# CHAPTER -ONE

## INTRODUCTION

### 1.1 Background of the Study

Profit planning and control is an important approach mainly in profit-oriented enterprises. Profit planning is a tool of management, not the substitute of management.

In order to attain long-range efficiency and effectiveness, management must chart out its course of action in advance. Profit is the ultimate goal of every business organization. But usually, profit does not just happen. Profits are managed. When the management plans its profit performance that is known as profit planning. Profit planning is a part of overall planning process of an organization. The process of preparing and using budget to achieve management objective is called budgeting.

"Comprehensive profit planning and control" is a new term in the literature of business. Though it is a new term, it is not the new concept in management. The other terms that can be used in the same context are comprehensive budgeting, management budgeting and simply budgeting.

Comprehensive profit planning and control can be defined as a process designed to the management effectively perform significant phase of the planning and control function.

The profit is the difference between revenue and cost. Hence profit planning includes the planning of revenue and planning of different costs. It is a systematic and formal approach for accomplishing the planning. Thus, profit planning is a part of overall planning process of an organization. It also can be defined as a formal expression of policies, plans, objectives and goals to be accomplished by the management for the concern as a whole and for each sub division.

Profit planning is a comprehensive statement of intensions expressed in financial terms, for the operation. Profit planning and control is a tool for management control. It is a base source of communication. It is an accounting. It cannot be properly classified as an accounting technique rather it is a management technique.

In sum, profit planning and control is a comprehensive tool that is used by management in planning for the future course of actions and in controlling for subsequent evaluation of performance. Comprehensive profit planning and control model can be taken as the best use of opportunities for and strengths of the firm and minimization the threats for and weakness of the firm to meet the target profit. The generation of reasonable profit is the main theme of profit planning and control.

Nepal is the least developed country. The economic condition is not so good and going to recession day by day.

## 1.2 Brief Introduction of the Company under Study

Everest Bank Limited (EBL) has been established with the objectives of expending professional banking services to various sections of society in the republic of Nepal and thereby contributes in the economic development of the country. Everest bank ltd was registered under the company act 1964 in 19$^{th}$ November 1993 (2049/09/03) and started to commence banking transaction on16$^{th}$ October 1994 (2051/07/01), the promoters of the bank decided to join hands with an Indian bank and entered into joint venture agreement in January 1998 AD with Panjab National Bank (PNB) which is one of the leading commercial bank of EBL is a joint venture with Punjab National Bank (PNB) one of the largest commercial banks in India having over 3700 branches and more than 300 foreign correspondents around the glove. PNB is providing the top management services to EBL, thus has advantage of banking enterprise and financial strength of its partner. Currently with 25 branches in various parts of Nepal including main branch located in Kathmandu. EBL operated with the objectives of providing the full range of quality banking services to both the business community and common man.

Equity holding of PNB is 20% and also has undertaken management responsibilities under a technical service agreement and the Nepali investor maintains the remaining balance. Nepalese promoter holds 50% and rest 30% is hold by general public.

The main purpose of EBL is to extend professional banking services to various sectors of the society in the kingdom of Nepal and thereby contribute in the economic development of the country. It provides following facilities and services to their customers.

- Cumulative deposit service
- Letter of Credit
- Telegraph transfer
- International trade and banking guarantees
- Remittance
- Foreign currency deposits/lending
- Foreign exchange
- Trade finance
- Debit cards
- ATM (Automaited Teller Machine)
- Trade finance
- Merchant banking
- 365 days banking transaction

**The ownership of EBL is composed as:**

| Subscription | Holding in Percentage |
|---|---|
| Promoter Share holders | 50% |
| General Public | 30% |
| Panjab National Banks | 20% |
| Total | 100% |

| Share Structures | Amount in RS (Lakhs) |
|---|---|
| Paid-up equity capital and other funds | 8116 |
| Exchange equalization funds | 170 |
| Statutory general reserve | 2328 |
| Loan, loss provision | 4532 |
| Total | 15146 |

Source: Annual Report of EBL for 2007/08.

## 1.3 Statement of the Problems

Profit planning and control is a tool of management. Every business organization starts with the view to earn maximum profit. Profit planning and control sets the goals of long run as well as short-run.

EBL is properly applying the various tools of profit planning and control and still having a very tough time to manage the organization effectively, which needs to be studied.

The following are the major problems of EBL:

- Lack of awareness concerning the accounting tools and technology
- Lack of proper and update accounting information
- Lack of efficiency
- Lack of trained and efficient manpower
- High skeptism

In the light of above, the present study seeks to get answer of the following questions:

- What is the trend of revenue and expenses during the study period?
- What are the major problems faced by EBL?
- What are the situations of profit and loss in EBL?
- What is the trend of selected variably of PPC on EBL?

## 1.4 Significance of the Study

Profit planning gives most important signal to the management of any enterprise while managing their physical and financial targets. It considerably contributes to improve the profitability of an enterprise as well. For this reason, it is the heart of the management.

Even though EBL being reputed commercial banks in Nepal, EBL's overall market share is very low, as it has to operate in highly competitive market. As such the need of study as an attempt to analyze the application and contribution of PPC and to provide suggestions for promotional measures of EBL is immense.

## 1.5 Objectives of the Study

The major objective of the study is to assist in systematic planning, control and operation of the bank. The other objectives of the study are as follows:

- To study and evaluate the existing position of profit planning and control in Everest Bank Limited.
- To provide means of measuring and controlling the performance of individuals and units and supply information based on which the corrective action can be taken
- To analyze different ratio, P/L A/C, Sales Budget, Actual Budget, Balance Sheet and see the relationship of different variables.
- To provide suggestion and recommendation for improvements of the overall profitability of the bank

## 1.6 Limitations of the study

The limitations of the study are as follows:

- It is concerned only with profit planning and control on EBL
- The study covers only five years period from fiscal year2002/2003 to 2006/2007.
- PPC is based on estimates. It is not an exact science. Also, PPC is a management tool but not substitute for the management.
- The study is basically based on the secondary data provided by EBL and its board. So the reliability of data depends up on their resources

## 1.7 Organization of the Study

The project study has been divided into the following five chapters:

**i) Chapter one**

It entitles "Introduction Chapter". The reading materials in this chapter are general background of the study, brief introduction of the company under study, statement of the problems, objectives of the study, significance of the study, limitations of the study and organization of the study.

**ii) Chapter Two**

This chapter is concerned with review of literature. Reading materials in this chapter are the conceptual framework and review of previous related studies.

**iii) Chapter Three**

This chapter consists of "Research Methodology" adopted for the study and includes research design, period covered, sources of data collection and tools for analysis.

**iv) Chapter Four**

This chapter comprises "Data Presentation and Analysis"

**v) Chapter Five**

This chapter is concerned with the output of the study in the form of summery, conclusion and recommendations.
List of bibliography and appendix have been included at the end of the study.

# CHAPTER-TWO

## REVIEW OF LITERATURE

### 2.1 Background

The chapter review of literature includes the review of concept and finding of previous research on the same field. Books, journals and unpublished thesis are reviewed for this purpose. In this regard, basic academic course book on finance, recently published books specially related to this topic, some of the major research based journals and the related studies are reviewed.

This chapter has been divided into two parts as:

I) Conceptual framework
II) Review of previous related studies

### 2.2 Conceptual Framework

### 2.2.1 Concept and Meaning of Commercial Bank

#### 2.2.1.1 History of the Banks

The concept of banking had developed from the very beginning of the economic activities. First of all, the arrangement was made to deposit and gold and valuables and receipts were issued for such deposits. The depository would have their gold for safekeeping and in turn were given a receipt. Whenever receipt was presented the depositor would return back their gold and valuable, after receiving a small payment as fees.

The word "Bank" is orient in medieval age in 1171 A.D. The "Bank of Vanice" was the first bank, which was established in Italy. Then after in 1401 A.D "Bank of Barcelona" was established in Spain, but the credit of the development of modern banks goes to “The Bank of England" which was established in 1694 A.D in London.

Banking has crossed various phases to come to the modern form. Some sorts of banking activities have been carried out since the time immemorial. Traditional forms of banking were traced during the civilization of Greek, Rome and Mesopotamia. Merchants, gold smith and money lenders are said to be the ancestors of modern banking.

With the gradual development of bank, its functions are increasing. It only dealt with the exchanges of money in its preliminary phase, but later in accepting deposit from public against interest and providing them in the form of loan to the needy persons was the basic function defined. But now a day, bank covers wide range of activities.

Banking institutions are indispensable for resource mobilization and allround development. It maintains economic confidence of various segments and extends credit to the people. The main objective of the bank is collecting savings from public in the form of deposits and providing medium and short-term loan for the development of industry, trade and business to the ones in need. The bank must return fund to their customers when they demand. So it always gives attention on liquidity position. This is the reason that the commercial banks do not generally provide long-term loan. The development of country's economy is impossible without expansion of banking function in both rural and urban areas of the country, Development of Trade and Industry is dependent upon the development of banking facilities, so it said that the bank is backbone of economic development in modern society.

Generally the bank refers to commercial bank. Bank collect fund as a saving from public of country and invest in highly return yielding firm. It develops saving habits in people. Commercial bank plays vital role for development of a developing country. Bank provides internal resource for developing country's economy. It collects diversified capital from different parts of country through its own branches so commercial bank is the heart of trade, industry and business in modern age. Commercial banks earn optimal profit by mobilizing such saving resources properly.

In the Nepalese context, like other countries, goldsmiths, merchants and moneylenders were the ancient bankers of Nepal. Tejarath Adda established during the Prime Minister Ranodip Singh (1933 B.S) was the first step towards the institutional development of banking in Nepal. Tejarath Adda did not collect deposits from the public but provided loans to employees and public against the collateral.

The history of development of modern bank started from the establishment of Nepal Bank Limited in 1937 A.D (1994 B.S) with put forth effort of government and public, as a commercial bank with ten million authorized capital. Then the government felt the requirement of central bank and established "Nepal Rastra Bank" in 1956 A.D (2013 B.S) as a central bank under NRB act 2012 B.S . It played leading role in development of banking in Nepal and also controlled the monetary culture in the country. Likewise, rising of banking function get popular and more complicated.

Thus NRB suggested for the establishment of another commercial bank and in 1966A.D (2022 B.S) Rastriya Banijya Bank was established as a fully government owned commercial bank. Now its branches are diversified all over the country.

Apart from this, NIDC was established in 1959 A.D (2016 B.S) and Agricultural Development Bank established in 1967 A.D (2024 B.S). Other development bank and financial institutions were established and continued to establish after the economic liberalization policy adopted by the government.

Only in 1990 A.D after re-establishment of democracy, the government took the liberal policy in banking sector. As an open policy of Nepal Government’s to get permission to invest in banking sector from private and foreign investor under commercial bank act 1975 A.D ( 2031 B.S) , different private banks are getting permission o established with the joint venture of other countries. Now a day, there are 17 commercial banks operating in Nepalese financial market along with 9 joint ventures with foreign investors.

Nepal Arab Bank Ltd, ( NABIL) was the first joint venture bank established in, 1984 A.D , joint ventured with United Arab Emirates Bank. Then other two banks are Nepal Indosuez Bank Ltd , (recently named Investment Bank ) with Indosuez Bank of France and **Nepal** Grindlays Bank Ltd, ( recently named Standard Chartered Bank Nepal Ltd ) with Grind lays Bank of London were established in 1986 A.D. Himalayan Bank Ltd. joint ventured with Habib Bank of Pakistan and SBI Bank Ltd. With State Bank of India were established in 1993 A.D. Everest Bank Ltd. Joint ventured with Punjab National Bank , India ( early it was joint ventured with United Bank of India ,Calcutta), and Nepal Bangladesh Bank Ltd. With IFIC ( International Finance Investment and Commercial) Bank of Bangladesh were established in 1993 A.D, Bank of Kathmandu joint ventured with SIAM Commercial Bank Public Co., Thailand was established in 1995 A.D and Nepal Bank of Ceylon joint ventured with Ceylon Bank of Sri-lanka were established in 1997 A.D.

Besides this Lumbini bank Ltd. And NIC Bank Ltd. is also operating from 1997 A.D and Kumari Bank Ltd., Laxmi Bank Ltd, and Siddhartha Bank Ltd are also operating as a new commercial bank in Nepal, financial market.

#### 2.2.1.2 Present Status of Banking Industry

A sound banking system depends partly on the control exercised by the central bank and to a large extent on trust of its customers or clients (the customers trust that his deposit will be looked after in the best possible way and the funds will be available whenever he wishes to withdraw his money). The banks have a major responsibility to be having like good citizen in a business with profitability as a major consideration.

Now a day there are 17 commercial banks working and out of them 9 are joint ventured with foreign banks on the other hand a lot of financial co-operatives are also operating. Besides commercial bank, development banks are investing their performance in Nepal banking industry and they also have in important role for the growth of countries economic position. Agriculture development bank and Nepal industrial development banks are government owed bank. Other development banks like Nepal utthan bank Ltd rural micro finance development center and cottage and small industries development bank Ltd and other five rural development banks are operating in Nepalese banking industry. Now credit development bank is established and has commercial and its service.

Commercial bank collect deposit form public in various forms and lend the same as investment. Moreover they also provide technical support, administrative suggestion, cheap remittance of funds, safekeeping of valuables collection of bills, cheques, overdraft facilities to industries and commerce. Whenever banks lend money they must remember that the source of their fund is customers deposits therefore it is of almost importance that the subsequent lending should be of minimal risk. Banks have often been criticized for not lending more freely. But higher risk of less is the deterring factor on granting advances despite the availability of option of charging higher interest rate.

With the increasing number of commercial banks competition among them have also became more complex. Doing business with tradition banks used to be so cumbersome that customers had to spend a lot of effort and time in trying to understand the functioning of the bank rather that receiving prompt service. Now the commercial banks (mainly joint venture banks) are trying to introduce and established themselves different by providing special service and attractive schemes. In 1995 A.D Himalayan bank Ltd introduce a tele-banking service. It gives the new life for banking sector by providing a niche in the competitive financial market.

Likewise, most of other JVB are providing new schemes like insurance to depositors, which is an extra bonus to encourage them to deposit their surplus in such banks. Credit card system is other attractive feature of joint venture banks i.e. NABIL credit card (Master Card, Dinner Card) visa of NGB. Credit card of HBL introduced cumulative deposit scheme (CDS) and facilities for the Nepalese living in gulf countries for transfer of their saving arrangements with exchange houses in UAE, Bahrain and Kuwait.

Similarly standard chartered bank, NABIL and Everest banks are providing ATM (automated teller machine) facilities and through this facility the customer can easily withdraw and deposit their money at any time. The bank of Kathmandu has just introduced the mobile banking services.

#### 2.2.1.3 Introduction of Commercial Bank

The commercial banks are those banks that pool together the savings of the community and arrange for their productive use. In the process of such intermediation, commercial bank plays funds raised from different sources into different assets with a prime objective of profit generation and administrative assistance. According to commercial Bank Act 2063, "Commercial banks are those banks which are established under this act to perform commercial function." The commercial banks pool together the savings of the community and arrange for their productive use. They supply financial needs of modern business.

"The commercial bank has its own role and contribution in the economic development. It is a resource for the economic development. It maintains economic confidence of various segments and extends credit to people. These banks are established to improve people's economic welfare and facility to provide loan to offer banking services to the people and the country. It provides internal resources for developing countries economy. It collects diversified capital from different parts of country through its own branches.

Commercial bank is a corporation which accepts demand deposits subject to check and makes short term loans to business enterprises, regardless of the scope of its other services.

#### 2.2.1.4 Function of commercial Bank

Bank can be defined according to the function they perform commercial. Bank is established with prime objective of profit maximization. To achieve this, Bank performs various functional activities. Principally, commercial bank accepts, deposits, provides loan, primarily to business firms there by facilitating the transfer of funds in the economy.

However in the previous years, banks were viewed as acceptor of deposits and provider of loan but modern commercial banks have to perform for overall development of trade, commerce, industry, agriculture including priority and dependent upon banking. So, we do not have doubt to say that the main objective of commercial banks is to earn profit by performing various functions. Following are the main functions performed by the commercial banks.

**1) Accepting Deposits**

The main function of commercial bank is to accept deposits from the public in different types of deposits account. Generally a bank accepts deposit in three forms namely- saving, current and fixed deposits.

**a) Current deposits**

The account in which any amount can be deposited and withdrawn at any time is known as current account. In this account banks do not give interest to the account holder. These days the bank under this account as per their own rule has determined minimum limit of deposit.

**b) Saving deposits**

Saving account is managed to collect the small savings of people. This account can be opened with nominal amount. The main purpose of this account is to promote the saving habit of the people. Limited amount can be deposited and withdrawn from the bank in the specified time. Bank provides nominal rate of interest in this account.

**c) Fixed Deposit**

A fixed deposit is one where a customer is required to keep a fixed ammount in the bank for a specific period of time providing higher rate of interest. Amount cannot be withdrawn from bank before the expiry of time. The banker knows the time when the bank is free to make use of this money for granting loans and advance. In case of emergency, fixed deposit account holder can take loan against the security deposit of it paying 2% extra interest.

**2) Advancing Loans**

The second major function of commercial bank is to provide loans and advances from the money which receives by the way of deposits. Direct loans and advances are given to all types of persons against the security of movable and immovable properties. The banks in the following forms grant the loans.

**a) Overdraft**

An overdraft is an arrangement by which the customer is allowed to overdraw his account against some collateral security. The customer is charged interest only on the amount by which his current account is actually overdrawn and not by the full amount of the overdraft sanctioned to him by the bank.

**b) Cash Credit**

Cash credit is provided against the security of goods or personal security. The amount of the loan is credited to the current account of the borrower. The borrower can withdraw money through the cheques according to his requirements. Bur he has to pays interest on the full loan amount.

**c) Direct loans**

The banks against the security of movable or immovable assets provide direct loans. The borrowers are required to pay interest on the entire amount of loan sanctioned from the date of taking the loan to the data of repayment.

**d) Discounting Bills of Exchange**

If a creditor holding a bill of exchange wants money immediately the bank provides him money by discounting bill of exchange. It deposits amount of the bill in the current account of the bill holder after deducting its rate of interest for the period of loan. The length is generally 90 days. When the bill of exchange matures, the bank gets its payment from the banker of the debtors who accepted the bill.

**3) Agency Service**

Banks also provide the number of services on the behalf of its customers. A commercial bank undertakes the payment of subscription, insurance premium, rent etc and collection of cheques, bills, promissory notes, draft, salaries, pensions, dividends, interest etc on behalf of the customers. It also acts as a correspondent or representative of its customers, other banks and financial corporations.

**4) Credit creation**

The most important function of the commercial banks is to create credit. In order to earn profits, they accept deposits and advance loans by keeping small cash in reserve for day to day transactions. When a bank advances a loan, it opens an account to draw money by cheque according to his needs. By providing the loans to different persons or business firm, the bank creates credit.

**5) General utilities services**

Apart from agency services, the commercial bank also provides some other useful services, which are known as general utility services. They can be explained as follows.

**a) Assist in foreign trade**

The Bank assists these traders who are engaged in foreign trade. It discounts the bill of exchange drawn by Nepalese exporter on the foreign importers and enables the exporters to receive money in the home currency. Similarly it also accepts the bills drawn by foreign exporters.

**b) Safekeeping of Valuables**

The banks receive valuables such as securities, jewellary, documents of title to goods etc, from its customers for safe custody. The bank acts as the custodian of the valuables belonging to the customers. It receives them and returns them back when demanded.

**c) Making Venture capital loans**

Banks have become active in financing the start-up costs of new companies particularly in high- tech industries. Because of the added risk involved in such loans, this is generally through a venture capital firm that is a subsidiary of a bank holding company and other investors are often brought into share the risk.

**d) Offers Security Brokerage Service**

At present financial market place importance and many banks are striving to become true "financial super market"- offering a sufficiently wide array of financial services to permit customers to meet all of their financial needs at one location. Because of this reason, banks began to market security brokerage. Services offering customers get an opportunity to buy stocks, bonds and other securities without having to go to security dealer.

**e) Financial Advising**

Bankers have long been asked for financial advises by their customers, mainly when it comes to the use of credit and the saving or investing of funds. Many banks offer very useful financial advisory services, from helping financial to consulting to business managers and checking on the credit standing of firms.

**f) Offering Investment Banking and Merchant Banking Services**

Today Banks are following in the footsteps of leading financial institutions all over the globe in offering investment banking and merchant banking services to corporations. These services include identifying possible merger targets financing acquisitions of other companies, dealing in security underwriting, providing strategic marketing, advice and offering hedging services to protect their customers against risk from fluctuating world currency prices and changing interest rates.

## 2.2.2 Profit: The Basic Element of Profit Plan

"To plan is to take a head and chart out the future course of operations. It is determinant of a course of action to achieve a desired result". (Lynch, and Williamson, 2002:99)

The general understanding of “Profit” is to achieve monetary advantage. Profit is the acid test of the individual firm’s performance. Profit is the basic elements of profit plan so that concept of profit may not be complete and meaningful in absence of the clear-cut well-defined idea of profit. According of oxford dictionary profit means:

- Financial gains
- Amount of money gained in business especially the difference between the amount earned and the amount spent
- Advantage of benefits gained form something

But different scholars and concerned people have different ideas about profit. An economist assumes that profit is the reward for entrepreneurship for risk taking. "Profit is the acid test of the individual firm's performance." (John Deal, 2003.3).
A labor leader may view that profit is the measure of how effectively labor has produced and that it provides a base for negotiating a wage increase. An investor will view it is as a measuring gauze of the return that he expects from his/her investment. Taxpayers or tax assessors may take it as a basic for determining income taxes. An accountant may view profit simply as the difference of revenue and expenses arises there from the business which can shown as below:

Profit = Total Revenue- Total Cost
=TR – TC

Profit is the excess of income over cost of production. The expenses made on raw materials, labor, interest on borrowed money, fuel power etc are included in cost. No company business can service longer without profit and in capitalistic economic dominated business, profit is industrial is a signal for the allocation of resources and a yardstick for judging managerial efficiency.

"Profit is the signal for allocation of resources and yard stick for judging managerial efficiency" (Kulkarmi 2004:15)

### 2.2.3 Planning: The Basic Foundation of Profit Management

"Planning is the specific process of setting goals and developing ways to reach them stated another way, planning represents the firms efforts to predict future event and be prepared to deal with them". (Welsch, Hilton and Gordon, 1999)

Planning is a method or a course of action to achieve a desired result. And it is a method of thinking out and purpose before hand. Planning starts from forecasting and determination of future events. Planning opens the door for action. We should be clear in the concept of planning. "According to oxford Dictionary planning means:

- (To do something) arrangement for doing or using something considered working in advance
- Way of arrangement something to do especially when on a drawing scheme.
- Go according to plan

Planning is a mental process requiring the use of intellectual facilities, imagination foresight, sound judgment etc. whether the manager is of top level medium level or lower level he can not be separated from the planning task i.e. their commonality but planning differs as the level.

Planning is essential to accomplish goals. It reduces uncertainty and provides direction to the employees by determining the course of action in advance. Planning is management responsibility, not an accounting function. To plan is to decide and only the manager has authority to choose the direction the company is to take.

Planning is a rational way, a systematic way of perceiving how business, industrial or any organization will get where it should go by examining future alternative course of action open to any organization and choosing them. Planning is the first function of management. It is performed consciously because the passing of time demands both re-planning and making new plans. The major function of business management is planning execution and control, which constitute the key element of the management process.

Management planning and control begins with the establishment of the fundamental objectives of the organization and continues as the process by which necessary resources are provided and employed efficiently and efficiency towards the achievement of goals. Planning is essential to accomplish goals. It reduces uncertainty and provides direction to the employees by deterring the course of action in advance

Management planning is continuous process as opposed to a predict endeavor. Since a planned projection can never be considered as the final product, it must be revised as condition change and new information became available. Management planning is a process that includes the following five phases:

- Establishing enterprise’s objectives and goals
- Developing premises about the environment of the entity
- Making decisions about course of action
- Initiating actions to activate the plans and
- Evaluating performances feedback for replacing. It also provides the basic for performing the four other functions, organizing, staffing, leading and controlling

## 2.2.4 Forecasting V/S Planning

Planning and forecasting are often confusing of being the same but they are not same although related.

The nation that planning and forecasting are different functions deserves mention here. Forecasting is generally used to predict what will happen in a given a set of circumstances or assumptions. Planning on the other hand, involves the use of forecast, to help to make good decisions about most attractive alternatives for the organization. Thus a forecast seeks to describe what will happen where as a plan is based on the notion that by taking certain person how the decision maker can affect subsequent events in a given situation and thus influence the final results, in the direction. Generally speaking forecasting and forecasts are inputs to the planning process.

## 2.2.5 Types of planning

Planning can be divided into long range, medium range and short range. The type of planning depends upon the time period covered by it.

### 2.2.5.1 Long range planning

Long range planning usually covers period of 5 to 10 years. The time period depends upon the size of the enterprises and nature of its activities. Long range planning is one of the most difficult times span involved in planning as many problems in short range planning can be traced to the absence of a clears sense of direction and the practice which a comprehensive long range plan provides. “Long-Range planning is important basically for broad and long living enterprises. Long Range planning is closely concerned with the concept of the corporation as long living institution.” “Long-Range planning is the continuous process of making present decisions systematically and with the best possible knowledge of their futurity. Organizing systematically the efforts needed to carryout these decisions and measuring the results of these decisions against the expectations through organized systematic feedback.

