A STUDY ON FINANCIAL PERFORMANCE OF AGRICULTURAL DEVELOPMENT BANK LIMITED (ADBL), NEPAL

BY

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(Roll No.: 5517)

Submitted in partial fulfillment of the requirements for the degree of

Post Graduate Diploma in Cooperative Business Management

PGDCBM 55th BATCH

Under the Guidance of

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This entitled dissertation report "A STUDY ON FINANCIAL PERFORMANCE OF AGRICULTURE DEVELOPMENT BANK LIMITED (ADBL), NEPAL" has been submitted in partial fulfillment of the requirements for the degree of Post Graduate Diploma in Cooperative Business Management (PGDCBM) under the guidance of Assistant Professor Anshu Singh, is based on research models involving the use of financial ratios in banking sectors.

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(5517)

EXECUTIVE SUMMARY

Title: A STUDY ON FINANCIAL PERFORMANCE OF AGRICULTURE DEVELOPMENT BANK LIMITED (ADBL), NEPAL.

Faculty Guide: Assistant Professor Anshu Singh

Participant's Name: Kabita Kumari Bist (5517)

The entitled dissertation report is based on research models involving the use of financial ratios in banking sectors. This study has conducted with a view to examine and evaluate the performance of ADBL, which is working as one of the leading commercial bank of the country. Performance evaluation of ADBL is done on the basis of financial statement from 2016/17 to 2020/21. The main objective of the study is to evaluate the performance of ADBL Nepal on the basis of financial ratios i.e. profitability indicators, stock market indicators, productivity indicators, financial stability indicators and assets quality. To approach the result, some financial and statistical tools have been used. As financial tools, ratio analysis has been used particularly. In the same way, statistical tool, coefficient of correlation analysis between selected research variable have been used to accomplish the objectives. This study is mainly based on the secondary data that have been first processed and analyzed. There is strong positive correlation between all relationships due to the value of r is nearer to 1. Since calculated value of t is greater than tabulated values there is significant relationship between selected variables. EPS is satisfactory due to the increase ratio is higher than decreasing ratio. The NPA's has been decreasing; it indicates the better performance. Conclusions are made according to the obtained data from analysis. It is conclude that there is need to bring in newer schemes to mobilize their deposits in extending credit and investment. ADBL should improve its weaknesses by adopting the innovative approach to marketing. The profitability /earnings indicators, capital market indicators and productivity indicators have been increasing during the study period and there are strong positive correlations between selected six variables, it can be recommended to increase in Investment in total assets, equity capital, deposits, loans and advances.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS

ADBL	= Agricultural Development Bank Limited
BAFIA	= Bank and Financial Institution Act
EBL	= Everest Bank Limited
FRA	= Financial Ratios Analysis
IMF	= International Moetary Fund
LDR	= Loan to Deposit Ratio
MPS	= Market Price of Share
NBBL	= Nepal Bangladesh Bank Limited
NEPSE	= Nepal Stock Exchange
NP	= Net Profit
NPA’s	= Non – Performing Assets
NPM	= Net Profit Margin
NRB	= Nepal Rastra Bank (Central Bank of Nepal)
NSBIL	= Nepal State Bank of India Limited
PGDCBM	= Post Graduate Diploma in Cooperative Business Management
P/E	= Price/Earning
ROA	= Return on Assets
ROE	= Return on Equity
ROL	= Return on Loans
SFCL	= Small Farmers Cooperative Limited
SFDP	= Small Farmers Development Program
SWIFT	= Society for Worldwide Interbank Financial Telecommunication
T.U.	= Tribhuvan University
VAMNICOM	= Vaikunth Mehta National Institute of Cooperative Management

CHAPTER – I

INTRODUCTION

1.1 Background of Study

A bank is a financial institution licensed to receive deposits from the public and creates credit. It also acts as a render of financial services, such as wealth management, currency exchange, safe deposit boxes, etc. According to Hals bury, "A Banker is an individual, partnership or corporation whose sole pre-dominant business is banking, that is the receipt of money on current or deposit account, and the payment of cheque drawn and the collection of cheque paid in by a customer.''
The banking sector is the lifeline of any modern economy. It is one of the important financial pillars of the financial system which plays a vital role in the success / fail of an economy. The banking system is fuel injection system which spurs economic growth by mobilizing savings and allocating them to high return investment. It reflects the economic health of the country. The strength of the economy of any country basically hinges on the strength and efficiency of the financial system, which, in turn, depends on a sound and solvent banking system. A sound banking system efficiently deploys mobilized savings in productive section and a solvent banking system ensures that the bank is capable of meeting its obligation to the depositors. The efficiency and competitiveness of banking system defines the strength of any economy.

Banking system in Nepal also plays a vital role in the process of economic growth and development of a country. Currently there are 27 commercial bank in Nepal which are operating under the commercial bank Act regulated by Nepal Rastra Bank (NRB) – A Central Bank of Nepal. In case of the history of bank in Nepal, an institutional banking system came in to existence only in the 19th century. Nepal Bank Limited was the first financial institutional of Nepal established on the 15th November, 1937 A.D. Being a commercial bank, it focuses on income generating and profit maximization. As it was only one commercial bank has to look the economic condition of the country. Only one Nepal bank Limited was not sufficient to look all the sector of country. So, in 1956 A.D another bank names "Nepal

Rastra Bank” was established as the central bank of Nepal to regulate and control banking management system of country. Then in 1966 A.D. “Rastriya Banijya Bank” was established under Rastrya Banijya Bank Act 1965. This act is now revised as commercial bank Act 1975 A.D. For the development of industry, commerce and trade, Nepal Industrial Development Corporation was established under Industrial Development Corporation Act 1960. For the development of agricultural sector, Agricultural Development Bank was established on 21st January,1968 A.D., under Agricultural Bank Act 1968.

Nowadays the function of bank is not limited to within the same geographical limit of any country. It is an important source of financing for most businesses. Also, bank is a financial institution that require fund to carry out business. Fund may generate from deposit and non-deposit such as capital, etc. Bank need to find best way to manage resources and assess its activities and decisions of consumption of resources. Simply stated much of the current bank performance literature describes the objective of financial organizations as that of earning acceptable returns and minimizing the risks taken to earn return.

Generally financial performance of bank can be measured by using financial ratio analysis. In simple accounting terms, performance to banks refers to the capacity in generating sustainable profitability. Banks need a way to evaluate performance and consider some important financial ratios and find the strengths and weaknesses. Financial ratio analysis is structural and logical way to present overall financial performance of a financial institution. It’s also help to evaluate and decision making for business operation. In financial analysis process ratio analysis is the most dominant and logical structure to help business related stakeholder. Under the financial ratio analysis process there are few categories to identical area of financial institution. So business stakeholders try to concentrate to get overall business overview from profitability, liquidity, assets management and solvency ratio analysis. These ratios not only help to decision making process also emphasized on risk avoiding and profit raising related factors. To calculate this ratio need to take quantitative data from bank trading activity and other sources.

Investopedia describe about ratio analysis as Quantitative analysis of information contained in a company’s financial statements. Ratio analysis is based on line items in financial statements like the balance sheet, income statement and cash flow statement; the ratios of one item – or a combination of items – to another item or combination are then calculated. Ratio analysis is used to evaluate various aspects of a company’s operating and financial performance such as its efficiency, liquidity, profitability and solvency. The trend of these ratios over time is studied to check whether they are improving or deteriorating. Ratios are also compared across different companies in the same sector to see how they stack up, and to get an idea of comparative valuations. Ratio analysis is a cornerstone of fundamental analysis. This study evaluates bank performance for the period 2016/17 to 2020/21 by using financial ratio analysis (FRA) method. Financial ratio analysis has wide range advantage to show the bank financial position compare to past year performance. To analyses the ratio, I have taken data from Annual Report of ADBL. That's help me to understand the financial position of bank and purpose of the study.

1.2 Focus of the study

Commercial banks play an important role in economic development of the country by mobilizing community saving and diverting them into productive sectors. The study, Performance evaluation covers an analysis of performance of ADBL, Nepal which is believed to be one of the leading commercial banks of the country. Financial ratio analysis is widely used tool of financial analysis and its performance. The research report is mainly focused on ratio analysis, growth and correlation analysis of selected variables of ADBL, Nepal.

1.2.1 Brief Profile of Agriculture Development Bank Limited (ADBL), Nepal

Agricultural Development Bank Limited	
Industry	Commercial Bank – Public Sector
Incorporation Year	21st January, 1968 A. D
Chairman	Mr. Ramesh Kumar K.C.
Chief Executive Officer(CEO)	Mr. Anil Kumar Upadhyay
Auditor	Joshi & Bhandary/ K.A.S. Associates
Registered Office	Ram Shah Path, Kathmandu
Telephone	01-4252359, 01-4262620
Fax	01-4262929
E-mail	info@adbl.com.np

Website	http://www.adbl.gov.np
Offices and Branches	278
SWIFT	ADBLNPKA
Financial Institution Category	"A class financial institution" licensed by Nepal Rastra Bank from 2006.
Face Value (Rs.)	100
Listing	Nepal Stock Exchange Ltd. (NSE)
Listing & Trading start Date	24th August, 2010 A.D
NSE Code	ADBL
Total listed Shares	131,879,152 Units
Authorized Capital	21 billion NPR
Total Paid up Value	Rs. 13,187,915,200
Right Share	19688000 units on 26th November, 2016
Last AGM Date	13rd January,2022
Registrar's Name & Address	NIBL Ace Capital Limited
Slogan	"The bank with complete banking solution at your own door step" (Sampurna Banking Suvidha sahitko Tapai Hamro Ghar Aanganko Bank)

With the main objective of providing institutional credit for enhancing the production and productivity of the agricultural sector in the country, the Agricultural Development Bank viz. "KRISHI VIKAS BANK LIMITED", Nepal was established in 1968 under the ADBN Act 1967, as successor to the cooperative Bank. The Land Reform Savings Corporation was merged with ADBN in 1973. Subsequent amendments to the Act empowered the bank to extend credit to small farmers under group liability and expand the scope of financing to promote cottage industries. The amendments also permitted the bank to engage in commercial banking activities for the mobilization of domestic resources.

Agricultural Development Bank Limited (ADBL) is an autonomous organization largely owned by Government of Nepal. The bank has 51% share of Government of Nepal and 49% of general public. Most of its shareholders are customers and employees. The bank has been working as a premier rural credit institution since its establishment, contributing a more than

67% of institutional credit supply in the country. Hence, rural finance is the principal operational area of ADBL. Besides it has also been executing Small Farmers Development Program (SFDP) was initiated for financing small formers on group liabilities in order to boost up the socio-economic condition of rural populace. In 1984, the amendment of the Act also permitted ADBL to extend its wing in commercial banking activities so as to mobilize urban resources in the rural areas of the country. In 1993, ADBL initiated farmers‟ co-operative approach by transferring SFDP into the Small Farmers Cooperative Limited (SFCL).

The enactment of Bank and Financial Institution Act (BAFIA) abolished all Acts related to financial institutions including the ADBN Act, 1967. Since then, the bank has been working as a public limited company registered under the Companies Act, 2006 and is licensed as **“A class financial institution”** by Nepal Rastra Bank from 2006. ADBL is a sole financial institution in the country maintaining its activities by three major windows namely Development financing, Commercial Banking and Small farmers development. Through these 17 sectors, it is contributing more than 79% of institutional credit to the real populace by strengthening its network in the entire geographical region i.e. the mountains, the Hills and the Terai region.

It is spread all over the **7 provinces & 77 districts** of the nation with its **278** offices. While providing comprehensive services with complete banking solution, the bank has main motto of promoting rural agriculture, productive and deprived sectors. The bank is committed to provide best banking services through its widespread network and help the government from its part, to achieve the aim of: “Prosperous Nepal, Happy Nepali”
ADBL operates as an autonomous body that has been controlled by the Ministry of finance. It has total 21 billion rupees of an authorized capital, out of which 16.42 billion rupees is paid-up Capital.

Vision: To be a Mass-based Complete Bank serving from Urban to Rural.

Mission: To deliver comprehensive banking solution strengthening its extensive network.

Objective

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

Main function of 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.

1.3 Statement of Problem

The health of the financial position of ADBL is crucial to achieving its corporate mission and vision. The development bank have played important role in the economic growth of the country and has been facing competition against one another. Government looking at economic liberation has further intensified the competition which has unlimited affected the profitability of the bank concentrates their activities in rural areas. In Nepal about 79% of population lives in the rural areas and about 66% population depends on agriculture. It is difficult to solve the credit problems of the country through commercial banks which are reluctant to enter rural and agricultural area. To overcome these challenges Agricultural Development Bank has started various problems with various wings of the Agricultural Development Bank with opening branches in rural areas. Small framers who are involving in agro sector are benefited by the small framers development program (SFDP) Large scale farming facilities from the development sector of the Agricultural Development Banks Ltd, Nepal and urban people facility by the commercials banking sector of ADBL. Although government banks are considered as poor people's favor, but how far are they favoring? This question does emerge in banking sector. The problem of the study on the issue related to the strength and weakness of ADBL, Nepal researchers are strived to find out the answer of the following questions:

- What is the position of ADBL, Nepal in terms of profitability, productivity, stock market indicators, financial stability and Assets quality?
- What is the relationship between selected variables? (where selected variables are: net profit & no. of employee, NP & no. of branch, NP & total assets, NP & net worth (equity), NP & deposit and NP & loan & advances)?

1.4 Objective of the study

The specific objectives of the study are as follows:

1. To evaluate the performance of ADBL, Nepal on the basis of financial ratios i.e. profitability indicators, stock market indicators, productivity indicators, financial stability indicators and assets quality.
2. To examine the relationship between selected variables.
3. To make necessary suggestions and recommendations.

1.5 Need and Significance of the study

This study focuses on the financial performance (i.e., profitability) and efficiency of the management of the Agriculture Development Bank Limited. The study covers the period of 5 years i.e., from 2016/17 to 2020/21. The study would provide management with the true state of financial performance of the bank and also make projections into the future with the view to ensure improved performance. The ADBL is mandated by Government of Nepal to provide financial services to the rural population to stimulate income and generate employment in remote areas. This study will find the strengths and weaknesses of the Bank by analyzing the opportunities and threats in its overall conduct in the real ground. This study also be an important support to the management owner clients, steak holders and other interest groups in analyzing the Bank's economic strength and performance efficiency. As it is a well-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 how benefit is taking by them from the semi-government banks. The study is basically confined to review the financial performance and investment policies of the banks during the five years period. This study is expected to provide a useful feedback to the policy maker of banks and also to the government and central bank to formulate the appropriate strategies for improvement in the performance of banks. Furthermore, it gives insight about the current situations and performance of banks to the regulatory body, shareholders, investors and managers. Besides, it will be used as a reference to researchers that want further investigation into the area of study.

1.6 Limitation of the study

Due to constraints of time and resources, the study is likely to suffer from certain limitations. Some of these are mentioned here under so that the findings of the study may be understood in a proper perspective:

1. The study is based on the secondary data and the limitation of using secondary data may affect the results.
2. The secondary data are taken from the annual reports of ADBL Bank. It may be possible that the data shown in the annual reports may be window dressed which does not show the actual position of the banks.

3. Due to certain constraints of time, this study is based on selected financial ratios which cover the performance of bank only for the period of five years i.e. Financial Year 2016/17 to 2020/21.

1.7 Scope of the Study

The scope of a study explains the extent to which the research area will be explored in the work and specifies the parameters within the study will be operating. Commercial banks play an important role in economic development of the country by mobilizing community saving and diverting them into productive sectors. The study, Performance evaluation covers an analysis of performance of ADBL, Nepal which is believed to be one of the strong commercial banks of the country. Financial ratio analysis is widely used tool of financial analysis and its performance. The project report is mainly focused on ratio analysis, growth and correlation analysis of selected variables of ADBL, Nepal.

1.8 Proposed Action Plan

The action plan defines specifically what needs to be done, by whom and by when, to ensure that the strategies necessary to accomplish the goals are achieved. The health of the financial position of ADBL is crucial to achieving its corporate objective, mission, vision and organizational goal. The action plan of the study on the issue related to the strength and weakness of ADBL, researchers will have strived to find out the answer of the following questions:

1. What is the position of ADBL, Nepal in terms of profitability, productivity, stock market indicators, financial stability and Assets quality?
2. What is the relationship between selected variables? (Where selected variables are: net profit & no. of employee, NP & no. of branch, NP & total assets, NP & net worth (equity), NP & deposit and NP & loan & advances)

1.9 Probable Outcome of the Study:

The study is basically confined to review the financial performance and investment policies of the banks during the five years' period. This study is expected to provide useful feedback to the policy maker of banks and also to the government and central bank to formulate the appropriate strategies for improvement in the performance of banks. Furthermore, it gives insight about the current situations and performance of banks to the regulatory body, shareholders, investors and managers. Besides, it will be used as a reference to researchers that want further investigation into the area of study.

1.10 Theoretical Framework

The dependent variable that has been considered in this research study is Net Profit of the ADBL. The variable which are supposed to be independent are number of Employees, number of Branches, Deposits, Total Assets and Loans and Advance of ADBL. The significance of the relationship is tested in the analytical chapter i.e., Chapter-IV. The positive correlations are expected in all six relations. The higher the number of employees, number of branches, totals assets, net worth, deposits and loans and advances, the higher the chances of net profit and vice versa.

1.11 Problem Hypothesis

From the theoretical framework discussed earlier the following hypotheses have been developed which have been thoroughly tested in the Chapter-iv.

Hypothesis 1:

The net profit and number of employees are correlated.

Hypothesis 2:

The net profit and number of branches are correlated.

Hypothesis 3:

The net profit and total assets are correlated.

Hypothesis 4:

The net profit and book net worth are correlated.

Hypothesis 5:

The net profit and deposits are correlated.

Hypothesis 6:

The net profit and loans and advances are correlated.

1.12 Organization of the study

This study has organized into the following five chapters:

Chapter – I: Introduction

This chapter includes background of the study, a brief profile of ADBL, statement of the problems, objectives of the study, significance of the study and limitations of the study. It is oriented for readers for reporting & giving them the perspective they need to understand the detailed information about coming chapter.

Chapter – II: Review of Literature

This chapter includes conceptual framework and review of empirical works related to financial performance analysis. For this purpose various books, journals and periodicals as well as internet have been utilized. It also contains reviews of journals and articles, and earlier research related to the subject.

Chapter – III: Research Methodology

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view in the research process. It describes about the various source of data related with study and various tools and techniques employed for presenting the data. It includes research design, population and sample, data collection procedure and processing, tools and method of analysis.

