

CHAPTER - I

INTRODUCTION

1.1 Background of the study

Profit is the lifeblood of a business organization which not only keeps it alive but also assures the future and makes it sound. In other words every such organization needs profit to survive and complete in open market. The success or the failure of the business firm depends upon the margin of profit because profits are the primary requirements for its success. The excess income over expenditure is called profit. The word profit brings for visions of reserves. The concept of profit is not new but the concept of profit planning & control is a tool of management used in profit making organization. The managerial skill which increase revenues and minimize the cost is called profit planning and control. Profit planning and control involves long term commitment waiting for a reward which comes in future and always remains uncertain. Therefore every planning entails some degree of uncertainty. So we can conclude profit planning and control is as an organized and formal approach for realize the planning, synchronization and control responsibilities of management which provides guidelines to the overall managerial task.

The main objectives of any business organization are to maximize its profits and at the same time render reliable service to its customers. Both the objectives have a great significance for the proper management of the organization. Profit is a device with the help of which efficiency of an enterprise can be measured.

Before evaluating an intelligent approach to managerial process of profit planning, it is important that we understand the management concept of planning and budgets. Planning is the process of developing enterprises objectives and selecting future courses of action to accomplish them. In other words, planning is the first essence of management and all other functions are performed with in the framework of planning. The main objective of planning in business is to increase the chance of making profit. The budget is the primary planning operating document committed to performance. In this sense, budget is also

called a profit plan. A budget is a numerical plan of action, which generally covers the areas of revenues and expenditures.

Profit planning is a comprehensive plan expressed in financial terms by which an operating program can be made effective for a given period of time it is a tool of direction, co-ordination and control and as such it is the most important administrative device for these purposes. Profit planning and control is the latest invention in the field of modern management. A comprehensive profit planning and control is viewed as a process designed to help management effectively perform significant phases of planning and controlling functions.

Every business or institution is established on the definite goals and objectives. All the tasks are performed by company according to their objectives. Mainly two types of institutions are established, one is profit oriented and another is service oriented. As like in the other profit oriented business organizations, commercial bank has also to make reasonable profit for its survival. Most of the commercial banks are formed under the company Act with joint stock and the shares being traded at stock exchanges. Therefore profit made by them has also remained as one of the vital parameter for measurement of the efficiency.

1.2 Nepalese Economy-The Current Picture

Nepal is a landlocked countries and lies between two large countries India and China in the central part of Asia with the area of 147,181 sq. km. and only about 27 % of the total land area is under cultivation. Nepalese economy is fully depended on agriculture. So it plays a vital role in the Nepalese economy. More than 78 % people depend upon agricultural sector. Agriculture is the major instrument of progress, modernization and social change in Nepal. The share of manufacturing sector in the total GDP is 10 %. The government of Nepal has initiated liberal, open and market oriented economic policy since 1990s immediately after the restoration of the democracy. The deteriorating law and order situation, political instability in the country in the past few years has adversely affected the country's economy. Because of political unrest, Nepal has been facing very

difficult situation. Economic activities including the development works were affected. Local level investment could not increase due to the absence of elected bodies and rural sector was adversely affected. Increasing number of youths continued to drain abroad in search of foreign employment. Under these circumstances, economic growth remained low compared to the target in the tenth plan. The growth in other sectors of the economy is embarrassed by the small domestic market, poor physical infrastructure, inadequate human and financial resources, and locked position of the country, the political instability and the geography of the country.

1.3 Meaning & Importance of Financial Institution

Financial Institution means an institution established under the prevailing laws with the objectives of providing loans for agricultural cooperative, industrial or any other specific economic purpose or of collecting deposits from the general public and the word also includes as institution prescribed as financial institution by Government of Nepal by publishing notice in the Nepal Gazette. (NRB Act 2002).

Banking institution is inevitable for resource mobilization and all- round development of the country. It is resources for economic development of the country. It is resources for economic development; it maintains economic confidence of various segments and extends credit to people.

Financial institution can be considered as the catalyst to the economic growth of a country. In Nepal, there are several kinds of financial institutions such as commercial Banks, Development Banks, Rural Development Banks, Finance companies, co-operatives involving in saving and credit activities etc. Most of the financial institutions are under regulation of Nepal Rastra Bank (NRB), the central bank of Nepal.

Among all financial intermediaries commercial bank is the most leading one. “A bank is an organization whose major function is concerned with the collection of the provisionally idle money of general public for the use of advancing to other of disbursement. Banks nowadays do a large number of financial transactions while

financial institutions are authorized to do limited transactions only.” (Dahal & Dahal, 2002: 7)

1.4 Major Financial Policy of Nepal

The financial sector policies in the least developed countries have changes during the least three decades and Nepal is not an exception. The elimination of credit control, deregulation of interest and exchange rate, easy entry of banks and financial institutions into the financial system, privatization of financial and non financial institution, autonomy of NRB etc are the important dimension of financial liberalization in Nepal. Monetary policy, banking policy, credit policy and the interest rate policy are the major financial policies. The NRB has a major role to play in the formulation, implementation monitoring and supervision of such policies.

A) Monetary Policy.

Nepal Rastra Bank began exercising monetary policy since mid 1960 with instrument like credit control regulation, interest rate administration, margin rate, refinance rate and cash reserve ratio. In the 1970s liquidity requirement, credit limits, and direct credit programs were introduced. Open market operation evolved only in the 1990s with policy shift from direct to indirect monetary control. The basic objectives of monetary and credit policies have been fostering growth, generating employment, addressing poverty, containing prices, promoting external trade and attaining healthy balance of payment of the country. The most important goals for monetary policy in Nepal are to maintain the price and external sector stability. Excess money supply causes an upward pressure in the level of prices by increasing aggregate demand in the economy in the wake of inelastic supply of output. So monetary policy purports to limit prices by disallowing money to increase in excess of desired demand for it. NRB has published its monetary policy for the fiscal year 2008/09. The few main features of new monetary policy are as follows:

- Primarily focused towards curbing acceleration in the pace of inflation.
- Economic growth targeted at 6 % on the basis of budget of 2008/09.

- Average inflation based on consumer price index estimated to be 5.5 % compared to that of 6.4 % in 2007/08.
- Maintaining financial sector stability and to increase the financial intermediation.
- Addressing the fluctuation in short term interest rates and the risks through open market operations.
- Maximum usage of the financial resources by the private sectors.

B) Banking Policy.

The NRB has issued its new licensing policy for the establishment of commercial banks, finance companies and development banks on 1st shrawan 2063. The main provisions contained in the new licensing policy are as follows:

- Change in minimum capital requirement of the financial institution while starting the financial institutions.
- List of documents to be presented for carrying out the financial transactions in Nepal.
- Minimum requirements of the directors & promoters.
- Probable conditions where NRB may reject the application for establishment of the financial institution.
- Provisions regarding the expansion of business of the financial institutions.
- Provisions regarding the preliminary expenses.
- Formats of the applications & commitments.

C) Credit Policy.

Nepal Rastra Bank has also been exercising monetary and credit policies through the same manner. But monetary & credit policies are not exactly the same. Monetary policy is defined as a policy affecting changes in the quantity of money while credit policy is defined as a policy affecting the cost, availability and the allocation of credit. In the past NRB has introduced the priority sector lending programmed. Under this programmed all the banks were required to extend certain percentage of their lending to the prescribed priority sector. However; this priority sector lending requirement is now phased out. With

an objective of minimizing the concentration of the credit risk, the NRB has prescribed the single borrower limit for fund based as well as non fund based.

D) Interest Rate Policy.

There exists a wide array of interest rate in the economy. This is either because of wider varieties of securities having different liquidity, term structure and degree of risk or market imperfection. Interest rate is one of the monetary policy variables along with money supply and credit. In the process of financial system liberalization, initiatives to deregulate interest rate structure in Nepal were taken since mid 1980s. The complete liberalization of the interest rate structure, however, took place in 1989 only where by the commercial banks were set free to determine the deposit and lending rates. However, the existing number of the commercial banks and the level of competitiveness in the financial market have not allowed interest rate structure to evolve through a perfect market mechanism. Further, there is a great deal difference in the level of interest rate on loans between formal and informal market. Informal market rate for borrowing are much higher than the formal market rates. One noteworthy situations of the Nepalese financial system has been the poor sensitivity of the commercial banks to changes in bank rate by the NRB. This is because of the excess liquidity in the banking sector and therefore commercial banks do not resort to the central bank borrowing for financing their lending activities.

1.5 Evolution of Commercial Bank

The organization of term “Bank” is under dispute among the economist. According to some authorities, the word “Bank” is derived from the word “Banco”, “Bancus” or “Basque” all meaning to a Bench. This refers that early bankers transacted their money lending activities on benches in the market place exhibiting the coins of different countries in different denomination for the purpose of changing and or lending money. Some writer opinions that the word “Bank” came from the German word “Banc”, meaning joint stock fund. (Vershney, 1993:25)

“The history of bank started from the merchants, goldsmith, and money lenders they are called ancestors of modern banking. Before 1848 goldsmiths used to store people’s gold

and other valuable goods and charge nominal charges against the deposits. That time people deposited their gold and valuable goods for the sake of securities rather than earning interest. The term bank emerged in USA in 1848 BC". (Paul, 1996:12)

The bank means institute, which deals with money. A bank performs several financial monetary and economic activities that are very essential for economic development of any country. Basically banks performs various types of services i.e. collection of deposit from the public, supply loans to those investors who want to invest in business, industry and other sectors, overdraft, letter of credit, bills of discounting, promissory notes, merchant banking, agency function of tasks guarantee against any disable of payment, remittance services etc.

In the native form, banking is as old as is the authentic history and origins of the modern commercial banking are traceable in ancient times. In ancient Greece, around 2000 BC, the famous temples of Ephesus, Delhi and Olympia were use as depositories for people's surplus fund and these temples were the centers for money lending transactions. The priest of these temples acted as financial agents until public confidence was destroyed by the spread of disbelief in the religion. However, the banking as we know today, made its first beginning around the middle of 12th century in Italy. The bank of Venice, founded in 1157 A.D. was the first public banking institution. Following this, in 14th century the bank of Barcelona and the bank of Genoa were established in 1401 A.D. and 1407 A.D. respectively. (Vaish, 1996:36)

The history of modern financial system is not too long. In Nepal it was begun in 1937 with the establishment of Nepal Bank Ltd. as a first commercial bank in Nepal. The bank was establishes to render services to the people for the economic progress of the country prior to the establishment of Nepal Rastra Bank, it plays the role of central bank also with the establishment of NRB 1956 under the NRB Act 1955. The new NRB Act was brought out in 2002 by replacing the previous Act of 1955. This new Act has provided operational autonomy and independence to the bank. Then after Government of Nepal and NRB has established the Nepal Industrial Development Corporation (NIDC) capital market in

1959. The second commercial bank the Rastriya Banijya Bank was established in public sector in 1966, with the equity participation of Govt. of Nepal and Agricultural Development Bank Act 1967 by incorporating the assets & liabilities of the Co operative Bank. (Sharma, 2002:3)

The legislation of Commercial Bank Act 1974 set out regulation for licensing supervision and cancellation of license of Commercial Bank and encouraged the establishment of other Commercial Banks in Nepal. The move towards financial liberalization encouraged the entry of joint venture and private commercial banks. In the context of banking development, the 1980s saw a major structural change in financial sector policies, regulations and institutional developments. Government of Nepal emphasized the role of the private sector for the investment in the financial sectors. The financial sector liberalization, started already in the early eighties with the liberalization of interest rates, encompassed further deregulation of interest rates, relaxation of entry barriers for domestic & foreign banks, restructuring of public sector commercial banks and withdrawal of central bank control over their portfolio management. The Nepal Arab Bank Ltd. (NABIL) is the first joint venture commercial bank of Nepal was established in 1984. The Nepal Investment Bank Ltd. & Standard Chartered Bank Ltd. are two other joint venture commercial banks, were established in 1986 & 1987 respectively. With the passage of time, function of banks have increased manifold. Since banks are rendering a wide range of services to the people of different walks of life, they have become an essential part of modern society. Life without a bank is it brick bank or click bank (internet banking) is beyond imagination. (Dahal & Dahal 2002:7)

1.6 Profile of NB Bank

1.6.1 Introduction of NB Bank

Nepal Bangladesh Bank Limited was established in June 1994(2050 B.S) with modern technology and corporation with an authorized capital of Rs.240 million and paid up capital of Rs.60 million as a joint venture of International Finance Investment and

Commerce Bank Ltd.(IFIC) of Bangladesh. Its head office/ main branch are situated in Bijulibazar, Kathmandu.