Long-Range Planning is a decision making process. The decision may be related about:

- Determination of goals, objectives and strategies
- The level of direction of capital expenditure.
- The accession of new source of fund.
- Organization decisions and structure etc

According to George R. Terry the objectives of Long-Range Planning area as follows:

- To provide a clear picture of whether the enterprises is handled
- To keep enterprises strong
- To focus in long Range opportunities.
- To evaluate management personnel.
- To expedite financing
- To bring attention to new technique

### 2.2.5.2 Medium Range Planning

Medium Range Planning usually includes a time span of two or three years. The main purpose for using medium range planning is to establish interim objectives between long range and short range planning. In these cases, targets with specific results and define time schedules must be developed. Medium range planning takes the form of budgeting in which each division, departments or unit is allocated certain resources during the coming years. These allocations are based in part on forecast of demands, costs, financial position and completion with the time horizon of one or two years and critical decisions on resources allocation.

#### 2.2.5.3 Short Range Planning

The short-range planning is synonymous with the classical budgeting period of one year. The short range planning is selected to confirm to fiscal quarters or years. Because of the practice needed for confirming plans to accounting periods and the somewhat arbitrary limitation of long – range of three to five years is usually based as has been indicated on these prevailing beliefs that the degree of uncertainty over long period makes planning of questionable value.

### 2.2.6. Profit Planning and Control

"Profit planning and control is function of management which rests upon some fundamental views that is the conviction that a management can plan and control the long-range destiny of the enterprise by making a continuing stream of well conceived decisions". (Keller, 2004:4")

The trust of the comprehensive profit planning and control concept goes to the very heart of management that is the decision making process especially for long – range success. The stream of managerial decision must generate plan and actions to support the planned; continuing generation of profit by managerial manipulation of the inflows and outflows provides the substance of profit planning and control.

Profit planning focuses on profit and its management in aggregate. The management thinking about profit is planning itself. It can be defined as estimation and predetermination of revenue and expenses that estimate now much income will be generate and how it would be spend in order to meet investment and profit requirement. In the case of institutional operations, it presents a plan for spending income in a manner that does not result in loss. It represents an overall plan of operations over a definite period of time and formulates the planning decision of management. It has been said and applied by different persons and organizations. Comprehensive profit planning and control is viewed as a process designed to help management effectively program significant phases of planning and control and is not confined in the traditional view of budget but as a clerically derived set of quantitative schedules prepared by an accountant. The three relevant aspects of profit planning and control concept are as follows:

I) Profit planning and control requires major planning decisions by management.
II) Profit planning and control entails pervasive management control activities.
III) Profit planning and control organizes many of the critical behavioral implications throughout the organization.

Thus, it can be said that comprehensive planning and control is the recent origin in the field of management but budgeting is the traditional view of accounting and presenting financial statement, which can not include all management functions: planning, organizing, and reporting as the basis foundation for effective management.

A profit planning and control program helps the management perform its planning function by developing a strategic (long-range) profit plan and a tactical (short-rang) profit plan. Both of these plans include expectations (i.e. goals) for assets, liabilities, profits and return on investment. The foundation of the strategic profit plan (usually extending three, five or ten years into the future) includes the objective, board goals, planning premises and strategies of the enterprise as developed by the top management. The tactical (short-range) profit plan can actually be viewed as the first years of the strategic profit plan. It is detailed plan for the enterprise and for each of its responsibility centers.

A profit planning and control program helps management performance its control function by providing realistic goals and standard that are implemented and are then compared with actual results to measure performance. Under profit planning and control this performance measurement extends from top to the lowest organizational level in the enterprise. Profit planning is a detailed plan of action during a period of one year of less. Profit planning helps a firm's financial manager to regulate flow of funds which is his primary concern. A profit plan or budget is the formal expression of the enterprises plans and objectives stated in financial terms for a specified future period of time. It is called the profit plan because it explicitly states the goals in terms of time expectation and expected financial result for each major segment of the entity.

Profit planning in fact is a management technique and a profit plan is such a written plan in which all aspects of business operations with respect to definite future period are included. It is a formal statement of policy, plan, objective and goal established by top management in respect of some future period. Profit planning is a predetermined detailed plan of action developed and distributed as guide to current operations and as a detail basis for the sub-segment evaluation of performance. Thus we can say that profit planning is a tool which may be used by the management in planning the future course of actions and in controlling the actual performance.

Similarly, in USA profit planning has been defined as a predetermined detailed plan of action developed and distributed as a guide to current operation and as a partial basis for subsequent evaluation of performance. The international management institution conference on budgetary control held at Geneva in 1930 has defined profit planning as an exact and rigorous analysis of the past and the probable and desired future experience with a view to substituting considered intention for opportunism in management. Nell W. Chamberlain describes in his research report that profit planning and control refers to the organization techniques and procedure where by long and short range plans are formulated, considered and approved, responsibility for execution is delegated flexibility to meet changing conditions is provided progress in working the plan is reported, deviations in operation are analyzed and corrective action required to reach the desired objective is taken. A profit plan is an advance decision of expected achievement based on the most efficient operating standards in effect or in prospect at the time it is established again which actual accomplishment is regularly compared.

#### 2.2.6.1. Components / Elements of profit planning and control

Comprehensive profit planning and control program encompasses much more than the traditional idea of a periodic budget. Moreover, it encompasses the application of a number of management concepts through a variety of approaches, techniques and sequential steps. The basic components of comprehensive profit planning and control are as follows:

i. Evaluation of potential effect of all relevant variables on the enterprises. The variable may have their different relevancy according to the nature of the market
ii. Specification by executive management, the board objectives of the enterprise. The statement of board objectives should express the mission, vision and ethical tone of the enterprise
iii. Establishment of specific goals for the enterprises
iv. Development and evaluation of enterprise strategies. The strategy formulation is a continual concern to executive management: better – managed companies have found that periodic reassessment of the essential in light of a careful analysis of all relevant variables and their future potential impact
v. Preparation of planning premises
vi. Preparation and evaluation of project plan
vii. Development and approval of a strategic long – range profit plan
viii. Development and approval of a tactical shortage profit plan
ix. Development of supplementary analysis
x. Implementation of plans
xi. Development. Dissemination and utilization of performance report
xii. Implementation of follow up actions

The other basic elements profit planning can be explained as follows:

i. It is a comprehensive and coordinated plan. The profit planning considers all activities and operations of an organization. The budgets prepared by different departments inside the organization have to be compiled or coordinated.
ii. It is expressed in financial terms. All activities covered by budget are related with funds. So, the budget has to be expressed in monetary units.
iii. It is a plan for the firm’s operation and resources. A budget is a mechanization to plan for the firm’s operations, revenue and expenses. The budget must plan for and quantify revenue and expenses related to specific operations. Planning should not be done for revenue and expenses only. The plan should be made to carry out the operations. The planning for resources will include planning for assets and resources of funds.
iv. It is a future plan for specific period. Time dimension must be added to a budget. A budget is meaningful only when it is related to a specific of times. The budget estimates will be relevant only for some specific period.

### 2.2.6.2. The foundation of Profit Planning and control

The fundamentals are concerned with effective application of the theory at management process. It is based in some fundamental assumptions. The fundamental concept of profit planning and control includes underlying activities or task that must generally be carried out for maximum usefulness from profit planning and control. The some of the important fundamentals are as follow:

### i. Managerial involvement and commitment

Managerial involvement and commitment involves the managerial support, confidence participation and performance orientation. All level of management especially top-level management should engage itself to comprehensive profit planning and control. The management has to consider the following points to make profit planning and control successful.

- Understand the nature and characteristics of profit planning and control
- Be convinced that this particular approach to managing is preferable for their situation
- Be willing to devote the effort required to make it operative
- Support the program in all its ramifications

### ii. Organizational Adaptations

A profit planning and control program must rest upon sound organizational structure for the enterprises and a clear-cut designation of lines of authorities and responsibilities. The purpose of organizational structure and the assignment of authority are to establish a framework within which enterprise objectives may be attained in a coordinated and effective way on a continuing basis. The scope and interrelationship of the responsibilities of each individual manager are specified.

For easy and effective control sometime the organizational structure are divided into different functional sub-units, and each sub-unit chiefs are assigned with specific responsibility centers. Sometimes these responsibility centers are used to be in form of a division or department or a sales district. But in most of the cases these centers are use to be a functional area like:

#### a. Cost Center

It is only responsible for controllable costs incurred in the sub-units but not responsible for profit or investment.

#### b. Profit center

It is responsible center for cost and revenue and hence profit.

#### c. Investment center

Investment center is responsible for cost, revenue, profit and amount of investment invested on assets.

Based upon the set organization structure the annual plan and program are prepared. The activities are:

a) Top-level management should furnish the information about the objectives. Planning assumption to the managers of all functional sub-units.

b) Based upon the information furnished to them each Sub-unit prepares the annual plan followed by sales and production plan.
c) After reviewing and evaluating the plans submitted by the sub-units higher management prepare master plan for the enterprise as a whole which will known as profit plan or master plan.

**III. Responsibility accounting**

Planning is done with the help of the historical data supplied by accounting section and comparing actual data with protected or planed data does control. So, for this reason accounting system of any enterprise should be build around the responsibility structure of organization or around functional sub-units. This is called responsibility accounting. For responsibility accounting system one should have to define responsible of the cost revenue and other financial data should be utilized for the preparing plan.

At its origin, cost accounting was giving emphasis only on costing of goods predicted. But nowadays situation has changed and it's is given more emphasis ton cost planning then only to costing. This changed in priority is based upon the responsibility accounting and principle of product cost has been given secondary importance. At first cost data generated from historical cost accounting are used for cost planning and control purpose then the same cost data are used for costing purpose.

If the parameter of cost and revenue used for planning purpose are not used in accounting system or are not used for costing purpose, valuation of the result by comparing it with planned goal will not be effective. So, for evaluation purpose and for accounting purpose each of the responsibility center have to prepare chart accounting parameters to be used for planning purpose and have to supply it with full instruction to respective unit then only the main object6ive of the responsibility accounting can be fulfilled.

**iv. Full communication**

Communication can be broadly defined as an interchange of thought or information to bring about a mutual understanding between two or more parties. It may be accomplished by a combination of words, symbols, messages and subtleties of understanding that come from working together day in and day out by two or more individuals.

Communication is needed for both the feed forward and feed backward process which is most important for operation of any organization. Role of communication can be justified in all aspect of management. It is needed either for decision-making or for supervision or for evaluation. Flows of information must be adequate in all side.

For comprehensive profit planning and control, effective communication means development of well defined objective, specification of goals, development of profit plans and reporting and follows up activities related to performance evaluation for each responsibility center. To have effective communication of comprehensive profit planning and control, both the parties related with the planning activities must have same understanding of responsibilities and goals, full participation in all matter, well defined downward flow of information and well defined reporting system is needed.

### V. Realistic expectation

Profit planning and control must be based upon realistic approach or estimation. Management must use realistic assumption and must not take either irrational optimism or unnecessary conservatism. Perfection on setting goal or objectives of the future sales, production levels, costs and capital expenditures, cash flow and so on determines the success of profit planning and control purpose. A realistic approach geared with the dimension and external / internal environment that will prevail during the time span should be considered. This is called realistic expectation.

### VI. Time Dimensions

Whether an individual or and entity remains ideal or busy, time passes at the same rate. The problem of the manager in one hand is to accomplish the planned activities in a given time and on the other hand is to prepare the plan itself. For effective implementation of planning, management of the enterprises must establish of definite time dimensions for certain types of activities. In other words for each activities related with planning would be given definite time for implementation, followed by other activities. This is called planning activities. In the viewpoint of tiime dimension a manger should maintain clear-cut distinction between historical consideration and futuristic consideration. Timing of planning activities suggests that there should be a definite management time schedule established for initiating and completing certain phases of planning process. Planning horizon is the time for which the planning is done or we can call it life span of the plan. For every enterprise there used to be many planning horizons to maintain the continuity of planning activities.

In conclusion we can say that for comprehensive profit planning and control purpose planning activities and implementation must be carefully handled to accomplish the activities in time.

### VII. Flexible application

Rigidity of any comprehensive profit planning and control program is strictly undesirable because of the managerial use of different implications. Unless budget which imposes rigidity on any activity and puts constraint on the premises freedom to all managers. This is possible in profit planning because in the course of preparation profit planning and control all level of managers are involve and hence the top management will have privilege to make necessary decision and delegate more responsibilities to the mangers, this position gives more power to unit mangers, the power of making favorable decision. In such a situation the profit plan place management in the position of being able to assess, on more objective basis, the soundness of contemplated decision.

To cost control also, the principle of flexibility is especially important. Expenses and cost budgets must not be rigid in nature. Budget should not prevent any of the units to make rational decision and to take opportunity benefits merely on the ground that such expenses are not anticipated. Finally it can be said that for profit planning and control purposed budget should not be regarded as straight jacket and for management purpose the profit planning and control approach should not be regarded as the constraint for the management to seize the opportunities, which is going to be most beneficial for enterprises in long run.

### VIII. Behavioral view point

Behavioral aspect of human being is the field of study of the psychologist educator and businessman and finding was that there can be so many unknown misconceptions and speculation which have to be considered for efficient management. A goal and dynamic leadership can resolve these problems by integrating all the group efforts for betterment of the organization. These facts also have been well considered under comprehensive profit planning and control approach and focuses has been given to resolve the behavioral problems.

Goal orientation is the characteristics of ambitious and competent individuals who are normally involved in management process. Goal, which has been identified for an individual can enhance such persons to intensity their performance. To motivate men there should be a good harmony between their personal interest and organizational interest and goal have to be identified accordingly. More than monetary benefits personal satisfaction from the works counts a lot for the competent people. So, it will be much more fruitful for an enterprise to pursue all the people to formulate the plan and to set goals and policies before asking then to implement it. Findings of relevant study conducted by industrial psychologist has described about the effects of pressure on human behavioral. Pressure unto moderate limit is needed to pursue the working staff to work but excess pressures will have negative effects. The comprehensive profit planning and control approach has been developed on this principle. Another aspect of behavioral recognition is that the individual recognition of the work should be carefully done. The system of recognition the efficient work should be done and efficient one should be rewarded. Due to lack of understanding between the working group of the program and its operation, effects of program on them, and expectation of over pressure and disagreement with planning and control approach are the cause of management failure. But a careful management has to tackle this problem very carefully and have to direct the attention of the workers in positive way.

### IX. Follow up

A comprehensive profit planning and control is a systematic and formalized approach for stating and communicating the firm’s expectation and accomplishing management in such a way as to maximize the use of a profit plan is to achieve the maximum benefit from the resources available to an organization over a particular span of time. It serves basically as a tool for management control. The main objective of profit planning and control is to assist in systematic planning and in control the operations of the enterprises. In fact it is best source of communication and an important tool in the hands of management.

The purpose of budgeting or profit planning and control may be summarized as follows:

I) To state the firm's expectation (goals) in clearly formal terms to avoid confusion and facilitate their attainability.

II) To communicate expectation to all concerned with the management of the firm so that they are understood supported and implemented.

III) To provide a detailed plan of action for reducing uncertainty and for the proper decision of individual and group efforts to achieve goals.

IV) To coordinate the activities and efforts in such a way that the use of resources is maximized.

### 2.2.6.3 Advantage of profit planning and control

Profit planning means the development and acceptance of objectives, goals to run an organization effectively to achieve the objectives and goals by substantive and financial plan techniques. Profit planning is very important to emphasis on developing positive reinforcement, improving motivational goals, coping with effect of budgetary pressure solving budget, padding problems and using budget for control. A profit planning is a financial and narrative expression of the expected results from the planning decisions. It is a called for profit planning because it explicitly states the goals in term of time expectations and expected financial results for each major segment of the entity

i. It forces early consideration of basic policies
ii. It requires adequate and sound organization structure that is there must be a definite assignment of responsibility for each function of the enterprise.
iii. It compels all members of management; from the top to down for to participate in the establishment of goals and plan.
iv. It pinpoints efficiency and inefficiency
v. It frees executives from many days-to day internal problems through predetermined policies and clear-cut authority relationship. It thereby provides more executives time for planning and creative thinking
vi. It tends to remove the uncertainty that exists in many organizations, especially among lower levels of management relative to basic policies and enterprise objectives.
vii. It compels departmental managers to make plans in harmony with the plans of other departments and of the entire enterprise
viii. It requires adequate and appropriate historical accounting data
ix. It requires that management put down in figure what is necessary for satisfactory performance
x. It compels management to plan for the most economical use for labor, material and capital
xi. It installs at all levels of management the habit of timely, careful and adequate consideration of the relevant factors before reaching important decisions

xii. It reduces the cost of supervision by increasing the span of control because fewer supervisors are needed.
xiii. It forces management to consider expected future trends and conditions
xiv. It checks progress towards the objectives of the enterprise
xv. It rewards high performance and seeks correct unfavorable performance
xvi. It forces recognition and corrective actions
xvii. It aids in obtaining bank credit, bank commonly require a projection of future operations and cash flows to support large loans
xviii. It forces a periodic self-analysis of the company
xix. It promotes understating among members of management of their coworker's problems
xx. It forces management to give adequate attention to the effect of general business conditions

### 2.2.6.4 Limitations of Profit planning and control

Profit plan and control is an important tool for management. But each tool suffers from some limitation and its use is fruitful within these limits. Profit plan and control is also not limitless too. So it is essential that the user of profit plan and control must be having a full knowledge of its limitations. The major limitations of profit plan and control are as under:

**i. Danger of Rigidity**

Profit plan and control is an estimation and quantitative expression of all relevant data. So, there can be tendency to attach some sort of rigidity or finality to them. But rigidness makes profit plan and control unless. For usefulness, the profit plan and control must be flexible. Various techniques must be tried, improved or discarded and related. In other words, a profit plan and control program must be dynamic in every sense of the word

**ii. Profit planning and control is application for long period**

The installation of a complete profit plan and control is not possible in short period. It should be continuously used in the business and should be revised and modified with the changed situations in the business

**iii. Execution of profit plan will not occur automatically**

A skillfully prepared profit plan and control will not itself improve the management of an enterprise unless it is understood by the entire related person inside the enterprises. It is very much required that each executive must feel the responsibility and should make efforts to attain the budgeted goals. Departmental heads should seriously the think that it is their individual responsibility to fulfill the target set up in their departmental budget. The success of a budgeting system totally depends upon the efficient management and administration

**iv. The profit plan will not a substitute for management**

Profit plan and control is a management tool. It is not substitute for the management. It is totally wrong to think that the introduction of profit plan and control is alone sufficient to ensure success and to guarantee future profits. It is only for achieving the end

v. **Costly affairs**

The installation of profit plan and control system is an elaborate process involving to much time and costs. Normally it is so costly that small concern cannot afford to it. Even for a large concern it is suggested that there should be some correlation between the cost of operating a budgeting system and benefits desired from it. The system should be adopted only when benefit exceed the cost.

vi. **Proper Evaluation**

For finding out the inefficiencies, proper evaluation should be made. On the absence of proper evaluation, budgeting will hide inefficiencies. So there should be continuous evaluation of the actual performances. Standards also should be re-examined regularly

vii. **Lower morals & productivity**

Unrealistic targets should not be set and used as pressure tactic. By doing it profit planning and control will lower morale and productivity. To some extent profit planning may be used as pressure device, but its extent must be carefully determined.

### 2.2.7 Budgeting: as a tool of profit planning

"Budgeting has long been recognized as the accepted procedure for profit planning and many of the most successful companies have applied it to good effect over a period of year". (Maneshori 2000:175)

Budget is an expression of a firm’s plan in financial form for a period of time in future. It is an estimate of the future needs calculated for a defined period. Its income for a given period and cost as well as expenses of obtaining this income is set on limited within the ideas of earning a desired profit and controlling losses. A business budget is a plan covering in all phases of operations for a definite period in future. It is a formal expression of policies, plan objectives and goals lied down in advance by top management for undertaking as a whole and every subdivision there of.

A budget is a quantitative expression of a plan of action and an aid to co-ordination and implement. Budget may be formulated for the organizations as a whole or for any submit. Budgeting includes sales, production, distribution and financial aspects of an organization. Budget programs are designed to carryout a variety of functions planning evaluating performance, co-coordinating activities, implementing plans, communicating motivating and authorizing actions.

Budget is a tool of planning and control is closely related to the broader system of planning and control in an organization. Planning involves the specification of the basic objectives that will guide it. In operational terms, it involves the step of setting objectives; specifying goals, formulating strategies and expressing budget. A budget is comprehensive and coordinated plan expressed in financial terms for the operations and resources of an enterprise for some specified period in future.

A budget is a written plan for the future. The managers of firms who use budgets are forced to plan ahead. A firm without financial goals may find it difficult to make proper decisions. A firm with specific goals in the form of a budget makes many decisions ahead of time. A budget helps a firm to control its costs by setting guidelines for spending money for undead items because they know that all costs will be compared to the budget. It actual costs exceed the budgeted costs a justifiable explanation is required. A budget also helps employees to do good job. This is particularly true when employees help in setting up the budget.

### 2.2.8 Budgeting and Forecasting

Budget and forecast are quite distinguishing terms. Forecasts are the statements of expected future condition. These expectations depend upon the assumption made. A forecast is the likelihood of events or happenings given the past data and expected changes. A budget is an expression of the management intention of achieving forecast through positive and conscious action and influencing the events.

A forecast is a prediction of future event, condition or situation. A forecast is not a plan rather it is a statement of and or a qualified assessment of future conditions about a particular subject (e.g. sales, revenue) based on one or more explicated assumptions. A forecast should always state the assumptions. A forecast should be view as only one input into the development of sales plan. The management of the company may accept modify or reject the forecast, other input and management judgment about such related items as sales volume, prices efforts, production and financing. It is important to make a distinction between the sales forecast and sales plan primary because the internal technical staff should not be expected or permitted to make the fundamental management decision and judgment implicit in every sales plan. Moreover, the influence of management actions on sales potentials is difficult to quantity for sales forecasting. Therefore, the elements of management experience and judgment must hold the sales plan. Another reason for identifying sales forecasting as only one step in sales planning is that sales forecasts are conditional.

### 2.2.9 Budgetary Control

Budgetary control is a system of controlling costs which includes the preparation of budgets, coordinating the departments, establishing the responsibilities, comparing actual performance with that budgeted and acting upon results to achieve maximum profitability. Thus budget is concerned with policy making while budgetary control results from the implementation of the policy. The common objective established after the consideration of the possible course of events in the future and to provide a means for the constant comparison of actual progress towards this goal against the preconceived results. Budget is not only compare the actual results with those of budgeted but also provide a standard of the performance. Company control operations through its budgeting and responsibility reporting system. Top executives are able to control every area of the organization through a system of budgetary planning and control reporting of responsibility area.

### 2.2.9.1 Objectives of budget and budgetary control

The main objectives of budget and budgetary control are as follows:

i. To smooth out seasonal variations in production by developing new files products and these by accomplishing one phase of economic planning. To conform to good business practice by planning for the future
ii. To coordinate the various division of a business namely production, marketing, financial and administrative divisions by consultation among the divisional beads and manual agreement on company policies
iii. To operate most efficiently the division department and cost centers of a plant
iv. To forecast operating activities and financial position
v. To establish divisional and departmental responsibilities
vi. To provide a method of measurement of operating activities and financial position both where standard are and are not lisped
vii. To provide more definite assurance of earning the proper return on capital investment
viii. To prevent waste to reduce expenses and to obtain the income desired
ix. To aid in obtaining better inventory control and turnover
x. To aid in controlling cash
xi. To centralize managements control
xii. To obtain a more economical use of capital
xiii. To show management where action is needed to remedy a situation
xiv. To ensure that adequate working capital is available for the efficient operation of the business

### 2.2.9.2 Advantages of budget and budgetary control

There are prime advantages of the budget and budgetary control as follows:

i. The reduction in seasonable variation in production brought about by budgets decreases the cost of production by the increasing volume
ii. Advanced planning inherent in the budgets in looked upon with favor of credit agencies as indicative of sound management
iii. The coordination of the main divisions of a concern makes smoother operation and less internal friction which results in the achievement budget goal
iv. The efficient operation of the entire unit depends upon all employees working towards a common goal that is ensured by the budget
v. The forecast of operation and financial conditions sets a goal to shoot for and becomes a basis for dynamic action rather than historical cost system's postmortems
vi. The establishment of divisional and departmental responsibilities prevents buck passing when the budget figures are not achieved
vii. The desire earning on a given investment of capital sets up a profit point objective which is logical basis to be used in working out the estimated sales volume
viii. The purchase of stores is based upon predetermined requirements for raw materials and this helps to prevent stock shortages as well as excessive purchases. Work in process inventories are kept at minimum because of predetermined production requirement. Finished goods inventories are maintained at a level necessary to meet the predetermined schedule of sales

ix. The use of budget figures as measurements of operating performance and financial position makes possible the adoption of standard cost principle in divisions other than the production division
x. The budgets serve as stimuli to meet the predetermined goals for both income and expenses thereby achieving desired profits or reducing existing losses
xi. The budget of cash expenditure and cash receipts makes it possible for the financial management to forecast their needs for credit and arrange for it in advance
xii. The centralization of budgetary control over all divisions and departments helps in carrying out a uniform age of an authoritarian type of business and inventories
xiii. As goals are set up for being attained and achievements or failures are revealed only with reference to these goals results can be viewed objectively with minimum of personal prejudice
xiv. The forecast of sales enabled the management to work out the economic balance between plant and machinery storage warehouse and inventories

### 2.2.9.3 Requirements for effective budgeting

The following are the main requirements of the effective budgeting:

**i. Support of top management**

The budget program can only be successful when top management offers the wholehearted support and when all managers are motivated about the implementation of budget program.