Chapter – IV: Analysis and Interpretation of Data

This chapter is the core part of the study. In this chapter collected and processed data are presented, analyzed and interpreted with using financial tools as well as statistical tools. It includes major finding of study, presentation and analysis of data using financial tools such as ratio analysis and statistical tools such as coefficient of correlation of different variables.

Chapter – V: Summary, Conclusion and Recommendations

This is the final chapter of the study which consists of the summary of the earlier four chapters. In this chapter summary of whole study, conclusions and recommendations are made. This chapter tries to fetch out a conclusion of the study and attempts to offer recommendations for the bank under review.

References: It consists of list of published and unpublished books, articles, websites etc. which have been the source of information and use of references.

Appendices: It consists of relevant material.

References and other Appendices used in statistical results have been incorporated at the end of the study.

CHAPTER – II

LITERATURE REVIEW

This chapter highlights about the relevant literature to make the base of knowledge for the study. The scholars in respect of financial performance have expressed different visions. Review of literature means to collect the information about the selected topic of the research through the different sources. Review of literature helps till of the last step of the research process. It gives knowledge about which type of process of adopted, which type of data are collected, what are the difficulties arises in completing the research process, which type of study had been made in the past on that topic. So, this character highlights the literature related to the present study available from libraries, document collection centers, studying encyclopedias, different magazines, journals, periodicals, research articles and information managing bureaus. Besides these this unit highlights the literature that is available in concerned subject as to my knowledge, review of reports related to concerned bank, review of research works, review of books, review of articles and relevant study on this topic and review of this research works performed previously. Review of literature comprises upon the existing literature and research related to the present study with a view to find out what had already been studied. According to Wolf & Pant "The purpose of the reviewing the literature is to develop some expertise in One's area, to see what new contribution can be made and to review some idea for Developing research design". This portion has been divided into two parts: -

a. Conceptual Framework

b. Theoritical Review i.e., Review of Related Studies

2.1 Conceptual Framework

The modern financial evaluation has greatly affected the role and importance of financial performance. Nowadays, finance is best characterized as ever changing with new ideas and techniques. Only efficient manager of the company can achieve the set up goals. If a bank does not maintain adequate equity capital, it makes the bank more risky. If a bank has inadequate equity capital, it must be used more debt that has high fixed cost. So any firm must have adequate equity capital in their capital structure. The main objectives of the bank are to collect deposits as much as possible from the customers and to mobilize into the most profitable sector. If a bank fails to utilize it's collected resources than it cannot generate revenue. Resource mobilization management of bank includes resource collection, investment portfolio, loans and advances, working capital, fixed assets management etc. It measures the extent to which bank is successful to utilize its resources. To measure the bank performance in many aspects, we should analyze its financial indicator with the help of financial statements. Financial analysis is the process of identifying the financial strength and weakness of the concerned bank. It is the process of finding strength and weakness of the concerned bank. It is the process of finding details accounting information given in the financial statement. It is performed to determine the liquidity, solvency, efficiency and profitability position of an organization. The function or the performance of finance can be broken down into three major decisions i.e. the investment decision, the financing decision, and the dividend decisions. An optional combination of the three decisions will maximize the value of the firm.

12.1.6 **Concept of Bank**

Banks are among most important financial institution in the economy as essential in thousands of local towns and cities. In this context, there is much confusion about exactly what bank is. Certainly bank must be identified by the functions they perform in the economy. Different views were shared against bank concepts. In general, bank means financial institution that accepts deposits in different accounts and loan of different types. The term bank was originated from Italian word "Banko" which means bench. The term bank was first used in Italy. In reality, the history of modern banking had started from "Bank of England" established in 1694. Different economists have given different definition of the bank.

According to Sayers," A bank is an institution whose debts (bank deposits) are widely accepted the in settlement of their peoples, debts to each other.

According to Chandler," A bank is an establishment which makes individuals such advances of money as may be required and safely made to which individual money when not required by them for use."

In the opinion of Horace," A bank is manufacture of credit and machine for facilitating exchange."

In the view of Crowther," the bankers business is to take the debts of other people to offer his own in exchange and thereby create money."

Therefore summarizing the above, banks are those financial institutions that offer the widest range of financial services, especially credit, savings and payments services and perform widest range of financial functions of any business firm in the economy.

12.1.6 Development of Banking System in Nepal

Nepal's first commercial bank, the Nepal Bank Limited, was established in 1937. The government owned 51 percent of the shares in the bank and controlled its operations to a large extent. Nepal Bank Limited was headquartered in Kathmandu and had branches in other parts of the country. There were other government banking institutions. Rastriya Banijya Bank (National Commercial Bank), a state-owned commercial bank, was established in 1966. The Land Reform Savings Corporation was established in 1966 to deal with finances related to land reforms. Here were two other specialized financial institutions. Nepal Industrial Development Corporation, a state-owned development finance organization headquartered in Kathmandu, was established in 1959 with United States assistance to offer financial and technical assistance to private industry. Although the government invested in the corporation, representatives from the private business sector also sat on the board of directors. The Co-operative Bank, which became the Agricultural Development Bank in 1967, was the main source of financing for small agribusinesses and cooperatives. Almost 75 percent of the bank was state-owned; 21 percent was owned by the Nepal Rastra Bank, and 5 percent by cooperatives and private individuals. The Agricultural Development Bank also served as the government's implementing agency for small farmers' group development projects assisted by the Asian Development Bank (see Glossary) and financed by the United Nations Development Program. The Ministry of Finance reported in 1990 that the Agricultural Development Bank, which is vested with the leading role in agricultural loan investment, had granted loans to only 9 percent of the total number of farming families since 1965. Since the 1960s, both commercial and specialized banks have expanded. More businesses and households had better access to the credit market although the credit market had not expanded. In the mid-1980s, three foreign commercial banks opened branches in Nepal. The Nepal Arab Bank was co-owned by the Emirates Bank International Limited (Dubai), the Nepalese government, and the Nepalese public. The Nepal Indosuez Bank was jointly owned by the French Banque Indosuez, Rastriya Banijya Bank, Rastriya Beema Sansthan (National

Insurance Corporation), and the Nepalese public. Nepal Grindlays Bank was coowned by a British firm called Grindlays Bank, local financial interests, and the Nepalese public. Nepal Rastra Bank was created in 1956 as the central bank. Its function was to supervise commercial banks and to guide the basic monetary policy of the nation. Its major aims were to regulate the issue of paper money; secure countrywide circulation of Nepalese currency and achieve stability in its exchange rates; mobilize capital for economic development and for trade and industry growth; develop the banking system in the country, thereby ensuring the existence of banking facilities; and maintain the economic interests of the general public. Nepal Rastra Bank also was to oversee foreign exchange rates and foreign exchange reserves. There is a significant growth in the number of banks in Nepal in the last two decades. At the beginning of the 1980s when the financial sector was not liberalized, there were only two commercial banks. During 1980s, there were only few banks. After the liberalization in the 1990s, financial sector has made a progress both in term of the number of banks and financial institutions and their branches. As on Mid July 2009, the number of commercial banks is 27 based on the applications for establishment of new banks as well as for the up gradation of other financial institution, the number is likely to grow in the near future as well. Banking system occupies an important role in the economic development of a country. A banking institution is indispensable in a modern society. It plays a pivotal role in the economic development of a country and focus the core of the money market in an advance country. The pivotal function of the bank is to collect deposits as much as possible from customers and mobilize it into the most preferable and profitable sector like industry, commerce, agriculture, entertainment etc.

12.1.6 Classification of Banks in Nepal

According to the Banks and Financial Institutions Act (BAFIA) 2006, banks and financial institutions in Nepal are classified as:

(i) Commercial Banks (Class A),

(ii) Development Banks (Class B),

(iii) Finance Companies (Class C),

(iv) Microfinance Development Banks (Class D),

(v) Savings and Credit Cooperatives, and

(vi) Microfinance NGOs.

12.1.6 **Major Nepalese Banking Laws**

One useful way to see the potential influence exercised by regulatory authorities on the banking industry is to review some of the major laws regarding banking business. In case of Nepal, banking laws are formulated and implemented by the government of Nepal (Finance ministry) and Nepal Rastra Bank. As the central bank of Nepal, Nepal Rastra Bank directs and controls all other banks in the country. The major Nepalese banking laws are as follows:

- Nepal Rastra Bank Act ,2001
- Bank and Financial Form Act , 2006
- Company Act, 2006
- Bank and Financial Form Loan Recovery Act ,2001

12.1.6 **Concept of Commercial Bank**

Commercial Bank is an institution, which deals with money and credit .IT accepts deposits from public, makes the funds available those who need them and helps in remittance of money from one place to another. In fact, a modern commercial bank performs such a variety of functions that it is difficult to give a precise and general definition of it. According to American Institute of Banking," Commercial Bank is the corporation which accepts demand deposits subject to check ad makes short-term loans to business enterprises regardless of the scope of its other sources."

Commercial Bank Act,2031 B.S. of Nepal has defined commercial bank as," An organization which exchanges money, accepts deposits, grant loans and performs commercial banking functions and which is not a bank meant for co-operative, agriculture, industries or for such specific purpose."

Banks are dealer in credit; they specialize in the exchange of money for credit and credit for money. They receive deposits; current, fixed, savings, call and short, that can be withdrawn by cheque. They borrow in order to lend. They trade in loan able capital; they borrow it from the depositors and lend it to borrowers. They thus, coordinate the demand for and the supply of floating funds; they form an integral of part of credit mechanism.

The role of commercial banks

Normally Commercial banks engaged in the following activities

- Accepting money in term deposit.
- Lending money by way of overdraft, installment loan or otherwise.
- Inward remittance through online services
- Processing of payments by way of telegraphic transfer, EFTPOS, internet banking or other means.
- Issuing bank drafts and bank cheques,
- Providing documentary and standby letter of credit, guarantees, performance bonds, securities underwriting commitments and other forms of off balance sheet exposures.
- Safekeeping of documents and other items in safe deposit boxes (lockers)
- Foreign currency trading

12.1.6 Functions of Commercial bank

Normally, commercial bank' s function can be categorized into two types: -

a. Primary function
b. Secondary function

Primary function

12. **Acceptance of deposit: -** An important function of commercial bank is to attract deposit from the Public. Those people who want to keep their money safe deposit their cash in the bank. Commercial bank accepts deposits from every class and takes responsibility to repay the deposit in the same currency whenever they are demanded by the depositors. Hence one of the primary functions of commercial bank is acceptance of deposits.

ii. Lending: - Another function of commercial bank is to make loans an advance of deposit received in various forms. Bank apply the accumulated public deposits to productive use by way of loans and advance, overdraft and cash credit against approved security.

iii. Investment: - Now-a-days commercial banks are also involved in the investment activities. Generally investment means long term and mid-term investments.

Secondary Function

Secondary functions are two types: -

A. Agency Service: -

1. Collection and payments of Cheques

2. Standing Instruction

3. Acting as correspondence

4. Collecting of bills- electricity, gas, WASA, telephone etc.

5. Purchase & Sales of stocks/share-act as a banker to issue

B. Miscellaneous or General Services: -

1. Safe Custody

2. Lockers-Trustee

3. Remittance facilities -DD, TT, MT and PO

4. Advisory Services

5. Providing Credit Reports

6. Opening L/C

7. Demand ForEx/Travers Cheque only Authorized Dealer branches

8. Compete service in Foreign Trade

9. Other Services: Debit Card, Credit Card, On-Line banking SMS Banking

10. Creation of Credit: a multiplier effect, deposit creates credit and credit creates deposits - derivative deposit. Beside these activities, commercial bank may perform further tasks; all its activities are guided by its authority for the betterment of the company or for society.

2.2 Review of Research

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

Singh (2015), **"***Performance of Agricultural Development Bank: A Critical Appraisal".* He has compared favorably on growth, asset quality and profitability of ADBL over the last few years. Policy makers have made some notable changes in policy and regulation which help strengthen the function of the ADBL. These changes include changing legal status from the special charter to the commercial bank. The bank attained notable growth in loans and advances and operating income during the period. The increment in loans and advances is attributed to the implementation of bank's policy on achieving business growth. Reserve and surplus has increased due to the profit contributed mainly by income from loans and treasury transactions. Liquidity was satisfactory during the period.

Jha S. and Hui X. (2012). *"A comparison of financial performance of commercial banks: A case study of Nepal.* The objective of this study was to compare the financial performance of different ownership structured commercial banks in Nepal based on their financial characteristics and identify the determinants of performance exposed by the financial ratios. Eighteen commercial banks for the period 2005 to 2010 were financially analyzed. In addition, econometric model (multivariate regression analysis) by formulating two regression models was used to estimate the impact of capital adequacy ratio, non-performing loan ratio, interest expenses to total loan, net interest margin ratio and credit to deposit ratio on the financial profitability namely return on assets and return on equity of these banks. The results show that public sector banks are significantly less efficient than their counterpart are; however domestic private banks are equally efficient to foreign-owned (joint-venture) banks. Furthermore, the estimation results reveal that return on assets was significantly influenced by capital adequacy ratio, interest expenses to total loan and net interest margin, while capital adequacy ratio had considerable effect on return on equity.

Shakya (2010), "*Financial Performance Of Nepal SBI Bank Limited And Everest Bank Limited."* analyzed different ratio of NSBIL and EBL for the period of five years till fiscal year 2008. Here, in some cases the liquidity position of EBL is slightly stronger where as in some cases the ratio of NSBIL is higher. It concludes that liquidity position of these two banks is sound. NSBIL has better utilization of resource in income generating activity than EBL. They are on decreasing trends while interest earned to total assets and return or net worth ratio of EBL is better than NSBIL. It seems overall profitability position of EBL is better than NSBIL and both banks are highly leveraged."

Adhikari (2008), "*A Study Of Financial Performance Of NSBIL and EBL"* conclude that "BL is found superior regarding the liquidity, quality assets they possessed and capital adequacy overall capital structure of NSBIL appears more levered than that on EBL. But NSBIL is found superior in terms of profitability and turnover comparatively interest remained more dominant in the total income and expenses of NSBI than that of EBL. Regarding the test of hypothesis is (at 5% level of significance) the performance of the sampled banks significantly different with respect to the ratios, loans and advances to saving deposits. Loan loss provision to total deposit interest earned to total assets and tax per share correlation analysis signifies that EBL is successful to utilize its resources more efficiently than NSBIL. (Adhikari, 2001, p.28) The review of the above mention bunch of research writes have definitely enriched my vision to elaborate analysis to come to the meaningful conclusion in realistic term and thereby come with some conclusion, few key suggestions that help in improvement of commercial banks. Previous researches on the basis of financial performance of commercial banks in Nepal. But this research is about joint venture bank of Nepal with sample of Nepal SBI Bank Limited and Everest Bank Limited. This research is about the financial performance of selected two banks. In the previous research, there is no clearcut financial performance of joint venture banks. The research can help the people who wanted to know about the overall financial performance of joint venture bank in Nepal. There are two-selected bank to find out the comparative financial position of selected bank. Therefore, this topic may not new but the researches efforts may be appreciable.

Suryan and Veluraj (2005), *"Profitability Analysis of the Pondicherry State Co-operative Bank"*, analyzed the performance of the bank from 1998-99 to 2002-03. Various ratios, such as cost of management (total expenses) to working capital ratio, profit to working capital ratio, non-interest income to total income ratio, etc. were used to assess the general performance of the bank. Spread and burden positions of the bank were also analyzed. They concluded that the profitability performance of the bank was impressive and the bank was able to meet its obligations and norms. The cost of management and establishment expenses got reduced during the period of study which further strengthened the profitability position of the bank.

Regmi (2001), "A study of the financial performance of HBL and NBBL", has suggested NBBL is increase its current assets because the bank is not maintaining adequate liquidity position in comparison with HBL. As capital structure of both the banks is highly levered, both the banks are recommended to maintain and improve mix at debt. And owners' quality by increasing equity share. He further suggests to HBL to improve the efficiency in utilizing deposits in loan and advances for generating the profit, NBBL should try to maintain present position on their regards. Profitability position of HBL is comparatively better than the same of NBBL. So, NBBL is recommended to utilize its resources held idle, bank faces high cost and causes the low profit margin. An idle dividend payout ratio is based upon shareholders exceptional and the growth requirements of the banks. NBBL is suggested to increase its dividend payout ratio. Depositors aware of such fact and think before depositing money in any commercial banks.

Pathania and Singh (1998), *"A Study of Performance of HP State Co-operative Bank"* observed that the performance of the Himachal Pradesh State Co-operative Bank Ltd. in terms of membership drive, share capital, deposit mobilization, working capital and advances has improved over the period of five years, i.e., 1991-92 to 1995-96. However, recovery performance was unsatisfactory and over-dues had increased sharply. This was due to the after effects of loan waiver scheme. The analysis of per member and per branch performance of the bank revealed that there is a significant growth in share capital, deposits, borrowings, advances and profits. They suggested that in the context of globalization and liberalization of economy, cooperative banks should ensure their business on healthy lines by having professional manpower, training and a sense of competition.

Amatya (1993), "An Appraisal of financial Position of Nepal Bank Limited, has indicated the liquidity position satisfactory maintained and the bank has been found to adopt conservative financing policy that is low portion of equity capital has been resorted to finance total assets. The bank has successfully performed beyond the break-even point over the study period the research recommends the use of proportionately more equity capital.

2.2.1 Research Gap

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make this study meaningful and purposeful. There are various researchers conduct on financial performance, profitability analysis and liquidity mobilization of various commercial banks. In order to perform those analysis researchers have used various ratio analysis. in the past research topic on financial performance the researcher has focused on the limit ratios which are incapable of solving the problems. In this research various ratio are systematically analyzed and generalized. Researchers are properly analyzed about investment aspect and mobilization of fund and its impact on the profitability.

CHAPTER - III

RESEARCH M–THODOLOGY

Research Methodology is a systemic way to solve the research problem. Previous chapters have provided the conceptual, inputs and basis of this study. Research methodology describes the methods and process applied in the entire study. It also refers to the various steps to be adopted by the researcher in studying the problem with certain object in view. It is also the set of various instrumental approaches used in achieving predetermined objectives.

It can be understood as a science of studying how research has been done. This chapter contains the research design, nature and sources of data, data collection procedure and tools and techniques of analyses**.** It counts on the resource and techniques available and to the extent of their reliability and validity in the research. The research methodology adopted in the chapter follows some limited but crucial aimed to achieve the objectives of the research. This study is descriptive cum analytical and the research is more quantitative and less descriptive. Moreover, various aspects relating to financial performance are applied by using financial ratios as well as statistical tools.