The prime objective of this bank is to render modern banking services to the different sectors of the economy like manufacturing and service industries, hydropower projects, traders, small entrepreneurs, priority sector and weaker sections of the society through its 17 branches which spread all over the five development regions of the country. During the period of 15 years of its operation; it has accommodated a large number of clients and has been able to provide excellent services to its clients.

This bank is only the bank entrusted by World Bank and the government of Nepal to be the Power Development Fund Administrator (PDFA) for the development of small and medium hydropower project in the country. The bank is the first private sector bank, handling the government transactions in the country. The Tatopani Branch is the solely dealing with the government revenue account of Tatopani Revenue Office.

In order to provide better services to its customer the bank has launched Automated Teller Machine Facilities. Furthermore, this bank has commenced Any Branch Banking System (ABBS) facility. The branch has also launched SCT Debit Card, which can be used at all visa ATM'S and POS terminals. Considering the present competitive environment and to cater increasing customer need, the bank has started consumer financing facilities like Hire Purchase Loan, and Housing Loan at convenient terms.

It has already made strong root in Nepalese banking sector. The bank has also established good relationship with top houses of the country, top importers and exporters, foreign business by its services. Bank has made its network and relations in international market with different banks and remittance agencies with different countries. It has gained popularity in the international trade front and developed correspondent relationship with more than 200 provident foreign banks in the world. Bank has its direct links with the bank like American Express Bank, ANZ Banking Group Ltd, Standard Chartered Bank, CITI Bank, ICICI Bank etc. Bank has served its valued customers by corresponding with

different money transfer agencies like Travelex Money Transfer, EZ Remit, Express Money, Doha Remit, Money Gram, Speed Remit etc. for easy receipt of money.

The bank has introduced its ATM facility at Kathmandu Plaza, Putalisadak Branch as well as Lalitpur Branch and also aiming to introduce at New Baneshwor and New Road with suitable location to give 24 hours 365 days banking services to their valued customers. With the good support of the customer the bank has made all round progress in all sphere of its operation. The branch has mobilized deposits of RS.10.884 billion and loan and advances of Rs.9.47 billion as on Ashad end 2065.

1.6.2 Share Capital of NB Bank

The bank was started with an authorized capital of Rs. 240 million & paid up capital of Rs. 60 million. Over the years the authorized capital has been increased to Rs.1.5 billion and paid up capital has been increased to Rs. 744.2 million. At the beginning share holding pattern of NB Bank Ltd. was as follows:

IFIC Bank Ltd. Bangladesh	50 %
Local promoters	20 %
General public	30 %

But after the expiry of the agreement with IFIC the share holding pattern has been changed and present share holding patterns are as follows:

IFIC Bank Ltd. Bangladesh	25 %
Local promoters	45 %
General public	30 %

1.6.3 The Management of NB Bank

Earlier as per the technical services agreement the management of the bank has been entrusted to IFIC Bank Ltd. IFIC Bank may nominate up to 5 executives including the Managing Director to manage the daily affair of the bank. However, NB Bank is

responsible to provide accommodation facilities, transportation facilities and education allowance for the children of these executives, but now Board of Directors will nominate the Managing Directors to manage the daily affair of the bank.

Along with that, during the supervision process the Board of Directors of NB Bank Ltd. was warned for ignoring the directives of the Nepal Rastra Bank. The bank was asked to revise the loan loss provisioning so that cumulative loss would increase by Rs.832.4 million. A number of serious shortcomings were found in the bank such as drawbacks in the credit flow and management and violations of the NRB, audit of L.C. transactions was not done; required capital fund was not maintained as per the NRB's directive; the bank has been suffering from a huge loss and lacks good corporate governance. Hence as the NB Bank couldn't meet the directives of the NRB, so in order to ensure the stability of NB Bank and to overcome the loss, NRB took the managerial of the NB Bank from Jan. 2007.

1.6.4 Product & Services Offering

Nepal Bangladesh Bank Ltd. is providing full fledged Commercial Banking services to its clients. Besides accepting deposits in various forms, following facilities and services are made available by the Bank:

- 1 Consortium Finance
- 2 Working Capital Loan
- 3 Term Loan
- 4 Demand Loan
- 5 Hire Purchase Loan
- 6 Education Loan
- 7 Housing Loan
- 8 Trade Finance
- 9 Letter of Credit
- 10 Bank Guarantee.

- 11 Bills Purchase.
- 12 Remittance Services all over the world.
- 13 Locker facility.
- 14 ATM (Automated Teller Machine) facility
- 15 ABBS (Any Branch Banking Service) facility
- 16 SMS Banking

It has also introduced free Accidental Insurance Scheme upto Rs. 5 Lac and Medical Insurance benefits upto Rs. 10 thousand to the Individual Saving Account holders.

1.6.5 Branches of NB Bank

NB Bank Ltd. has the largest local network in the country besides the government controlled NBL and RBB. The head office of the bank is located at Bijulibazar, Kathmandu. Besides the head office the bank has 17 numbers of branches within the country.

1.6.6 General Activities of NB Bank

In the modern business, the effectiveness and efficiency of the business organization and/or their managers are measured from the profit earned by them. Banks deal with money and perform several financial, monetary and economic activities that are essential for economic development of a country. It is a service industry therefore its profit plans are of a different format than those in manufacturing units. Unlike the manufacturing unit, a bank has resource mobilization and deployment plan and it aims at maximizing the profit out of their activities. NB Bank, being a commercial bank and also a business concern, perform various kinds of profitable banking business activities those may be listed below:

- Acceptance of Deposit.
- Providing Loans and Advance.

- Providing Overdrafts.
- Opening various types of customer accounts.
- Remittances (Transfer of funds)
- Obtaining Mortgages of properties as Collateral Security.
- Opening Letter of Credit on behalf of their customers.
- Bills discounting or purchasing or collection on behalf of the customers.
- Safe custody of valuables.
- Issuing Guarantees against the bidding, performance of activities.
- Trading in Securities.
- Acting as executors and trustee.

1.6.7 The Bank's Vision

NB Bank holds a vision to become a Leading Bank of the country by providing premium products and services to the customers, thus ensuring attractive and substantial returns to the stakeholders of the Bank.

Source: www.nbbl.com.np

1.6.8 The Bank's Mission

The bank's mission is to become preferred provider of quality financial services in the country. There are two components in the mission of the bank; preferred provider and Quality Financial Services; therefore NBBL believes that the mission can be accomplished only by satisfying these two components with the customer at focus. The bank always strives positioning itself in the hearts and minds of the customers.

Source: www.nbbl.com.np

1.6.9 The Bank's Objectives

The main objective of any commercial banks is to maximize the profit by mobilizing the resources that they have. The other objectives include:

- 1) To enhance corporate image by providing quality services to the customers and satisfy their wants.

- 2) To maximize the shareholder's wealth by making optimum investment, financing and dividend decisions.
- 3) To capture more market share in the competitive environment through innovative products.
- 4) To increase profit structure more and more every year.
- 5) To be awarded prestigious "Bank of the year" again and again in the coming years and so forth.

1.7 Statement of the problem

Profit planning and control (PPC) model provides a tool for more effective supervision of individual operation and practical administration of a business a whole. In our country the industrialization is still in its early stages therefore, the concept of profit planning has not even been familiar in the most of the business concerns including commercial banks. By proper planning a business can be managed more effectively and efficiently. Basically in commercial banks, its major activities would be mobilization of resources involving cost, profitable deployment of those resources and generating income. This study has tried to analyze and examine the PPC side of commercial bank taking a case study of Nepal Bangladesh Bank. Further more the study has tried to answer the following research questions:

- What are the overall profit planning problems of NB Bank?
- Does NB Bank have appropriate profit planning system?
- Does the bank mobilize the deposit & other resources optimally?
- What is the gap between Budgeted & Actual performance?
- What are the overall PPC problems of NB Bank and what suggestions can be recommended for their proper solutions?

1.8 Objectives of the Study

This study is mainly concerned with budgeting system of NB Bank Ltd. The fundamental objective of this study is to assess the budgeting system of NB Bank Ltd. To study the application of comprehensive PPC system in NB Bank Ltd. Apart from this following are the other objectives of the study:

- To focus the current profit planning adopted and its effectiveness of NBBL.
- To focus the current profit planning adopted and its effectiveness of NBBL.
- To study the variance of budgeted and actual achievements.
- To examine the resource mobilization planning of NBBL.
- To study the deployment for income generating activities.
- To provide suggestion and recommendations for improvements of the overall profitability of the bank.
- To observe NB Bank's profit planning on the basis of overall managerial Budgets developed by the Bank.

1.9 Significance of the Study

The research study is connected with the profit planning in commercial banks with the study of NB Bank Ltd., with the major objectives of examining the proper applicability of profit planning system in the bank. Profit planning process significantly contributes to improve the profitability as well as the overall financial performance of an organization by the best utilization of resources. Profit planning is the heart of management. It may also helpful for future researchers as a reference material. Profit planning is the most useful technique for the analysis the profitability and its performance. Hence this study provides the guideline for the technique of profit planning and this study provides as a proper knowledge and experience for the data collection, presentation and analysis. The significance of the study is given below:

- This study gives overall background of NB Bank.
- It highlights the applicable tools of budgeting for proper planning of profit.
- This study would be helpful to those who seek information of profit planning of NB Bank.

1.10 Limitation of the Study

- The study is made for partial fulfillment of the requirement of Masters in Business Studies (MBS) in a short duration of time.
- The study is limited to the profit planning aspect of the Bank, leaving other areas uncovered.
- The data and information over the period of five fiscal years commencing from FY 2061/062 to FY 2065/066 is used in the study.
- Balance sheet, Profit & Loss accounts, and other financial statements are considered basic source of data. Thus the study will be mainly based on secondary data collected from various sources.
- This study is analysis with the help of financial tools and few statistical tools.
- For the literature review, various newspapers, journals, unpublished thesis works, and internet will be referred. However the literature review will be limited to very few articles and research works due to unavailability of sufficient materials and adequate time.

1.11 Organization of the Study

The structure of the thesis report will comprise of five chapters which have been briefly described as follows:

Chapter--I: Introduction

Introduction section provides an overall description of the study to be carried out. This chapter includes background of the study, Nepalese Economy-the current picture, Meaning & Importance of financial institution, Major financial policy of Nepal, Evolution of commercial bank, Profile of NB Bank, Statements of the problems, Objectives of the study, Significance of the study, Limitation of the study.

Chapter –II: Review of Literature

This chapter describes theoretical analysis and brief review of related and pertinent literature available. It includes conceptual review of commercial banks & review of empirical work. For this purpose, various books, journals & periodicals as well as internet shall be used.

Chapter—III: Research Methodology

This chapter describes the research methodology enjoyed in the study. It includes Research design, Sample selection, Sources of data, Data collection procedure & tools for analysis of the study.

Chapter—IV: Presentation & Analysis of Data

This chapter is one of the main chapters of this study. This chapter illustrates the collected data into a systematic format such as graphs. It discusses the analysis of the data as well as interpretation of data.

Chapter—V: Summary, Conclusion & Recommendations

This chapter comprises the summary of entire thesis. It describes major findings of the thesis and provides some suggestions & recommendations based on the analysis of study. A bibliography and appendices will be attached at the end of the study.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Introduction

The term review of literature is very important for the researcher or investigator in the area of concerned problem. This is related to the present study with a view to find out what had already been explained and how the present research adds new dimension to the study. It is an integral and mandatory process in research work. In this part, focus has been made on the conceptual framework and the review of literature that is relevant regarding to the profit planning concepts. In this regard, various books, journals and articles concerned to this topic have been reviewed. Review of literature is based on available literature in the field of research. Every possible effort has been made to grasp knowledge and information that is available from libraries; document collection center helps to take adequate feed back to broaden the information to study.

2.2 Concept of Commercial Bank

The term 'Bank' signifies the place where we keep our money for safe keeping as well as for earning some interest or the place from where we borrow money as loan. As regard to the borrowing money from the Bank, we may cinder its function as that of money lender in our society. But a bank a moneylender is different in the sense that the former lends the money which is principally collected from their depositors while later does so from its own resources. “The Random House Dictionary of the English Language defines the bank as an institution for receiving money and in some cases. Issuing notes and transiting other financial business.” (Stein and Urdang, 1985:29)

Banking is a business much like any other business. The commercial bank is relatively business concern. A bank provides certain service for its customers (depositors and borrowers) and in return receives payments in one form of other. It tries to earn profit for its stock owners. The definitions of bank as given by various individuals are as follows: “Bank is an establishment for the custody of money received from or on behalf of its

customers its essential duty is to pay their draft on its profit arises from its use of the money left unemployed by them.” (The shorter oxford English dictionary)

“Commercial bank refers to such type of bank which deals in money exchanges accepting deposits, advancing loans and commercial transaction except specific banking related to Cooperatives and Industry and other objectives.” (Nepal Commercial Bank Act. 2031)

The same Act has provided for the modalities of establishing a commercial bank, as per which a commercial bank can be established under the company Act as a limited liability company only with the recommendations of Nepal Rastra Bank. From the various definition made and opinion produced regarding commercial banking it can be concluded that a commercial bank is set up to collect-scattered funds and employ them to productive sector of economy.