**ii. Clearly defined organization**

Business organization should be defined so as to provide maximum benefits. There should be sound plan with well-defined and adequately maintained responsibilities. Records should be clear, consistently departmentalized and established in such a manner as well indicated defined responsibility on each unit or section of the business.

**iii. Unambiguous policy**

A budget program is always based on certain fundamentals, the collection of which is called the policy of the business. Naturally, therefore no program can be prepared without the knowledge of the business policy to be adopted during the period covered by two budgets.

**iv. Preparation by responsible executives**

Formulation of budget in the participation of executives who are entrusted with the performance and implementation is one of the essential of effective budgeting.

**v. Accurate accounting system**

Accounting system should be developed so far to hold each part of the organization to its responsibilities. The budget fosters coordinated action and whenever this is broken down oriented with the responsible factor should be unmistakably revealed.

**vi. Logical sequence in the Budget Preparation**

It is essential that proper procedures should be involved for the preparation, submission, examination and review of budget figures in logical sequence.

**vii. Constant vigilance**

An effective system of budgetary control requires that provision must be made for comparison of budgeted and actual results at frequent intervals. As soon as unfavorable trends are detected, immediate action should be taken to remedy them.

**viii. Degree of flexibility**

Flexibility of both possible and unforeseen circumstances requires essentially in budgeting.

**ix. Continuous budget education**

An essential condition for the success of budgeting is that it must be able to sustain the interest of those who shoulder the responsibly of putting budget proposal into effect. This needs continuous budget education, which is concerned with briefing the employees of the undertaking on the objectives, potential and techniques of budgeting as well as making them understand its uses and limitations.

### 2.2.9.4 Classification of Budget

The budget can be classified according to various points of view. The commonly used basses are:

a) Classification according to Time Factor
b) Functional classification
c) Classification according to flexibility

#### 2.2.9.4.1 Classification according to Time Factor

In term of time factor budgets are classified into following three types.

i. **Long – term budget**

These budgets are concerned with planning the operation of a firm over a prospective period of 5 to 10 years. They are usually in form of physical quantities.

ii. **Short-term budget**

These budgets are concerned with planning for a period of 1 or 2 years and are in the form of production plan in monetary terms

iii. **Current budget**

These budgets cover a month or so and are the short-term budgets adjusted to current conditions or prevailing circumstances.

### 2.2.9.4.2 Functional Classification

One the basis of classification budgets correspond and are co-terminus, with a particular function and are integrated with the master budget of the business. The number and type of functional budgets depends on the size and nature of the business. The usual functional budgets are:

i. **Sales budgets**

Sales budget is a forecast of the total sales classified according to groups of products, salesman and geographical location.

ii. **Selling and distribution cost budget**

These budgets are concerned with an estimate of the cost of selling and distribution of goods

iii. **Production cost budget**

This is the cost of production including direct material cost, direct labor cost and manufacturing expenses fixed variable and semi-variable.

iv. **Production budget**

This is forecast based on sales, productive capacity and requirements of investories etc.

v. **Purchase Budget**

It correlates with sales forecast and production planning. It deals with purchases that are required for planned production. Purchases would include both direct and indirect materials and goods.

**vi. Personnel budget**

This has reference to the initialization of men and would include labor employed in productive activity. This would be split up between direct and indirect labor.

**vii. Research budget**

It relates to imperilment in the qualities of the products or research for new products.

**Viii. Cash Budget**

It is a sum total of the requirements of cash in respect of various functional budgets as well as anticipated cash receipts.

**viii. Plant Utilization Budget**

This is intended to cover the plant and machinery requirements to meet the budgeted production during the period. Schedules will be produced showing the available load in each department expressed in standard hours or unit.

**ix. Office and Administration Budget**

This budget represents cost of all administrative expenses such as managing director's salary, staff salary and expenses of office management like lighting and cleaning.

**x. Capital Budget**

It is a forecast of outlay on fixed assets as also of the sources of capital required. The budget period in the case of capital budget may differ from that of other budgets as such expenditure is frequently planned for a number of years in advance.

**xi. Master Budget**

The ultimate integration of separate budgets by the accountant provided the master budget which includes estimated profit and loss account for the future period and an estimated balance sheet at the end of there of.

#### 2.2.9.4.3 Classification According to Flexibility

On the basis of flexibility the budgets can be categorized as fixed and flexible budget.

**i. Fixed Budget (Permanent Budget)**

It is a budget in which targets are rigidly fixed. Such budgets are usually prepared from one to three months in advance of the fiscal year to which they are applicable.

ii. **Flexible Budget (Temporary Budget)**

The figure used in this form of cost and expenses budget are made acceptable to any given set of operating conditions within any month of the fiscal year. Budget designed for different level of activity is known as flexible budget.

### 2.2.9.5 Development of Profit Plan and control in the Bank

Development of profit plan in development and commercial bank begins with the preparation of various functional budgets. These functional budgets are in fact the picture of the activities of the bank to be preformed during a particular period of time. Therefore the functional budgets of a bank are activities such as budget for deposit collection, budget for lending and investments, budget for non-fund based business budget for expenditures and revenues

The development of profit plans process that involves managerial and ideally high level of management participation. The following are the budget, which are developed in a bank while making a profit plan.

### 2.2.9.5.1 Resources Mobilization Plan or Budget

The planning for resources mobilization is the foundation for planning in a bank. The all other planning is based on it. The major and the sustainable resource of a bank is the customer's deposit. Therefore the plan for resources mobilization has a primary focus on the customers deposit mobilized by the banks so the deposit mobilization or collection plan is the starting point in preparing the other different plan.

Deposit mobilization is the primary function of a bank, which has major contribution in the total resources of the bank. In terms of cost for the bank, customer's deposits are of two kinds, viz.

1. Interest free deposits i.e. current deposit, margin deposit etc and.

2. Interest bearing deposit i.e. saving deposits, fixed deposits of various tenure, call deposit etc. The interest free deposits are cost free but are generally volatile in nature those can be withdrawn without restriction from the bank thus cannot be invested in to higher income yielding assets.

Further, interest bearing involves cost of deposit but their retention ratio with the bank are much better so they can be put to high income yielding assets having longer tenure.

Therefore, a proper mix of cost free and costly deposits corresponding to short terms and longer terms deposits are to be maintained by the bank in its deposit mix in to minimize its average cost of deposit, at the same time having comfortable mix income-yielding assets. The cost of deposit of banks is also affected by the prevailing deposits rate of other banks in the market.

Budgeting for the mobilization of deposits during a particulars year is set in advance with the view of optimizing the cost of deposit and the some are allocated to the different braches of the banks. Such allocation may be regarded as the plan for deposit mobilization of the banks.

Banks resources other than customer's deposit are the borrowing from other banks and the capital fund. Generally, banks borrow from other banks to meet temporary requirement of liquidity. Which may occur sometimes during the course of banking operation caused due to unexpected withdrawals of deposit or deferment in loan repayments by the borrower by some reason or other? Such activities are managed from the head office with the least possible cost.

Among the capital fund the equity capital is formed generally one time during opening of the bank. The central bank (NRB) may from time to time instruct the bank to enhance the paid up capital to improve the capital adequacy of the bank.

## 2.2.9.5.2 Resources Deployment plan or Budget

The planning for deployment of resources starts form assessment of nature of resources to be mobilized. That is assets are allocated on the basis of the nature is called asset allocations approach as M.C. Vanish writes in his book money banking trade and public finance. "The fundamental criterion is which must be followed in allocating fund for acquiring different types of assets. That is turnover rate of different source of supply of fund; determine the appropriate maturity of the assets acquired through fund utilization. For instance while relatively stable fund like saving deposits, fixed deposit and paid up capital could be used to buy long duration high yielding securities, demand deposit which are more volatile, could be used to acquire relatively liquid assets like cash or money at call and short notice in which little or no return is made by the bank.

Therefore the budgeted deposit of mix is the major determining factor of the planning of assets Portfolio.

A Bank should make the planning for deployment of its resources in such a way that it ensures required liquidity as well optimize the yield on fund of bank. Therefore, banks resources deployment process involves following.

A. Deployment in liquid assets.

B. Deployment in lower income yielding assets.

C. Deployment in higher yielding assets.

Funds kept as cash in vault and as balance with NRB and other banks in current account are the most liquid assets of the bank normally banks have to maintain certain fixed percentage of their deposit liability in this form as directed by the central bank from time to time. Therefore there is no yield in the fund deployed as liquid assets.

Deployment for lower income yielding assets are generally planning the funds in short term securities like treasury bills etc. which provides reasonable liquidity to make as well as yield some return although they are at very low rate.

Major portion the income of the bank comes as interest income from the resources deployed to loan advances and bills discounting (LABD). Banks make its lending budgets in advance as per their lending policies. A lending target is fixed at various sector of economy for various kinds of trades and commercial activities and to various borrowers ensuring well diversification of the assets. The targets are allocated to the branches, which are generally operated as separate profit centers.

## 2.2.9.5.3 Planning for Non Funded Business Activities

The other activities of banks where it does not have to involve its fund, yet it can generate other income are called non-funded business activities of the bank. They are usually letter of credit Bank guarantee issuance business of the bank where the bank undertakes the payment liabilities, which are contingent in nature and the banks charges, certain percentage of commission on such transaction to their client who are availing these facilities form bank.

## 2.2.9.5.4 Expenditure Planning

The expense planning and controlling are very necessary for supporting the objectives and planned programs of the firm. An expense is related with profit it is real fact, that the minimization of cost is maximization of profit. So the expenses must be planned carefully for developing a profit plan. In a bank there are generally following types of expenses.

a. Interest expenses.

b. Personnel expenses.

c. Office operating expenses.

d. Expenses meeting the loss in exchange fluctuation.

e. Non-operating expenses.

f. Expenses for provision for loan loss.

g. Expenses for provision for staff bonus.

h. Expenses for provision of income tax.

The interest expenses are incurred while paying for the deposits mobilized by the bank and include the expenses incurred for payment in all kinds of interest bearing deposit as per the agreed rate between the bank and the borrower. In the total expenses of a bank, the portion of interest expense is quite higher.

Interest expenses in a bank depend on the average cost of deposit (cod) mobilized by the bank. Lower the cod lower the interest expenses and thus higher the profitability. Therefore, from profitability point of view banks plan their cod at lowest possible level. The nature of interest expenses is that it is a variable expense. The net earning from interest income of a bank deducting the interest expense for the deposit mobilized is called spread which is similar to the contributions margin in sales of commodities by a manufacturing unit.

Other expenses are the administrative expenses and are generally incurred by the bank during the course of its operation. Higher the volume of business transaction of a bank, higher will be the amount of it other expenses. Therefore, the expenses should be related with the business activities, which ultimately should yield income for the bank. Such other expenses form burden to the profitability as it consume the spread earned. Therefore budgets are prepared with an aim of reducing the burden as far as possible. The expenses budget is formulated in correlation with the activities or the bank and the targets are allocated to different branches.

## 2.2.9.5.5 Revenue Planning

Revenue of a bank is generated from the income yielding activities of the bank. Therefore while preparing the resources deployment plan and non-funded business activities plan, the banks make the estimation of the revenue in advance during the period for which the plan is developed.

Revenues of a bank are generated in the following forms:

a. Interest income.

b. Commission and Discount.

c. Dividend.

d. Other income.

e. Foreign Exchange income.

f. Non-operating income.

Generally, the interest income of a bank holds a major portion in total revenue. And it provides a major source of earning of a bank. Therefore total income of a bank is categorized in two type viz. interest income and other income. The later inducing other income items as listed above the income comprises excepting the interest income.

The interest income is earned by charging interest on the fund deployed in interest earning assets such as loan and advances, overdraft, investments in government securities etc. For this study the income from bills discounting has also been treated as interest income as well. Loans overdraft and Bills Discounting together as a singled assets portfolio as LDO, higher will be the income.

As the average rate of interest on LDO are comparatively higher than other income yielding assets, from the profitability point of view, higher assets allocating in to LDO, higher will be the income.

The other income is generated from the income of the bank such as issuance of L/C, Bank Guarantees from remittance, charges, cheque collection, fee, locker charges service charges, commitment charges, trading gain on foreign exchange, revaluation gain on foreign exchange as reserves etc. The amount of other income in a bank greatly contributes in lowering the burden on and better will be the profitability of the bank.

Income of a bank is essentially activity based i.e. the volume of business. Higher the income generating activities of a bank; higher will be the amount of its revenue. Therefore, the bank develop its plans various activities in such a way that optimizes its revenue.

Generally, the development of an annual plan ends with the planned income statement, the planned balance sheet and the planned statement of cash flows. These three statements summarize and integrate the detailed plans developed by management for the planning period. They also report the primary impact of the detailed plans on the financial characters of the company.

### 2.2.10 Performance Report

Management has to devote the valuable time and effort for the achievement of the planned profit. So, the evaluation of effectiveness and efficiency of plans operations and performance are the essential fields of managerial activities. Controls are the process of getting conformity of actual performance with planned courses of action. Planning is incomplete if no system for control is developed.

Evaluation of performance and reporting plans are the necessary aspects of comprehensive planning and control programmed. Performance reporting for internal management use is an important part of comprehensive profit planning and control system. Performance reports are usually prepared on monthly basis. It facilitates internal control by the compared with goals and budget plans. Such reports are designed to pin point both efficient and inefficient performance.

Performance reports play as an important tool to provide necessary information as it reports the performance of every responsibility center to the management. The efficiency of the management depends upon the achievement of desired result. The main objectives of the performance reports are the communication of performance measurements, actual results and the related variances.

The performance report is the management report that reflects the operating manager's effort to live and beat his budget allowances. Performance reports should distinguish between controllable and non-controllable items. The actual results should be compared with plans, objectives and standard and the management should analyze the differences. Careful attention should be given while designing the performance reports format. Titles and heading should be descriptive, column heading and side captions should clearly identify the data and technical jargon should be avoided. It should not be long and complex tabulation and nonessential data should be avoided. Report should be relevant.

Another important aspect of performance report is to minimize the time gap between the decision and report. Unfavorable situation should not be continued for a long time before making correction: otherwise the business enterprises should have to bear greater financial loss. Another important part is to follow up management procedures.

When reports give the favorable and unfavorable variances between actual performance and planned performance on monthly basis such variance requires immediate concern as well as continuous follow up by management for the betterment of the enterprises. Follow up procedures should analyze both unsatisfactory conditions and correct decision should be made. The main purpose of performance reports is to show variances between planned and actual. Such variances should be expressed in amounts as well as, percentage of the planned and budget amount. Statistical control units should also be implemented to determine the significance of variances. Monthly performance reports should generally show variances for the period being reported and cumulative variances to date, such reports are usually prepared for each responsibility centers.

### 2.2.10.1 Essential features of performance reports

The performance reports should be prepared in such a way that it will fulfill the following criteria:

a. Tailored to the organizational structure and locus of controllability (i.e. by responsibility centers)
b. Designed to implement the management by exception principle
c. Repetitive and related to short time periods
d. Adapted to the requirements of the primary users
e. Simple, understandable and report only essential information
f. Accurate and designed to pin point significant distinction
g. Prepared and presented promptly
h. Constructive in tone

The extent to which the various managers use their performance reports depends on many factors, some behavioral and some technical. One important factor is the extent to which the performance reports serve the measurement and decision-making needs of the users. Communication is a subtle management problem, and it is facilitated by performance reports. If the different needs and experience of the users are taken in to account, a department supervisor responds, differently than a vice-president

Top management personnel needs reports that give a complete and readily comprehensible summary of the overall aspects of operations and an identification of major events. The summaries must be supported in sufficient detail to facilitate tracing deviations to their source.
Middle management is usually defined as those members of management in charge of the major subdivision of the business, such as sales, production and finance, Middle management is responsible for carrying out the responsibility assigned to the subdivision with in the broad polices and objectives established by top management. Middle management is closer to and more concerned with operation than top management, although it also has important planning functions. Performance repots

for middle management although including summary data are also characterized by detailed data on day to day operations.

Lower-level management (department supervisors) is principally concerned with co ordination and control of day to day operations. There, control reports should be detailed, simple, understandable and limited to items that are directly related to the supervisor's operational responsibility.

#### 2.2.10.2 Other Aspects of Performance Reports

In the design and preparation of performance reports, it should be kept into mind that the user generally is not an accountant and that the report is to serve as user other than the report maker. Careful attention to form is important. Title and heading should be descriptive, column headings and side captions should clearly identify the data and technical jargon should be avoided. Performance reports should not be too long. Complex tabulations should be avoided.
Reports should be carefully screened to eliminate all non-essential information. It should be standardized and must be relevant. Consistent with the cost of detailed record keeping and reporting, performance reports should be available on the timely basis. To achieve a realistic balance between immediate reporting and the cost of detailed reporting monthly performance reports are widely used by industry.

#### 2.2.10.3 Management Follow-Up Procedures

"Well-managed companies use monthly performance reports covering all aspects of operations. These reports give favorable and unfavorable variances between actual performance and planned performance for the month just ended and cumulatively forth year to date. Managers should analyze these monthly reports carefully to be fully knowledgeable about both high and low performance should be given immediate priority to determine the causes. However the process should not stop at this point. Follow up is a key phase of effective control. Some companies require written explanations of significant variances. The follow up procedures preferred by other companies involve conferences to discuss the causes and corrective actions to be taken. Follow up procedures should begin at top – management level to discuss and analyze both unsatisfactory and satisfactory conditions. Decisions should be made about the ways and means to correct unsatisfactory conditions. Favorable variances should also be analyzed 1) to determine whether the goals were realistic 2) To commend those responsible for high performance and 3) to transfer some "know-how" to other responsibility centers." Embody constructive action to correct unfavorable conditions rather than punitive action for failure, the result of which obviously can not be erased. Another important aspect is that follow up action is strictly a line is responsibility. The budget director, controller or other staff officer should not undertake, or be assigned the responsibility for enforcing the budget."

#### 2.2.10.4 Performance Evaluation

To indicate the extensive reporting requirements, a business must fulfill and to focus on performance reporting, the following classification of reports is presented and explained.

### a. External Reporting

These are reports to government agencies regulation commission creditor's investigative agencies and other groups external to the active management. Frequently, these reports are quite extensive and compromise a significant portion of the overall reporting activities of the business.

### b. Reports to Owners

These are the traditional annual reports to the owners and other special reports prepared of the owners concerning special problems or items of interest. These by and large, are based up on "Generally Accepted Principles', and generally report that have been subjected to audit by an independent C.PA.

### c. Internal Reports

These are reports prepared within the company for internal use only. They may be considered confidential reports. They do not have to meet the needs of external groups nor the text of external groups nor the text of "Generally Accepted Accounting", but rather the text of internal management needs.

All companies, regardless of size have reporting requirements for all the categories listed above. In the smaller company most of the basic reporting needs may be accomplished with a single general-purpose report. However, as the size and complexity of the company increases, there is greater need for regimentation of the reporting as suggested above.

### 2.2.10.5 Analysis of Budget Variances

Comparison of actual results with planned or budget goals has been emphasized as an integral part of the control process. A basic feature of performance report is the reporting of variances between actual results and planned goals. If variance is significant a careful management study should be made to determine the underlying causes. The underlying causes, rather than the actual results, should lead to remedies through appropriate corrective action by management. There are numerous ways to study variances to determine the underlying causes. Some of the primary approaches are as follows:

a. Congruence with responsibility center managers and supervisors and other employees in the particular responsibility center involved.
b. Analysis of the work situation including the flow of work. Co-ordination of activities, effectiveness of supervision, and other prevailing circumstances.
c. Direct observation
d. Investigation by line manager on the sport.
e. Internal audit
f. Special studies.
g. Investigation by staff groups
h. Variance analysis

Variance is the deviation between actual and budgeted results. Following are the basic steps in analyzing variances:

- Setting standards
- Measurement of performance
- Analyzing variances
- Taking corrective action

Variance should be broadly grouped under two categories favorable and unfavorable. Unfavorable variances classified as controllable and non controllable. If unfavorable variances are arising due to the controllable causes, then the concerned managers should make responsible for it.

## 2.3 Review of Previous Studies

### 2.3.1 Review of Reporting

Under this topic the annual reports of concerned bank are reviewed in under to highlights the brief profile of the bank separately.

### 2.3.2 Review of Relevant Acts

Commercial Bank Act 2031 was formulated to facilitate the smooth run of commercial banks. All the commercial banks are functioning under this act. This act defines the bank as “A commercial bank is one which exchange money. Deposits money, accepts deposit. Grants loan and perform commercial banking function and which is not a bank meant for co operative agriculture industry or for specific purpose.”

Commercial Bank Act 2031 also pointed the functions of commercial banks “Commercial banks provide short term debts necessary of trade and commerce. They take deposits from the public and grant loan in different forms they purchases and discount bills for exchange promissory note and exchange foreign currency. They discharge various functions on behalf of their customers provide that they are paid for their service.”

As mentioned in this act, commercial banks will help the banking business by opening its branches in the different parts of the country6 under the direction of NRB the main function of commercial banks established.

Under this act will be exchange of money to accept deposits and provide loans to commercial and business activities to mobilize banks deposits in different sectors of the different part of the nation to prevent hem from the financial problems.

The preamble of Nepal Bank Act 1994 clearly states the need for commercial bank in the country. “The absence of any bank in Nepal the economic progress of the country was being hampered and causing inconvenience to the people and therefore with the objective of fulfilling that need by providing services to the people and for the betterment of the country. This law is hereby promulgated for the establishment of the bank and its operation.

### 2.3.3 Review of Articles

An article written by Radhakrishna Paudel on the Banking Challenge ahead focuses in the potential areas where banks should invest to fight the prevailing economic recession. Current growth in the profitability of bank has been mainly due to external factors such as the foreign exchanges rate but not to growth in the real sector of the economy. Therefore to sustain the current financial position in the long run, banks should enter new areas by marketing their credit in important sub sectors such as hydro electricity, tourism, irrigation etc.

Mr. Paudel further writes that. “Saving collection is another factor which is necessary for banks to balance their operations and generations of sufficient surplus in their cash-flows. In recent years, growth rate of bank deposits has declined to about 16 percent compared against 23 percent of the past. Mobilization of internal resources in the country demands that banks attract more financial resources from the public.”

Another useful contribution is made by Narayan Prasad Paudel in his article called “Financial Statement Analysis” published in Nepal Rastra Bank Samachar on 2053”. According to Mr. Paudel, balance sheet, profit and loss A/C and the accompanying notes are the most useful aspects of the bank. We need to understand the major characteristics of bank’s balance sheet and profit and loss A/C. The banks balance sheet is composed of financial claims as liabilities in the form of deposit and as assets in the form of loans. Fixed assets account forms a small portion of the total assets. Financial innovations, which are generally contingent in nature, are considered as off-balance sheet items.

Interest received on loans & advances and investment and paid on deposit liabilities are the major components of profit and loss account. The other sources of income are fee, commission, discount and service charges.

The users of the financial statement of a bank need relevant, reliable and comparable information which assists them in evaluating the financial position and performance of the bank and which is useful to them in making economic decisions. The disclosure requirement of bank’s financial statement has bee expressly laid down in the concerned act. Commercial banking act 1974 requires the audited balance sheet and profit and loss account to be published in the leading newspaper for the information of general public.

According to Paudel, the principle objectives of analyzing financial statement are to identify:

- Financial adaptability (Liquidity)
- Financial performance (Profitability) and
- Financial Position of Bank (Solvency)

Most of the users of the financial statements are interested in assessing the bank’s overall performance i.e. profitability which is affected by the following factors:

1. The structure of balance sheet and profit and loss account
2. Operating efficiency and internal management system

3. Managerial decisions taken by top management regarding interest rate, exchange rate, lending polices etc.
4. Environmental changes (technology, government competition, economy)

According to Mr. Paudel, the other factors, to be considered in analyzing financial statements of bank is to assess the capital adequacy ratio and liquidity position. In the line of the norms set by Bank for International Settlement (BIS) capital adequacy of a bank is assessed on the basis of risk weighted assets. It indicates a bank's financial strength and solvency. Presently the capital fund of a bank should not be less than 8% (at least 4% should be in the form of tier – 1 capital or core capital) of its risk weighted assets as capital fund. Banks facing with capital adequacy problem may increase capital or reduce assets or reallocate the existing assets structure in order to maintain the desired level of capital base.

Liquidity is measured by the speed with which banks' assets can be converted into cash to meet deposit withdrawals and other current obligations. It is also important in view of survival and growth of a bank.

He has laid down an approach to evaluate the bank's overall performance through balancing between the risk and return components of the bank which is explicitly shown in the chart below.

**Bank's Overall Performance**

Return

Risk

Return on Equity (ROE)

Return on Assets (ROA)

Profit Margin (PM)

Assets utilization (AU)

Equity Multiplier (EM)

Balance Sheet Risk
-Credit Risk
-Interest Risk
-Liquidity Risk
-Regulatory Risk
-Technology Risk
-Affiliation Risk
-Operating Efficiency

ROE – ROA × EM = Net Income / Average Equity

ROA = PM × AU = Net Income / Average Assets
EM = Average Assets / Average Equity
PM = Net Income / Total Income
AU = Total Income / Average Assets

Dr. Monahar Krishna Shrestha, in his work 'Commercial Bank's Comparative Performance Evaluation' stresses on a proper risk management. He believes in the appropriate classification of loans under performing and non performing category. In this context he writes, "Adequate provisioning is the performing category. In this context he writes, "Adequate provisioning is the surest way to get relief from sinking loan after careful consideration of portfolio risk. A clear out criteria is necessary to treat interest suspense account and it is advisable that all interest unpaid for more than six month need to treated as unearned income."