3.1 Research Design

Research design indicates a plan of action to be carried out in connection with proposed research work. This research attempts to analyze the performance evaluation ADBL bank Nepal. The research design is basically focused on analytical study Ratio analyses, correlation analyses and testing of hypothesis have been done for analyzing the research**.**

3.2 Population and Sampling Design

There are Twenty-seven Commercial banks which are currently operating in Nepal. All the commercial banks that are operating in Nepal are considered as the population. It is not possible the study all the data related with all the banks so, Agriculture Development Bank Limited ADBL has been selected for the present study.

3.3 Data Collection Procedure

The data which are originally collected by an investigator or an agent for the first time for the purpose of statistically enquiry are known as primary data. These data are collected personally through questionnaire, observation and interviewing method. The data which are originally collected but obtained from some published or unpublished sources are secondary data. These data are not original in character.

The data and information were collected from secondary sources. Secondary data include the annual reports published by the ADBL, Banking and Financial Statistics and annual reports published by Nepal Rastra Bank, internet web sites, unpublished research, journals, books etc. Such data information have been processed through various processes like editing, tabulating, calculating and result have been interpreted in the form of ratios, percentages and figures for clear view.

3.4 Data Analysis Tools

Before analyzing the data, the data and information have been presented systematically in the formats of Tables, Graphs and Charts which will explain a lot about the data and information collected. For the analysis of the research study, the following financial and statistical tools are used.

3.4.1 Financial Tools

Financial tools are instruments that help to analyze and interpret the financial performance of an organization. In other words, financial tools help to analyze the strength and weakness of a firm.

3.4.1.1 Ratio Analysis

Ratio analysis is a most important part of financial analysis. It helps to show the quantities relationship between two numbers. It may be expressed in terms of proportion, times or in percentage. Ratio analysis is a technique of analysis and interpretation of financial statement .Therefore; a ratio is used as a yardstick for evaluating the financial position and performance of a firm. Ratios help to summarize large quantities of financial data and to make qualitative judgment about the firm’s financial performance.

According to Wixom, Kell and Bedford, “A ratio is an expression of the quantitative relationship between two numbers.”

Similarly, according to **Kohle**r, “A ratio is the relationship of one amount to another expressed as the ratio of or as a simple function, integer, decimal, fraction or percentage.

Thus, Ratio analysis; which is a powerful tool of financial analysis, is identifying financial strength and weakness of business firm. It is one of important ways to stage meaningful relationship between components of financial statements. The primary purpose of ratio is to point out area for further investigation. Ratio analysis has been a major tools used in the interpretation and evaluation of financial statement since late 1800.

A ratio helps to the researcher to make qualitative judgment about the firm’s financial position and performance. Ratio analysis is the best tool for financial analysis. Ratios can be taken as expression of relationships between two items or group of items and therefore may be calculated in any number and ways so far meaningful co-relationship is obtainable. Hence, ratio analysis is a part of financial analysis that evaluates the performance of an organization by creating the ratios from the figure of different accounts consisting in balance sheet, income statement. It is the process of determining and interpreting numerical relationship between the items of financial statements.

Therefore, a ratio is used as a yardstick for evaluating the financial position and performance of a firm. Ratios help to summarize large quantities of financial data and to make qualitative judgment about the firm’s financial performance.

Ratio analysis does inter-firm comparison, so it helps management to shape in market strategies tool of financial analysis. The relationship between two accounting figures expressed mathematically, is known as financial ratio (or simply as a ratio).

Ratio analysis is technique and interpretation of financial statement. To evaluate the performance of an organization by creating the ratio from the figure of different accounts consisting in balance sheet and income statement is known as ratio analysis. A ratio helps to the researcher to make qualitative judgment about the firm’s financial position and performance.

Therefore, a ratio is used as a yardstick for evaluating the financial position and performance of a firm. Ratios help to summarize large quantities of financial data and to make qualitative judgment about the firm's financial performance.

The performance of a bank can be judged on various indicators. These indicators can be categorized as under:

3.4.1.1.1 Profitability Indicators

A class of financial metrics that are used to assess a business's ability to ge'erate earnings as compared to its expenses and other relevant costs incurred during a specific period of time. For most of these ratios, having a higher value relative to a competitor's ratio or the 'ame ratio from a previous period is indicative that the company is doing well. Following are the profitability indicators of a commercial bank:

3.4.1.1.1.1 Average Net Profit per Branch

It is the ratio of a bank's net profit after tax income divided by its total number of branches at the end of the fiscal year. It shows the branch net profit in monetary value. Higher ratio indicates the better efficiency of the branches. The formula for calculating it is:

Average Net Profit per Branch (in rupees) =Net Profit After Tax ÷Total Number of Branches

3.4.1.1.1.2 Return on Assets (ROA) Ratio

It is the ratio of a bank's net profit after tax income divided by its total assets. ROA is primarily an indicator of managerial efficiency. It indicates how capably the management of the bank has been converting the institution's assets into net earnings. It is the most important indicator of the bank's performance. ' higher ratio is an indicator of high performance and profitability. It is calculated by using following formula:

$$\text{Return on Assets (ROA)} = (\text{Net Profit After Tax} \div \text{Total Assets}) \times 100$$

3.4.1.1.1.3 Return on Net Worth or Return on Equity (ROE)

It is the ratio of a bank's net profit after tax income divided by its net worth or equity. It indicates how the bank will have used the resources of owners'. In fact, this ratio is one of the most important relationships in financial analysis. The earning of satisfactory return is the most desirable objective of a business. The ratio of net profit to owners' equity reflects the extent to which this objective has been accomplished. This ratio is thus, of great interest to the present as well as the prospective shareholders and also of great concern to management, which has the responsibility of maximizing the owners' welfare. . A higher ratio indicates greater profitability and better efficiency. This enables a bank to raise more funds from the capital markets. ROE is calculated as follows:

ROE = (Net Profit÷ Net Worth) ×**100**

3.4.1.1.1.4 Net Profit to Total Deposits Ratio

It is the ratio of a bank's net profit after tax income divided by its total deposits. It measures that the bank is how much efficiency to mobilize and utilize deposits in generating profit. The formula of calculating it is:

Net Profit to Total Deposits Ratio = (Net Profit After Tax ÷Total Deposits) ×**100**

3.4.1.1.1. 5 Return on Loans and Advances Ratio **(ROL)**

ROL measures the extent to which the banks are successful to utilized the outsiders' fund (total deposits) for the profit generating purpose on the loans and advance. Generally high ratio reflects higher efficiency to the utilized of outsiders fund and vice-versa. It can be calculated by dividing the amount of net profit by the amount of loans and advances, which is given below:-

ROL = (Net Profit After Tax÷ Loans& Advances) ×100

3.4.1.1.1.6 Interest Income Ratio

This is the ratio of a bank's interest inco'e to its total assets. A high interest income ratio indicates greater profitability.

3.4.1.1.1.7 Interest Expenses Ratio

It is the ratio of interest expenses to total assets. A decline in this ratio brings greater profitability to the bank.

3.4.1.1.1.8 Net Interest Margin Ratio

Net interest indicates the difference between interest income and interest expense. So, it is the difference between the revenue generated by interest bearing assets and cost of borrowed funds. A net interest margin ratio is the ratio of this net interest to total assets. The higher the ratio is the greater the profitability and vice versa. A fall in the ratio signals the bank to reorient its policies to earn higher yields through cheaper mix of funds.

3.4.1.1.1.9 Intermediation Cost to Asset Ratio

It is the ratio of intermediation cost (operating expenses cost) to its total assets. A lower ICAR is an indicator of higher profitability and efficiency.

3.4.1.1.1.10 Net Profit Margin (NPM)

It is the ratio of net profit after tax to total income of the bank. Profit margin is a profitability ratios calculated as net income divided by revenue, or net profits divided by sales. Net income or net profit may be determined by subtracting all of a company's expenses, including operating costs, and tax costs, from its total revenue and are expressed as a percentage. An increase in NPM brings greater profitability to the bank.

$$\text{Net Profit margin} = \text{Net Profit} / \text{Total revenue} \times 100$$

3.4.1.1.2 Capital market Indicators:

The performance of a bank's scrip (shares' on the stock market depends on its profitability and it is judged by two parameters:

3.4.1.1.2.1 Earnings Per Share (EPS)

The performance and achievement of a bank can be identified with the earnings power of the bank. Higher earning implies the strength in general case. However, the earning associate with different assets and liabilities are not adequate to satisfy in its earnings per share over the years. Therefore the earnings per share in another ratio that shows how well the banks get return from a unit share. This ratio is an important factor for decision making to those associated with stock exchange. The earnings per share is calculated by dividing the net income available to the common stock holders by the total number of common stock outstanding.

EPS= Net income available to the common stockholders ÷ Total number of common shares outstanding

3.4.1.1.2.2 Price/Earnings Ratio (P/E Ratio)

The most common measure of how expensive a stock is. The P/E ratio is equal to a stock's market capita’ization divided by its after-tax earnings over a 12-month period. Banks with high P/E ratios are more likely to be considered "risky" investme“ts th”n those with low P/E ratios, since a high P/E ratio signifies high expectations. Comparing P/E ratios is most valuable for companies within the same industry. Companies that are not currently profitable (that is, ones which have negative earnings) don't have a P/E ra’io at all also called earnings multiple.

Price Earnings Ratio (P/E) Is calculated as follows:

Price Earnings Ratio (P/E) =Market Price Per Share ÷Earnings Per Share

3.4.1.1.3 Productivity Indicators

The performance of a bank's employee (hum’n resource) has an important effect on the bank's performance i’ the world of competition.

The productivity of the banks can be indicated by:

3.4.1.1.3.1 Profit per Employee: Net profit/ No. of employees

3.4.1.1.3.2 Business per Employee: Net Total Income/ No. of employees

Higher ratio indicates a productive and efficient staff.

3.4.1.1.4 Financial Stability Indicator

Apart from profit, financial stability is also of utmost importance to the banks as it gains the trust and confidence of its depositors. Financial stability can be judged by the capital adequacy ratio. It is the ratio of capital to risk-weighted assets. It measures whether the bank has maintained sufficient capital or not. It helps to decide whether the existing capital is adequate or not. Overcapitalization and under capitalization both have adverse effect on profitability of the bank .If the capital is excess, it remains idle .If the capital is insufficient

,the bank may not be able to grasp the opportunity from potential profitable sectors .Therefore, the commercial banks have been directed to remain sufficient ratio by the central bank. It is calculated by using following formula.

Capital Adequacy Ratio = (Total Capital Fund ÷Total Risk Weighted Exposures) ×**100**)

3.4.1.1.5 Quality of Assets Indicators

The quality of assets in the bank depends on the level of Non-performing Assets (NPAs). The NPAs are those assets on which the payment of interest / principal amount receivable is in arrears. Higher NPAs indicate the deteriorating quality of assets. They are compared to Total Advances / Total Assets. The ratios used are:

a. Gross NPAs / Gross Advances

b. Net NPAs / Net Advances

If these ratios are higher, they indicate decreasing performance of assets.

3.4.2 Statistical Tools.

Under this heading various statistical tools can be used in research in order to draw the reliable conclusion according to the financial data available to the researcher. Some statistical tool such as coefficient of correlation analysis between different variables, trend analysis of deposit, loan and advances, net profit and EPS are used to achieve the objective of the study. The following statistical tools are used to analyze the data.

3.4.2.1 Karl Pearson's Correlation Coefficient Analysis:

Karl Pearson's correlation coefficient is the method of measuring the correlation. It is known as the best method of measuring a correlation, because it is based on the method of covariance. It gives information about the magnitude of correlation as well as the direction of the relationship.

Assumptions:

Independent of case: Cases should be independent to each other.

Distribution: Variables of the correlation should be normally distributed.

Linear relationship: Two variables should be linearly related to each other, or if we plot the value of variables on a scatter diagram, it should yield a relatively straight line.

Properties:

Limit: Coefficient values lie between +1 to -1.

Pure number: It is independent of the unit of measurement. For example, if one variable's unit of measurement is in inches and the second variable is in quintals, even then, Pearson's correlation coefficient value does not change.

Symmetric: Correlation of the coefficient between two variables is symmetric. This means between X and Y or Y and X, the value of will remain the same.

Degree of correlation:

Perfect: If the value is near ± 1, then it said to be a perfect correlation.

High degree: If the value lies between ± 0.75 and ± 1, then it is said to be a high degree of correlation.

Moderate degree: If the value lies between ± 0.25 and ± 0.75, then it is said to be moderate degree of correlation.

Low degree: When the value lies between 0 and ± 0.25, then it is said to be a low degree of correlation.

No correlation: When the value is zero.

The relation between two variables is correlated by Karl Pearson's co correlation coefficient. The following is the formula proposed by Karl Pearson for calculation of correlation coefficient (r)

$r=N\Sigma XY-\Sigma X*\Sigma Y /\sqrt{[N\Sigma X2 - (\Sigma X)2]} \sqrt{[N\Sigma Y2 – (\Sigma Y)2}$

Where,

R– Correlation Coefficient between two variables

N=Number of observations in series X and Y

ΣX=Sum of observations in series x

ΣY= Sum of observations in series Y

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

ΣX^2=Sum of squared observations in series X

ΣY^2= Sum of squared observations in series Y

Statistical analysis is carried out for better understanding of the collected data and information. The result of the statistical analysis is enumerated in the following section.

To test the relationship between number of employees and net profit, number of branches and net profit, total assets and net profit, net worth and net profit, deposits and net profit and loans and advances and net profit, the correlation coefficients have been calculated by using Karl Pearson's correlation coefficient.

3.4.2.2 Test of Hypothesis

The Hypothesis Testing is a statistical test used to determine whether the hypothesis assumed for the sample of data stands true for the entire population or not. Simply, the hypothesis is an assumption which is tested to determine the relationship between two data sets. In hypothesis testing, two opposing hypotheses about a population are formed Viz. Null Hypothesis (H0) and Alternative Hypothesis (H1). The Null hypothesis is the statement which asserts that there is no difference between the sample statistic and population parameter and is the one which is tested, while the alternative hypothesis is the statement which stands true if the null hypothesis is rejected.
The calculated correlation coefficients have been used to test the hypothesis as proposed in Chapter-1 by using the following t-test formula.

$t=r*\sqrt{n-2}/\sqrt{1-r^2}$

Where,

r= calculated correlation coefficient

n= number of observations

t=calculated value of t

The hypotheses have been tested with at a 95% level of confidence.

CHAPTER - IV

PRESENTATIO– AND ANALYSIS OF DATA

The presentation and analysis of data is the main body of this study. This chapter deals with the analysis, presentation, interpretation and major finding of relevant data of concern bank in order to fulfill the objectives of research study. To obtain better result, the data have been analyzed according to the research methodology as mentioned in CHAPTER-III. The purpose of this chapter is to introduce the mechanics of data analysis and interpretation. With the help of this analysis, efforts have been made to highlight the financial performance of Agriculture Development Bank Ltd. (ADBL).The heart of this chapter will be the ratio analyses, which is the powerful financial tool to measure the performance of a ADBL, Nepal**.** The main purpose of analyzing the data is to change it from an unprocessed form to an understandable presentation.

The analysis of data consists of organizing, tabulating, and performing statistical analysis. Here, analysis and interpretation is categorized into two headings.

4.1 Ratio Analyses

4.2 Statistical Analyses

4.1 Ratio Analyses

Ratio analysis is widely used and important tool of financial analysis. Ratio analysis shows the mathematical relationship between two accounting figures. Interest result about company's financial performance can be found out by using ratio analysis. It helps to analyze the financial strength and weakness of the banks. From the help of ratio analysis, the qualitative judgment can be done regarding financial state of a firm. It is also concerned without output and credit decision. Ratio analyses have been adopted to evaluate the performance of a bank. In order to analyze and interpret the tabled data, the following ratios have been used.

Table 4.1
4.1.1 Analyses of Average Net Profit per Branch

(Rs. in '000')

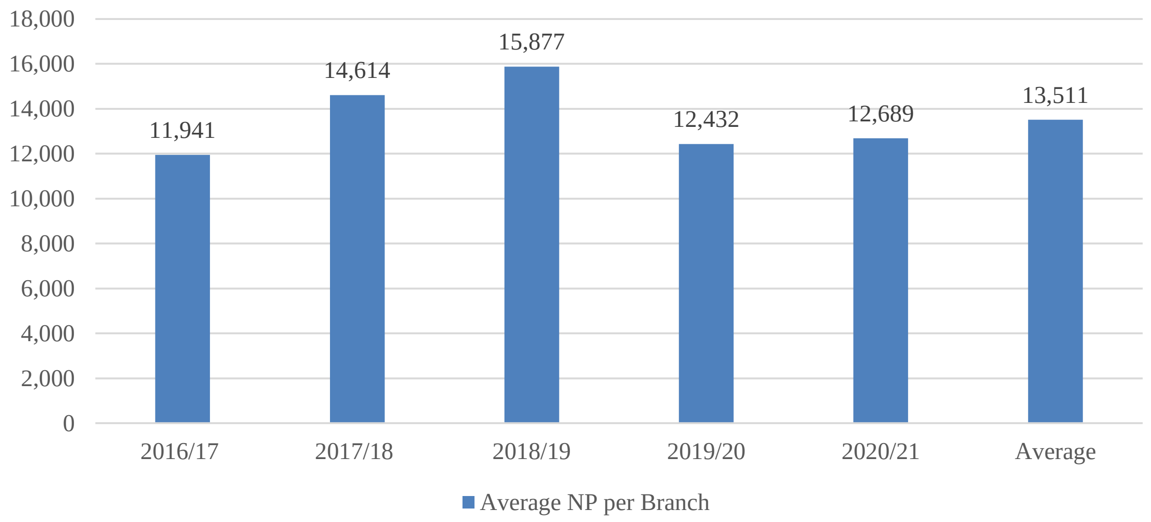
Year	Net Pro'it (NP)	Number of Branches	Average NP per Branch (Rs.)
2016/17	2,973,281	249	11,940.89
2017/18	3,653,519	250	14,614.08
2018/19	4,191,591	264	15,877.24
2019/20	3,331,738	268	12,431.86
2020/21	3,527,537	278	12,688.98
Average	**3,535,533**	**262**	13,510.61

Source: Annual Reports of ADBL, Nepal FY 2016/17 to 2020/21

Note : The number branches includes Development Banking of ADBL too.