2.3 NRB Regulation

Bank and financial institution regulation act 2063 has been introduced to supervision and control to bank and financial institution. This act was published in Nepal gazette on 2063/7/19 B.S. The main objectives of the act are as follows:

- To protect and promote the depositors rights by increasing attitude of public towards the bank and financial institutions.
- To provide qualitative services by the means of healthy competition among the banks.
- To provide guides lines about establishment, operation, management, rules, regulations and legal provisions.

2.3.1 Prescribed Regulations for Commercial Banks

a) Capital Adequacy

The capital adequacy is one of the major criteria to operate the commercial banks. Notional required capital will be as specified in the licensing policy.

b) Loan loss Reserves

The commercial banks have to comply and maintain loan classification and provisioning as per the NRB regulations.

c) Reserve Requirements

Banks and agencies of banks are required to maintain some reserves like cash in vault; balances with Nepal Rastra Bank.

d) Reporting Requirements

Commercial Banks have to submit final annual report to Nepal Rastra Bank within 90 days after fiscal year end. Unless and until specified, other requirements are to submit reports as per NRB regulations. Quarterly financial reports should be published in national newspaper.

e) Systems and Policy Documents

Transparent systems, credit policy guidelines, borrowing guidelines, operational guidelines, risk management guidelines and other appropriate policies and guidelines need to be prepared, approved and implemented.

f) Technology and Technical Service

Modern technology and technical services should be applied by commercial banks as approved by NRB.

2.4 Activities of Commercial Bank

The major activities of a commercial bank are essentially accepting deposits and making loans and advances. In the present scenario banking activities are not limited only accepting deposits and lending loan and advance, others income generating activities has been added as in time span like remittance services, land development and housing projects, locker facilities, debit and credit cards, bank guarantee, bill payments services etc. The major activities of a commercial bank have been divided in to two parts are as follows:

1. Collection of Resources
2. Deployment or mobilization of Resources

2.4.1 Collection of Resources

Through intermediary channels such as financial institutions and financial markets, funds should be efficiently channeled from depositors and investors to borrowers in need of funding to, for example, expand their business or buy a house. The role played by

financial institutions and financial markets in this process is referred to as the activities of commercial banks. Resources in commercial banks collected from two sources internal and external internal means owners fund and external means borrowed fund.

a) Internal Fund or Capital Fund

Internal fund of the bank is capital fund, which consists paid up capital, reserves, retained earnings, premiums, preference share, reserves and provisions. A commercial bank must have paid up capital of Rs 200 crore in order to establish as a national level commercial bank. NRB has also prescribed the capital adequacy norms to be of at least 12 %.

Likewise the commercial banking act 2031 has made a mandatory provision for every commercial bank to build the general reserve out of the allocation of at least 20 % of net profit amount each year until the amount becomes double the paid up capital. The external fund of a bank constitutes the resources apart from the owners' fund. In a bank, it is mostly contributed by customer's deposit, and some part by the short-term fund borrowed from other banks called inter bank loan or central banks.

b) Deposits & Others Liabilities

Deposits are collected from their customers in various types of savings. Customer's deposit is a major source of bank's resources. It is very important for a bank for its liquidity supply that banks are often engaged in competition for deposit mobilization because the capacity of a bank to grant credit to its borrowers depends upon its capacity to mobilize deposits. There are various types of deposits like, call deposit, savings deposit, fixed deposit, current deposit etc. All of above are on demand deposit where as fixed is time base deposit. As per commercial banking act of Nepal, a current account is the bank account having money, which is subject to repayable whenever demanded. Likewise fixed deposit is time based deposit which is withdrawn only after the expiry of the time period. Banks offer interest on these accounts varying the duration of deposit maturation. The saving deposits are accepted on saving accounts which are defined by commercial banking act 2031 as "the bank account having money which is deposited for the purpose of saving" (Commercial Bank Act 2031).

Resources except customer's deposit and capital fund are called other liabilities of the bank. It consists of short term borrowed fund from other banks and central bank. This types of resources are called inter bank borrowings which are normally obtained for a very short period and those are meant for meeting temporary liquidity position of the bank. This borrowings rate is directed by the Central bank of Nepal. In other resources also includes, payables in the account of the banks.

2.4.2 Deployment of Resources

Deployment of resources of the bank means utilization of the banks fund in such a way that it ensures liquidity as well as gives some earnings for meeting its operating expenses and optimum return on the shareholder's investment. Thus it is setting up of the best possible assets portfolio which meets above requirement in the best way. In fact the efficiency of a banker is reflected by this activity. Every bank strives to maximum its earning by employing its surplus cash by lending it to the prudent borrowers in a manner which in no way impairs its capacity to pay on demand the acquitted fund to their owners. Thus for banker, deployment of the available resources is a challenging job, because the liquidity and profitability are the opposing consideration to each other.

M.C Vaish in his book money banking trade and public finance's has rightly said "the secret of successful banking consists in allocating the resources between various forms of competing assets in such a way that a proper balance is stuck between the opposing consideration of liquidity and profitability. The sound balance will be achieved when the bank has sufficient(and no more than sufficient) cash in hand to meet every claim that is or likely to be made by its depositors on it and at the same time it earns enough income to pave its way and earns profit for its shareholders." (Vaish, 1996: 119).

Therefore, the deployment of resources or assets portfolio building of a bank should be guided by major two considerations viz. the liquidity and the profitability.

A) Resources for Liquidity

Liquidity means portfolio of such assets which are convertible in to cash with in very short period of time. As major portion of a bank's resources comprise customer deposit which are subject to repayable on demand. So banks maintain sufficient amount of liquid assets in the form of cash in their vault balance at their account of Central Bank and interbank. A major portion of a bank's resources constitute customer deposit which are subject to repayable on demand or after some time as the case may be, a banker cannot offered to neglect his cash position so as to be always capable to meet withdrawal of the deposit. Therefore bank keeps adequate amount of liquid asset in the form of cash in their vault and balance at their account in central bank (NRB). As said earlier, maintenance of excess liquid assets that required is detrimental to the profitability objective of the bank as the idle cash gives no return rather it involves the cost of carrying (insurance cost, guarantee cost etc.).

The central bank fixes the mandatory cash reserve ratio (CRR) from time to time current CRR fixed by NRB for commercial banks is as below:

- i) Balance to be maintained at NRB Account. At least 7% of current and saving deposits amount and 4.5% of fixed deposit amount.
- ii) Balance to be kept in Bank's vault. A least 3% of total deposit liability (NRB circular 2001/2002). (Nepal Rastra Bank, 2001).

B) Investment in Securities

Investment includes the fund invested for buying government and other stock exchange security, treasury bills, fund placement at call account with other bank etc. Such investments can easily be liquidated if required thus they also called liquid assets. Therefore, it is in second line in terms of liquidity from cash and balance at NRB.

C) Loans, Overdrafts and Discounts (LDO)

Granting the loan and advance is a major function of bank. Overall profitability of bank depends on interest margin. In fact the deposits are accepted for loan and advance. Loan and advances dominate the asset side of the balance sheet of any bank. The income

statement of bank occupy by interest. Hence, loan is known as risky assets. Risk of non repayment of loan is known as credit risk. Commercial banks generally lend for short term commercial purpose to finance the need of trade and commerce. As the fund available for lending with the banks, are mostly the fund mobilized from the depositors, a commercial bank should carefully consider the safety margin before granting the loan.

Banking business essentially involves lending in fact the deposits are accepted for lending or investment. This is the most profitable activity of a commercial bank. “Banks being a business proposition it must declare handsome dividends to its shareholders unless the profit outlook of a bank is bright, new funds will be difficult to obtain.” (Vaish, 1996: 201).

“Commercial banks generally tend for short-term commercial purpose to finance the need of trade and commerce. As the funds available for lending with the banks are mostly the fund mobilized from the depositors, a commercial bank should carefully consider the safety margin before granting the loan. The banker should be extra careful in selection the borrowers. Generally banks lending is guided by their lending policies. General, principal of a sound lending policy of a bank is as follows.” (Gulsham & Gulshan, 1994: 179).

Generally, banks make their advanced in the forms of loans, overdrafts, cash credits and bills discounting. In a loan discount the entire amount is disbursed to the borrower, which is repayable in installment or in lump sum and expiry of loans. Interest is charged on the entire loan disbursed to the borrower. The types of loan may be pledge loan, demand loan. Hire purchase, import finance (transit loans), export Finance (packing credit), loan against shares etc.

Overdrafts are granted in current account of a customer. It is the permission given to overdraw from an account up to a certain limit allowed to the person on revolving basis. Interest is charged on daily outstanding overdrawn amount only. Normally such facility is

given against the security of collectors, fixed deposit, government securities, shares, life insurance policies etc.

Cash credits are similar to overdraft in terms but it is provided to the borrower as working capital finance, normally to traders, industrialist, farmers etc. In cash credit facility unlike in loans, the borrower shall enjoy the flexibility of drawing the amount up to the sanctioned limit anytime they require fund during the validity of limit. As the interest is charged only to the actually utilized amount on daily basis, the borrower can repay instantly up on receipt of proceed in order to minimize their interest liability. Generally such facilities are availed against security of pledge or hypo the caption of stocks of trade commodities along with collaterals.

Discounting of bills by a bank actually is buying the bills of borrower, which are self-liquidating nature by means of endorsement on the documents. The title on the payment up on liquidity is transferred in favor of the bank that discounts it. Bills may be clean or documentary. If it is a clean negotiable cheques, drafts, bills of exchange payable at sight for after certain tenor, then it is called clean bill and if the instrument is accompanied with other trade documents (commercial invoices, transport documents etc.). It becomes the documentary bill. Bills discounting is short-term credit availed by the bank in which bank gives the value of the bill (called negotiation) deduction some amount (usually the interest unit the period of its possible realization) from the face value.

2.5 Role of Commercial Banks in the Development of the Economy

Commercial Banks play an important role in directing the affairs of the economy in various ways. The operations commercial Banks record the economy their transactions reflect the economic happening in the country. Commercial Bank has played a vital role in giving that direction in economic growth over the time by financing the requirements of industries and trade in the country. By encouraging think among the people, banks have fostered the process of capital formation in the country. In the context of deposit mobilization, commercial banks induce the savers to hold their savings in the form of

bank deposits thus help bringing the scattered resources in to the organized banking sector which can be allocated to the different economic activities. In this way they help in country's capital assets formation of income out of which further saving by the community and further growth potential emerges for the good of the economy. In a planned economy, banks make the entire planned productive process possible by providing funds to the public sector, Joint sector or private sector for any type of organization. All employment, income distribution and other objectives of the plan as far as possible subsumed into the production plan which banks finance.

Commercial banks has succeeded in becoming a heart of financial system as they hold deposits of government agencies, business firms, millions of people of the nation and make them available through their lending and investing activities to other government agencies, business firms, millions of people of the nation. Like many other developing countries including Nepal lack capital formation and proper mobilization of funds. This also stands the major problem in the economic development of a nation. Commercial banks grant long-term loans to industries, which result in the increase in the productivity capacity of an industry. The loans given to agriculture sectors enhance the agriculture production. Similarly the loans advanced to different people and corporate bodies help the increase their incomes and profits.

So, finally we can conclude that the future of the country is greatly determined by the active role played by the commercial banks. Similarly in the context of Nepal too, different commercial banks such as Rastriya Banijya Bank are supporting in the economic development of the country.

2.6 Profit Planning as a Concept

Profit planning and control is also called comprehensive budgeting, managerial budgeting and budgeting only. The word profit planning and control has recently introduced in the business literature. Most of profit oriented business concerns use profit planning and control as a managerial tools. "A profit planning & control program can be one of the

more effective communication networks in an enterprise. Communication for effective planning and control requires that both the executive and the subordinate have the same understanding of responsibilities ensure a degree of understanding not otherwise possible. Full and open reporting in performing reports that, focus on assigned responsibilities likewise enhance the degree of communication essential to sound management" (Welsch, Hilton & Gordon, 2001: 215).