Regarding the risk management of the bank, Dr. Shrestha's other suggestions include:

- Any customer having overdue loan of two years or more in his account should not be given other loan facilities.
- Strong provisioning or reservations are required in restructuring portfolio relating to overdue loans.
- All credits including overdrafts should be given a maturity date categorized as good substandard or doubtful loans.
- Financial credit worthiness of the borrower must be evaluated properly before granting the loans.

The above journals focus in the various aspects of the bank's economic environment. NRB press communiqué shows the current domestic market scenic. Article by Radha Krishna Paudel concentrates in the challenges of the banking sector. Narayan Prasad Paudel's work stresses in effective way of evaluating the financial performance and Dr. Shrestha's suggestions are focused towards proper risk management. Whatever aspects of the bank the above journals target. They all have to be combining assessed and kept in strict consideration for effective and efficient financial performance of the banks in the Nepalese economy.

### 2.3.4 Review of Previous Research Work

Research is an on-going process. The main purpose of the literature review is to find out what works have been done in the field of research study being undertaken. A review of some of the thesis submitted by master level students has been presented below.

**a) Mr. Uday Kishor Tiwari**

Mr. Uday Kishor Tiwari has submitted his research report on the topic of "Profit Planning in Commercial Bank – A case study of Standard Chartered Bank Ltd. Nepal". The study covered only eight years period of time from F/Y 1994/1995 to 2001/2002. The data along with other information where taken from appraised SC bank appropriately for the application of comprehensive profit planning system. Some major finding pointed by Mr. Tiwari are as follows:

1. SC Bank is adopting a policy to keep minimum number of employees as possible.
2. The top level executive are only involved in decision making and lower level participation is not encouraged but top management takes the feedbacks. For annual planning and strategies making through conferences and strategic meeting organized twice in a year at the head office from manager level employees.
3. Bank has the policy to recruit the highly qualified fresh candidates.
4. Lack of advance training to the personnel.
5. Absence of skilled and partly academic manpower.
6. Absence of skilled and partly academic manpower in budgeting section of the authority.
7. The authority is suffering from high fixed costs.

8. Specific goals and objectives are not conveyed to level staff and it denotes the absence of MBO principle of management.
9. There is lack of proper co-ordination among the various responsible departments.
10. Deposit mobilized by the bank is bound to SC considerably growing every year with an average growth over the period of last 8 years being high as 33.93%
11. From regression analysis of the budgeted and actual deposits. Remaining the trend same for the coming to, the deposit to be mobilized by the bank by the end of F/Y 2002/2003 shall reach up to Rs. 17072056.
12. LABP of the bank has found to the considerably increasing every year with average growth, is over the period of last 8 years is a high as 19.87%
13. CD ratio (Credit deposit ratio) of LABP on total deposit expressed in Percent term of the bank is high. The data analysis of deposit and LABP with more variable than the deposits.
14. Outstanding guarantee liability of the bank is fluctuating up to maximum growth rate is 42.39% and minimum growth rate is negative 50%.
15. The total deposit of the bank is found increasing each year corresponding to the increase in interest expenses. The total deposit is perfectly and positively correlated with total interest expenses.
16. Interest income amount of the banks is the highest among other income items of the total revenue.
17. The amount of interest income is decreasing each year corresponding to increase in LABP.
18. The current ratio, debt equity ratio, debt to assets ratio. Profitability ratio and cost-volume-profit analysis of the SC bank is positive and correlated.

**b) Mr. Binod Kumar Sharma**

Binod Kumar Sharma has studied the “Profit planning in commercial bank with case study of Nepal Bangladesh Bank”. He has studied the profit planning aspect of Nepal Bangladesh Bank. His major findings are:

1. It is observed that the Bank is adopting a policy to keep minimum number of employees as possible. But is has unnecessary long ladder at various levels with out specific job description.
2. Bank has the policy to employee academically highly qualified (first class MBA) fresh candidates at management trainee which may be considered as good aspect for future manpower planning.
3. Nepal Bangladesh Bank is currently operating with its 15 branch offices making its presence at almost all of the cities of the country. It is one of the bank’s having highest branch network among the joint venture private Banks in Nepal.
4. Objectives of the Bank on expressed in literary from, and not specified clearly, therefore there is a danger of it being misinterpreted in the ways of one’s benefit by the concerned.
5. Major concentration of resources mobilization of Nepal Bangladesh Bank is at deposit mobilization. In this respect they are incurring cost toward deposit mobilizations.

6. Bank's resources development for non-yielding liquid assets (Cash and bank balance) is increasing every year. Which is determinate to profitability objectives, but it is supportive to meeting liquidity requirement of the bank.
7. Outstanding, letter of credit liabilities of the bank are increasing every year however the growth is not constant.
8. Interest expense amount is the highest among total expenses items of the Bank every year.
9. Interest income amount of the bank is the highest among other income items in the total Revenue.
10. An average current ratio of the bank has found to be always higher than standard ratio of 2:1, which shows satisfactory liquidity position of the bank.

Binod Kumar Sharma has recommended following major points in his study for the consideration to improve the existing situations:

1. Bank Management should adopt the policy of appropriate authority delegation at all of management. In order to, save the valued of the chief executive officer for other productive use.
2. It suggest to the bank to form a specific planning and research department. which shall be responsible for developing new innovative products, further development and up-gradation of existing product, which is turn ensure better profitable business for the bank.
3. Branch monitoring and controlling mechanism should be made at the regional level also in order to ensure the better functioning of the branch offices located at such locations, which are for from the head office.
4. Objective of the bank should be clearly defined in order to avoid the risk of it being misinterpreted.
5. The average cost of deposit to the bank is high. Therefore, bank should try to lower it by mobilizing more and more low cost or cost free deposits. Thereby, reducing the interest cost because due to the high cost of deposit, bank is forced to invest its fund more on high yielding assets, which are generally not liquid and obviously risk for the bank.
6. LDO of the bank has incurring significantly but the port of proper loan assessment and monitoring aspect are not well developed and the infrastructures required (such as trained manpower logistic etc) are not adequate. Therefore, with such poor infrastructures, it is not advisable to go aggressively in LDO. The bank should deep adequate required infrastructure to support its objectives.
7. The Nepal Rastra Bank has put the restriction on the difference of an average rate of interest income and average rate of interest expenses of the bank (i.e. spread) not to exceed 5%. Therefore, the bank has to put more focus on the other kind of non funded activates by which it shall increasing income from other sources than interest to increase its profitability.
8. Expenses cannot be avoided an always are growing with increasing activities, but it should be optimize and should be related with the income generating activities. Bank should minimize, those expenses, which are not related to income earning, other expenses than interest from a burden to the gross profit margin (Interest margin) of the bank. Therefore, lowering the other expenses the bank shall enhance its profit.

9. Net profit of the bank is the amount, which is obtained by subtracting the amount of net burden from the amount of gross interest margin. Therefore, Nepal Bangladesh Bank shall attempt to lower the burden cost, by increasing the other income and decreasing the other expenses. At the some time it should take a policy to make the interest margin at the maximum extent as allowed by the central banks norm.

**C) Miss Abha Subedi**

Abha Subedi has studied the "Profit Planning Aspect of Rastriya Banijya Bank". Her major findings are:

1. The rate of expansion of branches of RBB was increased after introduction of priority sector program in 2032 but the growth could not be as desired. Concentration of the branches is more in urban areas than in rural areas.
2. Most of the investments made against the security of land, gold and silver.
3. Banking costs are relatively utilized.
4. No specific and clear investment policy and functioning without any definite direction.
5. Deposit mobilized is not properly utilized.
6. The rate of changes in interest has no effect in business growth in deposit side or in investment side.
7. Social objectives are met but, commercial spirit is lacking in RBB.
8. RBB tired to manage in true, professional way but the political environment in bureaucratic approach has compromised the commercial environment.
9. RBB has not been publishing its annual reports, balance sheet and profit and loss accounts and related schedule along with the audited report.

Abha Subedi has recommended following major points in her study for the consideration to improve the existing situations:

1. Performance of every branch is needed to be evaluated and those having performance below satisfactory level should be closed down.
2. Reduce interest rate in deposit so as to reduce the same in lending.
3. Banking business should be free from undesirable interference from politicians and high ranking officials.
4. Adequate training should be given to the personnel and make the operation computer system based to make the service prompts.
5. The investment policy of RBB should be in accordance with the goal of economic upliftment of the nation and it should also accommodate long and medium term credit demands besides the short-term loans.
6. Bank should look for new sectors of investments as well for its growth.
7. Bank may generate profit only, when maximum part of deposit is invested in good parties, thereby minimizing bad debt. Therefore, clear-cut policy has to be setup and implemented along with adequate power delegation.

## 2.4 Research Gap

Most of the past research studies about profit planning systems are basically related to the profit planning system of manufacturing organization or production oriented activities. Very few studies have been made related to profit planning system of a commercial banks i.e. They relate to Rastriya Banijya Bank, Standard Chartered Bank and Nepal Bangladesh Bank mostly. All the dissertations have pointed out that there is no proper profit planning system and recommend for the effective implementation of profit planning system in the concerned institution.

This study shall be a new one in his field as no study has been made so far in the profit planning system particularly in Everest Bank Ltd. Nepal. This study has tried to indicate the role of budgets for effective formulation and implementation of profit planning system as well as to see how for the bank is practicing. This study has analyzed the financial position of Everest bank by applying the tool is of ratio analysis and other mathematical and statistical tools. Finally, it concludes the various findings of research and recommend for immediate and long-term improvement and correction.

# CHAPTER -THREE

## RESEARCH METHODOLOGY

### 3.1 Introduction

This study has intense relation with the application of profit planning in bank with a specific reference to Everest Bank Limited regarding the objectives to analyze, examine and interpret the application of profit planning in Bank. The Research methodology includes research design, data collection procedures and research variable and tools used.

### 3.2 Research Design

As per kerklinger (1986) Research design is the plan, structure and strategy of investigation conceived so as to obtain answer to research questions and control variance. This study is an examination and evaluation of procession in profit planning program of Everest Bank Limited. Various functional budgets and other related accounting information's and statement of the bank are the materials to analyze and evaluate the profit planning systems of the Bank. Descriptive as well as analytical research deigns has been adopted in this research. This is a case study Research.

### 3.3 Sources of Data Collection

This study is mostly based on secondary data. However, primary data/information has been obtained through informal discussions with the executives and other staff of the Bank. Secondary data have been collected from the annual published accounting and financial statement of EBL. Similarly, other necessary data have collected from thesis and dissertation related to this field, publication of the Nepal Rastra Bank, Central Bureaus of statistics and related publication etc.

### 3.4 Time Period of Profit Plan

As per NRB, directives all the banks have identically to follow the accounting year of twelve months of beginning form first Shrawan to end of Ashadh. It covers the last five years from fiscal year 2003/04 to 2007/08, which includes the business budget expenditure and profit plan for the years.

### 3.5 Tools and Technique of Analysis

This study is confined to examine the profit the profit planning of EBL. Therefore, the data have been collected, managed, analyzed and presented in suitable tables, formats, diagrams graphs and charts. Such presentation have been interpreted and explained wherever necessary. Financial, Mathematical and Statistical tools are used to analyze. The first important tool is a financial tool, which includes ratio analysis, cash flow statement, and different functional budget and other aspects of PPC. The other significant tool is statistical tool, which includes standard deviation, co-efficient of determination, probable error and regression analysis. The details are as follows:

## 3.5.1 Financial Tools

### 3.5.1.1 Ratio Analysis

Financial strength and weakness of a firm as well as historical and present financial position of the bank can be examined by the systematic use of ratios. The following ratios are tested under the PPC of EBL:

**I) Liquidity Ratio**

The liquidity ratio is used to measure the ability of a firm to meet its short-term obligations and reflects the short-term financial strength.

- $Current Ratio = \frac{Current Assets}{Current Liabilities}$
- $Cash and Bank Balance to Current Assets Ratio = \frac{Cash and Bank Balance}{Current Assets}$
- $Loans, Advance and Bills Purchased to current Assets Ratio = \frac{Loans, Advance and Bills purchase}{Current Assets}$

**II) Turnover Ratio**

The turnover ratios are concerned with measuring the efficiency in its assets management. Higher the turnover ratios better the profitability reflecting effectiveness in using its resources at disposal. The turnover ratios are as follows:

- $Total Assets Turnover Ratio = \frac{Sales / Revenue}{Total Assets}$
- $Fixed Assets Turnover Ratio = \frac{Sales / Revenue}{Fixed Assets}$
- $Current Assets Turnover Ratio = \frac{Sales / Revenue}{Current Assets}$

**III) Profitability Ratio**

The profitability ratio is calculated to know the ultimate result of business activities of EBL. The ratios are as follows:

- $Net Profit Margin = \frac{Net Profit}{Sales / Revenue}$

- $\text{Re}\,turnonTotalAssets = \frac{Net\,\text{Pr}\,ofitaftertax}{TotalAssets}$

- $\text{Re}\,turnonShareholders'\,Fund = \frac{Net\,\text{Pr}\,ofitaftertax}{TotalShareholders'\,Fund}$

- $EarningPerShare = \frac{Net\,\text{Pr}\,ofitaftertax}{No.ofEquityshare}$

- $DividendPerShare = \frac{DividendPaidtoEuitysharholders}{No.ofEquityShare}$

### 3.5.1.2 Cash Flow Planning

The cash flow statement shows how the activities of the firm have been financed and how the financial resources have been used during a specific period. Here it provides information about the inflow and outflow of cash of the EBL. The three types of cash flow are as follows:

- Cash Flow from Operating Activities
- Cash Flow from Financing Activities
- Cash Flow from Investing Activities

### 3.5.1.3 Differential Functional Budget

There are different types of budgets; they are designed for allocation of resources and coordination between functional works of the bank.

#### I. Sales Budget

The sales planning is the foundation budget for planning in a business organization. All other planning is based on it. Each and every activity of a business depends upon the sales and sales are the main sources of cash. So the sales planning is the beginning point in preparing the other different planning. The sales planning can be prepared for a definite future time period by showing volume and units of sales

#### II. Human Resource Planning Budget

Human resource planning is the process by which the organization's management determines how organizations move from its current manpower position to desired manpower position. It refers to the broad area of determining the level of (1) Personnel needs (2) Recruitment (3) Training (4) Job description and evaluation (5) Performance evaluation (6) Union negotiations and (7) Wages and salary administration.

Human resource costs include all expenditure for employee: top executives, middle management personnel, staff officers, supervisors and skilled and unskilled employees. To plan and control human resource costs effectively, the different types of human resource costs must be separately considered.

III. **Administrative Expenses Budget**

Administrative expenses include those expenses other than manufacturing and distribution. They are incurred in the responsibility centers that provide supervision of and service to all function of the enterprise rather than in the performance of any function. Each administrative expense should be directly identified with a responsibility center and the center manager should be responsibility for planning and controlling the expenses including director of profit planning. The head of each of these departments submit an expenses budget for consideration and approval by the financial vice president.

#### 3.5.1.4 Other Aspects of Profit Planning and Control

**I) Profit and Loss Account**

Profit is the major component of each and every business organization for survival. Profit and loss accounts are prepared to report the financial results of the various functional sub plans and commitments. After preparing all functional budget, planned profit and loss account is prepared. Profit and loss account is a tool in accounting system, which comprehensively represent the operating efficiency of the organization in the relevant period.

**II) Balance Sheet**

A balance sheet is always prepared at a certain or at a certain date point of time as considering changes in all items of balance sheet like fixed assets (plant and machinery, furniture and fixtures), debtors, share capital, debenture and creditors etc. It is not prepared for a period like profit and loss account, which is prepared and reported quarterly, half yearly or yearly.

The two side of balance sheet are balanced and the balancing figure presents closing balance of cash. It may be balance with bank or an overdraft according to the nature of balance being debit or credit.

## 3.5.2 Statistical Tools

#### 3.5.2.1 Standard Deviation (S.D.)

The standard deviation is used to measure the risk. It shows the deviation between actual mean and average mean. The standard deviation is calculated with the following formula:

$$S\tan dardDeviation = \frac{\sum x}{n}$$

where,

X = Variables

n = Number of years

#### 3.5.2.2 Coefficient of Correlation (r) Analysis

Under this chapter Karl Pearson's coefficient is used to find out the relationship between deposit and loan & advances, deposit and total investment and deposit and net profit.

$$r = \frac{N\sum dx * dy - \sum dx \sum dy}{\sqrt{[N\sum dx2 - (\sum dx)2][N\sum dy2 - (\sum dy)2]}}$$

I. Coefficient of Correlation between deposit and loan & advances

II. Coefficient of correlation between deposit and total investment

III. Coefficient of Correlation between Deposit and Net Profit

#### 3.5.2.3 Co-efficient of Determination (r2)

Co-efficient of determination is the square of co-efficient of correlation, which is very convenient and useful way of interpreting the value of co-efficient of correlation between two variables.

Co-efficient of determination (r2) is a measurement of the degree of correlation between two variables, one of which happen to be independent and another happen to be dependent variable.

#### 3.5.2.4 Probable Error (PEr)

The reliability of co-efficient of correlation helps in interpreting its value with the help of (PEr). It is possible to determine the reliability of the value of co-efficient.

$$(PEr) = 0.6745 \times \frac{1 - r^2}{N}$$

where,

r2 = Square of Correlation of Co-efficient
N = No. of pair of Observation

If the value or r is less than PEr, value of r is not significant, and if the value of r is more than PEr, value of r is significant

#### 3.5.2.5 Trend Analysis

The measurement used in financial management analysis may be classified into two groups those who measure the relation among the items. Insight set of statements, and those who measure the analysis in these items in successive statement. The first is a static analysis measuring position at a point of time of for a period and the second is a dynamic analysis measuring changes of position. Both types of analysis are necessary for a comprehensive interpretation, since it is important to know not only the proportion as on a certain date but also the trends of the enterprise.

The trend analysis can be calculated as follows:

Straight line trend of total deposit

$$Yc = a + bx$$

I. Trend Analysis of Total Deposit

II. Trend Analysis of Net Profit

III. Trend Analysis of Loan and Advances

IV. Trend Analysis of Earning Per Share

**3.5.2.6 Graphic presentation**

Presenting the information through the graphs makes very easy to understand. The various variables used in this study have been presented in the different types of graphs and diagrams.

# CHAPTER-FOUR

## DATA PRESENTATION AND ANALYSIS

The whole research is based on the analysis and interpretations of collected data. Without presentations, analysis, interpretations of the primary and secondary data the thesis don't give any meaning.

This chapter presents the calculations, interpretations and presentations of the data related to EBL. Some of the secondary data are calculated on the basis of financial and statistical tools. The calculations of ratios have been done through statistical programmes of the computer.

## 4.1 Analysis of Financial Ratios

The study tries to analyze profit planning of EBL through the liquidity ratios, turnover ratios, profitability ratios, and leverage ratios.

### 4.1.1 Liquidity Ratio

Liquidity ratios measure the ability of the firm to meet its current obligations. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of community. Liquidity provides honor, strength, health and prosperity to an organization. It is extremely essential for an organization to meet it obligation as they become due. A firm should ensure that it has not lack of liquidity and also that it is not too much highly liquid. The following ratios are evaluated and interpreted under liquidity ratios:

**1. Current Ratio**

Current ratio indicates whether the concern has instant ability to payout the current liabilities as they mature. This ratio is the yardstick to judge the soundness of the short-term financial position of the business unit or industry. Standard of current ratio is 2:1 but this standard may not be used or applied to the service oriented companies because there is no need to maintain the inventory. In the banking sector, industry ratio does not exist for the comparison purpose. So the average ratio of this company is taken into consideration in order to compare with calculated ratio. The average is only approximate that is used in the absence of predetermined standard. The current ratio of EBL for the year under study has been shown below

**Table 4.1**
**Current Ratios (in times)**

(Rs. in Million)

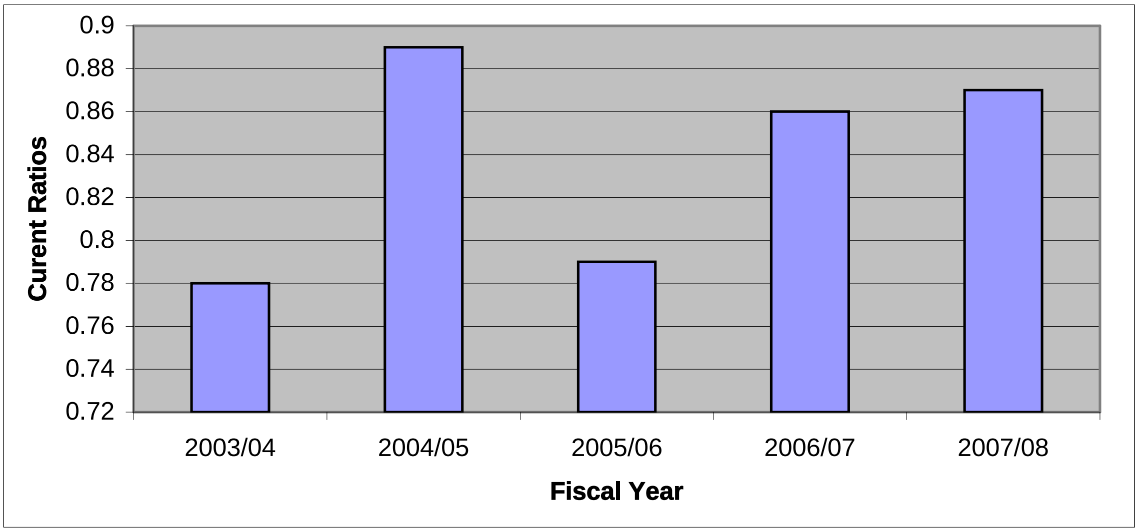
| Fiscal Year | Current Assets | Current Liabilities | Ratio | With average |
|---|---|---|---|---|
| 2003/04 | 6954.53 | 8928.25 | 0.78 | (0.06) |
| 2004/05 | 9444.94 | 10599.90 | 0.89 | 0.05 |
| 2005/06 | 11599.20 | 14696.50 | 0.79 | (0.05) |
| 2006/07 | 16277.30 | 18931.10 | 0.86 | 0.02 |
| 2007/08 | 186729 | 24928.10 | 0.87 | 0.03 |
| | | Average Ratio | 0.84 | |

Source: Annual Reports of EBL (Appendix 1)

The above table shows the fluctuating trend of current ratio over the years. As the current ratio is below the normal standard, however we cannot conclude the liquidity position is poor as it is only quantitative measures not qualitative and the situation of the bank is quite different than that of general business enterprise.

The average current ratio is 0.84 times during the five years study period. The liquidity position of EBL is not satisfactory level in fiscal year 2003/04 and 2005/06 due to lack of appropriate current assets.

**Graph 4.1**
**Graphical Presentation of Current Ratios**




## 2. Cash and Bank Balance to Current Assets Ratio

Cash and bank balance to current assets ratio reveals the position of cash and bank in to total current assets. Cash and bank balances are highly liquid assets than other current assets. So this ratio scans higher liquidity position than current ratio.

**Table 4.2**

**Cash and Bank Balance to Current Assets Ratios (in times)**

(Rs. In Millions)

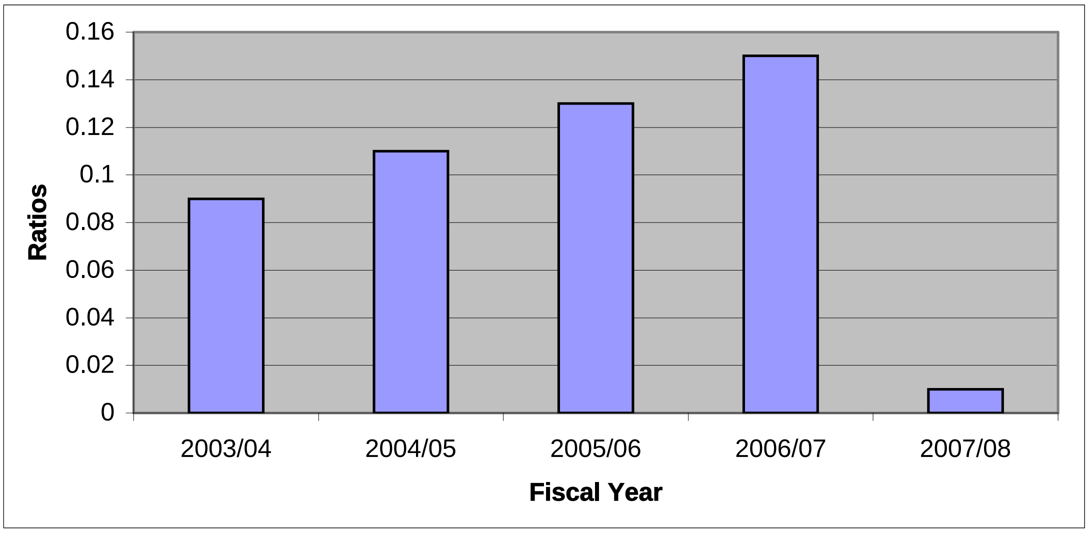
| Fiscal Year | Cash and Bank Balance | Current Assets | Ratio | With average |
|---|---|---|---|---|
| 2003/04 | 631.80 | 6954.53 | 0.09 | (0.01) |
| 2004/05 | 1049.99 | 9444.94 | 0.11 | 0.01 |
| 2005/06 | 1552.96 | 11599.20 | 0.13 | 0.03 |
| 2006/07 | 2390.52 | 16277.30 | 0.15 | 0.05 |
| 2007/08 | 2667.97 | 186729 | 0.01 | (0.09) |
| | | Average Ratio 0.10 | | |

Source: Annual Report of EBL (Appendix I)

The table depicts that cash and bank balance to current assets ratio is better as it shows the ability to manage the deposit when withdrawn from the customers.