The above tabled information is shown in the following figure:

Figure 4.1
Average Net Profit Per Branch



The above table and figure 4.1 shows the Average Net Profit per branch in thousands of rupees is increasing & decreasing in different years. It was 11,914 in fiscal year 2016/17, increased to 14614 in 2017/18 , again increased to doubly 15,877 in 2018/19, again decrease to 12432 in 2019/20 and little bit increase to 12689 in 2020/21. It doesn't show the better efficiency of branches due to fluctuation in Average Net Profit of branches. For better efficiency Average Net Profit should be in increasing order as compare to previous year. So we can say while increasing the number of branches net profit would be satisfactory. The Average Net Profit per Branch between 2016/17 to 2020/21 was Rs.13511 in thousands.

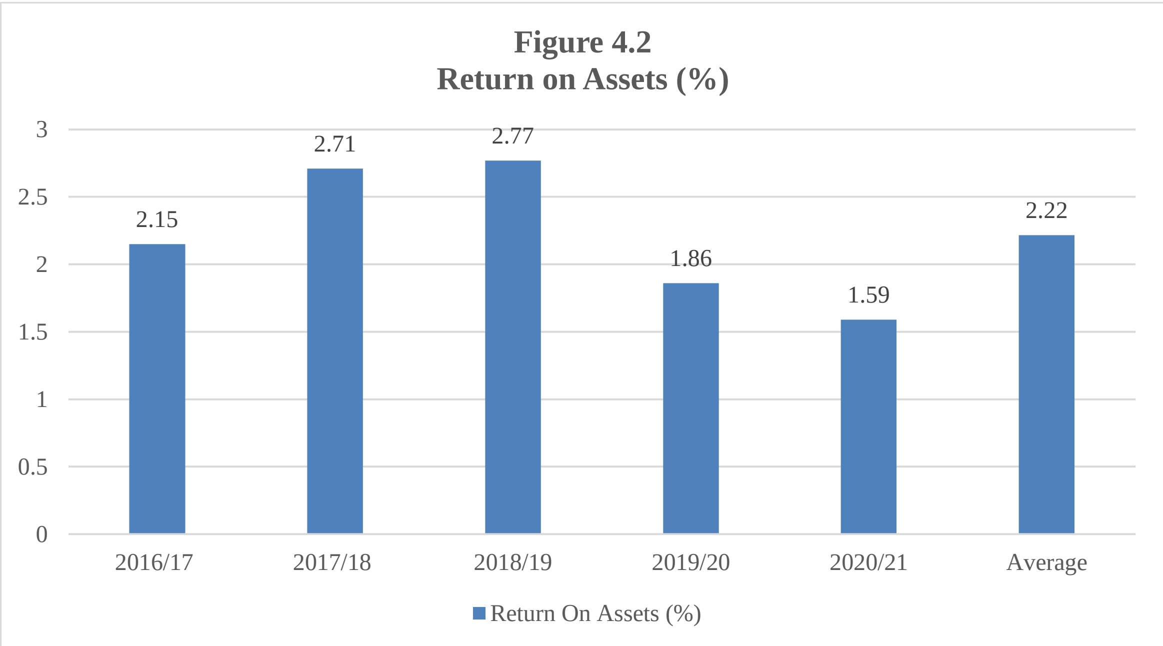
Table 4.2
4.1.2 Analyses of Return on Assets (ROA)

(Rs. in '000')

Year	Net Pro'it (NP)	Total Assets	Return On Assets (%)
2016/17	2,973,281	128,290,187	2.15
2017/18	3,653,519	134,854,098	2.71
2018/19	4,191,591	151,574,997	2.77
2019/20	3,331,738	179,320,859	1.86
2020/21	3,527,537	222,440,349	1.59
Average	**3,535,533**	**163,296,098**	**2.22**

Source: Annual Reports of ADBL, Nepal FY 2016/17 to 2020/21

The above tabled information is shown in the following figure:



The above table and figure 4.2 show the Return on Assets of ADBL for the study periods. ROA increased from 2.15 % to 2.71 % to 2.77% from fiscal year 2016/17 to 2017/18 to

2018/19 respectively. It shows the profitability and efficiency of investment in total assets. ROA decreased from 2.77 percent to 1.86 percent to 1.59 from fiscal year 2018/19 to 2019/20 to 2020/21 respectively, which indicates the decreasing in profitability of bank and less efficiency of investment on total assets. The average ROA between financial year 2016/17 to 2020/21 was 2.22%.

Table 4.3

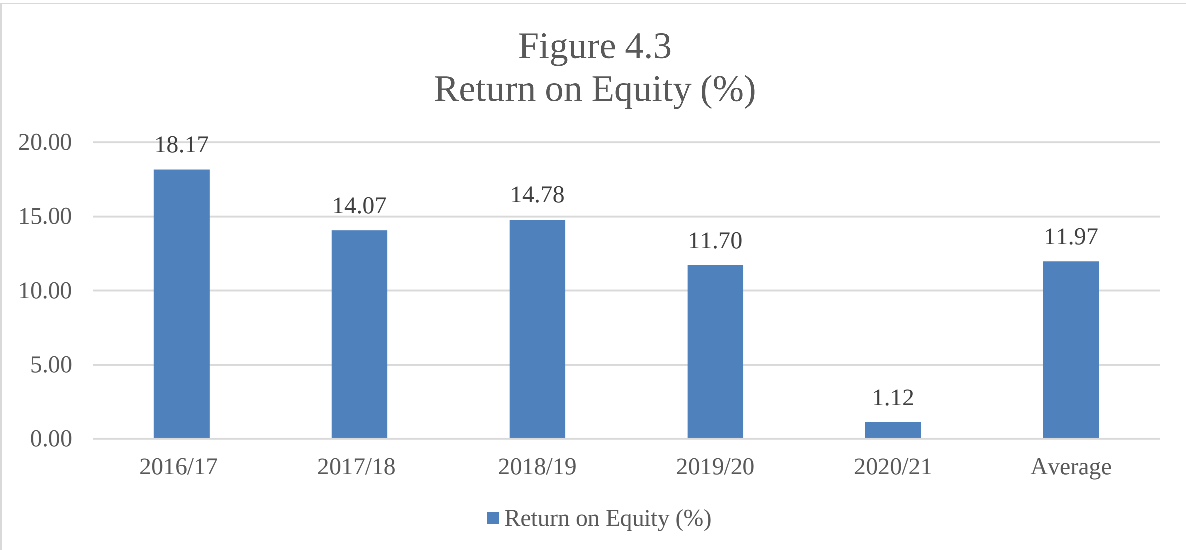
4.1.3 Analyses of Return on Equity(ROE)

(Rs. in '000')

Year	Net Prof't (NP)	Net Worth	Return on Equity (%)
2016/17	2,973,281	16,363,997	18.17
2017/18	3,653,519	25,967,490	14.07
2018/19	4,191,591	28,352,733	14.78
2019/20	3,331,738	28,470,887	11.70
2020/21	3,527,537	315,051,177	1.12
Average	**3,535,533**	**82,841,257**	11.97

Source: Annual Reports of ADBL, Nepal FY 2016/17 to 2020/21

The above tabled information is shown in the following figure



The above table and figure 4.3 shows the ROE of ADBL for the study period. The increasing ROE shows better performance. The ROE decreased from 18.17 % to 14.07% to 11.70 from fiscal year 2016/17 to 2019/20 .It shows the profitability of bank getting lower year to year and again there is significant fall on ROE from 11.70% to 1.12% on FY 2020/21 due to second wave of COVID. It shows poor performance and less utilization of common share holders' equity. Average ROE between financial year 2016/17 to 2020/21 was 11.97 % which indicates there was less profitability and less efficiency.

Table 4.4

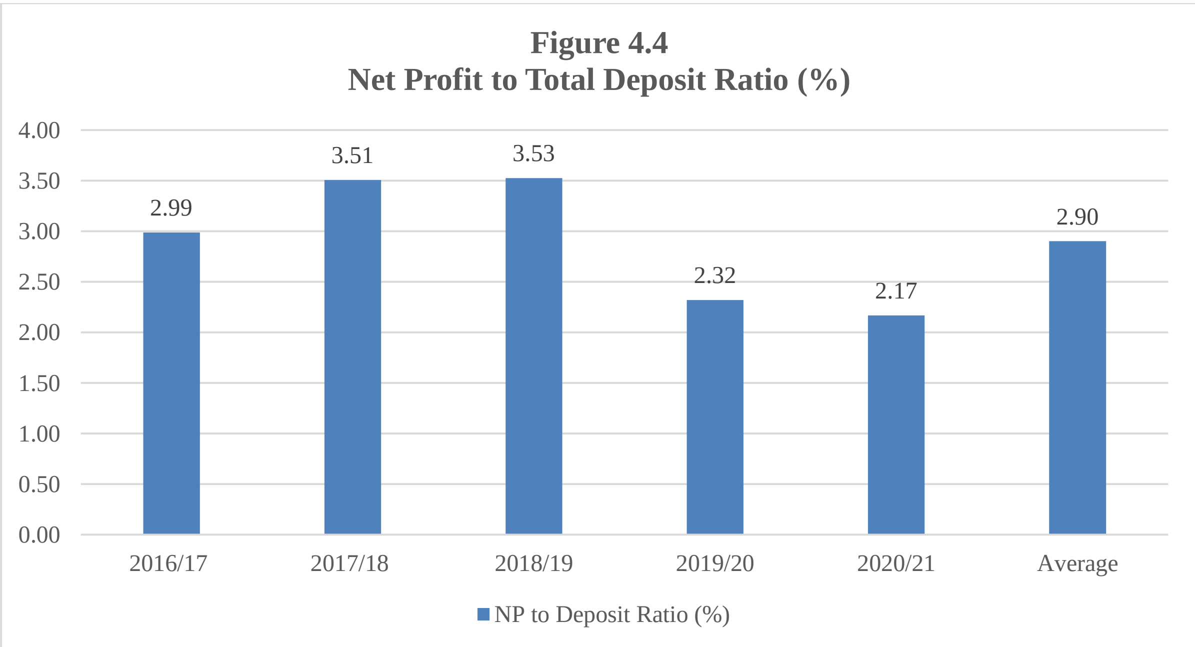
4.1.4 Analyses of Net Profit to Total Deposits Ratio

(Rs. in '000') ,

Year	Net Profit (NP)	Total Deposit	NP to Deposit Ratio (%)
2016/17	2,973,281	99,515,339	2.99
2017/18	3,653,519	104,178,960	3.51
2018/19	4,191,591	118,884,923	3.53
2019/20	3,331,738	143,628,525	2.32
2020/21	3,527,537	162,814,931	2.17
Average	**3,535,533**	**125,804,536**	2.90

Source: Annual Reports of ADBL, Nepal FY 2016/17 to 2020/21

The above tabled information is shown in the following figure:



The above table and figure 4.4 show the Net Profit to Total Deposit Ratio of ADBL for the study period. Higher ratio shows better performance. It was slightly increased from 2.99 percent to 3.51% to 3.53 percent from fiscal year 2016/17 to 2017/18 to 2018/19 respectively, it indicates better mobilization of deposits but again there is a fall in ratios from 3.53% to 2.32% to 2.17% on FY 2017/18 to 2018/19 to 2019/20 which shows bad performance and less mobilization of deposits than previous year. The average of net profit to total deposit ratio from financial year 2016/17 to 2020/21 was 2.90%.

Table 4.5

4.1.5 Analyses of Return on Loans and Advances Ratio (ROL)

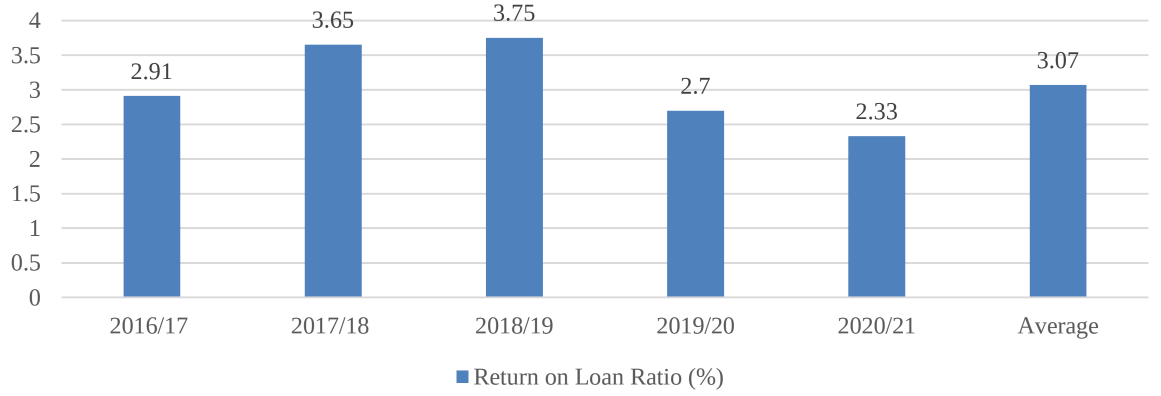
(Rs. in '000')

Year	Net'Profit (NP)	Loan and advances	Return on Loan Ratio (%)
2016/17	2,973,281	93,184,410	2.91
2017/18	3,653,519	98,096,350	3.65
2018/19	4,191,591	109,467,842	3.75
2019/20	3,331,738	121,849,394	2.7
2020/21	3,527,537	150,598,356	2.33
Average	**3,535,533**	**114,639,270**	**3.07**

Source: Annual Reports of ADBL, Nepal FY 2016/17 to 2020/21

The above tabled information is shown in the following figure:

Figure 4.5
Return on Loans and Advances Ratio (%)



The above table and figure 4.5 shows Return on Loans and Advances Ratio of ADBL for the study period. Generally high ratio reflects higher efficiency to the utilization of outsider's fund and vice-versa. It was increased from 2.91 percent to 3.65 % to 3.75 percent from fiscal year 2016/17 to 2017/18 to 2018/19 respectively, which shows the higher efficiency and better utilization of fund in the initial 2 years of study period. But there was fall in ratios from 3.75

percent to 2.7 to 2.33 percent from fiscal year 2018/19 to 2019/20 to 2020/21, which indicates the lower efficiency & less utilization of fund. The Average of Return on Loan Ratio from financial 2016/17 to 2020/21 was 3.07%.

Table 4.6

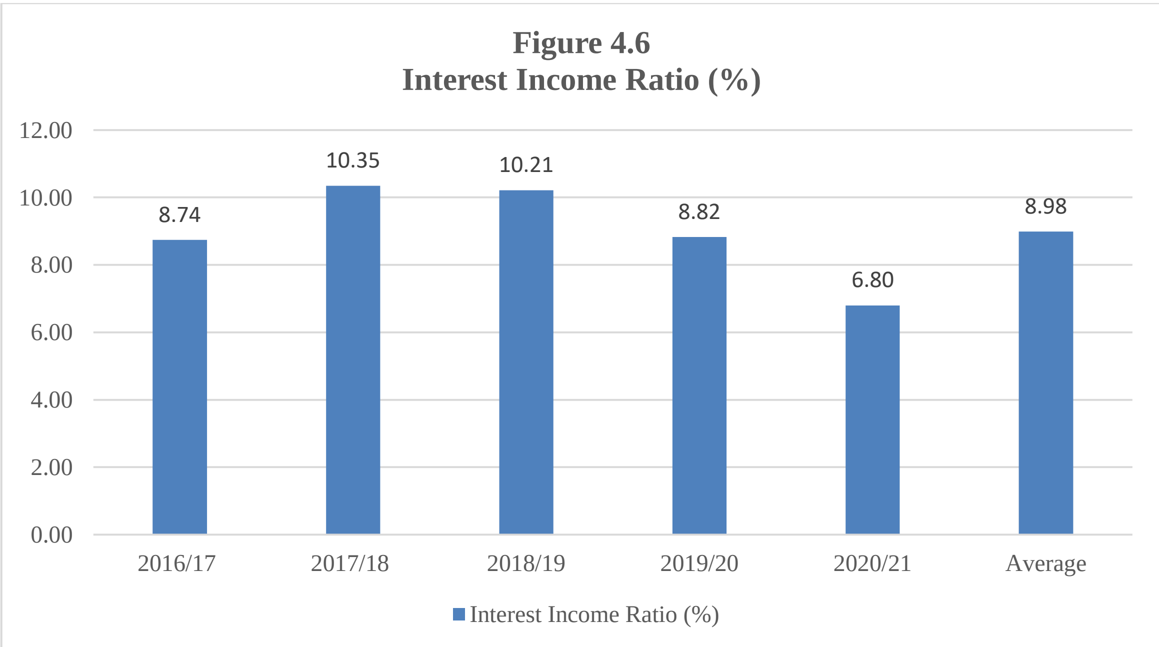
4.1.6 Analyses of Interest Income to Total Assets Ratio

(Rs. in '000')

Year	Interest'Income	Total Assets	Interest Income Ratio (%)
2016/17	11,210,153	128,290,187	8.74
2017/18	13,956,458	134,854,098	10.35
2018/19	15,480,122	151,574,997	10.21
2019/20	15,821,701	179,320,859	8.82
2020/21	15,124,046	222,440,349	6.80
Average	**14,318,496**	**163,296,098**	**8.98**

Source: Annual Reports of ADBL, Nepal FY 2016/17 to 2020/21

The above tabled information is shown in the following figure:



The above table and graph 4.6 show the Interest Income Ratio of ADBL for the study period 2016/17 to 2020/21. It is an indicator of profitability and efficiency. Higher ratio shows better efficiency and vice-versa. Interest income ratio increased from 8.74 percent to 10.35 from fiscal year 2016/17 to 2017/18, which indicates increase in profitability. But it was decreased from 10.21 percent to 8.82 to 6.80 percent from fiscal year 2018/19 to 2019/20 to 2020/21 simultaneously which indicates poor performance and decrease in profitability. The average Interest Income Ratio from financial 2016/17 to 2020/21 was 8.98%.