"Profit planning is a predetermined detailed plan of action developed and distributed as guide to current operations and as a partial basis for the subsequent evaluation of performance. Thus is can say that profit planning is a tool which may be used by the management in planning the future course of actions and controlling the actual performance "(Gupta, 1992:3).

"Profit planning is a comprehensive and co-ordinate plan expressed in financial terms for the operations and resource of an enterprise for some specific period in the future". (Fremgen, 1973:12)

Profit plan 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 the establishment of a system of periodic performance reports detailed by assigned responsibility and follow up procedures (International Management Institution Geneva Conference 1980).

The role of profit planning and control is very important in profit oriented enterprises.

Roles of PPC are as follows:

- To provide definite goals and objectives that serve as benchmarks for evaluation performance of business.
- To provide information to management timely.
- To point out efficiency and inefficiency.
- To reduce cost and make profit more.

- It provides a valuable means of controlling income and expenditure of a business, as it is a 'plan for spending'.
- It reflects weakness in the organization very promptly.
- To fix responsibility center for manager.
- It provides a tool through which managerial policies and goals are periodically evaluated tested and established as guidelines for the entire organization.

"Profit plan is estimation and predetermination of revenues and expenses that estimated how much income will be generated and how it should be spent in order to meet investment and profit requirements. In the case of institutional operation it presents a plan for spending income in a manner that does not result in a loss." (Ninemeir and Schmidgall, 1984:125)

Profit plan stand for an overall plan of accomplishment, covers exact period of time and prepares the planning decision of the management. It can be viewed as one of the major important approaches that have been developed to make easy successful presentation of the organization procedure. Now a day's profit planning system is mainly common to business organization but the viability of it depends upon the size of the business. The common objectives of profit planning system whether applied to business administration are to make policy as well as with the execution of policy. And a purpose established after the deliberation of the feasible courses of events in the future. In conclusion profit planning is directed towards the final objectives of the enterprises and generally includes all of its important elements. It has main objectives of achieving the most favorable profit in the enterprises.

2.7 Components of Profit Planning and Control

2.7.1 Meaning and Concepts of Profit

Profit is a basic element of profit planning and control. There is no meaning of profit planning and control without profit. Every profit oriented business concerns involves to profit generating activities. "Oxford dictionary defines profit as financial gain or amount

of money gained in business especially the difference between the amounts earned and the amount spent.” Likewise, advantage or benefits gained from something is called profit. (Hornby & Cowie, 1992:63)

The successes and failure of business entity measure by profit earned by them in certain period of time. The major concern of stock holder is profit so organization always wants to maximization of profit. Performance of management of organization is measured by profit and loss. Survivability and sustainability of enterprises depends on profit.

2.7.2 Meaning and Concept of Planning & Control

Planning is the basic element of profit planning and control. Planning is going according to plan the primary purpose of planning are to reduce uncertainty about future profit, to incorporate management judgment and decisions in to the planning process, to provide necessary information for developing other elements of comprehensive profit plan and to facilitate management control of sales activities. “Operational planning is often referred to as short term budgeting and looks at resources, production etc for a financial period, usually a year. It provides a detailed plan of what the organization hopes will be achieved within the next financial year. Strategic planning often referred to as the long term plan and looks at where the organization is heading over a number of years, for example of five year plan would be a long term plan it presents the organization with an idea of the broad direction that it hopes o be heading in. The Strategic plan will incorporate the operational plans of the organization. The operational plan translating the strategic plan into achievable short term goals" (Lynch 2003:158).

"Planning is the process of developing enterprises objectives and selecting a future course of action to accomplish them. It includes developing premises about the environment in which they are to be accomplished". (Welsch, Hilton & Gordon, 2001:45).

Arrangement for doing or using something considered or worked out in advance is planning. "Planning is the feed forwards process to reduce uncertainty about the future.

The planning process is based on the conviction that management can plan its activities and condition the state of the enterprises that determine its destiny". (Pandey, 1991:325)

Planning is a quantified assessment of future condition about a particular subject based on one or more explicit assumption. The management of organization make plan and it may accept, modify or reject. Planning is the intellectual mental process. It is goal oriented primary function of management. It is goal oriented primary function of management.

"The major component of profit planning and control is controlling. The dictionary meaning of control is having a power to regulate something standard of comparison for checking the results of the experiment". (Hornby 1992:84)

Control is the process that measures current performance and guides it towards some pre determined goals control is the process of checking to determine whether or not plans are being adhered to whether or not proper progress is being made towards the objectives and goals and acting if necessary to correct deviations. Controlling can be defined as a process of measuring and evaluating actual performance of each organizational component of an enterprise and initiating corrective action when necessary to ensure efficient accomplishment of enterprise objectives, goals, policies and standards. Planning establishes the objectives, goals, policies and standards of an enterprises control is exercised by using personal evaluation periodic performance, reports and special reports. Comparison with standard and actual is called controlling. Controlling is a one of the important aspect of managerial function.

2.7.3 Long Term and Short Term Profit Planning

Strategic profit plan and tactical sales plan is known as long term short term profit planning. Strategic sales plan is prepared for 5 to 10 years. It is wide and universal in nature and developed by year and amount. The strategic profit plan is broad and it usually encompasses five or more years in the future. The tactical profit plan is detailed and

encompasses one year time horizon the upcoming year. “The development of strategic and tactical profit plans, each year is a process that involves managerial decisions and ideally a high level of management participation.” (Welsch, Hilton & Gordon, 2006:173). While preparing the strategic profit plan state of economy, political stability, population study etc are kept in considerations. Likewise, tactical profit plan is prepared for short period of time. By the time it is prepare for a month, quarter, half year and a year.

Long Term Profit Planning is closely concerns with the concept of the organization as a long live institution. It is most important for aboard and long living enterprises. Strategic 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 clear sense of direction and the practices which a comprehensive long range plan provides. The short term planning is limited time dimensions usually it covers one years time period. Short-term planning is used by management as a substantial part of the long-range plan.

2.7.4 Corporate Planning

Corporate planning means the systematic process of setting corporate objectives and making strategic decisions and developing the plans necessary to achieve these objectives. Corporate planning is one of the parts of profit plan. It was first started in the USA in 1950 and it is however being used in one form in another in many companies there. Long Term Planning is included in corporate planning. Corporate planning often is considered synonymous with long term planning. The main objectives of corporate planning are as follows:

- Achieving objectives
- Embodiment of goals and objectives in the enterprises.
- Formulating realistic and attainable objectives.
- Clarity and adequacy of goals and objectives.
- Communication of goals and objectives.
- Involvement of personnel in developing the goals of the enterprises.

2.7.5 Forecasting

The forecasting is to take future decision at present form, by the analysis of relevant faucets of past and present. Forecasting is not only imagination or guess matter it is related with certain assumption. Its main aim is to reduce uncertainty and risk in future and attain conformity to achieve desired goals or objectives as far as possible. It should be realized that budgeting is not merely forecasting although, forecasting is the form of budgeting. Forecasting is estimate of the future environment with in which the company will operate. Budgeting or planning on the other hand involves the determination of what should be done, how the goals may be reached and what individual units are to be assumed responsible and be held accountable. Budget provides orderly way to attain goals and also provides a time schedule for future action to produce measure result. When an estimate of future conditions is made on the systematic basis the process is referred to as forecasting. Its aim is tot reduce the areas of uncertainty that management decision making with respect to cost and capital investment.

2.7.6 Planning Verses Forecasting

Planning is clearly district from forecasting, Forecasting one of the essential elements of planning is a predication of what will happen on the basis of certain assumption Planning is an attempt to determine what should happen and what will make it likely to happen. A forecast is not a plan, rather it is a statement of and or quantified assessment of future condition about a particular subject (sales revenue) based on one of mere explicit assumption. A forecast should be viewed as only one input into the development of a sales plan. “The management of a company may accept modify or eject the forecast, In contrast a sales plan incorporates management decision that are based on the forecast, other inputs and management judgment about such related items based on the forecast, other inputs and management judgment about related items as sales volume, price, production and sales, effort and financing.” (Welsch, 2001:109)

2.8 Budgeting and Budget

Budgeting is a forward planning and involves the preparation in advance of the quantitative as well as financial statement to indicate the intention of the management in

respect of the various aspects of the business. A budget is a comprehensive and co-ordinated plan expressed in financial term for the operation and source of an enterprise for some specific period in the future.

As regards to the term 'Budget' it can be visualized as the end result of the budgeting. If Budgeting is the procedure for preparing plan in respect of future financial requirements, the plan when presented in written form is called budget. Budgeting in facts is a managerial technique and a business budget is such a written plan in which all aspects of business operations with respect to a definite future period are included. It is a formal statement of policy, plan objectives and goals established by the top level management in respect of some future period.

A budget is a forest, in detail of the results of an officially recognized programmed of operating efficiency. Budget is defined as a comprehensive and co-ordinates plan expressed in financial terms for the operations and resources of an enterprises for some specified period in the future. According to his definition the essential elements of budget are:

- Plan
- Operations and Resources
- Financial Terms
- Specified future period
- Comprehensiveness
- Co-operation

Therefore, we can say that budget is a tool, which may be used by the management in planning the Future Course of action and in controlling the actual performance.

2.8.1 Budgeting: As a Device of Profit Planning

Budgeting is a forward planning. It serves basically as a device (tool) for management, control; it is rather pivot of any effective scheme of control. G.A Welsh in his book "budgeting PPC" has rightly printed out that Budgeting is the principal tool of planning and control offered to management by accounting functions.

John G. Glover and Coleman L. Maza have expressed a similar a view, in their opinion the prime objective of budgeting is to assist in systematic planning and in controlling the operations of the enterprises. In fact budgeting is best sources of communication and an important tool in the hands of management. Since, budgeting deals with fundamental policies and objectives it is prepared by top management. A formal budget by itself will not ensure that a firm's operations will be automatically geared to the achievement of the goals set in the budget. For this to happen, the top-level managers and lower level employees have to understand the goals and support them and co-ordinate their efforts to attain them. Budgeting is a device of a planning and controls that serve as a guide to conduct operation and a bank's for evaluating actual results. Actual results can be judged being satisfactory or unsatisfactory in the light of the relevant budget data also in the light of changes in conditions. Company controls operating through its budgeting and responsibility reporting system. Top executives are able to control every area of the organization through a system of budgetary and control reporting by responsibility area. Budgets are an important tool of profit planning. The main objectives of budgeting are:

- Explicit statement of expectations
- Communication
- Co-ordination
- Expectations as a framework for judging performance.

2.8.2 Essentials of an Effective Budgeting

An effective budgeting system should have some essential feature to ensure best results.

The following are the chief characteristics of an effective budgeting:

a) Sound Forecasting

Forecasts are the foundations of budgets are discussed by the executives and when most profitable combinations of forecasts are selected they becomes budgets. The sounder are the forecasts better result would come out of the budgeting system.

b) An Adequate and planned Accounting System

There should be proper flow of accurate and timely information in the enterprises which is, must for the preparation of budgets. This can be ensured only by having an adequate and planned accounting system in the firm.

c) Efficient Organization with definite Lines of Responsibility.

An efficient adequate and best organization is imperative for budget preparation and its operation. Thus a budgeting system should always be supported by a sound organization structure demarcation clearly the lines of Authority and responsibility. Not only this, there should be a true delegation of authority from top to low levels of management. This will provide adequate opportunity to all executives to make decisions and also to participate in the function of budget preparation. Thus, an efficient organization helps not only in budget co-ordination but it also plays important role in budget co-ordination and operation.

d) Formation of Budget Committee

As mentioned earlier, budget committee receives the forecasts and targets of each department as well as periodic reports and finalizes. And also approves the departmental budgets. Thus in order to make a budgeting system more and more effective, a budget committee should always be set up.

e) Clearly Defined Business Policies:

Every budget reflects the business policies formulated by the top management. In other words budgets should always prepare taking in to account the policies set for particular department or functions. But for this purpose, policies should be precise and clearly deigned as well as free from any ambiguity.

f) Availability of Statistical Information

Since budgets are always prepared and expressed in quantitative terms. It is necessary that sufficient and accurate relevant that should be made available to each department. Such data may not be available from accounting system alone and therefore they may be

processed through statistical technique. These data should be as far as possible, reliable accurate and adequate.

g) Support of Top Management

If a budget program is to be made successful, the sympathy of each member of the management team, it should start preferably from top level (chairman). The enthusiasm for budget operation as well as direction for it should initiate and come from top.

h) Good Reporting System

An effective budgeting system also requires the presence of a proper feedback system. As work proceeds in the budget period, actual performance should not only be recorded but it should also be compared with budgets performance. The variations should be reported promptly and clearly to the appropriate levels of management

i) Motivational Approach

All the employee or staff other than executives should be strongly a properly motivate towards budgeting system, Ina organization it is needed to make each staff member feel to much involved in the budgeting system. To meet this end motivational approach towards budgeting should be followed.