**Graph 4.2**

**Graphical Presentation of Cash and Bank Balance to Current Assets Ratios**

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### 3. Loan, Advances and Bills Purchased to Current Assets Ratio

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

**Table 4.3**
**Loan, Advances and Bills Purchased to Current Assets Ratio (in times)**

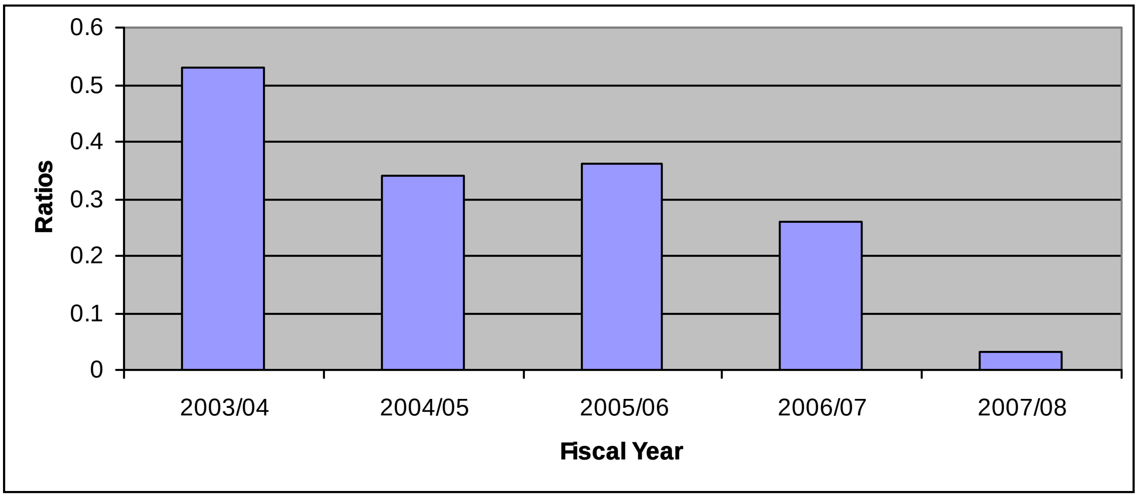
(Rs. In Millions)

| Fiscal Year | Loan, Advances and Bills Purchased | Current Assets | Ratio | With average |
|---|---|---|---|---|
| 2003/04 | 3717.27 | 6954.53 | 0.53 | 0.13 |
| 2004/05 | 3174.84 | 9444.94 | 0.34 | 0.04 |
| 2005/06 | 4244.18 | 11599.20 | 0.36 | 0.06 |
| 2006/07 | 4243.49 | 16277.30 | 0.26 | (0.04) |
| 2007/08 | 4904.95 | 186729 | 0.03 | (0.27) |
| | | Average Ratio | 0.30 | |

Source: Annual Report of EBL (Appendix I)

The above table shows that the loan and advances to current assets ratio has followed the fluctuating trend in positive manner through out the study periods. The above discussion helps to conclude that the bank is successful to mobilize its current deposit on loan and advances.

**Graph 4.3**
**Graphical Presentation of Loan, Advances and Bills Purchased to Current Assets Ratio (in times)**




### 4.1.2 Activity Ratio:

Activity or turnover ratio measures the efficiency of the bank to manage its assets in profitable and satisfactory manner. These ratios are employed to evaluate the efficiency with which the firm manage and utilize its assets. A commercial bank must manage its assets properly to earn high profit. Under this group following ratios are studied.

### 1. Total Assets Turnover Ratio

The total assets turnover ratio is used to measure the effectiveness in the use of total assets. The relationship between total assets and revenue is known as total assets turnover ratio. The PPC of EBL is analyzed with the help of this ratio by considering the data of Fiscal year 2003/04 to 2007/08, which is shown below

**Table 4.4**
**Total Assets Turnover Ratio (in times)**

(Rs in Million)

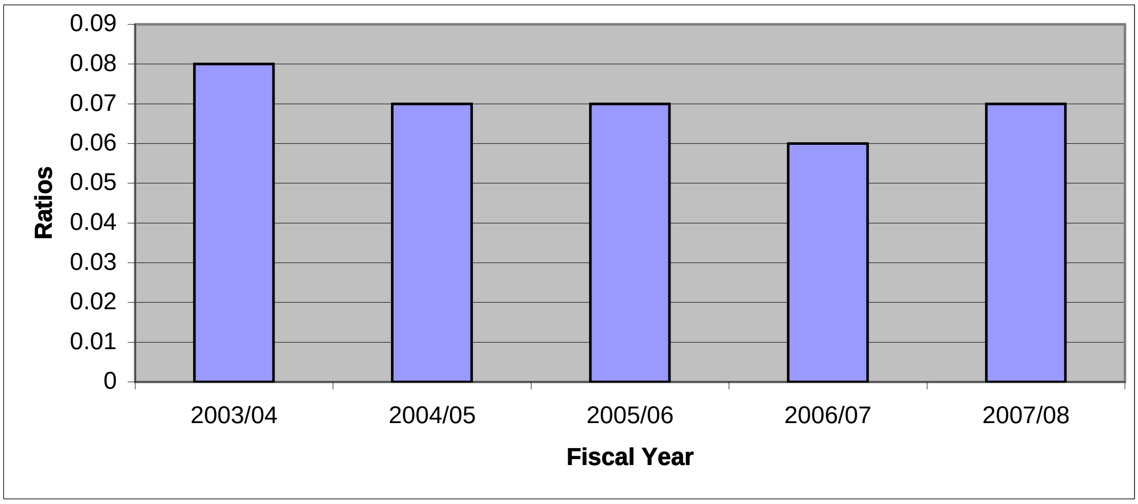
| Fiscal Year | Revenue | Total Assets | Ratio | With average |
|---|---|---|---|---|
| 2003/04 | 759.37 | 9608.57 | 0.08 | 0.01 |
| 2004/05 | 855.99 | 11732.52 | 0.07 | 0 |
| 2005/06 | 1063.54 | 15959.28 | 0.07 | 0 |
| 2006/07 | 1358.50 | 21432.57 | 0.06 | (0.01) |
| 2007/08 | 1842.51 | 27149.34 | 0.07 | 0 |
| | | | Average Ratio 0.07 | |

Source: Annual Report of EBL (Appendix II)

The above table shows that the total assets turnover ratio. Ratio starts from 0.08 times in F.Y. 2003/04 to 0.07 times in F.Y. 2007/08. The average ratio is 0.07 times during the five years study period. In fiscal year 2006/07 ratio couldn't meet the average ratio but in other four years are in satisfactory level.

From the above analysis, it reveals that the bank's total assets turnover ratio decreased from first year to second year and then remained constant in second and third year and again decreased in fourth year after that it increased in fifth year. Total revenue as well as total assets also is in increasing trend.

**Graph 4.4**
**Graphical Presentation of Total Assets Turnover Ratio**




Fixed asset turnover ratio is analyzed to measure how efficiently the capital employed in fixed assets has been utilized to generate revenue. The relationship between fixed assets and revenue earned is called fixed assets turnover ratio. The higher ratio shows favorable condition and well planning of profit and vice versa. Fixed assets turnover ratio is analyzed considering relevant data of five years of study period from F.Y. 2003/04 to 2007/2008 as follows:

**Table 4.5**
**Fixed Assets Turnover Ratio (in times)**

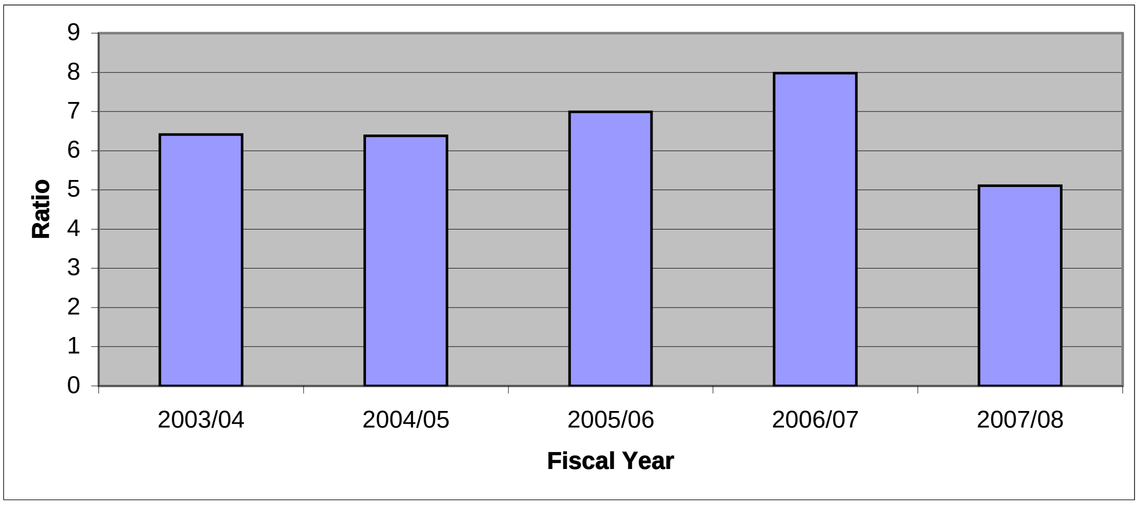
(Rs in Million)

| Fiscal Year | Revenue | Fixed Assets | Ratio | With average |
|---|---|---|---|---|
| 2003/04 | 759.37 | 118.37 | 6.41 | (0.16) |
| 2004/05 | 855.99 | 134.07 | 6.38 | (0.19) |
| 2005/06 | 1063.54 | 152.09 | 6.99 | 0.42 |
| 2006/07 | 1358.50 | 170.10 | 7.98 | 1.41 |
| 2007/08 | 1842.51 | 360.51 | 5.11 | (1.46) |
| | | | Average Ratio | 6.57 |

Source: Annual Reports of EBL (Appendix II and III)

The above table shows that the fixed assets in F.Y. 2003/04 were Rs.118.37 million and Rs.360.51 million in F.Y. 2007/08. The revenue is Rs. 759.37 million and 1842.51 million in F.Y. 2003/04 and 2007/08 respectively. The trend of revenue is continuously growing till F.Y. 2007/08. The average ratio is 6.57 times, which indicates that the every one rupee invested in fixed asset is able to earn Rs. 6.57 as revenue. This is a very good scenario of Revenue. The fixed assets and the fixed assets turnover ratio are fluctuating in fiscal years under study.

**Graph 4.5**
**Graphical Presentation of Fixed Assets Turnover Ratio**




### 3. Current Assets Turnover Ratio

The relationship between current assets and revenue is known as current assets turnover ratio. It is analyzed to measure how efficiently the capital employed in current assets has been utilized to generate revenue. Generally the higher ratio indicates the favorable position and lower ratio indicates unfavorable condition. Revenue is directly associated with the bank's profitability. So that PPC is examined with the help of current assets turnover ratio by taking relevant data of five years during the study period, which is as follows:

**Table 4.6**
**Current Assets Turnover Ratio (in times)**

(Rs. In Millions)

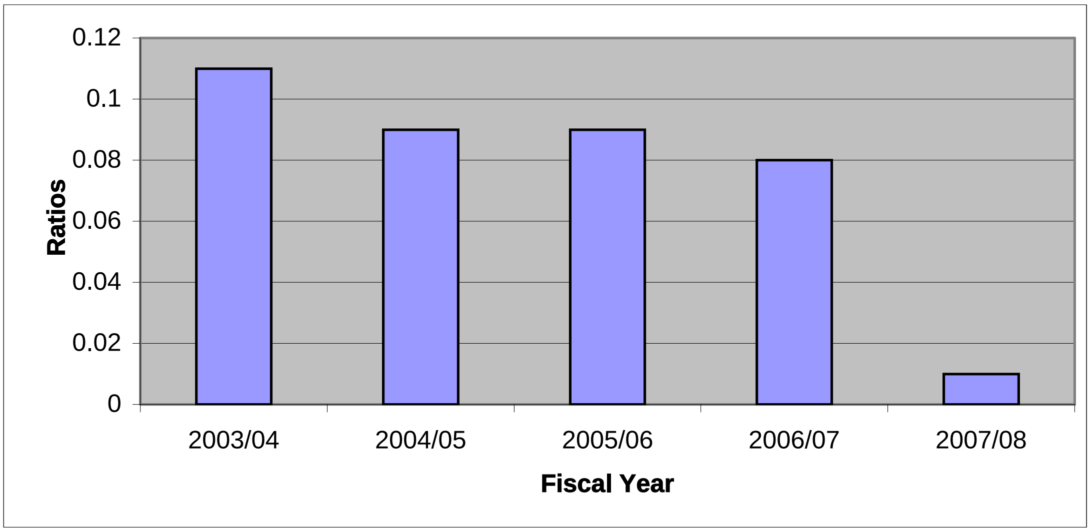
| Fiscal Year | Revenue | Current Assets | Ratio | With average |
|---|---|---|---|---|
| 2003/04 | 759.37 | 6954.53 | 0.11 | 0.03 |
| 2004/05 | 855.99 | 9444.94 | 0.09 | 0.01 |
| 2005/06 | 1063.54 | 11599.20 | 0.09 | 0.01 |
| 2006/07 | 1358.50 | 16277.30 | 0.08 | 0 |
| 2007/08 | 1842.51 | 186729 | 0.01 | 0.07 |
| | | | Average Ratio 0.08 | |

Source: Annual Reports of EBL (Appendix I and II)

The above table shows that the current assets turnover ratio of EBL from F.Y. 2003/04 to 2007/08 is continuously decreasing every year except in third year.

The average current assets turnover ratio of five years during study period is 0.08 times. It indicates every one rupee capital investment in current assets generates Rs.0.08 as revenue. In the absence of common standard, we assume the average ratio as a standard to analyze PPC of the bank.

**Graph 4.6**
**Graphical Presentation of Current Assets Turnover Ratio**




### 4.1.3 Profitability Ratio

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

## 1. Net Profit Margin

The relationship between net profit and total income is shown by net profit margin ratio. It is a percentage of net income on total revenue. Net profit margin is analyzed considering relevant data of five years of study period from F.Y. 2059/60 to 2063/2064 as follow:

**Table 4.7**
**Net Profit Margin (in percentage)**

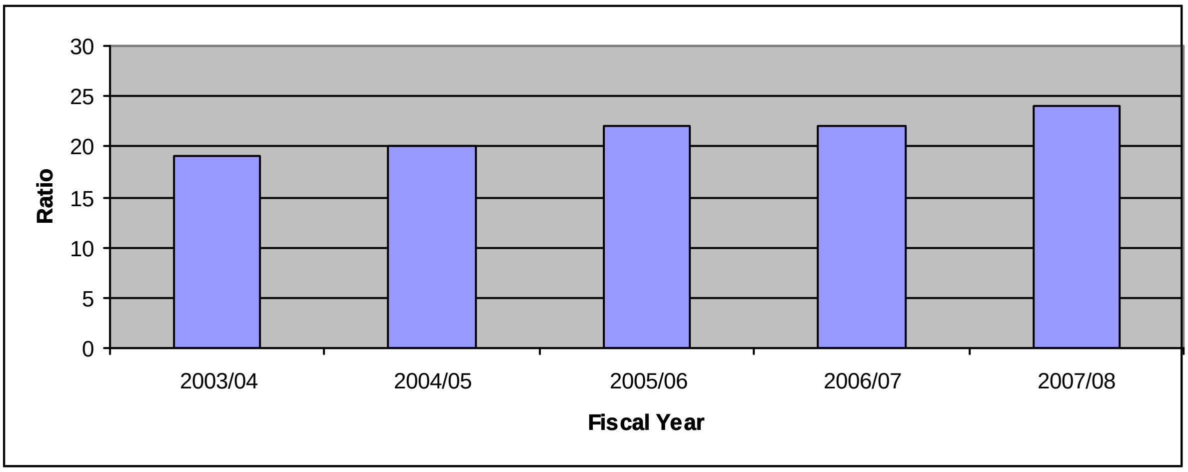
(Rs. in Millions)

| Fiscal Year | Net Profit | Revenue | Net Profit Margin | Change over margin |
|---|---|---|---|---|
| 2003/04 | 143.57 | 759.37 | 19 | (2.4) |
| 2004/05 | 168.21 | 855.99 | 20 | (1.4) |
| 2005/06 | 237.29 | 1063.54 | 22 | 0.6 |
| 2006/07 | 296.41 | 1358.50 | 22 | 0.6 |
| 2007/08 | 451.22 | 1842.51 | 24 | 2.6 |
| | | | Average Ratio | 21.4 |

Source: Annual Reports (Appendix II)

The data presented on the above table shows that the net profit of the bank and its margin are continuously in increasing trend during the study period. The average net profit margin is 21.4% and is an approximate that is used for comparative study in absence of standard. Margin in first and second fiscal year are not in satisfactory level. The net profit margin is in increasing, which are the symptoms of the good performance of the bank, and we can hope that the margin will continuously increase in the coming years also.

**Graph 4.7**
**Graphical Presentation of Net Profit Margin**




## 2. Return on total Assets

The return on total assets measures the profitability of the total funds invested in fixed assets as well as current assets of the bank. The higher ratios indicate the satisfactory utilization of assets and vice versa. The ROA is measured as below of 5 years of the study period:

**Table 4.8**
**Return on Total Assets (in percentage)**

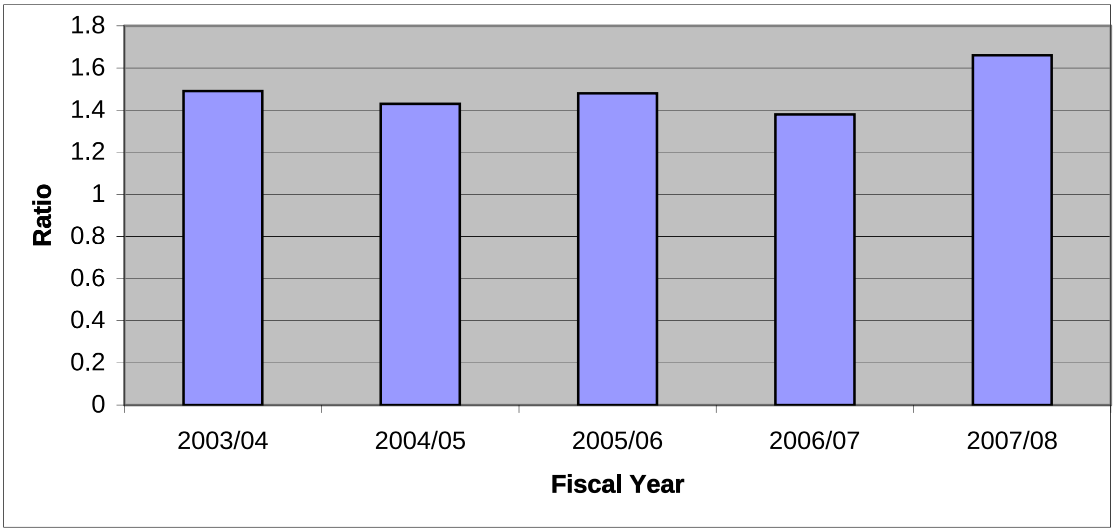
(Rs. in Millions)

| Fiscal Year | Net Profit | Total Assets | Return on Total Assets | Change in ROA |
|---|---|---|---|---|
| 2003/04 | 143.57 | 9608.57 | 1.49 | 0 |
| 2004/05 | 168.21 | 11732.52 | 1.43 | (0.06) |
| 2005/06 | 237.29 | 15959.28 | 1.48 | (0.01) |
| 2006/07 | 296.41 | 21432.57 | 1.38 | (0.11) |
| 2007/08 | 451.22 | 27149.34 | 1.66 | 0.17 |
| | | | Average Ratio 1.49 | |

Source: Annual Reports (Appendix II & III)

The above table shows that the total assets of the bank are increasing and the ROA are fluctuated in the study period. The average ROA is 1.49%. It can be concluded that the profitability with respect to total assets of the bank is not satisfactory as well as unstable.

**Graph 4.8**
**Graphical Presentation of Return on Total Assets**




## 3. Return on Shareholder's Fund

Return on shareholder's fund is tested to measure how well the company has used the resources of owners. Five years study period's return on networth has been tabulated as below:

**Table 4.9**
**Return on Shareholder's Fund (in percentage)**

(Rs. in Millions)

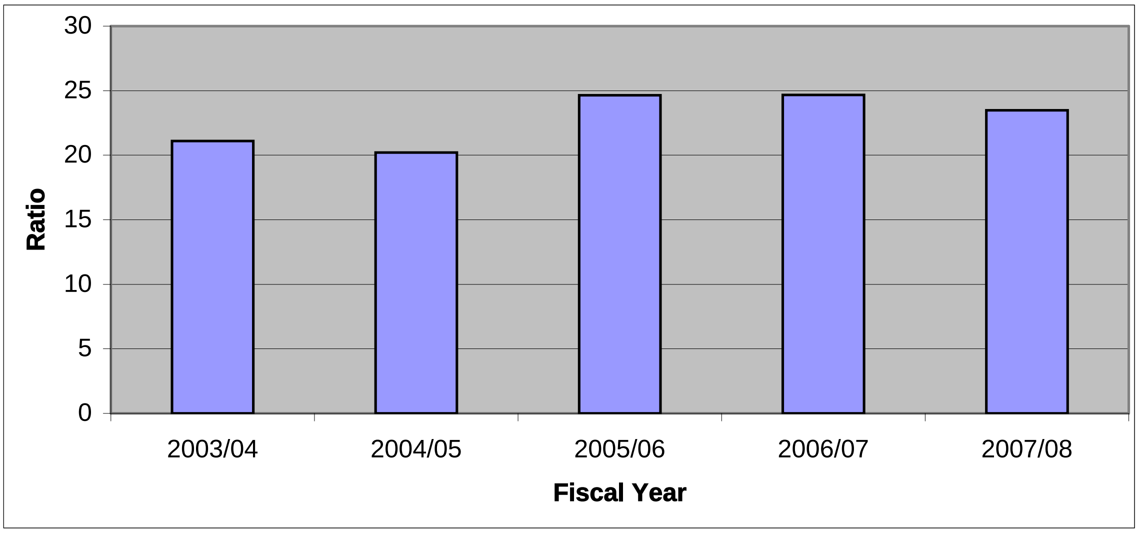
| Fiscal Year | Net Profit | Shareholder's Fund | Return on Shareholder's Fund | Change in ROSF |
|---|---|---|---|---|
| 2003/04 | 143.57 | 680.32 | 21.10 | (1.72) |
| 2004/05 | 168.21 | 832.62 | 20.20 | (2.62) |
| 2005/06 | 237.29 | 962.81 | 24.64 | 1.82 |
| 2006/07 | 296.41 | 1201.51 | 24.67 | 1.85 |
| 2007/08 | 451.22 | 1921.24 | 23.48 | 0.66 |
| Average Return on Shareholder's Fund 22.82 | | | | |

Source: Annual Reports (Appendix II & III)

Shareholder's Fund = Share capital + Reserve & Surplus

Above table shows that the net profit and shareholder's fund are in increasing trend but the return on shareholder's fund is little bit in fluctuating in the study period.

**Graph 4.9**
**Graphical Presentation of Return on Shareholder's Fund**




## 4. Earning Per Share (EPS)

Earning per share (EPS) is one of the vital measurements of company's profit planning function. EPS is found by dividing net profit by the number of existing equity share in the absence of preference shares dividend. The single EPS tells nothing. In the absence of industry indicators for EPS comparison, help of average EPS of five years study period is taken. That is presented as below:

**Table 4.10**
**Earning Per Share (in Rs)**

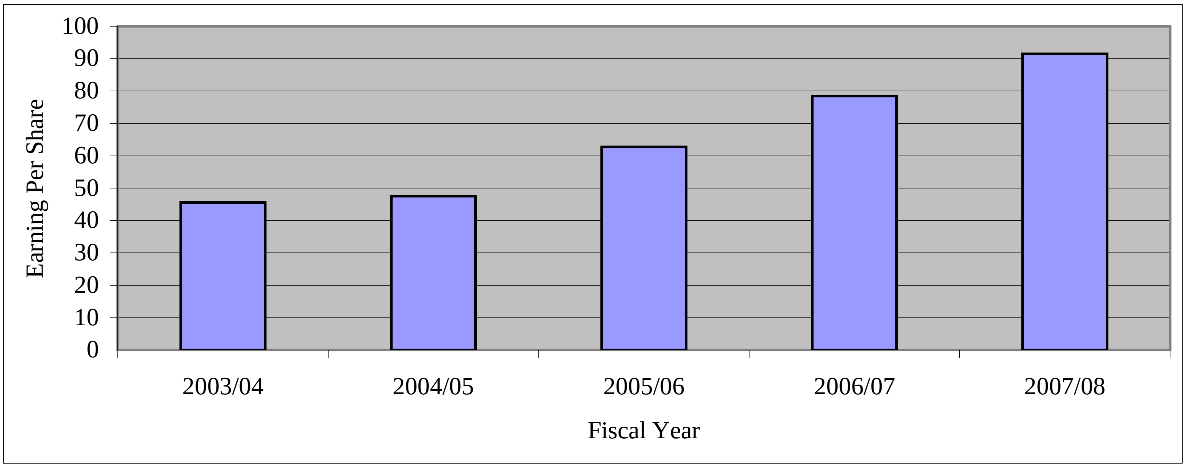
(Rs. in Millions)

| Fiscal Year | Net Profit | No. of Equity Share | Earning Per Share | Change in EPS |
|---|---|---|---|---|
| 2003/04 | 143.57 | 3.15 | 45.58 | (19.58) |
| 2004/05 | 168.21 | 3.54 | 47.52 | (17.64) |
| 2005/06 | 237.29 | 3.78 | 62.77 | (2.39) |
| 2006/07 | 296.41 | 3.78 | 78.41 | 13.25 |
| 2007/08 | 451.22 | 4.93 | 91.53 | 26.37 |
| Average EPS 65.16 | | | | |

Source: Annual Reports (Appendix II & III)

The above table of EPS shows the EPS is highest in F.Y. 2007/08 and lowest in F.Y. 2003/04. The EPS is in increasing trend, it is a good symptom for the bank. Its credit directly goes to management. The average EPS is Rs. 65.16 under the study period. The average EPS is more than respective EPS for the fiscal years 2003/04, 2004/05 and 2005/06.