Table 4.7

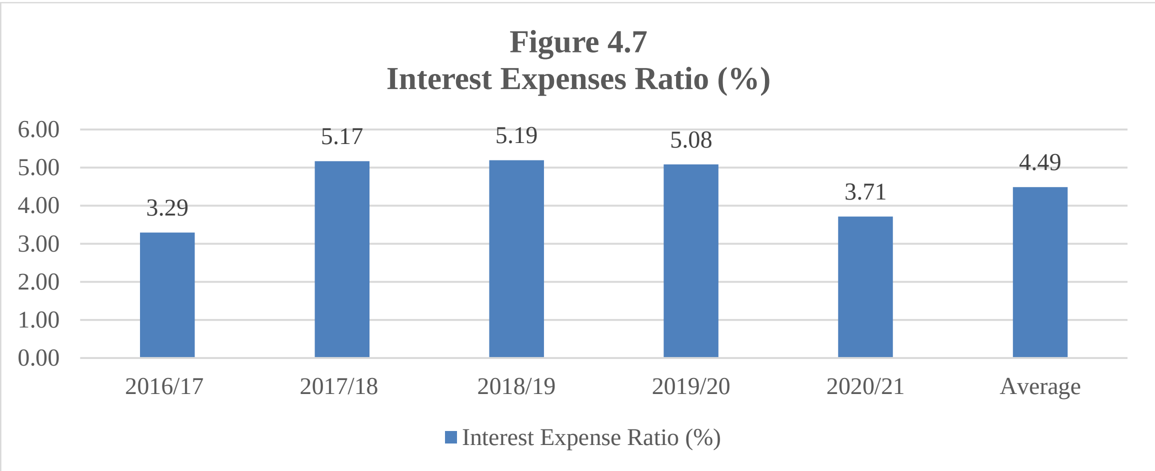
4.1.7 Analyses of Interest Expenses Ratio (%)

(Rs. in '000')

Year	Interest'Expenses	Total Assets	Interest Expense Ratio (%)
2016/17	4,224,871	128,290,187	3.29
2017/18	6,966,286	134,854,098	5.17
2018/19	7,865,130	151,574,997	5.19
2019/20	9,105,580	179,320,859	5.08
2020/21	8,258,328	222,440,349	3.71
Average	**7,284,039**	**163,296,098**	4.49

Source: Annual Reports of ADBL, Nepal FY 2016/17 to 2020/21

The above tabled information is shown in the following figure



The above table and figure 4.7show the Interest Expenses to Total Assets Ratio of ADBL for the study period. Decrease in interest expenses ratio indicates higher profitability and better performance. Interest expenses ratio increased from 3.29 percent to 5.17 % to 5.19 percent from fiscal year 2016/17 to 2017/18 to 2018/19 respectively, which indicates poor performance and decrease in profitability. From FY 2019/20 to 2020/21 it was slightly decreased from 5.08 percent to 3.71 percent, which indicates profitability and good performance than previous year. The average Interest Income Ratio from financial 2016/17 to 2020/21 was 4.49%.

Table 4.8

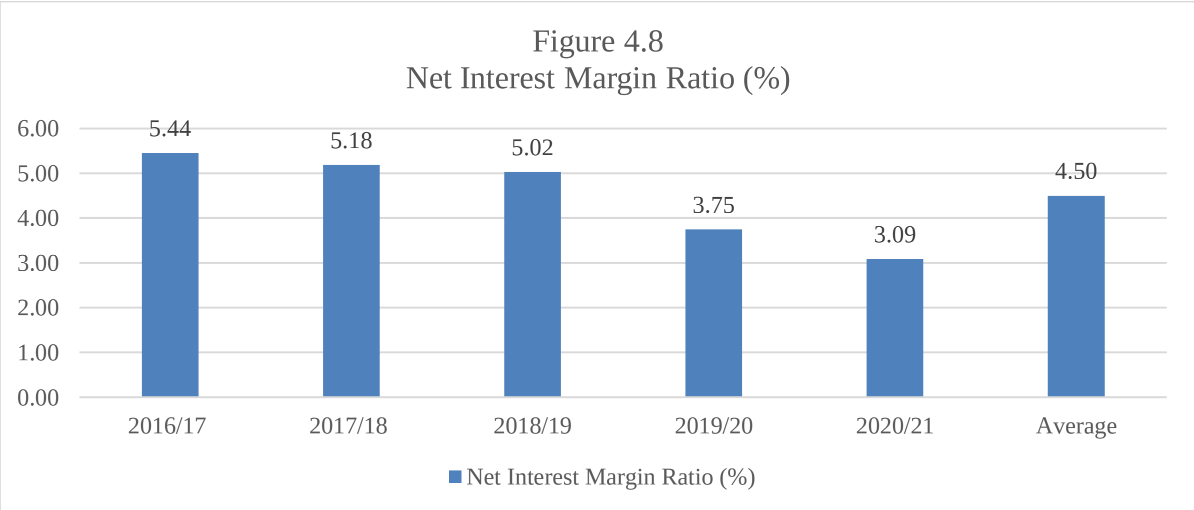
4.1.8 Analyses of Net Interest Margin Ratio to Total Assets (%)

(Rs. in '000')

Year	Net Inte'est Margin	Total Assets	Net Interest Margin Ratio (%)
2016/17	6,985,282	128,290,187	5.44
2017/18	6,990,172	134,854,098	5.18
2018/19	7,614,992	151,574,997	5.02
2019/20	6,716,121	179,320,859	3.75
2020/21	6,865,718	222,440,349	3.09
Average	**7,034,457**	**163,296,098**	**4.50**

Source: Annual Reports of ADBL, Nepal FY 2016/17 to 2020/21

The above tabled information is shown in the following figure:



The above table and graph 4.8 show the Net Interest Margin Ratio of ADBL for the study period. It is an indicator of profitability and efficiency. Higher ratio shows better efficiency and vice-versa. From fiscal year 2016/17 to 2020/21 Net Interest Margin decreased from 5.44% to 5.18% to 5.02% to 3.75 to 3.09 which indicates decrease in profitability, less efficiency and poor performance. The average net margin ratio from financial 2016/17 to 2020/21 was 4.50%.

Table 4.9

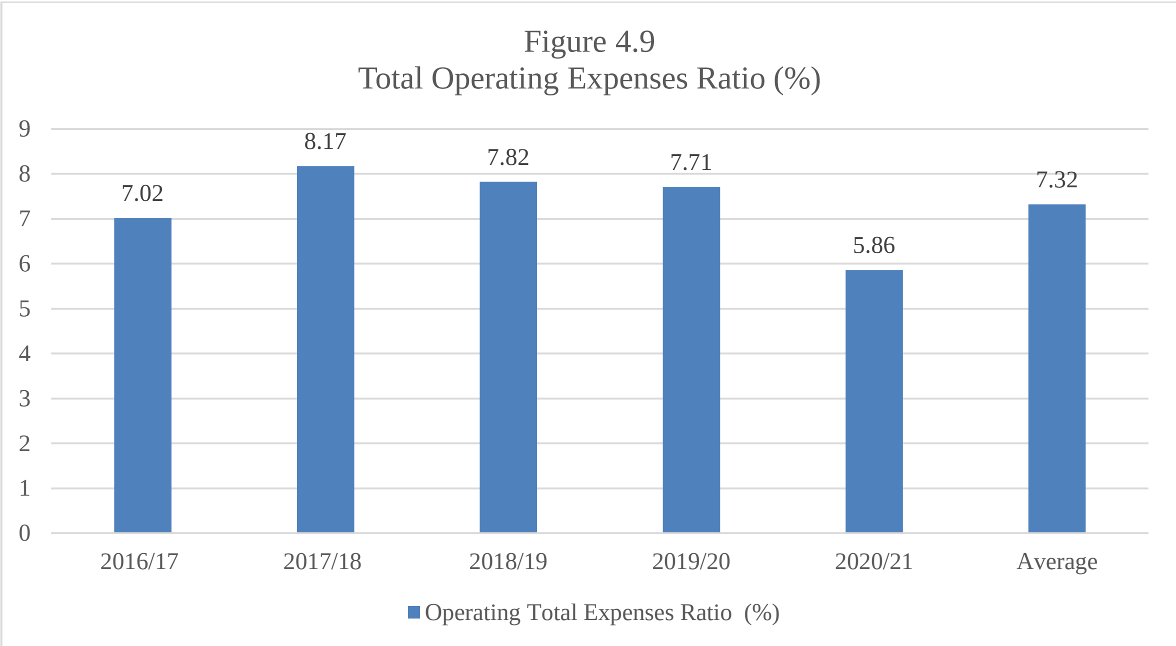
4.1.9 Analyses of Intermediation Cost (Operating Expenses) Ratio (%)

(Rs. in '000')

Year	Total Op'rating Expenses	Total Assets	Operating Expenses Ratio (%)
2016/17	4,050,921	128,290,187	7.02
2017/18	4,044,449	134,854,098	8.17
2018/19	3,971,361	151,574,997	7.82
2019/20	4,184,224	179,320,859	7.71
2020/21	4,719,753	222,440,349	5.86
Average	**4,194,142**	**163,296,098**	**7.32**

Source: Annual Reports of ADBL, Nepal FY 2016/17 to 2020/21

The above tabled information is shown in the following figure:



The above table and figure 4.9shows the total Operating Expenses to Total Assets Ratio of ADBL for the study period from 2016/17 to 2020/21. Decrease in operating expenses ratio indicates higher profitability and vice-versa. From fiscal year 2016/17 to 2017/18, the Operating Expenses Ratio is increased from 7.02 % to 8.17 percent which indicates decrease in profitability. From fiscal year 2017/18 to 2020/21 the ratios decreased from 8.17 percent to 7.82% to 7.71% to 5.86 percent, which indicates increase in profitability and improve in efficiency and the average operating expenses ratio from financial 2016/17 to 2020/21 was 7.32%.

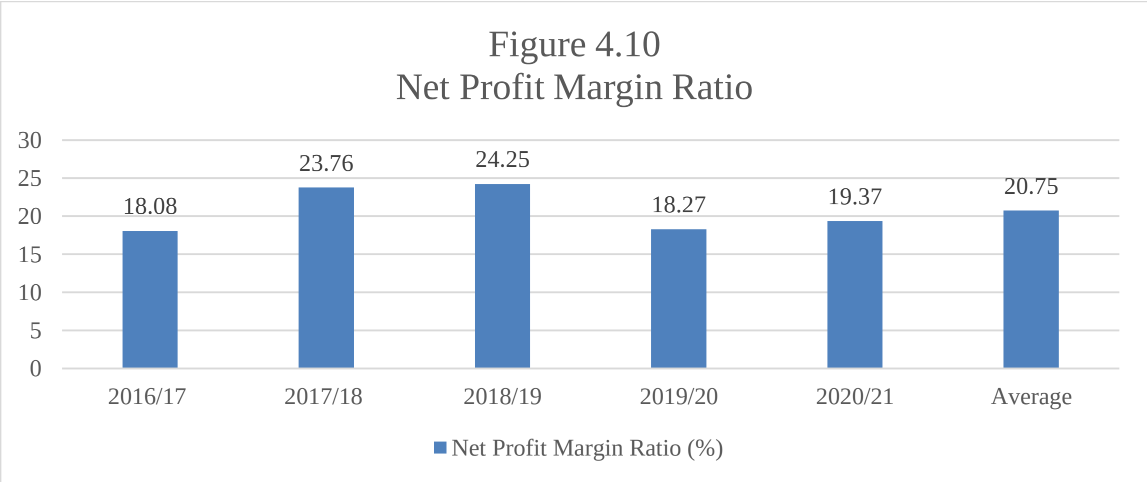
Table 4.10
4.1.10 Analyses of Net Profit Margin Ratio(%)

(Rs. in '000')

Year	Net Prof't (NP)	Total Revenue	Net Profit Margin Ratio (%)
2016/17	2,973,281	16,445,138	18.08
2017/18	3,653,519	15,376,763	23.76
2018/19	4,191,591	17,284,911	24.25
2019/20	3,331,738	18,236,114	18.27
2020/21	3,527,537	18,211,342	19.37
Average	**3,535,533**	**17,110,854**	20.75

Source: Annual Reports of ADBL, Nepal FY 2016/17 to 2020/21

The above tabled information is shown in the following figure:



The above table and graph 4.10 show the Net Profit Margin Ratio of ADBL for the study period from 2016/17 to 2020/21. It is an indicator of profitability and efficiency. Higher ratio shows better efficiency and vice-versa. It is calculated by dividing net profit after tax to total income of the bank. From fiscal year 2016/17 to 2017/18 to 2018/19 net profit margin increased from 18.8 percent to 23.76 percent to 24.25%, which indicates increase in profitability and efficiency. From fiscal year 2018/19 to 2019/20 the NPM decreased from 24.25 percent to 18.27 percent which indicates poor performance. In FY 2020/21 the NPM slightly increased to 19.37 percent and the average net profit margin ratio from financial 2016/17 to 2020/21 was 20.75%

Table 4.11

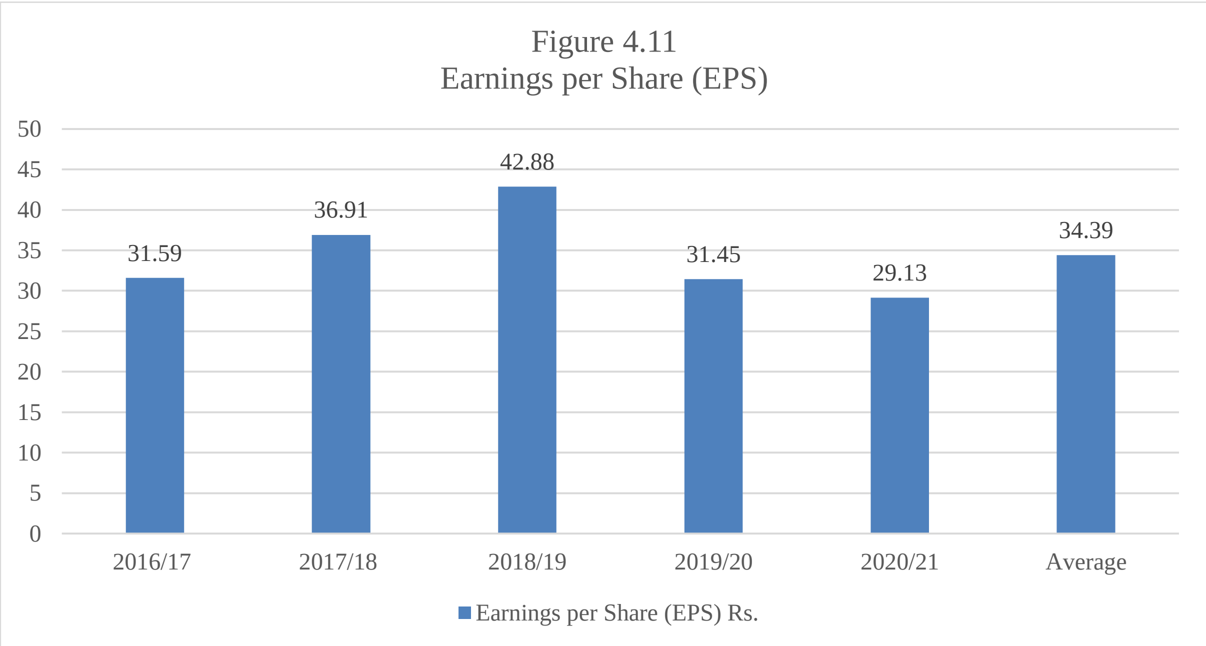
4.1.11 Analyses of Earning per Share (EPS)

(Rs. in '000')

Year	Net Prof't (NP)	Number of Shares	Earnings per Share (EPS) Rs.
2016/17	2,973,281	70,876,800	31.59
2017/18	3,653,519	85,052,160	36.91
2018/19	4,191,591	90,155,290	42.88
2019/20	3,331,738	95,564,607	31.45
2020/21	3,527,537	109,899,298	29.13
Average	**3,535,533**	**90,309,631**	**34.39**

Source: Annual Reports of ADBL, Nepal FY 2016/17 to 2020/21

The above tabled information is shown in the following figure:



The above table and graph 4.11 show Earnings per Share (EPS) in rupees of ADBL for study period from 2016/17 to 2020/21. An increase in EPS indicates higher earning and higher efficiency and decrease in EPS indicates decrease in profitability and efficiency. The EPS increased from Rs.31.59 to Rs.36.91 to Rs.42.88 from fiscal year 2016/17 to 2017/18 to 2018/19 respectively. It indicates better utilization of common shareholders fund and better efficiency. But from FY 2018/19 to 2019/20 to 2020/21 there was decrease in EPS that is from Rs. 42.88 to Rs.31.45 to Rs 29.13 which indicates decrease in profitability & efficiency and less utilization of shareholders fund and the average EPS from financial 2016/17 to 2020/21 was Rs. 34.39.

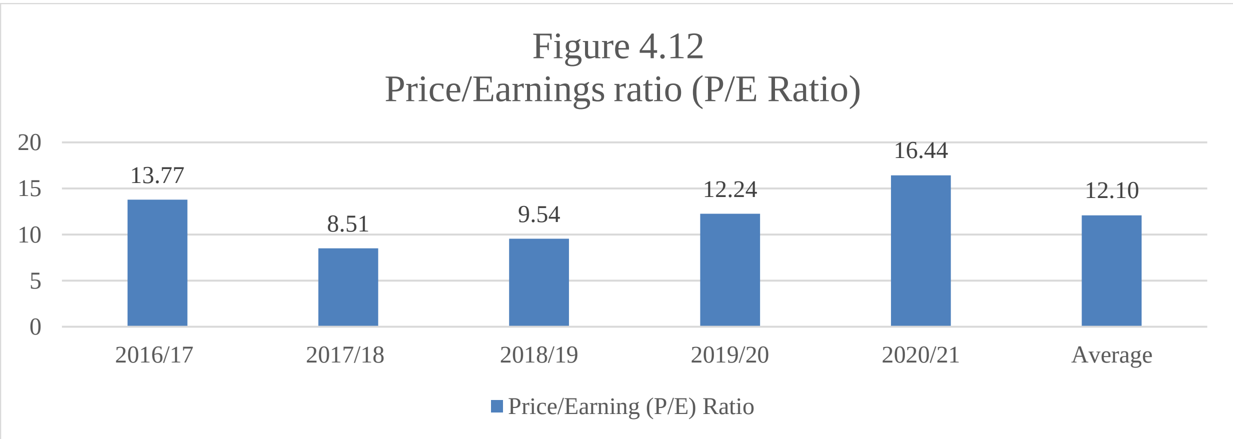
Table 4.12

4.1.12 Analyses of Price/Earnings ratio (P/E Ratio)

Year	Market Price of Share (MPS)	Earnings per Share (EPS)	Price/Earning (P/E) Ratio
2016/17	435	31.59	13.77
2017/18	314	36.91	8.51
2018/19	409	42.88	9.54
2019/20	385	31.45	12.24
2020/21	479	29.13	16.44
Average	**404**	**34**	**12.10**

Source: Annual Reports of ADBL, Nepal FY 2016/17 to 2020/21

The above tabled information is shown in the following figure:



The above table and graph 4.12 show the Price/Earnings Ratio (P/E Ratio) of ADBL for the study period from 2016/17 to 2020/21. An increase in P/E ratio indicates higher market price and higher risk and vice-versa. The P/E ratio decreased from fiscal year 2016/17 to 2017/18 from 13.77 to 8.51 times which indicates decrease in market price per share. From fiscal year 2017/18 to 2018/19 to 2019/20 to 2020/21 the P/E ratio increased from 8.51 times to 9.54 to 12.24 to 16.44 times simultaneously which indicates increase in market price per share, higher the degree of liquidity and higher the corporate image of a bank and the average Price/Earnings Ratio from financial 2016/17 to 2020/21 was 12.10 times.