2.9 Fundamental Concept of Profit Planning

The concept of budgeting was originally established with function of an accountant. But in the modern day budgeting is given much more importance and is regarded as a way of management and in more important sense is regarded as basic technique of decision making and is given the name ' profit planning and control program'. The basic concepts of PPC include the various activities that should be followed to attain maximum usefulness form profit planning and control. These activities are mentioned below:

a. Managerial Involvement and Commitment

Managerial involvement entails managerial support, confidence, participation and performance orientation. Top level of management should understand the nature and

characteristics of PPC, Be convinced that particular approach to manage is preferable for their situation support the program in all its planning process as performance commitments.

b. Responsibility Accounting

A sound profit planning and control system must consist of responsibility accounting. Within the primary accounting structure secondary classification of costs, revenues, and other financial data that are relevant may be utilized in accordance with the needs of the enterprise.

c. Organizational Adaptation

A successful PPC program must test on sound organizational structure, for the enterprises and clear cut designation of lines of authorities and responsibilities of all the department of enterprises. The purpose of organizational structure and the assignment of authority is to establish a framework within which enterprise objectives may be attained in a coordinate and effective way on a continuing basis. The manager of each subunit would be assigned specific authority and responsibility for the operational activities of that subunit. These subunits are often referred to as decision centers or responsibility control responsibility is further classified by cost center, profit center, investment center.

d. Full Communication

Communication is transferring information from one to another. Communication can be defined as interchange of thought or information to bring about a mutual understanding between two or more parties. For profit planning and control, effective communication means development of well defined objective, specification of goals, development of profit plan and reporting and follows up activities related to performance evaluation for each responsibility center.

e. Flexible Application

This stress that a PPC program must not dominate the business and the flexibility in applying the plan must be forthright management policy. So that strait Jackets are not

imposed and all favorable opportunities are seized even though they are not covered by the budget rigidity in practicability will be the harmful boundary in an association in an occasion of the enterprise. So, such boundary should be avoided which mean there should be flexibility in PPC so that the unseen golden opportunity should be grasped in future for the betterment of the organization.

f. Realistic Expectation

Profit Planning and Control must be based on realistic approach or estimation. Management must be realistic assumption and must not take either irrational optimism or unnecessary conservatism so for PPC purpose a realistic approach reared with time dimension and external and internal environment that will prevail during the time span should be considered. This is called realistic expectation.

g. Timeless

Time is going on it can't be stop whether an individual or organization busy or idle. 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. Phasing of the planning is of two types one is timing planning horizons and another is timing of planning activities.

h. Individual and Group Recognition

Behavioral aspects of human being are for the field of the study of the psychologist, educators and businessman, and finding was that there can be so many unknown misconception and speculations which has to be considered for an efficient management. A good and dynamic leadership can resolve this problem by integrating all the group efforts for betterment of the organization the fact also has been well considered under profit planning and control approach and focuses have been given to resolve the behavioral problems.

i. Zero-Based Budgeting

The budgeting which is always starting from Zero is called zero base budgeting. "Begin with where you are establish a business as usual budget for next year the same way and the same things you would do if you weren't concerned about constraint a total justification" (Welsch, Hilton & Gordon 2006:43).

j. Follow Up

The important of follow up action on profit planning and control approach is more. A careful study's needed to correct the action of substandard performance in a constructive manner, to recognize and transfer the knowledge of outstanding performance to others and based on the study and evaluation to provide a sound basis for future profit planning and control program.

2.10 Profit Planning and Control Process

A PPC program includes more than the traditional idea of a periodic or master budget rather it encompasses the application of a number of related management concept through a variety of approaches techniques and sequential steps. These steps are out lined in this study in the following manner:

- a. Identification and evaluation of external variables.
- b. Development of the broad objectives of the enterprise.
- c. Development of specific goals for the enterprise.
- d. Development and evaluation of company strangely.
- e. Executive management planning instruction.
- f. Preparation and evaluation of project plans.
- g. Development of strategies and tactical profit plan.
- h. Implementation of profit plans.
- i. Use of periodic performance reports.
- j. Follow up.

2.11 Merits and Demerits of Profit Planning and Control

Profit planning and control has both merits and demerits even though merits are dominant one. Merits of profit planning and control listed below:

- a. Profit planning and control brings organizational policy in to action.
- b. Organizational structure will be sound and effective by the means of PPC.
- c. Historical statistical and accounting data is used by PPC.
- d. It compels management to plan for the most economical use of labor material a capital.
- e. Efficiency and inefficiency can be measured by PPC.
- f. Management attention can be drawn by PPC for the general business condition.
- g. It reduced cost by increasing the span of control because fewer supervisors are needed.
- h. PPC creates understanding between management and their co-workers.
- i. PPC reduce the uncertainty and gives guidelines to achieve organizational goal.
- j. It provides to all level of management the habit of timely, careful, and adequate consideration of the relevant factors before receiving important decisions.

Profit planning and control model can't be assumed that it is free from problem. Some of its demerits listed below:

- a. Preparing profit plan is a difficult task.
- b. Some of traditional types manager don't like to prepare profit plan.
- c. It is not realistic to whiteout and distributes goals, policies and guidelines to all the supervisors.
- d. It takes away management flexibility.
- e. It creates all kinds of behavioral problems.
- f. It adds a level of complexity that is not needed.
- g. The manager's supervisors and other employees do not like the budget.

2.12 Basic Assumptions and Limitations of Profit Plan

Profit planning systems are more common in business organization and non business organization. But there are so many assumptions of using profit-planning process. Firstly, the basic plans of the business must be measured in terms of money, if there is to be any assurance that money will be available for the business must for the needs of the business. Secondly, it is possible to plan for the future of a business in a comprehensive way, coordinating every aspects of the business with every other aspect to establish optimum profit goals. Thirdly, profit planning is preplanning not merely what to do if thing workout as forecasted, but also what to do if things workout differently from the forecast. In developing and using a profit plan and control (PPC) program, the following limitations should be kept in mind:

- a. The profit plan is based on estimates.
- b. A PPC program must be continually adapted to fit changing circumstances.
- c. Execution of a profit plan will not occur automatically, the profit plan is not a substitute for management.

The profit plan should be required not as a master but as a servant. It is one of the best tools yet devised for advancing the affairs of a company and the individuals in their various spheres of managerial activity. It is not assumed that any profit plan is perfect. The most important, consideration is to make sure, by intelligent use of profit plans that all possible attainable benefits are derived from the plans as rendered and to re-plan there are compelling business reasons.

2.13 Profit Planning in Commercial Banks

Profit planning in manufacturing sector is common it has been started in organization like banking sector too. Development of profit plan in banking sector begins with the preparation of various functional budgets. A bank prepares budget for deposit collection, lending expenditure, income, investment , non fund base business etc. these budget are taken as functional budgets despite this budget now a days bank also prepare for future plan this is called profit plan.

2.14 Development of Profit Plan

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

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

2.14.1 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 deposit. Therefore, the plan for resources mobilization has a primary focus on the customer deposit mobilization. The lending and investment activities are depended on the deposit mobilized by the bank 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.

- i. Interest free deposits i.e. current deposits, margin deposits etc. and
- ii. 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 deposits involve 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 term and longer term deposits are to be maintained by the bank in its deposit mix in order to minimize its average cost of deposit. At the same time having comfortable mix of income yielding assets the cost of deposit of banks is also affected by the prevailing deposit interest rate of other banks in the market.

Budgeted largest for deposit mobilization during a particular year is set in advance with the view of optimizing the cost of deposit and the same are allocated to the different branches of the banks. Such allocations may be regarded as the tactical plan for deposit mobilization for the banks.

Banks resources other than customer's deposits 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 which draws 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.

2.14.2 Resources Deployment Plan or Budget

The planning for deployment of resources starts from assessment of nature of resources to be mobilized. That is the assets which are allocated on the basis of the nature is called asset allocation approach as M.C Vaish writes in his book money banking trade and public finance. The fundamental criteria which must be followed in allocating fund for acquiring different types of assets. That is turnover rate of different sources of supply of fund. Determines the appropriate maturity of the assets acquired through fund utilization, for instance while relatively stable fund like saving deposits, fixed deposits and paid up capital. Could be to buy long deal 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 on 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 the 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 control bank from time to time. 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 treasury bills etc. which provides reasonable liquidity to the bank 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 (LDO). As the most part of the resources are for LDO, banks make its lending budgets in advance as per their lending policies. Lending targets are fixed at various borrowers ensuring well diversification of the assets. The targets are allocated to the branches, which are generally operated as separate profit center.

2.14.3 Planning for Non-Funded Business Activities

The other activities of commercial 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 and bank guarantee issuance business of the bank where the bank undertakes payment liabilities which are contingent in nature and the banks charge certain percentage of commission on such transaction to their client who are availing these facilities from bank. The bank fixes annual target for such business and those are allocated to the branches of the bank.

2.14.4 Planning for Expenditure

Income can't imagine without expenditure so expenditure should be planned in proper way. The expenses planning and controlling are very essential for supporting the objectives and planned programs of the business concerns. The income after deducting all of expenditure is called profit so in the process of profit planning the expenditure planning plays the vital role. A bank always tries to control their expenses by preparing periodical budget. Expenditure minimization means that the profit maximization so the expenses must be planned carefully for developing a profit plan. In a bank there are generally following expenses:

- a. Administrative expenses.
- b. Interest expenses.
- c. Operating expenses.
- d. Loan loss provisions.
- e. Bad debts.
- f. Non-operative expenses.
- g. Expenses by the exchange fluctuation etc.

Interest expenses in direct expenses for the financial institution. It is paid in to customer interest bearing deposit as per the bank's rules or agreed rate between bank and customer. Payment of interest is capitalized in same account of customer after deducting government tax prevailing rate of tax is 5 % for persons and 15% for corporate. The expenditure side of bank's income statement is covered by interest by the large amount than other expenses so interest expenses are major and direct expenses. In the total income after deducting the interest expenses rest amount called contribution margin.

Other expenses are administrative expenses those are generally incurred by the bank during the course of its day to day operation. Other expenses depend of the volume of the transaction. Higher the volume of transacting higher will be operating expenses.

2.14.5 Planning for Revenue

The major expenditure of banks is interest and also major head of income is also interest. The main income source of bank or financial institution is interest margin. A bank lends their fund by taking some margin. The sources of income for bank is not only the interest other non funded sources are also can generate income whereas interest is dominant one. The major sources of revenue for a bank are listed below:

- a. Interest income.
- b. Dividend income.
- c. Commission and Discount.
- d. Miscellaneous income.
- e. Foreign exchange income.
- f. Remittance income.
- g. Other non funded incomes.

Income of a bank is basically activity based it depends of the volume of business. Higher the income generating activities of bank, higher will be the amount of its revenues. Therefore the bank develops its plans for various activities in such a way that it maximizes its income.

2.15 Implementation of the Profit Plan

The final test of whether the efforts and cost in developing a profit plan are worthwhile is its usefulness to management. The plan should be developed with the conviction that the enterprises are going to meet or exceed all major objectives. Participation enhances communication. If this principal is to be effective, the various executives and supervisors should have a clear understanding of their responsibilities. The copies of the complete profit plan be prepared and distributed to the member of executive management. The

guiding principle in establishing the distribution policy might be to provide one copy to each member of the management team according to his/her overall responsibilities while taking in to an account the problem of security. After distribution of the profit plan a series of profit plan conferences should be held. The top executives discuss comprehensively the plan expectations and steps in implementation. As this top level meeting the importance of action flexibility and contributes control may well be emphasized. In essence, each manager has to realize that the budget is a tool for his or her use conferences should be held so as to convey the profit plan to each level of management.

The manager of each responsibility center obtains an approved profit plan for his center and it becomes the basis for current operations and excerpts considerable coordinating and controlling effects.