**Graph 4.10**
**Graphical Presentation of Earning Per Share**




## 5. Dividend per Share (DPS)

Dividend per share (DPS) is the amount provided to the existing shareholder out of net profit earned by the bank. It is directly related to net profit. The higher DPS shows sound financial position of company.

**Table 4.11**
**Dividend per Share (in Rs)**

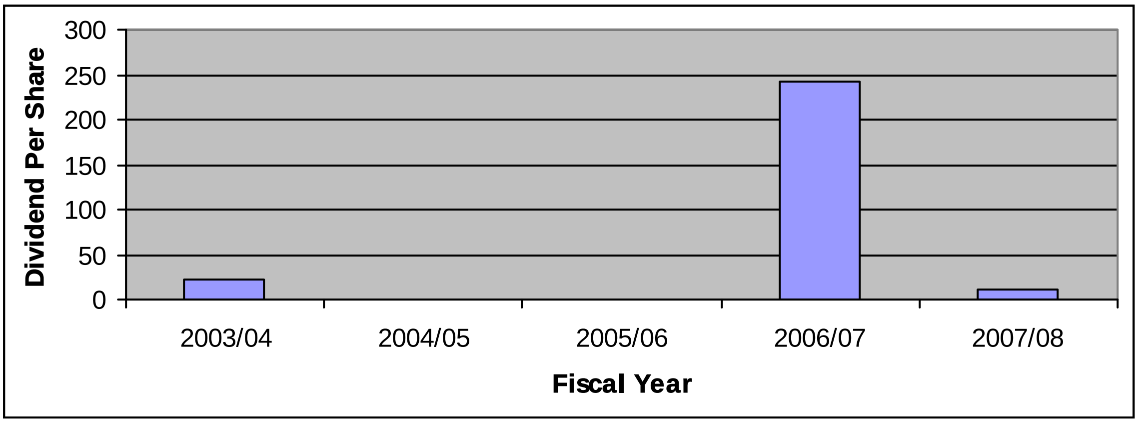
(Rs. in Millions)

| Fiscal Year | Dividend Paid | No. of Equity | Dividend Per Share | Change in DPS |
|---|---|---|---|---|
| 2003/04 | 69.53 | 3.15 | 22.07 | (33.03) |
| 2004/05 | 0 | 3.54 | 0 | (55.03) |
| 2005/06 | 0 | 3.78 | 0 | (55.03) |
| 2006/07 | 911.51 | 3.78 | 241.14 | 186.11 |
| 2007/08 | 58.85 | 4.93 | 11.94 | (43.09) |
| | | Average DPS 55.03 | | |

Source: Annual Reports of EBL.

The table shows that no dividend was given in fiscal year 2004/05 and 2005/06, and the highest DPS is Rs. 241.14 in F.Y. 2006/07. The average DPS is Rs. 55.03.

**Graph 4.11**
**Graphical Presentation of Dividend per Share**




### 4.1.4 Cash Flow Planning

Cash budgeting is an effective way to plan and control the cash flows, assess cash need and make effective use of excess cash. A primary objective is to plan the liquidity position of the bank as a basis for determining future borrowing and future investments. The planning and control of the cash inflows, the cash outflows and the related financing is more important to all enterprises. The cash flow analysis shows the planned cash inflows, outflows for a specific time span.

Planning cash flow of EBL gives the planned beginning and ending cash position for the study period. Cash shortage will disturb the enterprises in its smooth operation while excess cash will simply remain idle, without contributing anything towards company's profitability. Thus the major function of financial manager is to maintain a sound cash position. Cash flow planning is analyzed considering relevant data of five years of study period from F.Y. 2003/04 to 200708 as follows:

**Table 4.12**
**Cash Flow Statement**

(Rs. in Millions)

| Particulars | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 |
|---|---|---|---|---|---|
| 1. Cash Receipt: | 785.06 | 864.48 | 1119.89 | 1372.77 | 1764.96 |
| Interest income | 657.25 | 725.01 | 900.91 | 1157.39 | 1480.96 |
| Commission and discount | 74.33 | 78.13 | 88.16 | 117.72 | 150.26 |
| Exchange gain | 27.79 | 27.08 | 19.77 | 27.13 | 50.81 |
| Recovery loan written -off | 1.87 | - | - | - | - |
| Other income | 23.82 | 34.26 | 51.04 | 70.53 | 82.91 |
| 2. Cash Paid: | (511.88) | 594.60 | (704.26) | (892.08) | (1154.93) |
| Interest expenses | (316.38) | 312.88 | (378.60) | (492.28) | (612.86) |
| Employee expenses | (48.53) | 84.05 | (68.38) | (78.12) | (127.97) |
| Office expenses | (78.95) | 105.22 | (115.06) | (146.56) | (177.58) |
| Income tax paid | (52.93) | 92.44 | (114.09) | (140.56) | (191.05) |
| Other expenses | (15.10) | - | (28.08) | (34.56) | (45.47) |
| **Cash Flow before change in working capital** | **273.17** | **269.88** | **415.63** | **480.69** | **610.03** |
| (Increase)/Decrease in Current Assets: | | | | | |
| (Increase)/Decrease in money at call & short notice | (187.44) | (382.55) | 508.04 | 66.96 | (346.00) |
| (Increase)/Decrease in short term investment | (881.68) | 56.25 | (2072.29) | 80.12 | 498.76 |
| (Increase)/Decrease in loan & borrowings | (1051.07) | 1828.56 | (2236.16) | (3947.22) | (4772.74) |
| (Increase)/Decrease in other assets | - | (35.42) | (39.03) | (72.38) | (134.86) |
| Increase/(Decrease) in Current Liabilities: | - | | | | |
| Increase/(Decrease) in deposits | 499.86 | 2033.79 | 3704.75 | 4383.81 | 5790.04 |
| Increase/(Decrease) in certificate of deposit | (0.074) | - | - | - | - |
| Increase/(Decrease) in short term loan | (1368.94) | - | - | - | - |
| Increase/(Decrease) in others liabilities | 90.48 | (307.16) | 285.82 | (56.20) | (26.38) |
| **CFOA (A)** | **112.19** | **311.51** | **561.76** | **935.78** | **1618.86** |
| **Cash Flow from Investing Activities:** | | | | | |
| Purchase of share and debenture | | | (0.05) | - | (94.68) |
| Proceeds from sale of share & debenture | | | - | - | 13.41 |
| Purchase of fixed assets | (20.43) | (38.82) | (47.37) | (49.93) | (248.46) |
| Proceeds from sale of fixed assets | 0.12 | - | 0.87 | 0.50 | 1.84 |
| (increase)/Decrease of Govt. | (40.64) | - | 0.41 | (863.92) | (493.53) |

| | | | | | |
|---|---|---|---|---|---|
| securities | | | | | |
| Proceeds from sale of non-banking assets | 10.40 | 154.52 | 1.65 | 11.58 | 0.04 |
| Interest income from LTI | - | - | 12.26 | 12.28 | 58.44 |
| Dividend received | - | 0.02 | 0.16 | 0.25 | 0.75 |
| **CFIA (B)** | **(2073.12)** | **(193.32)** | **32.50** | **(888.79)** | **(761.83)** |
| **Cash Flow from Financing Activities**: | | | | | |
| Increase/(Decrease) in LTB | - | 300 | - | - | - |
| Increase/(Decrease) in share capital | - | - | - | - | - |
| Share application money received | - | - | - | **-** | **(511.51)** |
| Dividend paid | (69.53) | - | - | 911.51 | (58.85) |
| Interest in borrowings paid | | - | (15.96) | (104.22) | (23.75) |
| Increase/(Decrease) in facilities received of Govt. | | - | (13.62) | (17.10) | - |
| **CFFA(C)** | **(69.53)** | **300** | **(29.58)** | **790.19** | **(594.11)** |
| Gain/(Loss) in exchange in cash/bank bal. **(D)** | **-** | **-** | **3.30** | **1.27** | **13.64** |
| **Total Cash Flow (A+B+C+D)** | **(7.90)** | **418.18** | **502.98** | **838.45** | **276.55** |
| Add: opening cash balance | 136.67 | 631.80 | 1049.91 | 1552.97 | 2391.42 |
| Closing cash balance | 128.76 | 1049.98 | 1552.97 | 2391.42 | 2667.97 |

Source: Annual Reports (Appendix IV)

Above table highlights the sources and utilization of cash. Cash flow statement used here to check the liquidity of the bank accurately. The closing balance is highest in F.Y. 2007/08 and lowest in F.Y. 2003/04, which are Rs. 2667.97 and Rs. 128.76 million respectively. Here is reflected the flow of cash as operating, investing and financing activities. The closing balance is in increasing trend in the latest year, which is progress of the bank.

### 4.1.5 Differential Functional Budget

**1. Sales (Revenue) Budget**

EBL generates its revenue from its income earning activities and such activities are mostly fund based, that is generated out of the deployment of fund, and some portion from non-fund based business activities. The bank generates its income mainly from interest income earned from the loan, advance and overdraft provided to the borrowers, investment in the bonds etc., commission and discount, exchange fluctuation and from other operating activities. Interest income holds major share in total income portfolio of the bank.

Operating Income or Total Revenue or Sales includes:

1. Interest income
2. Commissions and Discount

3. Exchange Fluctuation Income
4. Other Operating Income

EBL has prepared five years revenue plan. According to planning officer past experience is considered in preparing revenue budget. Revenue budget is prepared considering relevant data of five years of study period from F.Y. 2003/04 to 2007/2008 as follows:

**Table 4.13**
**Sales Budget**

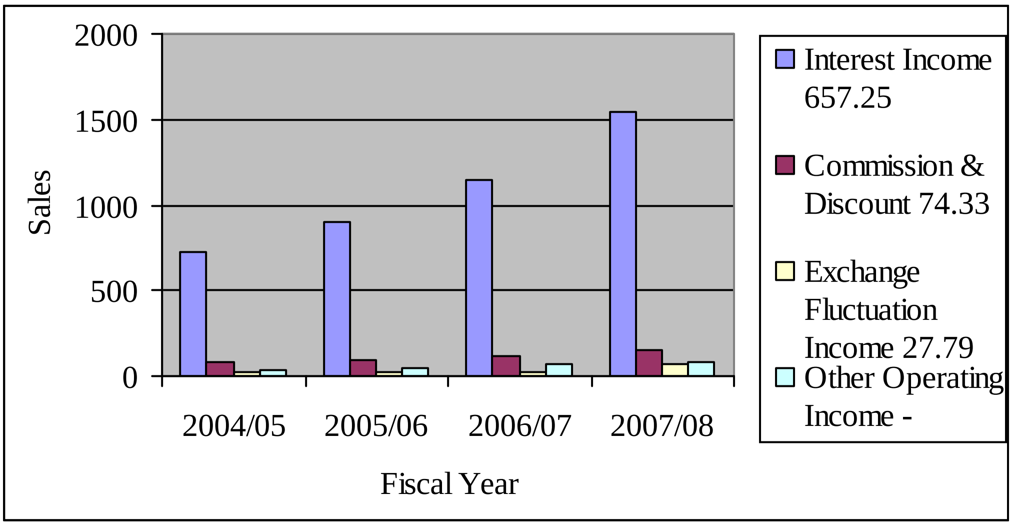
(Rs. in Millions)

| Particulars | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 |
|---|---|---|---|---|---|
| Interest Income | 657.25 | 719.30 | 903.41 | 1144.41 | 1548.67 |
| Commission & Discount | 74.33 | 78.13 | 88.16 | 117.72 | 150.26 |
| Exchange Fluctuation Income | 27.79 | 27.08 | 23.07 | 28.40 | 64.45 |
| Other Operating Income | - | 31.48 | 48.90 | 67.97 | 79.13 |
| **Total** | **759.37** | **855.99** | **1063.54** | **1358.50** | **1842.51** |

Source: Annual Reports (Appendix II)

Above table shows in spite of different problems the actual revenue is in increasing trend. Its credit directly goes to management committee.

**Graph 4.12**
**Graphical Presentation of Sales Items**




**2. Human Resources Budget**

Starting with about little number of staffs, the bank today has 449 staffs of all levels due to its expansion of operation, size and broad responsibilities of providing maximum services. Most of the employees are salary based and permanent. The bank recruits the new employees from the free competition by taking different selection process.

To bring out effective implementation of its programmers at all its operational levels the bank has been arranging to strengthen its manpower development programmes by imparting training both at its training institutions in Nepal and aboard but it is not sufficient.

**Table 4.14**

**Human Resource Budget**

| Year | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 |
|---|---|---|---|---|---|
| No. of Staff | 250 | 257 | 306 | 393 | 449 |

Source: Annual Reports of EBL

The above actual achievement table shows the total no of employees. The numbers of working employees are continuously increasing; it is caused by opening of new branches in different sectors.

### 3. Administrative Expenses Budget

There are different administrative expenses included in the operation of the bank. Expenses other than manufacturing and distribution expenses i.e. employee and office expense is treated into administrative expenses. Employee expenses like salaries, allowance, gratuity and pension, provident fund, training, medical expense etc. which are for employee are employee expenses. Likewise house rent, stationery, transportation, meeting expenses, insurance, repair and maintenance etc are also office expenses.

The overall managerial expenses budget includes several departmental budgets. It is briefly presented as below:

**Table 4.15**

**Administrative Expenses Budget**

**(**Rs. in Millions**)**

| Fiscal Year | Amount |
|---|---|
| 2003/04 | 130.95 |
| 2004/05 | 189.67 |
| 2005/06 | 214.48 |
| 2006/07 | 263.65 |
| 2007/08 | 391.73 |

Source: Annual Reports of EBL.

The above actual achievement table shows that the administrative expense of EBL for the five years study period from the F.Y. 2003/04 to F.Y. 2007/08. The highest administrative expense is Rs. 391.73 and lowest is Rs. 130.95 million for F.Y. 2007/08 and F.Y. 2003/04 respectively.

### 4.1.6 Other Aspects of PPC

**1. Profit and Loss Account**

Profit and loss account is such a tool in accounting system, which comprehensively presents the operating efficiency of the organization in the relevant period. After preparing all functional budgets, budgeted profit and loss account is prepared. P/L account is developed to report financial results of the various functional sub plans and commitments.

At the end of each financial year EBL prepares profit and loss account in order to know the profit and loss situation of the bank. The actual profit and loss account of the bank for the F.Y. 2003/04 to 2063/08 is as follows:

**Table 4.16**

**Profit and Loss Account**

(Rs. in Mllions)

| **Particulars** | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 |
|---|---|---|---|---|---|
| **Income:** | | | | | |
| Interest income | 657.25 | 719.30 | 903.41 | 1144.41 | 1548.67 |
| Commission income and discount | 74.33 | 78.13 | 88.16 | 117.72 | 150.26 |
| Other operating income | - | 31.48 | 48.90 | 67.97 | 79.13 |
| Exchange income | 27.79 | 27.08 | 23.07 | 28.40 | 64.45 |
| Non-operating income | 1.84 | 2.97 | 2.96 | 1.32 | 4.52 |
| Other income | 23.82 | 5.25 | - | 11.67 | 20.20 |
| **Total income** | **785.07** | **864.21** | **1066.10** | **1371.49** | **1867.23** |
| **Expenses:** | | | | | |
| Interest expenses | 316.37 | 299.56 | 401.40 | 517.17 | 632.61 |
| Staff expenses | 48.53 | 60.60 | 70.92 | 86.12 | 157.96 |
| Other operating expenses | 103.81 | 129.07 | 143.56 | 177.54 | 233.77 |
| Provision on loan loss | 81.78 | 88.93 | 70.46 | 89.69 | 99.34 |
| Provision for staff bonus | 23.46 | 28.08 | - | 45.47 | 65.87 |
| Other expenses | - | 5.25 | 34.56 | 0.79 | 18.10 |
| Provision for income tax: last year | - | 2.59 | 1.76 | 13.93 | - |
| This year | 67.55 | 81.91 | 106.75 | 144.37 | 207.47 |
| Profit and loss | 143.57 | 168.21 | 237.29 | 296.41 | 451.22 |
| **Total expenses** | **785.07** | **864.21** | **1066.10** | **1371.49** | **1867.23** |

Source: Annual Reports of EBL.

The above table shows that in fiscal year second and third loss is arising, which indicates that the bank did not provide proper attention to profit planning. In year second, loss is so large due to the writing the loan loss provision and other provision as the name of expenses with the objective ‘to make the clean of bank financial statement’. The maximum profit is in fiscal year 2063/64 which is Rs. 1058.44

million. In the last two years, the profit is in the increasing rate, which is the good symptom for bank.

## 2. Balance Sheet

The development of an annual plan ends with the planned income statement, planned balance sheet and planned cash flow statement summarizing different functional budgets. The balance sheet shows the overall financial condition of a firm. It shows the effect of operations on the assets, liabilities and capital of the company.

The EBL prepares its balance sheet at the end of each financial year to show the financial condition of the bank. The balance sheet of EBL is shown in the table given below:

**Table 4.17**

**Balance Sheet**

(Rs. in Millions)

| Particulars | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 |
|---|---|---|---|---|---|
| **Capital an Liabilities** | | | | | |
| Share capital | 455 | 518 | 518 | 518 | 831.40 |
| Reserve & surplus | 225.32 | 314.62 | 444.81 | 683.51 | 1089.84 |
| Debenture and bond | - | 300 | 300 | 300 | 300 |
| Loans and borrowings | - | - | - | - | - |
| Deposit liabilities | 8063.90 | 10097.69 | 13802.44 | 18186.25 | 23976.30 |
| Bills payable | 22.03 | 17.78 | 15.80 | 26.78 | 49.43 |
| Proposed and unpaid dividend | - | 23.53 | 114.67 | 68.15 | 140.79 |
| Income tax liabilities | - | 3.31 | - | 15.28 | 41.14 |
| Other liabilities (CL) | 842.32 | 457.59 | 763.56 | 634.60 | 720.44 |
| **Total** | **9608.57** | **11732.52** | **15959.28** | **21432.57** | **27149.34** |
| **Assets** | | | | | |
| Cash in hand | 128.76 | 192.59 | 259.35 | 534.10 | 822.98 |
| Cash at NRB | 503.05 | 779.67 | 1139.51 | 1178.20 | 1080.91 |
| Cash at bank or finance | - | 7.73 | 154.10 | 678.22 | 764.07 |
| Money at call and short notice | 187.44 | 570.00 | 66.96 | - | 346.00 |
| Investment | 2535.66 | 2128.93 | 4200.51 | 4984.31 | 5059.56 |
| Loan, advance, bills purchased | 5884.12 | 7618.67 | 9801.31 | 13664.08 | 18339.08 |
| Fixed assets | 118.37 | 134.07 | 152.09 | 170.10 | 360.51 |
| Non banking assets | - | 24.57 | 7.44 | - | - |
| Other assets (CA) | 251.16 | 206.28 | 178.01 | 222.66 | 376.21 |
| **Total** | **9608.57** | **11732.52** | **15959.28** | 21432.57 | **27149.34** |

Source: Annual Reports of EBL.

The EBL balance sheet is showing the picture of various assets, liabilities and capital at the end of each of the five years study period, which shows the financial condition

of the company. Total assets and total liabilities are increasing trend but except fourth to fifth year.
Based on the above, the overall financial performance of the bank can be summarized as:

**Table 4.18**
**Overall Financial Performance Reports of Five Years**

**Five Years Principal Indicators**

| | **Particulars** | **Indicators** | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 |
|---|---|---|---|---|---|---|---|
| 1 | Percent of Net Profit/Gross Income Percent | Percent | 18.3 | 19.90 | 22.20 | 21.60 | 24.17 |
| 2 | Earning per Share | Rs. | 45.60 | 54.20 | 62.80 | 78.40 | 91.82 |
| 3 | Market Value per Share | Rs. | 680 | 870 | 1379 | 2430 | 3132 |
| 4 | Price Earning Ratio | Percent | 14.90 | 16.00 | 22.00 | 31.00 | 34.10 |
| 5 | Dividend (Including bonus) On share capital | Percent | - | 20.00 | - | 30.00 | 30.00 |
| 6 | Cash Dividend on share Capital | Percent | 20.00 | - | 25.00 | 10.00 | 20.00 |
| 7 | Interest Income/ Loan and Advance | Percent | 9.20 | 8.00 | 7.60 | 6.90 | 7.10 |
| 8 | Staff Expenses / Total operating Expenses | Percent | 10.30 | 12.40 | 11.50 | 11.00 | 15.40 |
| 9 | Interest Expenses on total Deposit and Borrowings | Percent | 3.90 | 2.90 | 2.80 | 2.70 | 2.60 |
| 10 | Exchange Gain/ Total Income | Percent | 3.50 | 3.20 | 2.20 | 2.10 | 3.50 |
| 11 | Staff Bonus/ Total staff expenses | Percent | 48.20 | 46.30 | 48.70 | 52.80 | 41.70 |
| 12 | Net Profit/ Loan and Advance | Percent | 2.40 | 2.20 | 2.30 | 2.10 | 2.40 |
| 13 | Net profit/ Total Assets | Percent | 1.50 | 1.40 | 1.50 | 1.40 | 1.70 |
| 14 | Total Credit/ Deposit | Percent | 75.60 | 78.20 | 73.40 | 77.40 | 78.60 |
| 15 | Total operating Expenses*/ Total Assets | Percent | 6.00 | 4.10 | 3.90 | 3.60 | 3.70 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 16 | Adequacy of Capital Fund on Risk Weighted Assets | Percent | | | | | |
| 17 | a. Core Capital | Percent | 9.60 | 8.90 | 8.20 | 7.80 | 9.04 |
| 18 | b. Supplementary Capital | Percent | 1.50 | 4.70 | 4.10 | 3.40 | 2.40 |
| 19 | c. Total Capital | Percent | 11.10 | 13.60 | 12.30 | 11.20 | 11.44 |
| 20 | Liquidity (CRR) | Percent | 1.60 | 1.90 | 1.90 | 2.90 | 3.40 |
| 21 | Non performing credit/ Total credit | Percent | 1.70 | 1.60 | 1.30 | 0.80 | 0.68 |
| 22 | Weighted Average Interest Rate Spread Percent | Percent | 4.00 | 4.10 | 4.00 | 3.90 | 4.30 |
| 20 | Book net worth | Rs.in lakh | 5403 | 6926 | 8228 | 11066 | 15812 |
| 21 | Total Shares | No. | 3150000 | 3150000 | 3780000 | 3780000 | 4914000 |
| 22 | Total Staffs | No. | 250 | 257 | 306 | 393 | 449 |
| 23 | Others | | | | | | |
| | Per Employee Business | Rs. In Lakh | 566.60 | 700.30 | 782.30 | 821.10 | 953.50 |
| | Employee Expenses/Total Income | Percent | 6.20 | 7.10 | 6.70 | 6.30 | 8.50 |

Source: Annual Reports of EBL.

## 4.2 Analysis based on Statistical Tools

Under this heading some statistical tools 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 objectives of the study.

### 4.2.1. Coefficient of Correlation Analysis

Karl Pearson's coefficient is used to find out the relationship between deposit and loan & advances, deposit and total investment and outside assets and net profit.

**I) Coefficient of Correlation between deposit and loan & advances**

Deposits have played a very important role in the performance of a commercial bank and similarly loan and advances are important to mobile the collected deposits. Coefficient of correlation between deposit and loan and advances measures the degree of relationship between these two variables.

In this analysis, deposit is independent variable (X) and loan and advances is dependent variable (Y). The main objective of computing 'r' between these two variables is to justify whether deposits are significantly used on loan and advances in a proper way or not. The following table shows the value of ‘r’, ‘r2’ probable error (P.Er) and 6 P.Er between deposit and loan and advances for the study period 2003/04 to 2007/08.

**Table 4.19**
**Correlation between Deposit and Loan & Advances**

| | Evaluation Criterions | |
|---|---|---|
| r | r2 | 6.P.E(r) |
| 0.9983 | 0.9966 | 0.00617 |

(The detail of calculation is in Appendix V)

The above table no. 4.19 shows that coefficient of correlation between deposit and loan and advances are 0.9983, which shows higher positive correlation between these two variables. Similarly the value of coefficient of determination (r2) is to be found 0.9966, which shows that 99.66% in the dependent variable has been explained by the independent variable. More over loans and advances is significant. In other words EBL is successful in mobilizing its fund in a proper way in loan and advances. Similarly, considering the value of (r) is 0.9983 and comparing it with 6.P.E(r) is 0.00167, we can say that the value of r is more than 6.P.E(r), which reveals that there is significant relationship between deposit and loan and advances.