Table 4.13

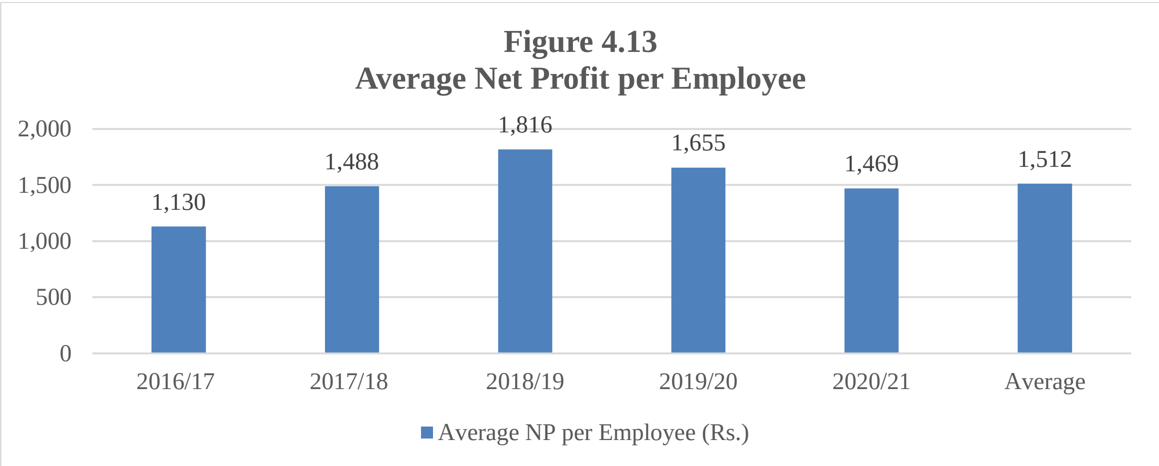
4.1.13 Analyses of Average Net Profit per Employee

(Rs. in '000')

Year	Net Prof't (NP)	Number Employee	Average NP per Employee (Rs.)
2016/17	2,973,281	2,632	1,130
2017/18	3,653,519	2,455	1,488
2018/19	4,191,591	2308	1,816
2019/20	3,331,738	2013	1,655
2020/21	3,527,537	2402	1,469
Average	**3,535,533**	**2,362**	**1,512**

Source: Annual Reports of ADBL, Nepal FY 2016/17 to 2020/21

The above tabled information is shown in the following figure:



The above table and graph 4.13 show Average Net Profit per Employee of ADBL for the study period from 2016/17 to 2020/21. Net profit per employee in thousands of rupees increased from Rs. 1130 to Rs. 1488 to Rs. 1816 from fiscal year 2016/17 to 2017/18 to 2018/19 respectively, which indicates increase in productivity and employee performance. But from fiscal year 2018/19 to 2019/20 to 2020/21 it was decreased from Rs. 1816 to Rs. 1655 to Rs 1469 simultaneously, which indicates decrease in productivity, decreases in employee performance and may be lack of skilled manpower in specific field of bank and the average net profit per employee from financial 2016/17 to 2020/21 was Rs. 1512 in thousands.

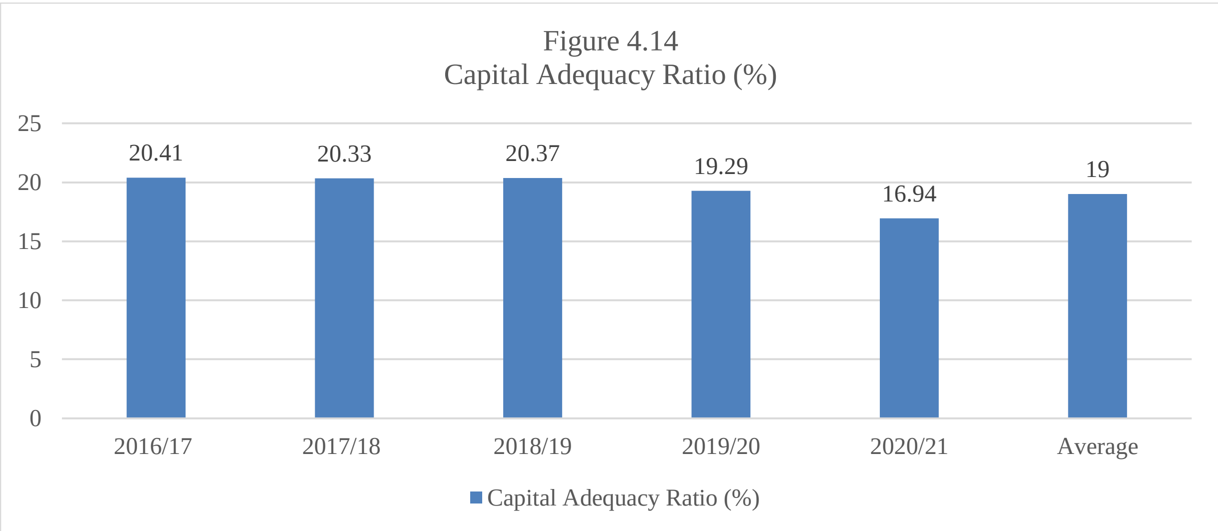
Table 4.14

4.1.14 Analyses of Capital Adequacy Ratio

Year	Capital Adequacy Ratio (%)
2016/17	20.41
2017/18	20.33
2018/19	20.37
2019/20	19.29
2020/21	16.94
Average	**19**

Source: Annual Reports of ADBL, Nepal FY 2016/17 to 2020/21

The above tabled information is shown in the following figure:



The above table and graph 4.14 Shows Capital Adequacy Ratio of ADBL for the study period from 2016/17 to 2020/21. According to Nepal Rastra Bank norms and bench mark standard the minimum capital adequacy ratio should be 10 percent. The Capital Adequacy Ratios of ADBL Bank for study period 2016/17 to 2020/21 were 20.41%, 20.33%, 20.37%, 19.29% & 16.94% respectively and which is more than 10% that indicates better financial stability and the average Capital Adequacy Ratio from financial year 2016/17 to 2020/21 was 19% which is also more than NRB norms.

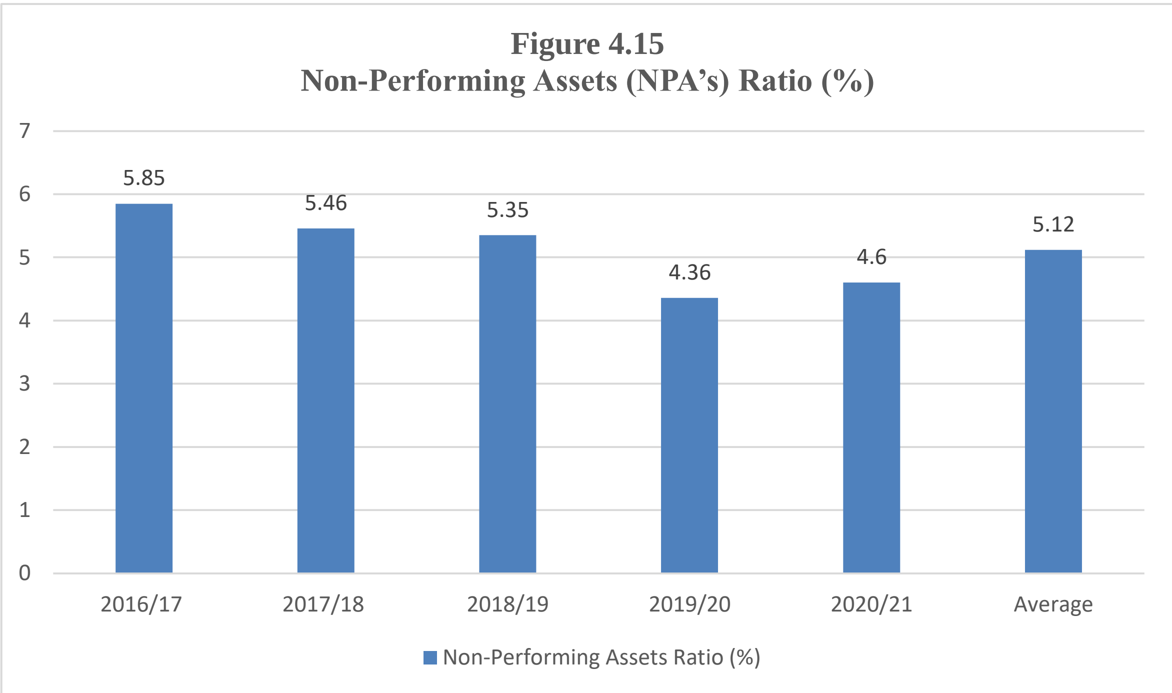
Table 4.15

4.1.15 Analyses of Non-Performing Assets (NPA's) Ratio

Year	Non-Performing Assets Ratio (%)
2016/17	5.85
2017/18	5.46
2018/19	5.35
2019/20	4.36
2020/21	4.60
Average	**5.12**

Source: Annual Reports of ADBL, Nepal FY 2016/17 to 2020/21

The above tabled information is shown in the following figure:



The above table and graph 4.15 show Non- Performing Assets Ratio of ADBL for study period from 2016/17 to 2020/21. Higher NPA's indicate the deteriorating quality of assets. From fiscal year 2016/17 to 2019/20 the NPAS decreased from 5.85 percent to 4.36 percent, which indicates increase in the quality of assets and better performance. But there was increasing in NPA's Ratio from 4.36 percent to 4.60 percent from financial year 2019/20 to 2020/21, which shows deteriorating quality of assets and the average of non-performing assets ratio from financial 2016/17 to 2020/21 was 5.12%.

Table 4.16

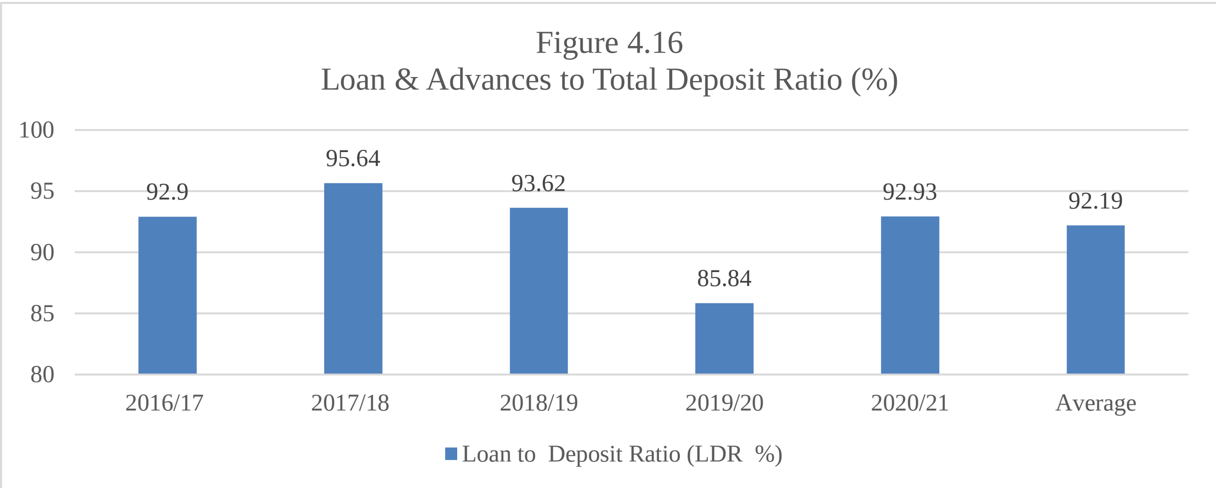
4.1.16 Analyses of Loan & Advances to Total Deposit Ratio (LDR) %

(Rs. in '000')

Year	Loan and'advances	Total Deposit	Loan to Deposit Ratio (LDR %)
2016/17	93,184,410	99,515,339	92.9
2017/18	98,096,350	104,178,960	95.64
2018/19	109,467,842	118,884,923	93.62
2019/20	121,849,394	143,628,525	85.84
2020/21	150,598,356	162,814,931	92.93
Average	**114,639,270**	**125,804,536**	**92.19**

Source: Annual Reports of ADBL, Nepal FY 2016/17 to 2020/21

The above tabled information is shown in the following figure:



The above table and graph 4.16 show Loan and Advances to Total Deposit Ratio (LDR) of ADBL for study period from 2016/17 to 2020/21. Higher the ratio means the bank may not have enough liquidity to cover any unforeseen fund requirements or economic crises. Conversely, lower the ratiI means, the bank may nIt be earning as much as it could be. In the above figure LDR was increased from 92.9% to 95.64% from financial year 2016/17 to 2017/18. It was decreased to 93.62% to 85.84% in the FY 2018/19 to 2019/20 again it was increased to 92.93% in FY 2020/21. Since,

Bank has higher LDR ratio i.e. in the range of 85%, it means the bank may not have enough liquidity to cover any unforeseen fund requirements. The average LDR ratio from financial year 2016/17 to 2020/21 was 92.19%

Table 4.17

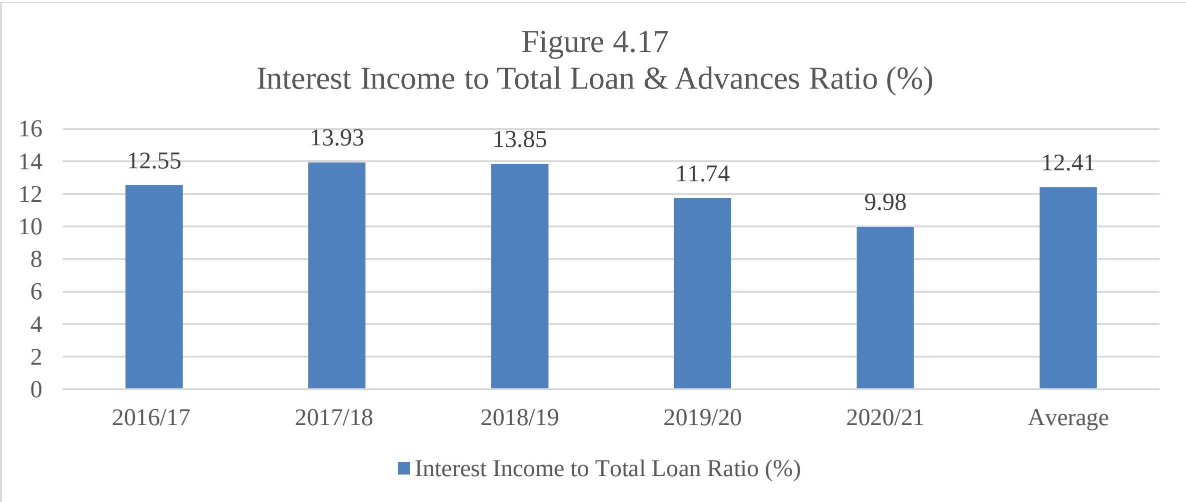
4.1.17 Analyses of Interest Income to Total Loan & Advances Ratio (%)

(Rs. in '000')

Year	Interest'Income	Loan and advances	Interest Income to Total Loan Ratio (%)
2016/17	11,210,153	93,184,410	12.55
2017/18	13,956,458	98,096,350	13.93
2018/19	15,480,122	109,467,842	13.85
2019/20	15,821,701	121,849,394	11.74
2020/21	15,124,046	150,598,356	9.98
Average	**14,318,496**	**114,639,270**	**12.41**

Source: Annual Reports of ADBL, Nepal FY 2016/17 to 2020/21

The above tabled information is shown in the following figure:



The above table and graph 4.17 show Interest Income to Total Loan and Advances Ratio of ADBL for the study period from 2016/17 to 2020/21. Higher the ratio results increase in profitability and sometimes may be increase in risk of bad debt and lower the ratio results less profitability & less utilization of funds. From financial year 2016/17 to 2017/18 there was increase in Interest Income to Loan Ratio from 12.55 % to 13.93%, it indicates increase in profitability and utilization of fund. But from FY 2017/18 to 2020/21 there is continuous fall in ratios that is from 13.93% to 13.85% to 11.74% to 9.98% which indicate less profitability and less utilization of fund. The average interest income to total loan and advances from financial year 2016/17 to 2020/21 was 12.41%.

4.2 Statistical Tools

Statistical analysis is carried out for better understanding of the collected data and information. The result of the statistical analysis is enumerated in the following.

4.2.1 Karl Pearson’s Correlation Coefficient Analysis:

To test the relationship between selected variables the Karl Pearson’s correlation coefficient have been calculate

Table 4.18

4.2.1.1 Calculation of Correlation coefficient(r) between Net Profit Rs. in million (X) and Number of Employees(Y) of ADBL, Nepal

Year	X	Y	XY	X^2	Y^2
2016/17	297	2,632	782,568	88,404	6,927,424
2017/18	365	2,455	896,939	133,482	6,027,025
2018/19	419	2,308	967,419	175,694	5,326,864
2019/20	333	2,013	670,679	111,005	4,052,169
2020/21	353	2,402	847,314	124,435	5,769,604
Total (Σ)	**1,768**	**11,810**	**4,164,919**	**633,020**	**28,103,086**

Source: Annual Reports of ADBL, Nepal FY 2016/17 to 2020/21

r=NΣXY-ΣXΣY/√NΣX^2-(ΣX)^2*√NΣY^2-(ΣY)^2

r =5*4164919-1768*11810/√5*633020-(1768)^2*√5*28103086-(11810)^2

r= 0.97293

The correlation coefficient between net profit and number of employees of ADBL, Nepal is 0.97293, which is positively correlated. Here, coefficient is nearer to 1 which indicates that the correlation seems to be nearly perfectly positive. It can be said that an increase in number of employees increases net profit and vice-versa.