Performance must be measured and reported to management. Execution of the plan is assured through control procedure must be established so that accomplishment or failure is immediately known on this basis action can be taken to correct or minimize and undesirable effects. Short term performance reporting is essential. "A budgeted programs viewed and administrated in a sophisticated way does not hamper or restrict management instead it provide definite goals around which day to day and mouth to mouth decisions are made. Flexibility in the use and application of both the profit plan and variable budgets also should be considered in detail. Flexibility in budget application is essential and it increases the probabilities of achieving or bettering the objectives." (Welsh, 1999)

2.16 Performance Report

Performance reporting is an important part of a comprehensive PPC system. Its phase of a comprehensive PPC program significantly influences the extent to which the organization's planned goals of objectives are attained. Performance reports deal with control aspect of PPC. The control function of management defined as "The action necessary to assure the objectives, plan, policies and standards are being attended."

Performance reports are one of the vital tools of management to exercise its control function effectively.

Special external reports, reports to owner and internal reports are specially presented in the organization. Performance reports include in internal reports groups. It is usually prepared on a monthly basis and follows a standardized format. Such reports are designed to facilitate internal control by management. Fundamentally, actual results of report are compared with goals and budget plans. Frequently they identify problems that require special attention since these reports are prepared to pinpoint both efficient and inefficient performance.

2.16.1 Features of Performance Reports

In comprehensive PPC, Performance report is very important. The main objective of performance reports is the communication of performance measurements actual results and the related variables. Performance reports offer management essential insights in to all the facts of operational efficiencies. Performance reports should be:

- i. Tailored to the organizational structure and focus of controllability (i.e. by responsibility centers)
- ii. Designed to implements the management by exception principal.
- iii. Repetitive and related to short term period.
- iv. Adapted to the requirements of the primary users.
- v. Simple understands & reports only essential information.
- vi. Accurate and designed to pinpoint significant distinctions.
- vii. Prepared and presently promptly.
- viii. Constructive in tone.

2.17 Review of Previous Thesis

Profit planning and Control played the vital role in overall profitability management which provides the guideline for the achievement of organizational goals and objectives. Various studied has been conducted for the behaviour of Profit planning. Regarding this

various empirical studies have been conducting related area of profit planning. There are many researchers carried out by different research in this topic. The profit planning in the context of particularly commercial banks seems to be a new subject of study for research and analysis. So far this researcher could found some studies that have been made in this topic. Here are reviewed thesis some are manufacturing sector and some are related with financial sector which can help us to understand about their objectives, used statistical tools and major findings about this topic.

Maharjan (2009) is conducted a research entitled “*Profit Planning in Commercial Banks: A Case Study of Standard Chartered Bank Limited*” For this purpose of the study he used the data the major concern of Mrs. Maharjan is to study the profit planning in commercial bank by taking a case study of SCBL. His objectives and some of major findings are as follows:

Objectives:

- To highlight the current profit planning premises adopted and it's effectiveness in SCBNL Bank.
- To analyze the variance of budgeted and actual achievements.
- To study the growth of the business of the bank over the period.
- To provide suggestion and recommendation for improvements of the overall profitability of the bank.

Major Findings:

- Bank is awarded by ' Bank of the year 2002 Nepal'
- Bank management policy is very strong.
- It keeps minimum number of employees and highly qualified for maintain the job.
- The bank always adopt new technology
- The Bank is provides ATM and 365 days of services for customers.
- The Bank provides funds for NGOs and Scholarship for the schools.
- The Bank is adopting new Accounting Policy prescribed by NRB.
- Customer deposit collection is the main resources mobilization of the bank.

- *Loan, Allowance and Bill purchasing* hold the highest outlet of resources deployment
- There is no significant relationship between budgeted and actual LABP.
- Bank's actual deposit is more variable than actual outstanding LABP. Hence, the coefficient of variation of actual deposit is highest than actual outstanding liability LABP.
- LABP holds highest outlet resources deployment among the various portfolios.
- Actual LABP are increasing trend.

Thapa (2004) has conducted a research work on the topic of “*A study on profit Planning and control of Nepal SBI Bank limited*” his objectives and major finding are as follows:

Objectives:

- To identify the profit planning process and adopted by Nepal SBI bank limited.
- To sketch the trend of profit and loss.
- To evaluate the variance between target and actual performance.
- To recommend the steps to be taken to improve the profit planning process.

Findings:

- Nepal SBI does not prepare long term strategic profit plan. It only prepares short term profit plan which is usually referred as budget time period of this budget covers one fiscal year.
- The budget is not based on past performance but on targeted growth, which is very optimistic in both the budgeted year.
- Nepal SBI has not made any in depth analysis of its strength and weakness.
- Its mission and objectives have not clearly defined and delegated to the lower levels.
- The bank has not been able to maintain a minimum level of co-ordination between the departments and staff.
- The profit budget is extremely ambiguous. It is not based on scientific method or past trend analysis but based on a specific target put forward by the governing board.

- The bank is facing competition from increasing number of financial institutions in these years.
- These had led to substantial decrease in interest rates in the market thus attributing to lower yield.
- Budgets are prepared just to fulfill the formalities but these are not used effectively from the profit planning process.

Kunwar (2009) conducted a study entitled “*Profit Planning in Commercial Bank: with a case study of NABIL Bank*”. His major objective and finding are:

Objectives:

- To identify the efficiency of planning of NABILB bank LTD.
- To determine the profitability of NABIL bank LTD.
- To examine the fund mobilizing and lending policy.
- To study the impact of now management techniques in making profit.

Findings:

- NABIL bank lacks active and organized planning department to undertake innovative products research and development works.
- Objective of the banks are expressed in literary form, and not specified clearly, therefore, there is a danger if it being misinterpreted in the ways of one’s benefit by the concerned.
- Major concentration of resources mobilization of NABIL bank is at deposit mobilization.
- In this respect they are incurring higher cost toward deposit mobilization.
- Banks resource deployment for non-yielding liquid assets (cash and bank balance) is increasing every year, which is determined to profitability objectives, but it is supportive to meeting liquidity requirement of the bank.
- Interest expenses amount of the bank is the highest amount other income items in the total revenue.
- Outstanding letter of credit liability of bank is increasing every year however the growth is not consistent.

- Interest income amount of the bank is the highest among other income items in the total revenue.
- The average current ratio of the bank has found to be always higher than standard ratio 2:1, which shows satisfactory liquidity position of the bank.

Kharel (2008) has conducted a research on “*Profit Planning of Commercial Banks in Nepal: A comparative study of Everest Bank limited, Nabil Bank limited, and Bank of Kathmandu Limited*” his objectives and major findings are as follows:

Objectives:

- To find out the relationship between total investment, loan and advances, deposit, net profit and outside assets.
- To identify the investment priority sectors of Commercial Banks.
- To assess the impact of investment on profitability.
- To analyze and forecast the trend and structure of deposit utilization and its projection for five years of commercial banks.

Major Findings:

- The liquidity position of EBL is comparatively better than that of Nabil and Bok.
- In spite of the current ratio is average among the other two banks EBL has maintained the cash and bank balance to meet the customers demand.
- EBL has invested highest sectors like government securities than BOK and lesser portion than that of Nabil.
- From the analysis of assets management ratio it can be found that EBL is in better position as compared to that of Nabil and Bok.
- EBL has invested the highest portion of total working fund on government securities as compared to Nabil and BOK.
- Due to more efficient loan policy, Nabil suffers less from loan loss provision.
- BOK has higher investment on shares and debentures to total working fund ratio.

- The interest earned to total outside assets and return on total working fund ratio of EBL is lowest of all.

Regmi (2008) in his dissertation “*Credit Management of NABIL Bank Limited*” highlighted that aggregate performance and condition of Nabil bank. The main objectives & the major findings are as follow.

Objectives:

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

Major findings:

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

continuously decreasing this indicates that bank increasing performance. Thus, credit management is in a good position.

2.18 Research Gap

Today's world is marketed by rapid changes and new developments, as such researchers conducted a few years back may not be adequate to explain current phenomena. Thus continuous attempt needs to be taken and new researcher and conducted to build our existing knowledge base, interpret and analyze events in the face of dynamism. Most of the past research studies about profit planning system are basically related to the profit planning system of manufacturing organization or production oriented activities. The researcher could find some study so far that has been related to profit planning system of commercial bank in Rastriya Banijya Bank, Nepal Investment Bank, Standard Chartered Bank, Nabil Bank This study may be a new study in this field as no study has been made profit planning of NBBL. In the past financial institution were depends only the interest margin in present economic dynamism only the interest margin is not sufficient to improve profitability so this researcher has tried to analyzed the extra ordinary items of income generation in financial institution. To find the new developments and to bridge the gap between the past research and the present situation, I set out to conduct the research in this stimulating topic. I have been through many literature reviews and given my best to fulfill this work. . In my research effort had been made to understand the Profit Planning and control in commercial bank and I hope this research will be fruitful for future researchers as reference.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

Research is a systematic and organized effort to investigate a specific problem that needs a solution. This process of investigation involves a series of well thought out activities of gathering, recording, analyzing and interpreting the data with the purpose of finding answers to the problem. Thus, the entire process by which we attempt to solve problems or search the answers to questions is called research. “Research Methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it, we study the various steps that are generally adopted by a researcher, studying his research problem along with the logic behind them.” (Kothari, 1990:13). In other words, research methodology describes methods and processes applied in the entire part of the study. One of the major objectives of this study is to analyze, examine, highlight and interpret the financial as well as statistical tools to analyze the data in order to reach a conclusion. Therefore, appropriate research methodology is required.

This chapter deals with the research design, nature and sources of data, data collection procedure and tools and technique of analysis. The study follows the research methodology as described below.

3.2 Research Design

A research design is the arrangement of conditions for collection and analysis of data that aims to combine relevance to the research purpose with economy in procedure. Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variances. Research design includes definite procedures and technique which guide to sufficient way for analyzing and evaluating the study. To achieve the objective of this study, descriptive and analytical research design

has been used. Some financial and statistical tool has also been applied to examine facts and descriptive techniques have been adopted to evaluate the Profit Planning of Nepal. Both the primary and secondary data have been used in order to achieve the above objective.

3.3 Sources of Data

Secondary sources of data have been used exclusively for the purpose of this study, viz. the annual reports published by these banks at the end of each fiscal year. Similarly, articles, journals related to the financial performance study, previous research reports etc. were also taken into account while collecting information. Bulletins and reports published periodically by various government bodies have also been helpful in undertaking this research study.

3.4 Population and Sample

As this report aims at studying the profit planning aspect of a commercial Bank taking the case study of a Bank i.e. Nepal Bangladesh Bank and data have been analyzed for its operation. The population and sample term is not relevant for this study.

3.5 Data Collection Procedure

As the study is analytical-cum-descriptive in nature, research is based on the historical data of the banks available in the annual reports of the bank. The annual reports were collected from the respective bank i.e. Nepal Bangladesh Bank as well as the internet (www.nbbl.com.np). Books, periodicals, journals, articles on the related subject were extensively reviewed in the library. Quotations from various authors on the related topic have been placed throughout the chapters.

3.6 Research Variables

Loans/advances, overdrafts and Bills Discounted (LDO), customer deposits, total resource, total deployment, outstanding balance of Letter of Credit and Bank Guarantees, Interest Expenses, Interest Income, other income etc. Standard Chartered Bank are the research variable.

3.7 Methods of Data Analysis

Data analysis consists of organizing, tabulation and performing statistical analysis. Data analysis is done in order to change the unprocessed data into understandable and presentable form. For secondary data the results have been derived by using the data for the period starting from fiscal year 2061/062 to 2065/066. In case of primary data various statistical, accounting, Mathematical and financial tools have been used for classification, tabulation and analysis of the data.

3.8 Tools and Techniques Employed

This study is confined to examine the profit planning of NB Bank, Therefore the data have been collected accordingly and 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 presented data, which includes ratio analysis, percentage, regression analysis, Test of goodness of fit of the regression estimates (r^2), correlation, mean, standard deviation, coefficient of variance etc.

3.8.1. Financial Tools

Following financial tools have been used to analyze the data in this study:

- Ratio analysis: By ratio analysis we study the arithmetical relation ship of two data, in this study, we have applied liquidity Ratio, Capital Structure Ratio, Activity Ratio and Profitability Ratio of the Bank.

3.8.2 Statistical and Mathematical Tools

To draw the conclusion by analyzing the collected data simple statistical tool like arithmetic mean, multiple bar diagram, are used and tabulation are used to implicit the comparative results. We have analyzed the data presented in this study by applying following statistical and mathematical tools:

a) Percentage Increment.

Percentage is one of the most useful tools for the comparison of two quantities or variables. Simply, the word percentage means per hundred. In other words, the fraction with 100 as its denominator is known as a percentage and the numerator of this fraction is known as rate of percent.

b) Mean.