**II) Coefficient of correlation between deposit and total investment**

Coefficient of correlation between deposit and total investment measures the degree of relation between these two variables. Here deposit is independent variable (x) and total investment is dependent variable (y). The purpose of computing co-efficient of correlation between deposit and total investment is to find whether deposit is significantly used as investment or not.

The following table shows the variable of r, r2, P.E. (r) between deposit and total investment for the study period 2003/04 to 2007/08 as follows:

**Table 4.20**
**Correlation between Deposit and Total Investment**

| | Evaluation Criterions | |
|---|---|---|
| r | r2 | 6.P.E(r) |
| 0.8996 | 0.8093 | 0.3451 |

(The detail of calculation is in Appendix VI)

From the above table no. 20, we find that coefficient of correlation between deposit (independent) and total investment (dependent) value of r is 0.8996. It shows positive relationship between two variables. However by application of coefficient of determination the value of r2 is 0.8093, which indicates that the 80.93% of the variation of the dependent variable (total investment) has been explained by the independent variable (deposits) moreover by considering the probable error (since the value of r is 0.8996 is more than six times of P.E (r) i.e. 0.3451). So we can say that there is significant relationship between total deposit and total investment.

Lastly it can be said that the bank has followed the policy of maximizing the investment of their deposits.

### III) Coefficient of Correlation between Deposit and Net Profit

Coefficient of correlation 'r' between deposit and net profit measure the degree of relationship between these two variables. Here deposit is independent variable (x) and net profit is dependent variable (y). The purpose of computing coefficient of correlation between deposit and net profit is to find out whether the net profit is significantly correlated with respective deposit.

The following table shows the value of r, r2, P.E (r) and P.E. (r) between deposit and net profit for the study period 2003/04 to 2007/08 as follows:

**Table 4.21**
**Correlation between Deposit and Net Profit**

| | Evaluation Criterions | |
|---|---|---|
| r | r2 | 6.P.E(r) |
| 0.9899 | 0.9799 | 0.0364 |

(The detail of calculation is in Appendix VII)

From the above table no. 4.22 it has been found that the coefficient of correlation between total deposit (independent) and net profit (dependent) is 0.9899, which indicates positive correlation between these two variables. Considering the value of coefficient of determination is r2 i.e. 0.9799 indicates that 97.99% of the variation in the dependent variables (met profit) has been explained by the independent variable (deposit). Moreover, by considering the probable error we can further say that there is significant relationship between deposit and net profit because the value of r. i.e. 0.9899 more than six times of P.E (r) 0.0364.

It indicates that EBL is capable of earning net profit by mobilizing its deposit.

### 4.2.2. Trend Analysis and Projection for next five years.

Here, in this study the trend analysis of the financial condition are presented which is objected to provide the insight of the bank position.

In this study, the method of least square is used for the analysis of the bank's total deposit trend, net profit trend, loan and advances and EPS trend.
The projections are based on the following assumptions:

- Other things being will remain unchanged.
- The bank will run in the present position
- The economy will remain in the present stag
- The forecast will be true only when the limitation of least square method is carried out

- Nepal Rastra Bank will not change its guidelines to commercial banks.

## I) Trend Analysis of Total Deposit

Under this topic, an effort has been made to calculate the trend value of deposit for five years from 2003/04 to 2007/08 and forecast for next four year till next 2012/13.The following table shows the trend value of 10 years from 2003/04 to 2012/13.

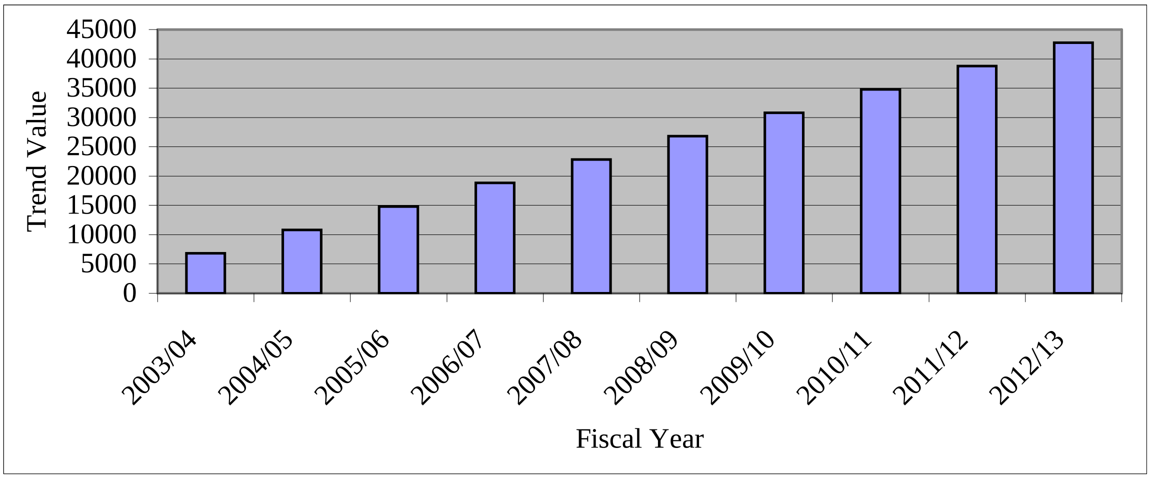
**Table 4.22**
**Trend Line of Total Deposit**

(Rs. In Millions)

| Fiscal Year | Trend Value |
|---|---|
| 2003/04 | 6842.64 |
| 2004/05 | 10833.98 |
| 2005/06 | 14825.32 |
| 2006/07 | 18816.66 |
| 2007/08 | 22808 |
| 2008/09 | 26799.34 |
| 2009/10 | 30790.68 |
| 2010/11 | 34782.02 |
| 2011/12 | 38773.36 |
| 2012/13 | 42764.7 |

(The details for the calculation is given in Appendix VIII)

**Graph 4.13**
**Graphical Presentation of Trend Value of Total Deposit**




## II) Trend Analysis of Net Profit

Under this topic the trend values of net profit have been calculated for five years from 2003/04 to 2007/08 and forecast for next five years up to 2012/13.

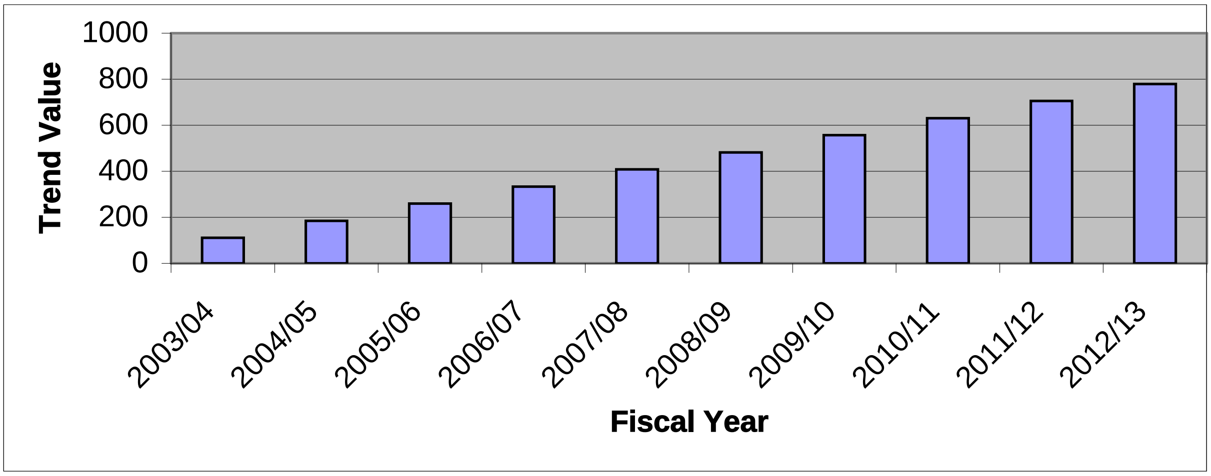
**Table 4.23**
**Trend Line of Net Profit**

(Rs. In Millions)

| Fiscal Year | Trend Value |
|---|---|
| 2003/04 | 110.64 |
| 2004/05 | 184.99 |
| 2005/06 | 259.34 |
| 2006/07 | 333.69 |
| 2007/08 | 408.04 |
| 2008/09 | 482.39 |
| 2009/10 | 556.74 |
| 2010/11 | 631.09 |
| 2011/12 | 705.44 |
| 2012/13 | 779.79 |

(The details for the calculation is given in Appendix IX)

**Graph 4.14**
**Graphical Presentation of Trend Value of Net Profit**




**III) Trend Analysis of Loan and Advances**

Under this topic the trend values of loan and advances have been calculated for five years from F.Y. 2003/04 to 2007/08 and the forecast for next years up to 2012/13.

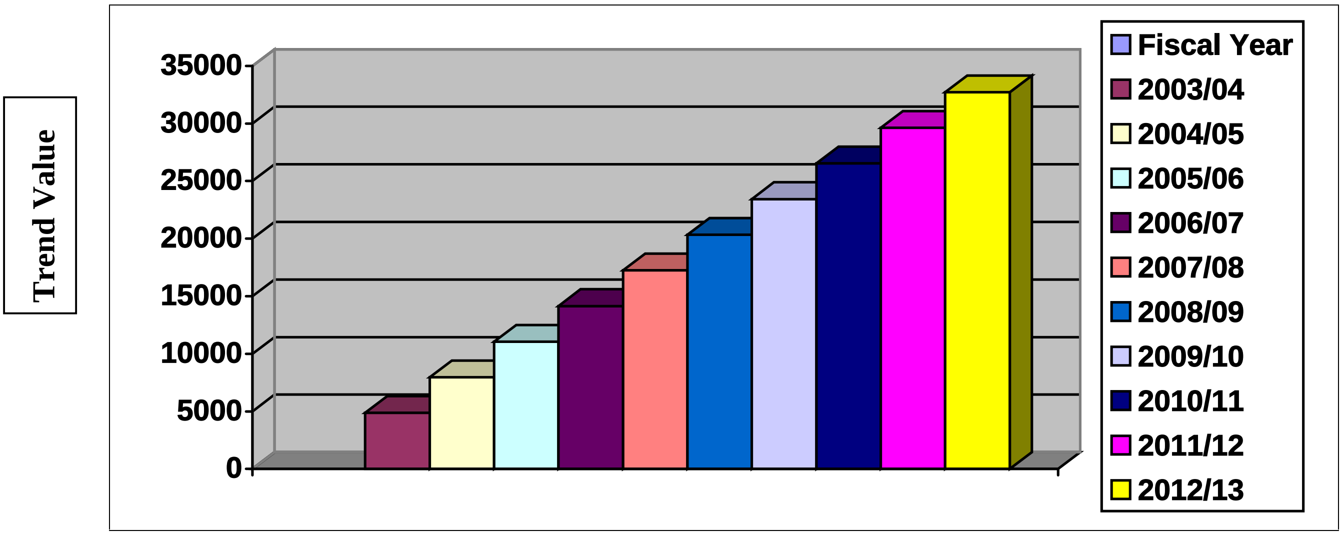
**Table 4.24**
**Trend Line of Loan and Advances**

(Rs. In Millions)

| Fiscal Year | Trend Value |
|---|---|
| 2003/04 | 4864.31 |
| 2004/05 | 7959.84 |
| 2005/06 | 11055.37 |
| 2006/07 | 14150.90 |
| 2007/08 | 17246.43 |
| 2008/09 | 20341.96 |
| 2009/10 | 23437.49 |
| 2010/11 | 26533.02 |
| 2011/12 | 29628.55 |
| 2012/13 | 32724.08 |

(The details for the calculation is given in Appendix X)

**Graph 4.15**
**Graphical Presentation of Trend Value of Loan and Advances**




### IV) Trend Analysis of Earning Per Share

Under this topic the trend values of EPS have been calculated for five years from 2003/04 to 2007/08 and the forecast for next five years up to 2012/13.

The following table shows the trend values of EPS

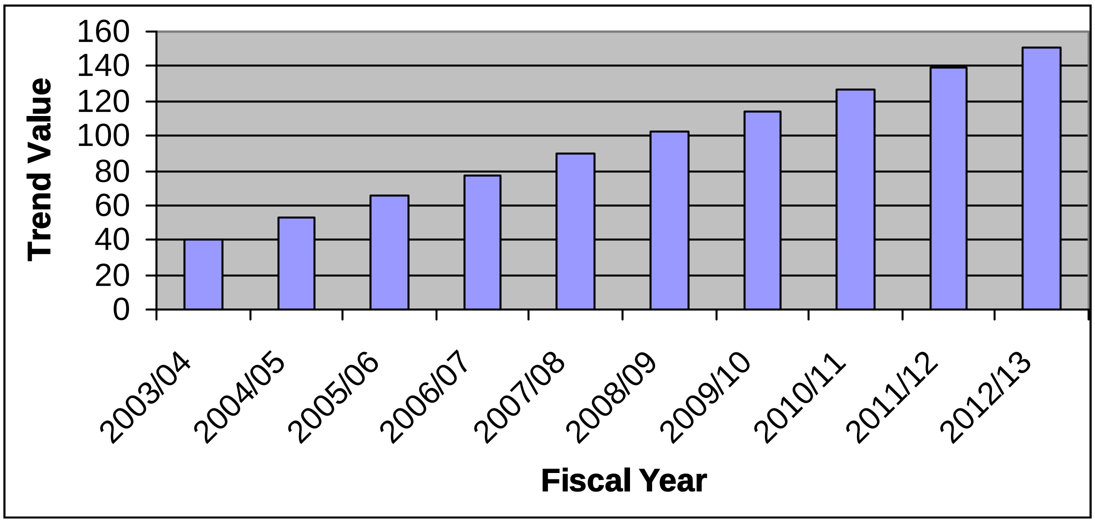
**Table 4.25**
**Trend Line of Earning Per Share**

(Rs. In Millions)

| Fiscal Year | Trend Value |
|---|---|
| 2003/04 | 40.6 |
| 2004/05 | 52.88 |
| 2005/06 | 65.16 |
| 2006/07 | 77.44 |
| 2007/08 | 89.72 |
| 2008/09 | 102 |
| 2009/10 | 114.28 |
| 2010/11 | 126.56 |
| 2011/12 | 138.84 |
| 2012/13 | 151.12 |

(The details for the calculation is given in Appendix XI)

**Graph 4.16**
**Graphical Presentation of Trend Value of Earning Per Share**




## 4.3 Major Findings

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

1. From the analysis of liquidity ratio, it is found that the bank is able to maintain its liquidity position to meet the daily cash requirement. It has made enough investment on government securities. But it has maintained moderate investment policy on loan and advance. Overall it has indicated the unstable liquidity position as the data shows lower consistency.

2. From the analysis of various activity ratios, the following findings are categorized.

- Bank has strong position regarding the mobilization of total deposit as loans and advances.

- Bank has normal and decreasing trend regarding the mobilization of total deposit as investment.

- The bank has average position towards the utilization of working fund on loan and advances.

3. From the analysis of various profitability ratios, the following findings can be categorized.

    - Return on equity is found unsatisfactory, as it has not efficiently utilized its equity capital.

    - The ratio of total interest paid to assets employed is satisfactory position, as it seems to be successful to collect its working fund from less expensive source.

    - The ratio of interest earned to operating income shows the magnitude of interest income is high as the bank seems to be successful to mobilized of interest bearing assets such as loan, advances and investment

    - From the analysis of return on total assets employed ratio, it is found that the profitability with respect to financial resources investment of the bank assets is unsatisfactory as well as unstable.

    - From the analysis of return on loan and advance ratio, it is found that the bank is not able to earn satisfactory income on loan and advances.

    - Analysis of EPS reveals tat the bank has very good increasing trend regarding EPS even though first two years shows the static figure

4. Co-efficient of correlation analysis between different variables reveals that:

    - Co-efficient of correlation, between deposit and loan and advances indicates satisfactory position in mobilization of deposit as loan and advances.

    - Co-efficient of correlation, between deposit and total investment indicates satisfactory position in mobilization deposit as an investment.

    - Co-efficient of correlation between deposit and net profit indicates that the bank is moderately successful in mobilized fund.

# CHAPTER -FIVE

## SUMMARY, CONCLUSION AND RECOMMENDATIONS

### 5.1 Summary

Today, joint venture banks have played significant role in the economic development of the country. They have introduced new technology in the banking system, mobilized the saving of community. They have focused their services on commerce, trade and industry along with general public. But the intense competition and lack of sufficient investment opportunities have created threats to the banks. Therefore, the study has been conducted for profit planning and control of Everest Bank Ltd in order to find out its strengths and weakness.

The research is related to the profit planning aspects, the financial strengths and weakness of EBL has been measured on the basis of balance sheet, income and expenditure account and profit and loss account. In that course different tools have been studied for removing the chances of duplication. The various textbooks and the published journals have also been reviewed.

In each and every corner of the main city we can see the hoarding board with loan facilities and new scheme of each bank mainly to attract the customer. In today’s competitive days, each and every bank is in competition with one another by introducing similar product or different than other product in the market specially focusing the demands of the customer for loan facilities with low interest rates and service rates.

It is true that marketing department of each bank is playing a vital role in analyzing the market trend and customer needs and desire. Any product, service, idea, firm or organization needs exposure. These days bank are aggressively introducing new product in the market.

Each and every bank in Nepal is offering competitive schemes to its customers. Every possible facility is being offered to the market. In market customer loan services has really become competitive. There are many banks with different facilities and services to the customers. It is no doubt that customer have many options to choose. They can move anywhere they like. To become successful in such market situation, each and every marketer is trying to provide as much facilities as it can be offered.

### 5..2 Conclusion

Today’s important facility being provided by bank to the customer is consumer loan facilities. Banks don’t want to freeze their bulk of amount in only one product so they introduces different product with different facilities with low interest rates, low service charge and moreover to make ease for customer they accept monthly installment. Knowing these requirement banks is offering schemes to customer and is trying to diminish the interest rates and down payment.

Customers are motivated by offerings of necessary product to them. Banks marketing department attract customers. Only bank provides consumer loan as and when required fulfilling their demands and desires.

The effectiveness of consumer loan is increasing day by day. In today's context banks are unable to invest their budget in tourism sector so they even find more beneficiaries to invest in these products. It is advantageous to both the parties. These days bank secure investment is in consumer loan schemes.

Bank has always brought effective and appropriate scheme to the customers. In the view point of security, a bank should always know that why a customer is in need have loan. If a borrowers misuses the loan granted by the bank, he can never repay therefore in order to avoid this situation each and every bank demand all the essential detailed information about the scheme of the project or activities. Bank should be very careful not to grant loan in only one sector. To minimize risk, a bank must diversify its investment on different areas; if a security to a company is deprived of there may be an appreciation in the securities of other companies in this way loss can be covered.

Loan and advances are the main sources of income for a bank. Bank deposits can cross beyond a desired level but the level of loans, advances and overdraft will never cross it. The facilities of granting loans and advances are the main service in which customers of the bank can enjoy.

Funds borrowed from banks are much cheaper than those borrowed from unorganized money lenders. The demand for loan has excessively increased due to cheaper interest rate. Furthermore, an increase in an economic and business activity always increases the demand of funds. Due to limited resources and increasing loans, there is some fear that commercial banks and other financial institutions too may take more preferential collateral while granting loans causing unnecessary botheration to the general customers. Such loan from these institutions would be available on special request only and there is a chance of utilization of resources in economically less productive fields. There lies the undesirable effect, of low interest rate.

In addition to this, some portion of loan and advances includes that amount which is given to staff of the bank for house loan, vehicle loan, personal loan and others, in mobilizing of commercial banks fund, loan and advances have occupied a large portion.

Liberal economic policy of the government has encouraged the establishment and growth of commercial banks in the country within short span of time. In Nepal there are many registered commercial banks and branches all over the country but now some branches are reduced and merged with other branches due to lack of proper security.

The commercial banks in Nepal are doing well but they are not giving satisfactory results due to some internal and external factors. The deposits and its reinvestment in productive sectors by commercial banks are not stale. They are not earning more profit for commercial banks. The increasing deposits are idle in the banks and in turn they are investing these funds in other sectors as government securities at maximum of 4% interest rate while the cost of fund they are bearing 6%, but it is better than nothing for the commercial banks. A decline in overall business market, sluggish performance of industry and slowdown in tourism sector accounted for such a declaration in the commercial bank activities.

The commercial banks in Nepal are facing the problem in investing in loan and advances. Due to various internal and external factors the banks are not making open investments. Deposits are being excess and idle in these banks.

Therefore, these banks should formulate new investment strategies. They should launch the intensive programs to encourage. The commercial banks should talk to NRB to make clear and new policies keeping in view the problem these banks are facing. These banks should take this problem seriously.

There is no significance difference between deposit and loan and advances and between deposit and investment of both the banks. The commercial banks in Nepal are facing the problem in investing in loan and advances. Due to various internal and external factors the banks are not making open investments. Deposits are being excess and idle in these banks.

Strengthening and the institutionalization of the commercial banks are very important to have a meaningful relationship between commercial banks and national development through shift of credit to the productive industrial sectors. At the same time the series of reforms such as consolidation of commercial banks, directing attention to venture capital financing, appropriate risk return trade of by linking credit to timely repayment schedules, avoiding imperfection, allowing flexibility in lending, one window service from NEB, need of strong supervision and monitoring from NRB, diversify scope of activities for commercial banks, professional culture within commercial banks, etc. all these are necessary to ensure better future performance of commercial banks that have already been established and growing in Nepal.

The commercial banks in Nepal must work hard to prove that they are really efficient and viable agencies for mobilization of saving and its canalization into productive sectors, are professionally managed and competent enough to ensure adequate rate of return on investment and are strategically well planned to be competitive.

## 5.3 Recommendations

On the basis of analysis, findings issues and gaps of the study, following suggestions or recommendations can be advanced to overcome weakness, inefficiency and to improve present fund mobilization and investment policy of bank. Here are some recommendation points, which are found to be considered to increase the marketing performance of bank to achieve the banks goals for betterment of future.

- The bank is suggested to maintain its liquidity position in normal standard i.e. 2:1 as their liquidity position is below the normal standard and also recommended to follow consistent liquidity policy.

- As a joint venture commercial bank in private sector, EBL cannot keep its eyes off from the profit motive. It should be always careful in increasing profit in a real sense to maintain to confidence of shareholders, depositors and its customers. So the bank is strongly recommended to utilize its risky assets and shareholders fund to gain profit margin. Similarly, it should reduce its expenses and should try to collect cheaper fund being more profitable.

  Regarding investment and government securities, it has been revealed the EBL has given more priority to invest its fund in government securities than other investment sector. Though securities issued by government are considered to be free from risk of default, but such securities yield the lower interest rate due to low risk feature. So, EBL is recommended not to give much of important to the government securities and diversify the investment policy on more yield base funds.

- To get success in competitive banking environment, depositors' money must be utilized as loan and advances. If it is neglected, then it could be the main cause of liquidity crisis in that bank and one of the main reasons for a banks failure. It has been found from the study of EBL loan and advances to total deposits ratio is higher than that of the other studied banks but its stability is not consistent than of others. To overcome this situation EBL is strongly recommended to follow liberal lending policy and invest more and more percentage of total deposit in loan and advances and similarly, maintain more stability on the investment policy.

- EBL must inform customer about its products in the market through different media such as brochures, pamphlets, internet access and reports. .

- In terms of loan loss recovery, EBL is not so good. So, it is recommended to EBL to recover there loan by selling the collaterals or doing auctions.

  One of the main objectives to operate joint venture banks i.e. especially EBL is to boost foreign investment. However EBL does not seem to be successful in this aspect. Therefore, EBL is recommended to activate itself towards increasing foreign investment in Nepal by means of their wide international banking network.

- It will be more informative if bank provide all the detail information in the website. So that if anybody needs information they can visit in the website.

- At the time of collecting data's it has been very difficult to get yearly data, because they count in total. If they maintained to keep record in yearly basis it will be helpful to marketing department of banks.

- To make very clear to customer bank should make transparent in service charge and interest rate.

- The promotional scheme should be brought according to the changing needs and desires of the customers.

- Marketing department must be well trained about the competitors

- Interest rate and service charge should be minimum to be acceptable to the customers.

- For the benefits of the bank, they have to offer new schemes in the market.

- It should keep update information of the competitors and their products..

- For smooth operation of the bank there must be proportional increase or decrease on credit according to deposit, this can be achieved either by discouraging certain deposit or aggressively marketing its loanable funds to existing or potential customers.

- To get success in competitive banking environment deposited money must be utilized as loan and advances. The largest side of the bank in assets side is loan and advances. In case of, negligence in administrating, this asset could be the main cause of liquidity crisis in the bank and one of the main reasons of bank's failure.

- Though loan and advances to total deposit of EBL is better but it seems that is necessary to make more improvement in coming days. Sound and liberal lending policy would help in this regard.

- Profitability position of EBL is much weaker. Therefore, EBL is suggested to improve overall efficiency by investing in appropriate areas after the proper risk analysis for optimum use of shareholders' fund.

- Activity ratio of the fund raised from the outsiders appears less satisfactory in EBL. So, EBL has a challenge to allocate the deposit in income generating sectors. It will be better for EBL to open the branches in other cities and rural areas in order to find the profitable investment opportunities.