Table 4.19

4.2.1.2 Calculation of correlation coefficient (r) between net profit Rs. in million (X) and number of branches(Y) of ADBL, Nepal

Year	X	Y	XY	X^2	Y^2
2016/17	297	249	74,035	88,404	62,001
2017/18	365	250	91,338	133,482	62,500
2018/19	419	264	110,658	175,694	69,696
2019/20	333	268	89,291	111,005	71,824
2020/21	353	278	98,066	124,435	77,284
Total (Σ)	**1,768**	**1,309**	**463,387**	**633,020**	**343,305**

Source: Annual Reports of ADBL, Nepal FY 2016/17 to 2020/21

r=NΣXY-ΣXΣY/√NΣX^2-(ΣX)^2*√NΣY^2-(ΣY)^2

r= 0.97484

The correlation coefficient between net profit and number of branches of ADBL, Nepal is 0.97484, which is positively correlated. Here, coefficient is nearer to 1 which indicates that the correlation seems to be nearly perfectly positive. It can be said that an increase in number of branches increases net profit and vice-versa.

Table 4.20

4.2.1.3 Calculation of correlation coefficient(r) between net Ifit in million (X) and total assets in million(Y) of ADBL, Nepal

Year	X	Y	XY	X^2	Y^2
2016/17	297	12,829	3,814,428	88,404	164,583,721
2017/18	365	13,485	4,926,920	133,482	181,856,277
2018/19	419	15,157	6,353,404	175,694	229,749,797
2019/20	333	17,932	5,974,501	111,005	321,559,705
2020/21	353	22,244	7,846,666	124,435	494,797,089
Total (Σ)	**1,768**	**81,648**	**28,915,919**	**633,020**	**1,392,546,589**

Source: Annual Reports of ADBL, Nepal FY 2016/17 to 2020/21

r=NΣXY-ΣXΣY/√NΣX^2-(ΣX)^2*√NΣY^2-(ΣY)^2

r= 0.98989

The correlation coefficient between net profit and total assets of ADBL, Nepal is 0.98989, which is positively correlated. Here, coefficient is nearer to 1 which indicates that the correlation seems to be nearly perfectly positive. It can be said that an increase in total assets increases net profit and vice-versa.

Table 4.21

4.2.1.4 Calculation of correlation coefficient(r) between net Ifit in million (X) and book net worth in million(Y) of ADBL, Nepal

Year	X	Y	XY	X^2	Y^2
2016/17	297	1,636	486,548	88,404	2,677,804
2017/18	365	2,597	948,727	133,482	6,743,105
2018/19	419	2,835	1,188,431	175,694	8,038,775
2019/20	333	2,847	948,575	111,005	8,105,914
2020/21	353	31,505	11,113,547	124,435	992,572,441
Total (Σ)	**1,768**	**41,421**	**14,685,828**	**633,020**	**1,018,138,039**

Source: Annual Reports of ADBL, Nepal FY 2016/17 to 2020/21

r=NΣXY-ΣXΣY/√NΣX^2-(ΣX)^2*√NΣY^2-(ΣY)^2

r= 0.95998

The correlation coefficient between net profit and net worth of ADBL, Nepal is 0.95998, which is positively correlated. Here, coefficient is nearer to 1 which indicates that the correlation seems to be nearly perfectly positive. It can be said that an increase in net worth increases net profit and vice-versa.

Table 4.22

4.2.1.5 Calculation of correlation coefficient(r) between net profit in million (X) deposits in million(Y) of ADBL, Nepal

Year	X	Y	XY	X^2	Y^2
2016/17	297	9,952	2,958,871	88,404	99,033,027
2017/18	365	10,418	3,806,198	133,482	108,532,557
2018/19	419	11,888	4,983,170	175,694	141,336,249
2019/20	333	14,363	4,785,326	111,005	206,291,532
2020/21	353	16,281	5,743,357	124,435	265,087,018
Total (Σ)	**1,768**	**62,902**	**22,276,922**	**633,020**	**820,280,383**

Source: Annual Reports of ADBL, Nepal FY 2016/17 to 2020/21

r=NΣXY-ΣXΣY/√NΣX^2-(ΣX)^2*√NΣY^2-(ΣY)^2

r= 0.98777

The correlation coefficient between net profit and deposits of ADBL, Nepal is 0.98777, which is positively correlated. Here, coefficient is nearer to 1 which indicates that the correlation seems to be nearly perfectly positive. It can be said that an increase in deposits increases net profit and vice-versa.

Table 4.23

4.2.1.6 Calculation of correlation coefficient(r) between net Ifit in million (X) and loans and advances in million(Y) of ADBL, Nepal

Year	X	Y	XY	X^2	Y^2
2016/17	297	9,318	2,770,634	88,404	86,833,343
2017/18	365	9,810	3,583,969	133,482	96,228,939
2018/19	419	10,947	4,588,444	175,694	119,832,084
2019/20	333	12,185	4,059,703	111,005	148,472,748
2020/21	353	15,060	5,312,413	124,435	226,798,648
Total (Σ)	**1,768**	**57,320**	**20,315,163**	**633,020**	**678,165,762**

Source: Annual Reports of ADBL, Nepal FY 2016/17 to 2020/21

$r=N\Sigma XY-\Sigma X\Sigma Y/\sqrt{N\Sigma X^2-(\Sigma X)^2}*\sqrt{N\Sigma Y^2-(\Sigma Y)^2}$

r= 0.98745

The correlation coefficient between net profit and loans and advances of ADBL, Nepal is 0.98745, which is positively correlated. Here, coefficient is nearer to 1 which indicates that the correlation seems to be nearly perfectly positive. It can be said that an increase in loans and advances increases net profit and vice-versa.

4.2.2 TEST OF HYPOTHESIS

In hypothesis testing, two opposing hypotheses about a population are formed Viz. Null Hypothesis (H0) and Alternative Hypothesis (H1). The Null hypothesis is the statement which asserts that there is no difference between the sample statistic and population parameter and is the one which is tested, while the alternative hypothesis is the statement which stands true if the null hypothesis is rejected.

As proposed in the first chapter, the calculated values of correlation coefficients presented in Table 4.18 to 4.23 are tested by using t-test.

4.2.2.1 Test of hypothesis 1 : Hypothesis between Net Profit and Number of Employees

H0: Net profit and number of employees of ADBL are not correlated.

H1: Net profit and number of employees of ADBL are correlated

Calculation of t value for hypothesis test (source: table 4.18)

$t=r*\sqrt{n-2}/\sqrt{1-r^2}$

$= 0.97293*\sqrt{5-2}/\sqrt{1-(0.97293)^2} = 7.2919$

Number of observations (n) =5

Correlation coefficient(r)= 0.97293(as I Table 4.18)

H0: p=0, i.e., net profit and number of employees of ADBL are not correlated.

H1:P≠o (two –tailed), i.e., net profit and number of employees of ADBL are correlated.

Level of significance (a) =5%=0.05

Test statistics under null hypothesis is

t=7.2919

Degree of freedom (doff.)=n-2 =5-2=3

Table value, at 5% level of significance at degree of freedom of at 3%:

t0.05=3.18 (taken from t-table)

tcal=7.2919 > t 0.05=3.18

Since calculated t is greater than the table value, H0 is rejected. Thus, it is concluded that net profit and number of employees of ADBL are correlated.

4.2.2.2 Test of hypothesis 2 : Hypothesis between Net Profit and Number of Branches

H0: Net profit and number of branches of ADBL are not correlated.

H1: Net profit and number of branches of ADBL are correlated.

Calculation of t value for hypothesis test (source: table 4.19)

$t=r*\sqrt{n-2}/\sqrt{1-r^2}$

= 7.5748

Number of observations (n)=5

Correlation coefficient(r)= 0.974848

H0I=0, i.e., net profit and number of branches of ADBL are not correlated.

H1:P≠o (two –tailed), i.e., net profit and number of branches of ADBL are correlated.

Level of significance (a) =5%=0.05

Test statistics under null hypothesis is

t=7.5748

Degree of freedom (doff.)=n-2 =5-2=3

Table value, at 5% level of significance at degree of freedom of at 3%:

$t_{0.05}$=3.18 (taken from t-table)

tcal= 7.5748 > t 0.05=3.18

Since calculated t is greater than the table value, H0 is rejected. Thus, it is concluded that net profit and number of branches of ADBL are correlated.

4.2.2.3 Test of hypothesis 3 : Hypothesis between Net Profit and Total Assets

H0: Net profit and total assets of ADBL are not correlated.

H1: Net profit and total assets of ADBL are correlated.

Calculation of t value for hypothesis test (source: table 4.20)

t=r*√n-2/√1-r^2

t=12.0883

Number of observations (n)=5

Correlation coefficient(r)= 0.98989

H0:I,i.e., net profit and total assets of ADBL are not correlated.

H1:P≠o(two –tailed),i.e., net profit and total assets of ADBL are correlated.

Level of significance (a) =5%=0.05

Test statistics under null hypothesis is

t= 12.0883

Degree of freedom (doff.)=n-2 =5-2=3

Table value, at 5% level of significance at degree of freedom of at 3%:

$t_{0.05}$=3.18 (taken from t-table)

t cal= 12.083 > t 0.05=3.18

Since calculated t is greater than the table value, H0 is rejected. Thus, it is concluded that net profit and total assets of ADBL are correlated.

4.2.2.4 Test of hypothesis 4 : Hypothesis between Net Profit and Net Worth

H0: Net profit and net worth of ADBL are not correlated.

H1: Net profit and net worth of ADBL are correlated

Calculation of **t** value for hypothesis test (source: table 4.21)

t=r*√n-2/√1-r^2

t=5.9308

Number of observations (n) =5

Correlation coefficient(r) = 0.95998

H0I0,i.e., net profit and net worth of ADBL are not correlated.

H1:P≠o (two –tailed),i.e., net profit and net worth of ADBL are correlated.

Level of significance (a) =5%=0.05

Test statistics under null hypothesis is

t=5.9368

Degree of freedom (doff.)=n-2 =5-2=3

Table value, at 5% level of significance at degree of freedom of at 3%:

t0.05=3.18 (taken from t-table)

t cal= 5.9368 > t0.05=3.18

Since calculated t is greater than the table value, H0 is rejected. Thus, it is concluded that net profit and net worth of ADBL are correlated.

4.2.2.5 Test of hypothesis 5 : Hypothesis between Net Profit and Deposits

H0: Net profit and deposits of ADBL are not correlated.

H1: Net profit and deposits of ADBL are correlated.

Calculation of t value for hypothesis test (source: table 4.22)

t=r*√n-2/√1-r^2

= 10.9728

Number of observations (n) =5

Correlation coefficient(r) = 0.98777

H0I0,i.e., net profit and of deposits ADBL are not correlated.

H1:P≠o (two –tailed), i.e., net profit and deposits of ADBL are correlated.

Level of significance (a) =5%=0.05

Test statistics under null hypothesis is

t= 109728

Degree of freedom (doff.)=n-2 =5-2=3

Table value, at 5% level of significance at degree of freedom at 3%:

t0.05=3.18 (taken from t-table)

t_{Cal}= 10.9728 > t $_{0.05}$=3.18

Since calculated t is greater than the table value, H0 is rejected. Thus, it is concluded that net profit and deposits are not correlated.

4.2.2.6 Test of hypothesis 6: Hypothesis between Net Profit and Loans and Advances

H0: Net profit and loans and advances of ADBL are not correlated.

H1: Net profit and loans and advances of ADBL are correlated.

Calculation of t value for hypothesis test (source: table 4.23)

$t=r*\sqrt{n-2}/\sqrt{1-r^2}$

t=10.8294

Number of observations (n) =5

Correlation coefficient(r) = 0.98745

H0: p=0, i.e., net profit and profit and loans and advances ADBL are not correlated.

H1:P≠o (two –tailed), i.e., net profit and loans and advances of ADBL are correlated.

Level of significance (a) =5%=0.05

Test statistics under null hypothesis is

t= 108294

Degree of freedom (doff.)=n-2 =5-2=3

Table value, at 5% level of significance at degree of freedom of at 3%:

t0.05=3.18 (taken from t-table)

tcal =10.8294 > t 0.05=3.18

Since calculated **t** is greater than the table value, H0 is rejected. Thus, it is concluded that net profit and loans and advances of ADBL are correlated.

CHAPTER – V

SUMMARY OF MAJOR FINDINGS, CONCLUSION AND RECOMMENDATIONS

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

5.1 Summary

This study has conducted with a view to examine and evaluate the performance of ADBL, which is working as one of the leading commercial bank of the country. Banks, which deal with commercial activities, are known as cImmercial banks. These financiaI institutes help to integrate every financial activity of the community. Banking sector plays an important role in the economic development of the country. It provides an effective payment and credit system, which facilitates the channeling of funds from the surplus and deficit in the economy. Investment operation of commercial banks is a very risky one. For this, financial performance of commercial banks have to pay due consideration while investment, mobilization of fund and use of resources. A healthy development of any commercial bank depends upon its financial performance. A good financial performance of a bank attracts both the borrowers and the lenders, which helps to increase the volume of quality deposits and investment.

A bank always puts in effort to maximize its profitability. The profit is excess of income over expenses. To maximize profit, income should be reasonably excess over expenses. The major source of income of a bank is interest income from loans, investments and fee based income. As loan and advances dominate the asset side of the balance sheet of any bank; similarly, earnings from such loan and advances occupy a major space in income statement of the bank. However, it is very impIrtant to be reminded that most of the bank failures in the world are due to the shrinkage in the value of loan and advances. Hence, loan is known as risky asset and investment operation of commercial banks, is a very risky one. Risk of non-performing loans erodes even existing capital. Considering the importance of lending to the individual banks and also to the society it serves, it is imperative that the bank meticulously plans its credit operations. The main goal of the bank as a commercial organization is to maximize the surplus by the efficient use of its funds and resources. In spite of being a commercial institution, it has a responsibility (obligation) to provide social service oriented contribution for the social economic upliftment of the country by providing specially considered loans and advances towards less privileged sectors.

Performance evaluation of ADBL is done on the basis of financial statement from 2016/17 to 2020/21. To approach the result, some financial and statistical tools have been used. As financial tools, ratio analysis has been used particularly. In the same way, statistical tool, coefficient of correlation analysis between selected research variable have been used to accomplish the objectives. This study is mainly based on the secondary data that have been first processed and analyzed. From this analysis of performance of the banks, the following findings and conclusion are made:

5.2 A brief summary about major finding of the study

Based on the analysis of data, the main findings of the study are discussed below:

A) Ratio Analyses

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

Profitability Indicators

1. **The average net profit per branch** for five years study period from fiscal year 2016/17 to 2020/21 was Rs.1.35 crore and per year net profit per branch has been increasing in first three financial year from 2016/17 to 2018/19. There is increase in net profit from Rs 1.19 crore to Rs 1.59 crore while increasing the number of branches. But in the financial year 2019/20 and 2020/21, net profit per branch has decreased than previous years despite of increasing the number of branches. It is due to the direct impact of COVID in financial sector. Still it is assumed that the average net profit per branch per year is satisfactory.

2. **After the study of return on assets ratio (ROA)**, it is found that the average ratio for five years period was 2.22 % approximately. ROA increased from 2.15 % to 2.71 % to 2.77% from fiscal year 2016/17 to 2017/18 to 2018/19 respectively. During first

three financial years it shows the higher profitability and efficiency of investment on total assets. ROA decreased from 2.77 percent to 1.86 percent to 1.59% in the financial year from 2018/19 to 2019/20 to 2020/21 respectively, which indicates the decreasing in profitability of bank and less efficiency of investment on total assets.

3. **The Return on Equity (ROE)** is also one of the important ratios. ROE decreased from 18.17 % to 14.07% to 11.70% from fiscal year 2016/17 to 2019/20. It shows the profitability of bank getting lower year to year and again there is significant fall on ROE from 11.70% to 1.12% on FY 2020/21 due to the direct impact of second wave of COVID in financial sector. It shows poor performance and less utilization of common share holders' equity. Average ROE between financial year 2016/17 to 2020/21 was 11.97 % which indicates there was less profitability and less efficiency.

4. **Net Profit to Total Deposit Ratio**, higher ratio shows better performance. It was slightly increased from 2.99 percent to 3.51% to 3.53 percent from fiscal year 2016/17 to 2017/18 to 2018/19 respectively, it indicates better mobilization of deposits but again there is a fall in ratios from 3.53% to 2.32% to 2.17% on FY 2017/18 to 2018/19 to 2019/20 which shows bad performance and less mobilization of deposits than previous year. The average of net profit to total deposit ratio from financial year 2016/17 to 2020/21 was 2.90%.

5. **Return on Loans and Advances Ratio (ROL),** generally high ratio reflects higher efficiency to the utilization of outsider's fund and vice-versa. It was increased from 2.91 percent to 3.65 % to 3.75 percent from fiscal year 2016/17 to 2017/18 to 2018/19 respectively, which shows the higher efficiency and better utilization of fund in the initial 2 years of study period. But there was fall in ratios from 3.75 percent to 2.7 to 2.33 percent from fiscal year 2018/19 to 2019/20 to 2020/21, which indicates the lower efficiency & less utilization of fund. The Average of Return on Loan Ratio from financial 2016/17 to 2020/21 was 3.07%.

6. The **interest income ratio** is a profitability indicator of the bank. It is calculated by dividing interest income to total assets. Higher ratio shows better efficiency and vice-versa. Interest income ratio increased from 8.74 percent to 10.35 from fiscal year 2016/17 to 2017/18, which indicates increase in profitability. But it was decreased

from 10.21 percent to 8.82 to 6.80 percent from fiscal year 2018/19 to 2019/20 to 2020/21 simultaneously which indicates poor performance and decrease in profitability. The average Interest Income Ratio from financial 2016/17 to 2020/21 was 8.98%.

7. The **interest expenses ratio** is also the profitability indicator which shows the relationship between interest expenses and total assets. Decreasing interest expenses ratio is favorable. Decrease in interest expenses ratio indicates higher profitability and better performance. Interest expenses ratio increased from 3.29 percent to 5.17 % to 5.19 percent from fiscal year 2016/17 to 2017/18 to 2018/19 respectively, which indicates poor performance and decrease in profitability. From FY 2019/20 to 2020/21 it was slightly decreased from 5.08 percent to 3.71 percent, which indicates profitability and good performance than previous year. The average Interest Income Ratio from financial 2016/17 to 2020/21 was 4.49%.

