report of ADBL

From the table 4.27 shows that the EPS of the bank is in fluctuating trend. It was Rs.65.14, Rs.32.21, Rs.50.91, Rs.62.30 and Rs.77.87 in F/Y 2063/064 to 67/68 respectively.

4.8 Major Findings

4.8.1 Resource Mobilization

- Major resource mobilization of ADBL was deposit.
- The amount of deposit mobilized by ADBL was found to remain almost constant over the study period.
- Total deposit was Rs. 51,609,280 thousand in F/Y 2067/068

4.8.2 Resource Deployment

- Major area of the resources was deployed in LABP.
- Investment was in increasing trend over the research period except in the F/Y 2066/67.
- Cash and bank balance was in fluctuating trend. It was reached to Rs.4, 808, 953 thousand in F/Y 2067/068.

- LABP was in increasing trend over the study period. It was increased to Rs. 34,459,918 thousand in F/Y 2067/068 from Rs.33,876,956 in F/Y 2066/067
- CD ratio (credit to deposit ratio, ratio of LABP on total deposit expressed in percentage) of the bank was high. The average CD ratio of the bank for the study period was 100.19%.

4.8.3 Expenditure

- Interest expenses were in increasing trend in F/Y 2067/68.
- Staff expenses amount were the highest among the total expenses of the bank. Staff expenses of the bank were in fluctuating trend every year.
- Cost of deposit (Calculated as the ratio of total interest expenses during a year on the outstanding deposit as of the year and expressed in percentage) of the bank was increasing trend but the bank has maintained lower CoD. It was 6.73 % in F/Y 2067/0678
- Amount of other expenses of the bank were increasing trend every year but the proportion on total expenses was decreasing trend.
- Provision for doubtful debt to LABP ratio was in increasing trend as lots of loans provided in past become doubtful debt. Hence it showed decreasing trend and it reached to 0.07% in F/Y 2067/068.

4.8.4 Revenue

- The amount of interest was increasing trend every year but didn’t showed significant correlation between interest income and LABP.
- The average YOF was 18 % in F/Y 2067/068.
- Interest spread was in increasing trend but net burden was in fluctuating trend.
- Net profit of the bank was positive and increasing trend over the study period. In F/Y 2067/068, its growth was 20%.

4.8.5 Ratio Analysis

- Liquidity ratio of the bank was 1.20:1 in F/Y 2067/068. The bank had able to maintain at least 1:1 ratio except in F/Y 2063/064 over the study period.
- Debt to equity ratio of the bank was 3.66 % in F/Y 2067/068. The bank had maintained its debt to equity ratio as per NRB guideline.
- ROE of ADBL was 4.01 % in F/Y 2067/068.
- ROA of the bank was 3.99 % in F/Y 2067/68 which is considered satisfactory.
- EPS were in fluctuating trend over the study period. It had Rs. 77.87 per share income in F/Y 2067/068 which is considered very well in today's business context.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDRATIONS

5.1 Summary

Agricultural development is a pre-condition for the further economic development of the country. In a developing country such as Nepal agriculture plays a vital role in economic development. Though agriculture is the backbone of the Nepalese economy, there are many obstacles in the field of agricultural development. Nepalese economy is almost depended upon agriculture. 38.8% of GDP is derived from agriculture and 78% of population is employed in this sector. Due to lack of modernization in agriculture, Nepalese has not been able to have adequate economic development. The prosperity of every developing country can only be ensured by its economic growth. It is very important to improve the agriculture sector of Nepal as a result the ADBL was established. Agriculture development bank limited (ADBL) established in 1968 with the major objectives of improving the socio economic status of rural peoples. The prosperity of every developing country can only be ensured by its economic growth. The role of ADBL in the economic growth of the nation can be fairly estimated to be very prominent. By mobilizing the scattered idle resources from the savers, ADBL pools the fund in a sizable volume in order to feed to the fund requirement of productive sector of the economy. Such investments in the productive sectors promote trade and industrialization in the country. Thereby raising the employment opportunities and earning to the labors, material and service providers to such industries and trades, which as a chain effect, promotes saving into the banks and more saving means more funds available in the banks for further investment. In this way, as the chain moves rolling on, the economy of the nation also grows. To remain as the major contribution factor to the growth of the nation s economy, the banks also have to have sustainable existence and growth of themselves. For the sustainable existence and growth of the bank, it must ensure reasonable profitability. A profit earning organization can better feed to their employee, there by enhancing the morale of employees and motivates them for better performance. Therefore profit for the financial institution has been defined as the lifeblood. A bank has to plan for the reasonable profit earning; it may be in short time as well as long time. Profit planning is the planning of activities in such a way that it helps in increasing the income at a minimum possible cost or at optimum cost. This study aims at examining the applications of profitability of ADBL. This study has tried to cover the various aspects of profit planning in the bank for the time of five years from fiscal year 2063/64 to 2067/68.