- Capital adequacy position revealed weaker in EBL. Therefore, it is suggested to improve its capital adequacy by investing the assets and deposits in highly returnable sector.

- More specially, EBL is suggested to review its overall capital structure and investment portfolio to make better mix in capital structure as well as investment portfolio.

- The bank should encourage small, medium and higher level of customers for enjoying deposits, borrowing and other service.

- Looking at current trend of banking business, a bank must be careful while formulating marketing strategies to serve customers. The marketing strategies should be innovative so that it would attract and retain the customers. It is recommended that EBL should develop innovative approach in marketing for its well being and sustainability in the market upgrade the banking facilities as per the changing need of the customers.

- Commercial banks are the profit motive banks; they cannot keep their eyes closed from profit. They should be careful in increasing profit from their investments. So, it is strongly recommended to utilize its risky assets and shareholders' fund to gain highest profit margin.

- Portfolio condition of the bank should be examined from time to time and attention should be made to maintain equilibrium in the portfolio condition as far as possible. The bank should make continuous effort to explore new, competitive and high yielding investment opportunities to optimize their investment portfolio. Nepalese commercial banks should investment in different projects, finance developing industries like tourism with the help government, which provides security to them.

- Though the government securities issued by government are free of risk of default, such securities yield the lowest interest rates of a particular maturity due to low risk feature. So, it is recommended to invest in some profitable sectors like providing loan to developing industries as tourism industry etc.

- The commercial banks are supposed to boost foreign investments in the country. However, these banks' do not seem to be successful in this aspect. Therefore, EBL is recommended to activate for increasing foreign investment in Nepal by means of wide international banking network.

- The government before issuing license for the commercial banks should make a market study for the background and reputation of the people establishing a bank, this will help in avoiding the corrupt banking in the country and existing commercial banks will also get benefit from this policies because they do not have to face false competition policies lunched by the corrupt banks.

- In the context of commercial banks in Nepal, for speedy development of the republic. Nepal Government and NRB as well as the commercial banks are suggested to follow decentralization policy and formulate new plans and policies to develop banks' credit operation like formulating policies regarding investment in small scale industries, tourism industry, and hydro-electricity projects. The Nepalese government should make policies regarding salaries, various types of incentives for the commercial banks to avoid internal corruptions in the banks.

- Lastly, the financial sector has become fully competitive especially in the banking sector. Therefore, the banks should improve and change their servicing and operational behavior and should invite modern technologies accord to the situation. For this purpose, a research department should be built, keeping skilled and efficient manpower. It helps to analyze market of the banks from different dimensions. It also helps in improving management, operation and investment policy.

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## Appendix I
## Total Current Assets and Current Liabilities of ADBL
## For the Fiscal Year 2003/04 to 2007/08

**(Rs. in millions)**

| Particulars | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 |
|---|---|---|---|---|---|
| Current Assets: | | | | | |
| Cash in hand | 128.76 | 192.59 | 259.35 | 534.10 | 822.98 |
| Cash at NRB | 503.05 | 779.67 | 1139.51 | 1178.20 | 1080.91 |
| Cash at Bank & Finance | - | 77.73 | 154.10 | 678.22 | 764.07 |
| Money at call in short notice | 187.44 | 570.00 | 66.96 | - | 346.00 |
| Other CA | 251.16 | 206.28 | 178.01 | 222.66 | 376.21 |
| Loan, advance, bills purchased | 5884.12 | 7618.67 | 9801.31 | 13664.08 | 18339.08 |
| ***Total Current Assets*** | **6954.53** | **9444.94** | **11599.2** | **16277.3** | **21729.25** |
| Current Liabilities: | | | | | |
| **Deposit liabilities** | 8063.90 | 10097.69 | 13802.44 | 18186.25 | 23976.30 |
| Bills payable | 22.03 | 17.78 | 15.80 | 26.78 | 49.43 |
| Unpaid dividend | | 23.53 | 114.67 | 68.15 | 140.79 |
| Provision for taxation | | 3.31 | | 15.28 | 41.14 |
| Other CL | 842.32 | 457.59 | 763.56 | 634.60 | 720.44 |
| Total Current Liabilities | **8928.25** | **10599.9** | **14696.5** | **18931.1** | **24928.1** |

Source: Annual Reports of study period.

**Appendix II**

***Profit and Loss Account***

***For the Fiscal Year 2003/04 to 2007/08***

**(Rs. in millions)**

| **Particulars** | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 |
|---|---|---|---|---|---|
| ***Income:*** | | | | | |
| *Interest income* | *657.25* | *719.30* | *903.41* | *1144.41* | *1548.67* |
| *Commission income and discount* | *74.33* | *78.13* | *88.16* | *117.72* | *150.26* |
| *Other operating income* | - | *31.48* | *48.90* | *67.97* | *79.13* |
| *Exchange income* | *27.79* | *27.08* | *23.07* | *28.40* | *64.45* |
| *Non-operating income* | *1.84* | *2.97* | *2.96* | *1.32* | *4.52* |
| *Other income* | *23.82* | *5.25* | - | *11.67* | *20.20* |
| ***Total income*** | ***785.07*** | ***864.21*** | ***1066.10*** | ***1371.49*** | ***1867.23*** |
| ***Expenses:*** | | | | | |
| *Interest expenses* | *316.37* | *299.56* | *401.40* | *517.17* | *632.61* |
| *Staff expenses* | *48.53* | *60.60* | *70.92* | *86.12* | *157.96* |
| *Other operating expenses* | *103.81* | *129.07* | *143.56* | *177.54* | *233.77* |
| *Provision on loan loss* | *81.78* | *88.93* | *70.46* | *89.69* | *99.34* |
| *Provision for staff bonus* | *23.46* | *28.08* | *34.56* | *45.47* | *65.87* |
| *Other expenses* | - | *5.25* | - | *0.79* | *18.10* |
| *Provision for income tax: last year* | - | *2.59* | *1.56* | *13.93* | - |
| *This year* | *67.55* | *81.91* | *106.75* | *144.37* | *207.47* |
| *Profit and loss* | *143.57* | *168.21* | *237.29* | *296.41* | *451.22* |
| ***Total expenses*** | ***785.07*** | ***864.21*** | ***1066.10*** | ***1371.49*** | ***1867.23*** |

*Source: Annual Reports of EBL.*

## Appendix III

*Balance Sheet*

**From the Fiscal Year 2003/04 to 2007/08**

**(Rs. In millions)**

| Particulars | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 |
|---|---|---|---|---|---|
| **Capital an Liabilities** | | | | | |
| Share capital | 455 | 518 | 518 | 518 | 831.40 |
| Reserve & surplus | 225.32 | 314.62 | 444.81 | 683.51 | 1089.84 |
| Debenture and bond | - | 300 | 300 | 300 | 300 |
| Loans and borrowings | - | - | - | - | - |
| Deposit liabilities | 8063.90 | 10097.69 | 13802.44 | 18186.25 | 23976.30 |
| Bills payable | 22.03 | 17.78 | 15.80 | 26.78 | 49.43 |
| Proposed and unpaid dividend | - | 23.53 | 114.67 | 68.15 | 140.79 |
| Income tax liabilities | - | 3.31 | - | 15.28 | 41.14 |
| Other liabilities (CL) | 842.32 | 457.59 | 763.56 | 634.60 | 720.44 |
| **Total** | **9608.57** | **11732.52** | **15959.28** | **21432.57** | **27149.34** |
| **Assets** | | | | | |
| Cash in hand | 128.76 | 192.59 | 259.35 | 534.10 | 822.98 |
| Cash at NRB | 503.05 | 779.67 | 1139.51 | 1178.20 | 1080.91 |
| Cash at bank or finance | - | 7.73 | 154.10 | 678.22 | 764.07 |
| Money at call and short notice | 187.44 | 570.00 | 66.96 | - | 346.00 |
| Investment | 2535.66 | 2128.93 | 4200.51 | 4984.31 | 5059.56 |
| Loan, advance, bills purchased | 5884.12 | 7618.67 | 9801.31 | 13664.08 | 18339.08 |
| Fixed assets | 118.37 | 134.07 | 152.09 | 170.10 | 360.51 |
| Non banking assets | - | 24.57 | 7.44 | - | - |
| Other assets (CA) | 251.16 | 206.28 | 178.01 | 222.66 | 376.21 |
| **Total** | **9608.57** | **11732.52** | **15959.28** | 21432.57 | **27149.34** |

Source: Annual Reports of the EBL.

# Appendix IV
# Cash Flow Statement
# For the Fiscal Year 2003/04 to 2007/08

**(Rs. in millions)**

| Particulars | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 |
|---|---|---|---|---|---|
| 1. Cash Receipt: | 785.06 | 864.48 | 1119.89 | 1372.77 | 1764.96 |
| Interest income | 657.25 | 725.01 | 900.91 | 1157.39 | 1480.96 |
| Commission and discount | 74.33 | 78.13 | 88.16 | 117.72 | 150.26 |
| Exchange gain | 27.79 | 27.08 | 19.77 | 27.13 | 50.81 |
| Recovery loan written -off | 1.87 | - | - | - | - |
| Other income | 23.82 | 34.26 | 51.04 | 70.53 | 82.91 |
| 2. Cash Paid: | (511.88) | 594.60 | (704.26) | (892.08) | (1154.93) |
| Interest expenses | (316.38) | 312.88 | (378.60) | (492.28) | (612.86) |
| Employee expenses | (48.53) | 84.05 | (68.38) | (78.12) | (127.97) |
| Office expenses | (78.95) | 105.22 | (115.06) | (146.56) | (177.58) |
| Income tax paid | (52.93) | 92.44 | (114.09) | (140.56) | (191.05) |
| Other expenses | (15.10) | - | (28.08) | (34.56) | (45.47) |
| **Cash Flow before change in working capital** | **273.17** | **269.88** | **415.63** | **480.69** | **610.03** |
| (Increase)/Decrease in Current Assets: | | | | | |
| (Increase)/Decrease in money at call & short notice | (187.44) | (382.55) | 508.04 | 66.96 | (346.00) |
| (Increase)/Decrease in short term investment | (881.68) | 56.25 | (2072.29) | 80.12 | 498.76 |
| (Increase)/Decrease in loan & borrowings | (1051.07) | 1828.56 | (2236.16) | (3947.22) | (4772.74) |
| (Increase)/Decrease in other assets | - | (35.42) | (39.03) | (72.38) | (134.86) |
| Increase/(Decrease) in Current Liabilities: | - | | | | |
| Increase/(Decrease) in deposits | 499.86 | 2033.79 | 3704.75 | 4383.81 | 5790.04 |
| Increase/(Decrease) in certificate of deposit | (0.074) | - | - | - | - |
| Increase/(Decrease) in short term loan | (1368.94) | - | - | - | - |
| Increase/(Decrease) in others liabilities | 90.48 | (307.16) | 285.82 | (56.20) | (26.38) |
| **CFOA (A)** | **112.19** | **311.51** | **561.76** | **935.78** | **1618.86** |
| **Cash Flow from Investing Activities:** | | | | | |
| Purchase of share and debenture | | | (0.05) | - | (94.68) |
| Proceeds from sale of share & debenture | | | - | - | 13.41 |
| Purchase of fixed assets | (20.43) | (38.82) | (47.37) | (49.93) | (248.46) |
| Proceeds from sale of fixed assets | 0.12 | - | 0.87 | 0.50 | 1.84 |
| (increase)/Decrease of Govt. securities | (40.64) | - | 0.41 | (863.92) | (493.53) |
| Proceeds from sale of non-banking assets | 10.40 | 154.52 | 1.65 | 11.58 | 0.04 |
| Interest income from LTI | - | - | 12.26 | 12.28 | 58.44 |
| Dividend received | - | 0.02 | 0.16 | 0.25 | 0.75 |

| | | | | | |
|---|---|---|---|---|---|
| **CFIA (B)** | **(2073.12)** | **(193.32)** | **32.50** | **(888.79)** | **(761.83)** |
| **Cash Flow from Financing Activities**: | | | | | |
| Increase/(Decrease) in LTB | - | 300 | - | - | - |
| Increase/(Decrease) in share capital | - | - | - | - | - |
| Share application money received | - | - | - | **-** | **(511.51)** |
| Dividend paid | (69.53) | - | - | 911.51 | (58.85) |
| Interest in borrowings paid | | - | (15.96) | (104.22) | (23.75) |
| Increase/(Decrease) in facilities received of Govt. | | - | (13.62) | (17.10) | - |
| **CFFA(C)** | **(69.53)** | **300** | **(29.58)** | **790.19** | **(594.11)** |
| Gain/(Loss) in exchange in cash/bank bal. **(D)** | **-** | **-** | **3.30** | **1.27** | **13.64** |
| **Total Cash Flow (A+B+C+D)** | **(7.90)** | **418.18** | **502.98** | **838.45** | **276.55** |
| Add: opening cash balance | 136.67 | 631.80 | 1049.91 | 1552.97 | 2391.42 |
| Closing cash balance | 128.76 | 1049.98 | 1552.97 | 2391.42 | 2667.97 |

Source: Annual Reports of EBL.

## Appendix V
## Calculation of Correlation between Deposit and Loan & Advances

(Rs. in Millions)

| Fiscal Year | Deposit (X) (Rs.) | dx = x - 74126.58 | dx2 | Loan & Advances (Y) (Rs.) | dy = y - 11055.37 | dy2 | dx * dy |
|---|---|---|---|---|---|---|---|
| 2003/04 | 8063.90 | -6761.4 | 45716800 | 5884.12 | -5171.25 | 26741868 | 34964890 |
| 2004/05 | 10097.69 | -4727.6 | 22350485 | 7618.67 | -3436.7 | 11810907 | 16247343 |
| 2005/06 | 13802.44 | -1022.9 | 1046283.5 | 9770.92 | -1284.45 | 1649811.8 | 1313864 |
| 2006/07 | 18186.25 | 3360.93 | 11295850 | 13664.08 | 2608.71 | 6805367.9 | 8767692 |
| 2007/08 | 23976.30 | 9150.98 | 83740508 | 18339.08 | 7283.71 | 53052431 | 66653085 |
| | ∑x = 74126.58 | ∑dx = 0 | ∑dx2 = 164149928 | ∑y = 55276.87 | ∑dy = 0 | ∑dy2 = 100060386 | ∑dx * dy = 127946873 |

X mean = 14825.32 Y mean = 11055.37

Now, we have

N = 5

∑dx = 0 ∑dx2 = 164149928 ∑dx * dy = 127946873

∑dy = 0 ∑dy2 = 127946873

**Correlation of coefficient can be calculated by following formula,**

$$r = \frac{N\sum dx*dy - \sum dx\sum dy}{\sqrt{[N\sum dx2 - (\sum dx)2][N\sum dy2 - (\sum dy)2]}}$$

$$= \frac{5*127946873 - 0*0}{\sqrt{[5*164149928 - (0)2][5*100060386 - (0)2}}$$

$$= \frac{639734365}{640798430.80}$$

r = 0.9983

$r^2 = (0.9983)^2$

$r^2 = 0.9966$

P. E. (r) = $0.6745 * \frac{1-r2}{\sqrt{N}}$

$$= 0.6745 * \frac{1-0.9966}{\sqrt{5}}$$

= 0.001028

6 * P.E (r) = 6 * 0.001028

= 0.00617

# Appendix VI

## Calculation of Correlation between Deposit and Total Investment

(Rs. In Millions)

| Fiscal Year | Deposit (X) (Rs.) | dx = x - 74126.58 | dx2 | Total Investment (y) (Rs.) | dy = y- 3767.95 | dy2 | dx*dy |
|---|---|---|---|---|---|---|---|
| 2003/04 | 8063.90 | -6761.4 | 45716800 | 2466.42 | -1301.53 | 1693980 | 8800164.9 |
| 2004/05 | 10097.69 | -4727.6 | 22350485 | 2128.93 | -1639.02 | 2686387 | 7748631 |
| 2005/06 | 13802.44 | -1022.9 | 1046283.5 | 4200.51 | 432.56 | 187108.2 | -442465.6 |
| 2006/07 | 18186.25 | 3360.93 | 11295850 | 4984.34 | 1216.39 | 1479605 | 4088201.6 |
| 2007/08 | 23976.30 | 9150.98 | 83740508 | 5059.56 | 1291.61 | 1668256 | 11819497 |
| | ∑x = 74126.58 | ∑dx = 0 | ∑dx2 = 164149928 | ∑y = 18839.76 | ∑dy = 0 | ∑dy2 = 7715336 | ∑dx * dy = 32014029 |

X mean = 14825.32 Y mean = 3767.95

Now, we have

N = 5

∑dx = 0 ∑dx2 = 164149928 ∑dx * dy = 32014029

∑dy = 0 ∑dy2 = 7715336

**Correlation of coefficient can be calculated by following formula,**

$$r = \frac{N\sum dx*dy - \sum dx \sum dy}{\sqrt{[N\sum dx2 - (\sum dx)2][N\sum dy2 - (\sum dy)2]}}$$

$$= \frac{5*32014029 - 0*0}{\sqrt{[5*164149928 - (0)2][5*7715336 - (0)2]}}$$

$$= \frac{160070145}{1779376189}$$

r = 0.8996

$r^2 = (0.8996)^2$

$r^2 = 0.8093$

$$P.E\ (r) = 0.6745 * \frac{1-r2}{\sqrt{N}}$$

$$= 0.6745 * \frac{1-0.8093}{\sqrt{5}}$$

= 0.0575

6* P.E (r) = 6*0.0575

= 0.3451

# Appendix VII

## Calculation of Correlation between Deposit and Net Profit

(Rs. In Millions)

| Fiscal Year | Deposit (X) (Rs.) | dx = x - 74126.58 | dx2 | Net Profit (y) (Rs.) | dy = y- 259.34 | dy2 | dx*dy |
|---|---|---|---|---|---|---|---|
| 2003/04 | 8063.90 | -6761.4 | 45716800 | 143.57 | -115.77 | 13402.69 | 782767.3 |
| 2004/05 | 10097.69 | -4727.6 | 22350485 | 168.21 | -91.13 | 8304.677 | 430826.2 |
| 2005/06 | 13802.44 | -1022.9 | 1046283.5 | 237.29 | -22.05 | 486.2025 | 22554.95 |
| 2006/07 | 18186.25 | 3360.93 | 11295850 | 296.41 | 37.07 | 1374.185 | 124589.7 |
| 2007/08 | 23976.30 | 9150.98 | 83740508 | 451.22 | 191.88 | 36817.93 | 1755890 |
| | ∑x = 74126.58 | ∑dx = 0 | ∑dx2 = 164149928 | ∑y = 1296.70 | ∑dy = 0 | ∑dy2 = 60385.69 | ∑dx * dy = 3116628 |

X mean = 14825.32 Y mean = 259.34

Now, we have

N = 5

∑dx = 0 ∑dx2 = 164149928 ∑dx * dy = 3116628

∑dy = 0 ∑dy2 = 60385.69

**Correlation of coefficient can be calculated by following formula,**

$$r = \frac{N\sum dx*dy - \sum dx\sum dy}{\sqrt{[N\sum dx2 - (\sum dx)2][N\sum dy2 - (\sum dy)2]}}$$

$$= \frac{5*3116628 - 0*0}{\sqrt{[5*164149928 - (0)2][5*60385.69 - (0)2]}}$$

$$= \frac{15583140}{15741906.67}$$

r = 0.9899

$r^2 = (0.9899)^2$

$r^2 = 0.9799$

P.E (r) = 0.6745 * $\frac{1-r2}{\sqrt{N}}$

= 0.6745 * $\frac{1-0.9799}{\sqrt{5}}$

= 0.0061

6* P.E (r) = 6*0.0061

= 0.0364

## Appendix VIII
## The Trend Value of Total Deposit

(Rs. In Millions)

| Fiscal Year | Deposit (y) (Rs.) | X = (T-2005/06) | $X^2$ | XY | Yc = a+bx |
|---|---|---|---|---|---|
| 2003/04 | 8063.90 | -2 | 4 | -16127.8 | 6842.64 |
| 2004/05 | 10097.69 | -1 | 1 | -10097.7 | 10833.98 |
| 2005/06 | 13802.44 | 0 | 0 | 0 | 14825.32 |
| 2006/07 | 18186.25 | 1 | 1 | 18186.25 | 18816.66 |
| 2007/08 | 23976.30 | 2 | 4 | 47952.6 | 22808 |
| | ∑y = 74126.58 | ∑x = 0 | ∑x2 = 10 | ∑xy = 39913.36 | |

a = $\frac{\sum y}{N}$ = $\frac{74126.58}{5}$ = 14825.32

b = $\frac{\sum xy}{\sum x2}$ = $\frac{39913.36}{10}$ = 3991.34

Now,

Straight line trend of total deposit

Yc = a + bx = 259.34 + 74.35x

| **Year (t)** | **X = (t – 2005/2006)** | **Yc = a +bx** |
|---|---|---|
| 2008/09 | 3 | 26799.34 |
| 2009/10 | 4 | 30790.68 |
| 2010/11 | 5 | 34782.02 |
| 2011/12 | 6 | 38773.36 |
| 2012/13 | 7 | 42764.7 |

# Appendix IX
## The Trend Value of Net Profit

(Rs. In Millions)

| Fiscal Year | Net Profit (y) (Rs.) | X = (T- 2005/06) | $X^2$ | XY | Yc = a+bx |
|---|---|---|---|---|---|
| 2003/04 | 143.57 | -2 | 4 | -287.14 | 110.64 |
| 2004/05 | 168.21 | -1 | 1 | -168.21 | 184.99 |
| 2005/06 | 237.29 | 0 | 0 | 0 | 259.34 |
| 2006/07 | 296.41 | 1 | 1 | 296.41 | 333.69 |
| 2007/08 | 451.22 | 2 | 4 | 902.44 | 408.04 |
| | $\sum y$ = 1296.70 | $\sum x$ = 0 | $\sum x2$ = 10 | $\sum xy$ = 743.50 | |

$$a = \frac{\sum y}{N} = \frac{1296.70}{5} = 259.34$$

$$b = \frac{\sum xy}{\sum x2} = \frac{743.50}{10} = 74.35$$

Now,

Straight line trend of Net Profit
Yc = a + bx = 259.34 + 74.35x

| **Year (t)** | **X = (t – 2005/2006)** | **Yc = a +bx** |
|---|---|---|
| 2008/09 | 3 | 482.39 |
| 2009/10 | 4 | 556.74 |
| 2010/11 | 5 | 631.09 |
| 2011/12 | 6 | 705.44 |
| 2012/13 | 7 | 779.79 |

## Appendix X
## The Trend Value of Loan and Advances

(Rs. In Millions)

| Fiscal Year | Loan & Advances (Y) (Rs.) | X = (T-2005/06) | $X^2$ | XY | Yc = a+bx |
|---|---|---|---|---|---|
| 2003/04 | 5884.12 | -2 | 4 | -11768.2 | 4864.31 |
| 2004/05 | 7618.67 | -1 | 1 | -7618.67 | 7959.84 |
| 2005/06 | 9770.92 | 0 | 0 | 0 | 11055.37 |
| 2006/07 | 13664.08 | 1 | 1 | 13664.08 | 14150.9 |
| 2007/08 | 18339.08 | 2 | 4 | 36678.16 | 17246.43 |
| | ∑y = 55276.87 | ∑x = 0 | ∑x2 = 10 | ∑xy = 30955.33 | |

$$a = \frac{\sum y}{N} = \frac{55276.87}{5} = 11055.37$$

$$b = \frac{\sum xy}{\sum x2} = \frac{30955.33}{10} = 3095.53$$

Now,

Straight line trend of Loan and Advances
Yc = a + bx = 11055.37 + 3095.53x

| **Year (t)** | **X = (t – 2005/2006)** | **Yc = a +bx** |
|---|---|---|
| 2008/09 | 3 | 20341.96 |
| 2009/10 | 4 | 23437.49 |
| 2010/11 | 5 | 26533.02 |
| 2011/12 | 6 | 29628.55 |
| 2012/13 | 7 | 32724.08 |

## Appendix XI
## The Trend Value of Earning Per Share

(Rs. In Millions)

| Fiscal Year | Earning Per Share | X = (T-2005/06) | $X^2$ | XY | Yc = a+bx |
|---|---|---|---|---|---|
| 2003/04 | 45.58 | -2 | 4 | -91.16 | 40.6 |
| 2004/05 | 47.52 | -1 | 1 | -47.52 | 52.88 |
| 2005/06 | 62.77 | 0 | 0 | 0 | 65.16 |
| 2006/07 | 78.41 | 1 | 1 | 78.41 | 77.44 |
| 2007/08 | 91.53 | 2 | 4 | 183.06 | 89.72 |
| | ∑y = 325.81 | ∑x = 0 | ∑x2 = 10 | ∑xy = 122.79 | |

$$a = \frac{\sum y}{N} = \frac{91.53}{5} = 65.16$$

$$b = \frac{\sum xy}{\sum x2} = \frac{122.79}{10} = 12.28$$

Now,

Straight line trend of Earning Per Share
Yc = a + bx = 65.16 + 12.28x

| **Year (t)** | **X = (t – 2005/2006)** | **Yc = a +bx** |
|---|---|---|
| 2008/09 | 3 | 102 |
| 2009/10 | 4 | 114.28 |
| 2010/11 | 5 | 126.56 |
| 2011/12 | 6 | 138.84 |
| 2012/13 | 7 | 151.12 |