8. The **net interest margin ratio** is profitability and efficiency indicator of the bank. Increasing net interest margin ratio is favorable. Higher ratio shows better efficiency and vice-versa. From fiscal year 2016/17 to 2020/21 Net Interest Margin decreased from 5.44% to 5.18% tI 5.02% tI 3.75 to 3.09 whiII indicIIes decrease in profitability, less efficiency and poor performance. The average net margin ratio from financial 2016/17 to 2020/21 was 4.50%.

9. The **intermediation cost (operating expenses)** ratio is another profitability indicator which seems to be better if it is decreased. Decrease in operating expenses ratio indicates higher profitability and vice-versa. From fiscal year 2016/17 to 2017/18, the Operating Expenses Ratio is increased from 7.02 % to 8.17 percent which indicates decrease in profitability. From fiscal year 2017/18 to 2020/21 the ratios decreased from 8.17 percent to 7.82% to 7.71% to 5.86 percent, which indicates increase in profitability and improve in efficiency and the average operating expenses ratio from financial 2016/17 to 2020/21 was 7.32%.

10. As per the analysis of **net profit margin** of bank it can be said that the ratio is satisfactory even if it has been little bit fluctuating. It is an indicator of profitability and efficiency. Higher ratio shows better efficiency and vice-versa. It is calculated by

dividing net profit after tax to total income of the bank. From fiscal year 2016/17 to 2017/18 to 2018/19 net profit margin increased from 18.8 percent to 23.76 percent to 24.25%, which indicates increase in profitability and efficiency. From fiscal year 2018/19 to 2019/20 the NPM decreased from 24.25 percent to 18.27 percent which indicates poor performance. In FY 2020/21 the NPM slightly increased to 19.37 percent and the average net profit margin ratio from financial 2016/17 to 2020/21 was 20.75%.

Capital Market Indicators

1. **Earnings Per Share EPS** is the first capital market indicator which shows the performance of share holders' wealth. An increase in EPS indicates higher earning and higher efficiency and decrease in EPS indicates decrease in profitability and efficiency. The EPS decreased from fiscal year 2016/17 to 2017/18 from Rs.71.54 to Rs. 47.17 which indicates decrease in profitability and efficiency. The EPS increased from Rs.31.59 to Rs.36.91 to Rs.42.88 from fiscal year 2016/17 to 2017/18 to 2018/19 respectively. It indicates better utilization of common shareholders fund and better efficiency. But from FY 2018/19 to 2019/20 to 2020/21 there was decrease in EPS that is from Rs. 42.88 to Rs.31.45 to Rs 29.13 which indicates decrease in profitability & efficiency and less utilization of shareholders fund and the average EPS from financial 2016/17 to 2020/21 was Rs. 34.39.

2. **P/E ratio** is the next indicator of the capital market. An increase in P/E ratio indicates higher market price and higher risk and vice-versa. The P/E ratio decreased from fiscal year 2016/17 to 2017/18 from 13.77 to 8.51 times which indicates decrease in market price per share. From fiscal year 2017/18 to 2018/19 to 2019/20 to 2020/21 the P/E ratio increased from 8.51 times to 9.54 to 12.24 to 16.44 times simultaneously which indicates increase in market price per share, higher the degree of liquidity and higher the corporate image of a bank and the average Price/Earnings Ratio from financial 2016/17 to 2020/21 was 12.10 times.

Productivity Indicator

The average net profit per employee is the productivity indicator of the financial institutions. Net profit per employee in thousands of rupees increased from Rs. 1130 to Rs. 1488 to Rs. 1816 from fiscal year 2016/17 to 2017/18 to 2018/19 respectively, which indicates increase in productivity and employee performance. But from fiscal year 2018/19 to 2019/20 to 2020/21 it was decreased from Rs. 1816 to Rs. 1655 to Rs 1469 simultaneously, which indicates decrease in productivity, decreases in employee performance and may be lack of skilled manpower in specific field of bank and the average net profit per employee from financial 2016/17 to 2020/21 was Rs. 1512 in thousands.

Financial Stability Indicator

Capital Adequacy Ratio is the financial indicator of the financial institutions. According to Nepal Rastra Bank norms and bench mark standard the minimum capital adequacy ratio should be 10 percent. The Capital Adequacy Ratios of ADBL Bank for study period 2016/17 to 2020/21 were 20.41%, 20.33%, 20.37%, 19.29% & 16.94% respectively and which is more than 10% that indicates better financial stability and the average Capital Adequacy Ratio from financial year 2016/17 to 2020/21 was 19% which is also more than NRB norms.

Assets Quality Indicator

Non-Performing Assets (NPA’s) ratio is the indicator of the quality of assets. Higher NPA’s indicate the deteriorating quality of assets. From fiscal year 2016/17 to 2019/20 the NPAS decreased from 5.85 percent to 4.36 percent, which indicates increase in the quality of assets and better performance. But there was increasing in NPA’s Ratio from 4.36 percent to 4.60 percent from financial year 2019/20 to 2020/21, which shows deteriorating quality of assets and the average of non-performing assets ratio from financial 2016/17 to 2020/21 was 5.12%.

Coefficient of Correlation Analysis:

Coefficient of correlation analysis between different variables reveals that:

1) From the analysis of correlation coefficient between net profit and number of employees r is 0.97293, which shows strong positive correlation between these two variables.
2) After studying the correlation coefficient between net profit and number of branches, value of (r) is 0.97484. It shows strong positive relationship between two variables.
3) As per the analysis of coefficient of correlation between Net profit and total assets, (r) is 0.98989, Ich indicates strong positive correlation between these two variables.
4) As per the analysis of coefficient of correlation between Net profit and net worth, (r) is 0.95998, Ich indicates strong positive correlation between these two variables.
5) As per the analysis of coefficient of correlation between Net profit and deposits, (r) is = 0.98777Ihich indicates strong positive correlation between these two variables
6) As per the analysis of coefficient of correlation between Net profit and loans and advances, (r) is 0.98745, which indicates strong positive correlation between these two variables.

Hypothesis test analyses:

Hypothesis test analysis between different variables reveals that:

In all the six relationship between selected variables have tested by using student t-test. There is strong positive correlation between all relationships due to the value of r is nearer to 1. Since calculated value of t is greater than tabulated values there is significant relationship between selected variables.

5.3 CONCLUSION

In conclusion it can be said that the performance evaluation is the most important part of all financial institutions .On the basis of ratio analyses, correlation coefficient between selected research variables and hypothesis test the following conclusions are made:

Profitability indicators include net profit per branch, ROA, ROE, net profit to deposits ratio, ROL (Return on Loan), interest income ratio, interest expenses ratio, net interest margin, ICAR (Intermediation Cost to Asset Ratio) and NPM (Net Profit Margin). Out of these net profit per branch is satisfactory. The ROA, ROE, net profit to deposits, ROL and net profit margin are also satisfactory. EPS and P/E ratios are capital market indicators. EPS is satisfactory due to the increase ratio is higher than decreasing ratio. Net profit per employee, capital adequacy and non-performing assets indicate productivity, financial stability and assets quality. The net profit per employee has been increasing every year except fiscal employees. Even if capital adequacy ratio has been fluctuating but it is more than standard .Therefore, it can be said that it is above than central bank norms and also satisfactory. The NPA's has been decreasing; it indicates the better performance.

The correlation coefficient between selected variables is nearer to 1.It shows the strong positive correlation. It can be concluded that:

- An increase in number of employees increases net profit and vice-versa.
- An increase in number of branches increases net profit and vice-versa.
- An increase in total assets increases net profit and vice-versa.
- An increase in net worth increases net profit and vice-versa.
- An increase in deposits increases net profit and vice-versa.
- An increase in loans and advances increases net profit and vice-versa.

5.4 RECOMMENDATION

A clear financial picture of ADBL can be viewed from all above presentation. Now, some valuable and timely suggestions and recommendation can be advanced to overcome weakness, inefficiency and to improve present financial position of the bank. On the basis of findings mentioned above some of recommendation have been drawn as follows:-

- As the profitability /earnings indicators, capital market indicators and productivity indicators have been increasing during the study period and there are strong positive correlations between selected six variables, it can be recommended to increase in Investment in total assets, equity capital, deposits, loans and advances.
- capital adequacy ratio is a little bit above than NRB standard, it is recommended to increase in capital fund which will ultimately increase in capital adequacy ratio.

- ADBL need to bring in newer schemes to mobilize their deposits in extending credit and investment.
- ADBL banks should try to increase their profitability by investing in more profitable sectors, and by increasing the quality of their extended credits. They should have to investigate thoroughly the wide range of investment opportunities in the market in order to improve their profitability situation. Especially, As formation of price is a very complex process, some extremely outstanding sectors such as management efficiency, profitability status, future perspective, bank's investment strategy, etc. should be improved.
- ADBL should maintain the level NPA's as per NRB direction.
- Being large network of ADBL, bank cannot perform better job due to old infrastructure, human resource mobilization policy, government ownership, depend on aide etc. so bank recommended to consider in this topic.
- Future ahead, the ADBL should improve its weaknesses by adopting the innovative approach to marketing. In the light of growing competition in the banking sector, the business of the bank should be customer oriented. It should strengthen and activate its marketing function as it is an effective tool to attract and retain the customers. For the purpose, the bank should develop an innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient and satisfactory way by optimally utilizing the modern technology and offering new facilities to the customers at competitive prices.
- Since operating expenses or intermediation cost to assets ratio (ICAR) has been fluctuating during the study period, it will be recommended to reduce operating expenses by increasing staff productivity and to reduce other expenses.

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APPENDIX – I

Agricultural Development Bank Limited

MAJOR INDICATORS for Five Years from FY 2016/17 to 2020/21

Agricultural Development Bank Ltd. कृषि विकास बैंक लि. ADBL

Agricultural Development Bank Limited

Major Indicators for Five Years from 2016/17 to 2021/22

Particulars	Indicators	2016/17	2017/18	2018/19	2019/20	2020/21
Net Profit to Total Revenue Ratio	Percentage	18.08	23.76	24.25	18.27	19.37
*Earnings per Share	Rs.	31.59	36.91	42.88	31.45	29.13
Market price per Share	Rs.	435.00	314.00	409	385	479
Price Earning Ratio	Ratio	13.77	8.51	9.54	12.24	16.44
Stock Dividend on Equity Share Capital	Percentage	20	6	6	15	20
Cash Dividend on Equity	Percentage	1.05	15.05	24	0.7895	1.0526
Interest Income to Loan and Advances	Percentage	12.55	13.93	13.85	11.74	9.98
Employee Expenses to Total Operating Expense	Percentage	39.53	28.88	24.72	21.87	33.67
Interest on Total Deposit and Borrowings	Percentage	4.43	6.66	6.61	6.24	4.76
Exchange Fluctuation Income to Total Income	Percentage	0.97	0.06	-0.04	0.03	0.00
Employee Bonus to Total Employee Expenditure	Percentage	9.02	13.56	10.29	7.65	7.99
Net Profit to Loan and Advances	Percentage	2.91	3.65	3.75	2.70	2.33
Net Profit to Total Assets	Percentage	2.15	2.71	2.77	1.86	1.59
Total Loan to Deposit	Percentage	92.90	95.64	93.62	85.84	92.93
Total Operating Expense to Total Assets	Percentage	7.02	8.17	7.82	7.71	5.86
Capital Adequacy of Risk Weighted Assets						
Core Capital	Percentage	18.61	19.28	19.27	16.47	14.42
Supplementary Capital	Percentage	1.80	1.05	1.10	2.82	2.53
Total Capital Fund	Percentage	20.41	20.33	20.37	19.29	16.94
Liquidity Ratio	Ratio	31.18	29.15	27.20	33.98	36.21
Non Performing Loan to Total Loan	Percentage	4.60	3.50	3.29	2.84	1.88
Base Rate	Percentage	11.27	11.73	10.58	9.26	7.13
Spread Rate	Percentage	5.87	5.46	4.68	4.44	4.37
Book Networth	Rs.'000	16,363,997	25,967,490	28,352,733	28,470,887	315,051,177
Total Share (Ordinary)	Number	70,876,800	85,052,160	90,155,290	95,564,607	109,899,298
Total Employee	Number	2,632	2,455	2308	2013	2402

* *Earnings Per Share of Prior years is not adjusted with bonus shares.*
** *Staff Loans and Advances are not considered as Loan while computing ratios.*

APPENDIX – II

Agricultural Development Bank Limited

BALANCE SHEET for Five Years from FY 2016/17 to 2020/21

Agricultural Development Bank Ltd. ADBL
कृषि विकास बैंक लि

ANNEXURE – II

Agricultural Development Bank Limited
Consolidated Statement of Financial Position
As on year from 2016-17 to 2020-21

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
Assets					
Cash and cash equivalent	12,252,208	11,227,274	11,500,753	8,489,432	10,636,732
Due from Nepal Rastra Bank	9,929,596	8,270,667	4,993,660	12,567,111	9,740,613
Placement with Bank and Financial Institutions			2,858,700	5,007,606	4,117,575
Derivative financial instruments			118,552	133,762	70,862
Other trading assets				17,423	1,666,534
Loan and advances to B/FIs		495,000	1,285,269	1,137,559	113,668
Loans and advances to customers	93,184,410	98,096,350	109,467,842	121,849,394	150,598,356
Investment securities	9,568,495	12,039,971	16,846,609	24,422,064	37,880,066
Current tax assets	67,139		206,423	897,717	1,214,561
Investment in subsidiaries	28,840	28,840	28,840	28,840	28,840
Investment in associates	69,384	69,384	69,384	69,384	69,384
Investment properties	312,104	240,313	258,423	220,926	198,285
Property and equipment	1,108,144	1,210,082	1,264,192	1,293,545	1,480,615
Goodwill and Intangible assets	3,661	53,528	69,399	289,803	262,005
Deferred tax assets					
Other assets	1,766,206	3,122,689	2,606,951	2,896,292	4,362,253
Total Assets	**128,290,187**	**134,854,098**	**151,574,997**	**179,320,859**	**222,440,349**
Liabilities					
Due to Bank and Financial Institutions	300,933	551,887	478,370	103,133	175,324
Due to Nepal Rastra Bank	203,475	195,156	38,424	9,670	8,716,363
Derivative financial instruments					
Deposits from customers	99,515,339	104,178,960	118,884,923	143,628,525	162,814,931
Borrowing	464,459	360,448	60,918	10,937	538,530
Current Tax Liabilities		156,230			
Provisions					
Deferred tax liabilities	26,526	102,161	113,615	177,084	327,591
Other liabilities	3,265,123	2,881,767	3,508,781	4,425,332	3,886,281
Debt securities issued	920,000	460,000		2,494,955	14,476,212
Subordinated Liabilities					
Total liabilities	104,695,855	108,886,608	123,085,031	150,849,637	190,935,232
Equity					
Share capital	12,520,392	13,937,928	14,448,241	14,989,173	16,422,642
Ordinary Share				9,556,461	10,989,930
Preference Share(Irredeemable)		2,598,638		5,432,712	5,432,712
Share premium	540,827				
Retained earnings	3,412,355	25,967,490	3,558,323	2,273,768	3,654,512
Reserves	7,120,758	9,430,923	10,483,402	11,208,281	11,427,964
Total equity attributable to equity holders	23,594,332	25,967,490	28,489,966	28,471,222	31,505,118
Non-controlling interest					
Total equity	23,594,332	25,967,490	28,489,966	28,471,222	31,505,118
Total liabilities and equity	**128,290,187**	**134,854,098**	**151,574,997**	**179,320,859**	**222,440,349**
Contingent liabilities and commitments	33,071,545	38,992,843	55,777,425	70,589,110	99,862,272

Sources: Annual Reports of ADBL 2016-17 to 2020-21

APPENDIX – III

Agricultural Development Bank Limited

INCOME STATEMENT for Five Years from FY 2016/17 to 2020/21

Agricultural Development Bank Limited
Consolidated Statement of Profit or Loss
For the financial year from 2016/17 to 2020/21 (in 000)

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
Interest income	11,210,153	13,956,458	15,480,122	15,821,701	15,124,046
Interest expense	4,224,871	6,966,286	7,865,130	9,105,580	8,258,328
Net interest income	**6,985,282**	**6,990,172**	**7,614,992**	**6,716,121**	**6,865,718**
Fees and commission income	939,208	949,765	1,081,481	1,901,634	1,612,950
Fees and commission expense	3,899	7,927	11,012	25,813	46,883
Net fee and commission income	**935,309**	**941,839**	**1,070,469**	**1,875,821**	**1,566,068**
Net interest, fee and commission income	**7,920,590**	**7,932,010**	**8,685,461**	**8,591,942**	**8,431,786**
Net trading income	137,768	188,129	318,873	392,176	994,297
Other operating income	507,409	45,980	18,898	35,931	452,413
Total operating income	**8,565,768**	**8,166,120**	**9,023,232**	**9,020,049**	**9,878,495**
Impairment charge/(reversal) for loan and other losses	636,667	(822,353)	(289,847)	517,222	121,425
Net operating income	**7,929,101**	**8,988,473**	**9,313,078**	**8,502,827**	**9,757,070**
Operating expense					
Personnel expenses	3,210,423	3,182,351	2,928,862	3,025,470	3,311,387
Other operating expenses	686,721	730,168	876,306	942,161	1,132,680
Depreciation & Amortisation	153,777	131,930	166,193	216,593	275,686
Operating Profit	**3,878,180**	**4,944,023**	**5,341,718**	**4,318,603**	**5,037,317**
Non operating income	269,937	235,825	382,281	81,283	28,241
Non operating expense	3,397	4,320	0	39	3,214
Profit before income tax	**4,144,720**	**5,175,527**	**5,723,999**	**4,399,846**	**5,062,344**
Income tax expense	1,171,440	1,522,008	1,532,408	1,068,108	1,534,807
Current Tax	1,188,028	1,500,232	1,565,727	1,027,223	1,344,772
Deferred Tax	(16,589)	21,777	(33,318)	40,886	190,035
Profit/(loss) for the period	**2,973,281**	**3,653,519**	**4,191,591**	**3,331,738**	**3,527,537**
Profit attributable to:					
Equity holders of the Bank	2,973,281	3,653,519	4,191,591	3,331,738	3,527,537
Non-controlling interest					
Total	**2,973,281**	**3,653,519**	**4,191,591**	**3,331,738**	**3,527,537**
Earnings per share					
Basic earnings per share	37.35	36.91	40.45	27.35	29.13
Diluted earnings per share	37.35	36.91	40.45	27.35	29.13

Source: Annual Report of ADBL

15th Annual Report 31

Sources: Annual Reports of ADBL 2016-17 to 2020-21