The central values that represent the characteristics of the whole distribution or the values around which all items of the distribution tend to concentrate are called average. Arithmetic mean or arithmetic average is one of the important statistical measures of average. The arithmetic mean of a given set of observation is their sum divided by the number of observations. Arithmetic mean is calculated by the following formula:

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

c) Standard Deviation ()

The standard deviation is the absolute measure of dispersion. It is defined as the positive square root of the mean of the square of the deviation taken from the arithmetic mean. The greater the amount of dispersion or variability, the greater the standard deviation, the greater will be the magnitude of the deviation of the values from their mean. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series and a large standard deviation means just the opposite. Standard deviation can be calculated as,

$$\text{S.D. } \sigma_x = \sqrt{\frac{\sum x^2}{n}}$$

d) Coefficient of variance. (C.V)

The relative measure of dispersion based on the standard deviation is known as the coefficient of variation. It is independent of unit. So, two distributions can be compared with the help of C.V. for their variability. Less the C.V., more will be the uniformity, consistency, stable and homogeneous etc. and vice versa. It can be calculated by help of following formula,

$$C.V._x = \frac{\sigma_x}{\bar{x}}$$

e) Correlation coefficient. (R)

Correlation analysis is the statistical tools use to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the direction of relationship between the two sets of figures. It is the square root of the coefficient of determination. Correlation can either be negative or positive. It always lies between +1 to -1. The degree of association between the two variables, say X and Y, and is defined by correlation coefficient (R)

$$R = \frac{n\sum xy - \sum x \cdot \sum y}{\sqrt{n\sum x^2 - (\sum x)^2} \times \sqrt{n\sum y^2 - (\sum y)^2}}$$

f) Probable error. (PE)

The reliability of co-efficient of correlation helps in interpreting its value with the help of probable error. It is possible to determine the reliability of the value of co-efficient. We can calculate P.E by the following formula:

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

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

This chapter is devoted to the presentation, analysis, interpretation and scoring the empirical finding out of the study through definite course of research methodology. To achieve the stated objective of the study researcher has tabulated the available data in different figure, table and analyzed using the tools where necessary and applicable stated in the research methodology.

4.1 Resource Mobilization Planning

The Strategic Profit Plan of NB Bank is reflected in its Business budget that shows the resource mobilization plan of NB Bank Here, the term resources have been used for the fund required by the bank for its activities. Bank mobilizes its resources from the following sources: Deposit collection, Loan and Borrowing from other Banks and Shareholders equity capital fund.

Among the above three sources, the Deposits collection is the major source of resource mobilization which is in fact, one of the most important activities of every commercial Bank. Loans and Borrowings are obtained from local Banks, Foreign Banks, Central Bank and financial institutions generally for a short period of time. The Capital Fund is raised from shareholder's equity. It reflects the net-worth of the Bank. Commercial Banks Capital Fund has been divided into two categories viz. Core capital and Supplementary Capital.

The following table shows the resource mobilized by the bank over the period of study:

Table 4.1
Status of Resources Mobilization of NBBL

(Amount in Rs.'000)

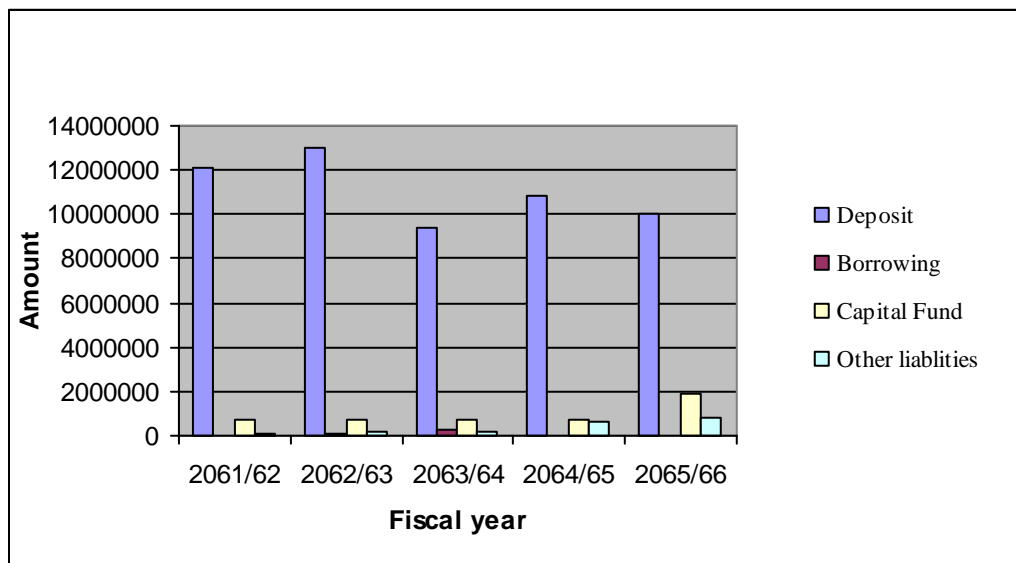
F/Y	Deposit		Borrowing		Capital Fund		Other Liabilities		Total
	Amount	%	Amount	%	Amount	%	Amount	%	
2061/62	12125578	93.8	-	-	719852	5.6	77535	0.6	12922965
2062/63	13015136	93.3	71000	0.5	719852	5.2	140268	1	13946256
2063/64	9385950	89.2	230000	2.2	719852	6.8	191720	1.8	10527522
2064/65	10883653	88.5	30000	0.2	744126	6.1	637509	5.2	12295288
2065/66	9997697	49.5	-	-	1860315	9.2	833857	4.1	20191869

(Sources: NBBL, Annual Reports,)

The above table shows the status of total resources of NB Bank. The resources are collected from customer deposit, shareholder fund, other liabilities and borrowing. The major source of resource collection is customer deposit since it has higher figure in the above table. The average portion of deposits, borrowings, capital fund and other liability to total resource mobilization for five years is 82.86%, 0.58%, 6.58% and 2.54% respectively. During the year 2062/63 and 2063/64 deposit decreased so other resource has been increased as borrowing increased in this period. Capital fund seems to be fluctuating, in this situation bank should have issued the share. In 2065/66 borrowing is nil, with decreased % of other liability these may be due to efficiency of management of bank so more customers managed to deposit. The data of table are presenting in bar diagram for the analysis purpose.

Figure 4.1

Bar diagram Showing Status of Resources mobilization of NBBL



From the above table & bar diagram it is clear that the customer deposit collection contributes the major share in resource mobilization. During the year 2062/63 the deposit amount will be increased as other resources has also increased except the amount of shareholders. And in the fiscal year 2065/66 the deposit amount would be decreasing, borrowing is nil as well as capital fund & other liabilities will be increase. Therefore the total sources of resource mobilization contribute in two parts i.e.

- Customer deposit collection.
- Other resources than customer deposit.

4.2 Customer Deposit Collection

Customer deposit is the most important source of resource mobilization of the bank. The contribution of customers deposit to total resources is high. Deposits are collected from different sectors that are individual and corporate customer. These deposits are collected as per the banks rules. Some deposit are interest bearing and some are interest free. The bank has categorized the deposit into two types:

- 1) Interest Bearing Account.
 - a) Saving Account.
 - b) Call Deposit Account.
 - c) Fixed Deposit Account.
- 2) Interest Free Account.
 - a) Current Deposit Account.
 - b) Margin Deposit Account.
 - c) Other Deposit Account.

4.2.1 Deposit Collection Budget of NBBL

NB Bank prepares the plan for the deposit collection budget which has been find out following the time series approach was adopted to ascertain the budget figure for deposit collection from F/Y 2061/62 to F/Y 2065/66. The budgeted and actual deposit collection of NB Bank has presented in the table below:

Table 4.2
Status of Budgeted and Actual Deposit Collection

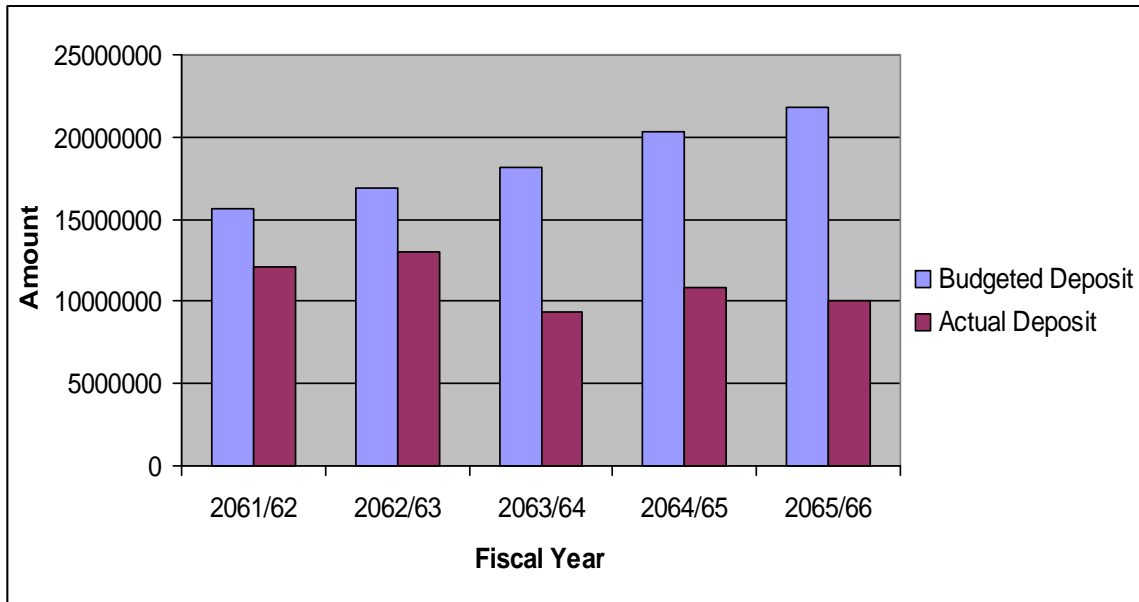
(Amount Rs '000)

Fiscal Year	Budgeted Deposit	Actual Deposit	Achievement
2061/62	15609600	12125578	77.68 %
2062/63	16874400	13015136	77.13 %
2063/64	18139200	9385950	51.75 %
2064/65	20352400	10883653	53.48 %
2065/66	21833620	9997697	45.80 %

(Sources: NBBL, Annual Report)

The above table shows the status of budgeted and actual deposit collection of NB Bank. The bank has achieved its objectives of deposit collection every year less than 100%. In the fiscal year 2061/62 the achievement of deposit collection is 77.68% but this achievement is going to be decreasing every year. At the current fiscal year 2065/66 the achievement of deposit collection is 45.80%. It shows that the deposit collection target has less than the budgeted amount. This gives the lower level of achievement made by bank toward deposit collection sector. The above table is presented in the Bar Diagram below:

Figure 4.2
Bar Diagram Showing Budgeted and Actual Deposit Collection



The above bar diagram shows the budgeted and actual figure of deposit collection of NB Bank. The actual deposit is less than the budgeted figure so that the targeted collection of deposit hasn't met every year by NB Bank. The Bar diagram shows the achievement level remaining lower than the budgeted level. The reason behind it is the declination of faith of customers towards bank because of its heavy investment on non-performance assets. The researcher finds the relationship and statistical results between budgeted and actual deposit collection by using some statistical tools like arithmetic mean, standard deviation, coefficient of variation, correlation & probable error. The detail calculations of these statistical tools were presented in appendix no. 1.

Table 4.3
Summary of Deposit Collection Budget and Actual Deposit

(Amount in Rs '000)

Statistical Tools	Budgeted Deposit (X)	Actual Deposit (Y)
Mean	18520000	11020000
Standard Deviation	2262000	1367000
Coefficient of Variance (C.V)	12.21%	12.41%
Correlation of Coefficient (r)	-0.6402	
Probable Error (PE)	0.1780 (r < 6 PE)	

Sources: Appendix - 1

The above table shows that actual deposit is less variable than budgeted deposit since the CV of actual deposit is higher than budgeted deposit. Budgeted deposit is more consistent and homogeneous actual deposit is slightly variable in nature. A greater CV represents less homogeneous. By using another statistical tool correlation coefficient to analyze the relationship between budgeted deposit and actual deposits we used Karl Pearson's coefficient of correlation which is denoted by (r). By calculating (r) can examine whether positive correlation between budgeted deposits and actual deposit is or not. Budgeted deposit is denoted by X and assumed to be independent variable and actual deposit is denoted by Y is assumed to be dependent variables.