The first introductory chapter of this study report has tried to give brief introduction of banking and its relation to the economy, general concepts to the profits and profit planning, its background, scope, limitation and significance. During the research works, an extensive review of literatures through books, past thesis, journals have been made and Internet materials from relevant web also consulted. The works were compiled into the chapter two titled as 'Review of Literature' of this study report. Research methodologies followed for this research works are mentioned in the chapter three titled as 'Research Methodology'. Data relating to various activities of the bank has been collected presented in tabular and various diagram form and tried to be interpreted in the study report in logical way. Data are analyzed and interpreted applying various financial, mathematical and statistical tools in a systematic manner. All these works are computed in the fourth chapter, titled as 'Data presentation and Analysis ' of this study. Finally the summary, conclusion and the recommendation made by the researcher by this study are here by being presented in this current chapter, chapter five titled as summary,

5.2 Conclusion

Economical development plays the significant role for the countries overall development. In the Nepalese prospective since the establishment of financial institution have played progressive role for the economical development of the country. So far banks have been proved as prime movers of the economical development in Nepalese scenario. But as a developing country Nepal need to strengthen its economical structure to achieve rapid overall development due to the problems of fund mobilization and investment. Similarly, Nepalese banks are still stuck to traditional approaches for fund utilization and management. Studying the available data, it can be concluded that major concentration of resource mobilization of the bank is deposit collection. Deposit collection of the bank is satisfactorily good but mobilization of resources other than deposit is not good. Likewise, resource deployment for non yielding liquid assets was in fluctuating trend each year. Major portion of resources are deployed in LABP and investments. Interest income is the main contributor of the income sources. Likewise, staff expenses are the major portion of the expenses. Cost of deposit of the bank is found to be increasing trend but the bank has maintained lower CoD as far as possible. Other expenses other than operating expenses were increasing trend every year. Other source of income other than other income is also increasing trend. Interest spread is to be increasing trend each year and net profit of the bank was increasing trend over the study period. Most of the correlation shows unsatisfactory and insufficient correlation. So ADBL must concern in the profit planning procedures and control system so as to maintain proper relations between its variables

5.3 Recommendations

After studying the financial position of the bank and analyzing the available data the followings suggestions are recommended to improve the profit planning system of the bank.

- From the study it seems that ADBL has been focusing in the urban side of the country. So, it should focus on rural areas too for development of the nation.
- Corporate Social Responsibility should be maintained very seriously because it has responsibility to change the environment around it survives.
- The ADBL should follow the process of profit plan to increase its efficiency and to increase its profitability position. Making profit plan means making further plan for income, expenses and profit etc. This will help the bank to increase profit, income and reduce expenses.
- The bank should reduce its expenses (such as interest expenses, staff expenses). These expenses are increasing yearly which is not favorable for the bank.
- The bank should make effort to collect noninterest bearing deposit. The bank should make effort to utilize the available resources effectively and implement cost effectiveness technique to reduce operating expenses. It

must utilize effectively its human resources to reduce its staff expenses. Decrease in expenses will increase net profit of the bank.

- The bank should increase its interest income as well as non interest income. The bank should mobilize its fund properly to increase income.
- The bank has able to maintain lower provision for doubtful debt to total LABP over the study period. It is suggested to maintain the same level. The bank should evaluate the project before flow the loan and granting the loan on secured projects.