Budgeted deposits and the actual achievement decreased, which meant that there should be negative correlation between, budgeted figure and achievement figures. Significance of correlation of (r) is tested with probable error PE. The detail calculation of 'r' and probable error PE was made in appendix 1. From that appendix the calculated value of r

was -0.6402. This figure 'r' shows that there was negative correlation between budgeted deposits and actual deposits. The value of $r = -0.6402$ and Probable Error (PE) = 0.1780. The figure of 'r' shows that there is negative correlation between budgeted deposit and actual deposit. The relation of PE with r is $r < 6PE$. So it is insignificant so the actual deposit going on opposite direction.

4.3 Resources Deployment Plan of NB Bank

Allocation of available resources into different sector is called deployment of resources plan. Resources can be used for maintain liquidity, investing in income generating activities, investing for fixed assets purchase and other assets. The available resources can be allocated in to three purposes these are listed below:

- To maintain the liquidity position.
- To invest in income generating activity.
- To purchase fixed and other assets.

4.3.1 Deployment to Maintain Liquidity Position

Liquidity need to be maintained for the purpose of payment of withdrawals from deposit amount and payment for other liabilities and expenses. The liquidity can be maintained in terms of cash in vault and balance in bank. The return on such amount may be nominal or no return at all. The central bank of Nepal NRB has instructed to commercial bank to maintain certain liquidity as per their deposits. The liquidity position should be maintained as required higher the liquidity can't give effective return and lower the liquidity became failure to repay the deposit.

4.3.2 Deployment for Income Generating Activities

The major function of a commercial bank is to collection of deposit and invests them in different sector as Loan Deployment of fund in income generating activities can divided in to two categories:

- Loan, Discount, Overdrafts (LDO).

➤ Other Investment.

LDO refers Loan, Advances, Overdraft, Bills Purchase & Discount & other loan which generates income in terms of interest. Other investment includes, Investment in securities, Treasury bill etc.

Table 4.4
Total Income Generating Deployment of NBBL

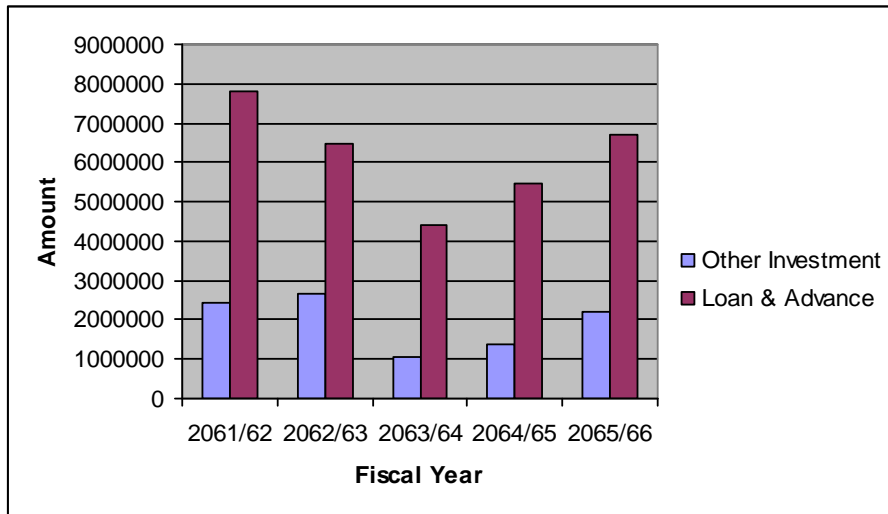
(Amount in Rs '000)

Fiscal Year	Other Investment		Loan & Advance		Total
	Amount	%	Amount	%	Amount
2061/62	2411720	23.65	7787690	76.35	10199410
2062/63	2661834	29.18	6460246	70.82	9122080
2063/64	1034560	19.01	4409013	80.99	5443573
2064/65	1389902	20.30	5457809	79.70	6847711
2065/66	2222432	24.89	6704943	75.11	8927375

Source: Annual Report of NBBL

The above table shows the status of income generating deployment of NBBL. The major portion of deployment of the bank covers by the loan and advance. In the fiscal year 2061/62 to fiscal year 2065/66 the amount of other investment is less than the income generating amount of loans & advance. It shows that the commercial banks generate its income from loan deployment funds which generates income in terms of interest. The range of loan and advance is 70.82 % to 80.99 % where as the range of other investment is 19.01 % to 29.18 %. The above table is shown in the bar diagram.

Figure 4.3
Bar Diagram Showing Income Generating Deployment of NBBL



The above bar diagram shows the status of other investment and loan & advance which generates income in terms of interest. In the figure, every fiscal year the loan & advance is higher than the other investment. It shows that loan & advance covers the major portion to generate income. Here other investment cannot play the role for generating income.

4.3.3 Deployment in Other Assets

Assets needs in the organization to show the performance of business such assets may be fixed or current. These assets can't give returns directly but without these others activities can't be run smoothly. This includes the employment of the resources in acquiring fixed assets, along with other capital expenditure subject to write off in future, income receivables; advance payments, sundry debtors etc.

4.4. Budgeted and Actual LDO of NBBL

Since the LDO is a major sector of deployment of the bank the researcher going to analyze about the position of LDO of NBBL. The following table shows the budgeted amount resources allocation and achievement. Since the budgeted figure of LDO from

the FY 2061/62 to FY 2065/66 was not available, so time series model was used to find the budgeted amount of resource deployment.

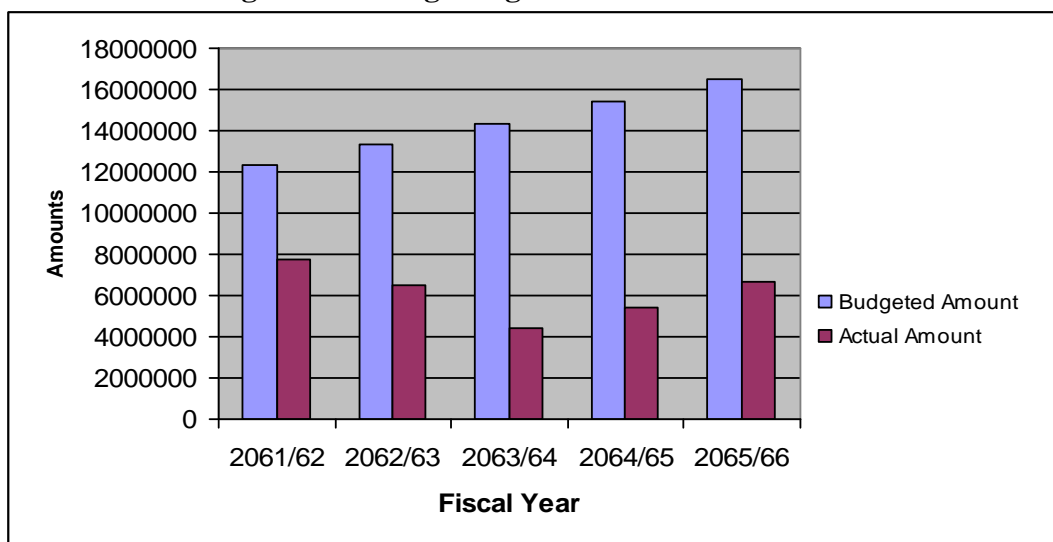
Table 4.5
Comparative Table showing Budgeted and Actual LDO of NBBL
 (Amount in Rs '000)

Fiscal Year	Budgeted Amount	Actual Amount	Achievement
2061/62	12312060	7787690	63.26 %
2062/63	13313065	6460247	48.53 %
2063/64	14314070	4409013	30.81 %
2064/65	15412075	5457809	35.41 %
2065/66	16523140	6704943	40.58 %

Source: Annual Reports and Budget Statement of NBBL

Above table shows that status of budgeted and actual LDO of NBBL. The actual achievement of LDO is less than the 100 % in every year. The investment in LDO is fluctuating trend in terms of amount where as the achievement percentage with budgeted figure is increasing trend. The range of achievement over the five year period is 30.81% to 63.26 % it shows that NBBL can't meet the targeted investment in LDO in every year and also the achievement trend is fluctuating trend. For the study purpose the figure of LDO are presented in Bar and draw some conclusion accordingly.

Figure 4.4
Bar Diagram Showing Budgeted and Actual LDO of NBBL



The above bar diagram shows the trend of budgeted and actual deployment of resources in the sector of LDO. The trend of actual deployment is in fluctuating trend and budgeted is in increasing trend. The actual achievement of LDO can't meet the budgeted LDO in every year. For the more analysis purpose the figure of budgeted and actual LDO is presenting in scatter diagram to show the relationship between budgeted figure and actual achievement throughout the study period.

This researcher is going to find the relationship between the budgeted LDO with that of actual for different years by the help of statistical tools. The detail calculations of these statistical tools were presented in appendix no. 2. The summary of LDO budget and achievement are presented below.

Table 4.6
Summary of Budgeted LDO and Achievement

Statistical Tools	Budgeted LDO (X)	Actual LDO (Y)
Mean	14360000	6120000
Standard Deviation	1485000	1130300
Coefficient of Variance (C.V)	10.34 %	18.47 %
Correlation Coefficient (r)	-0.3521	
Probable Error (PE)	0.2643 (r < 6PE)	

Source: Appendix - 2

The above table shows that budgeted LDO is more variable than actual LDO. Since the coefficient of variations of actual LDO is greater than that of budgeted LDO, actual LDO are more variable nature. On the other hand budgeted LDO is more consistent and homogeneous than actual LDO. A greater coefficient of variation is said to be more heterogeneous. Here NBBL banks actual LDO is the variable nature than budgeted LDO. We can use another statistical tool correlation co-efficient to analyze the relationship between budgeted LDO and Actual LDO. There should be negative correlation between budgeted and actual LDO. We can take the help of Karl person's coefficient of correlation to find correlation between actual LDO and budgeted LDO. For this purpose budgeted LDO is denoted by X and actual LDO is denoted by Y. Here X is independent variable and Y is dependent variable. Here the correlation between budgeted and actual

LDO is -0.3521, it means the relations between budgeted and actual LDO are negatively correlated. Significance of r is tested with PE we have $r < 6 PE$ this means the value of r is insignificant. So it is doubtful that actual LDO will go on opposite direction that of budgeted LDO.

4.5 Resources Deployment in Other Sector (NLDO)

The portfolio of NLDO consists of liquidity in terms of cash and bank balance, investment, fixed and current assets. The budgeted and actual deployment in other sector listed in following table over the study period.

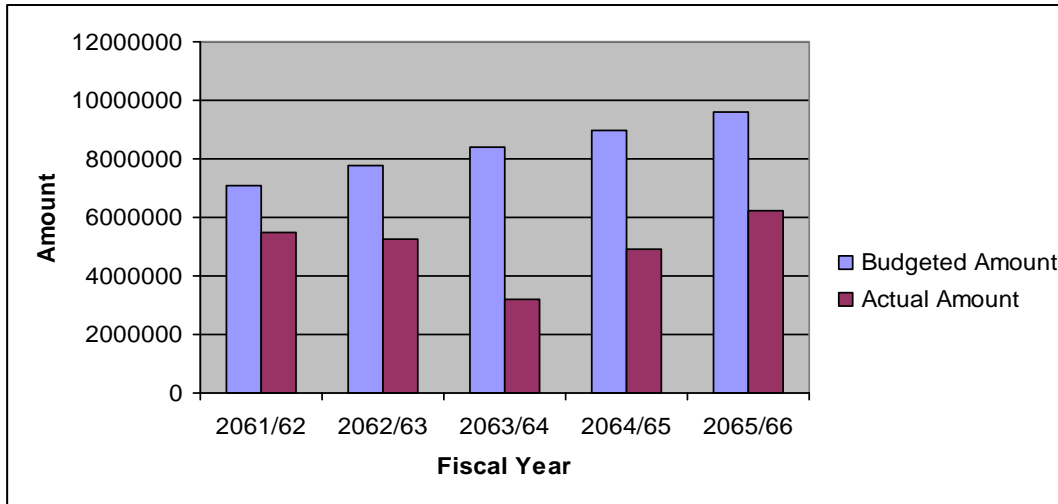
Table 4.7
Status of Budgeted and Actual Deployment in Other Sector (NLDO)
(Amount in Rs '000)

Fiscal Year	Budgeted Amount	Actual Amount	Achievement
2061/62	7074887	5489461	78 %
2062/63	7749749	5264020	67 %
2063/64	8423411	3214242	38 %
2064/65	8946230	4928364	55 %
2065/66	9628410	6212405	65 %

Source: Annual Reports and Budget Statement of NBBL

The above table shows the status of budgeted and actual deployment in other sector than LDO (NLDO). The actual achievement of investment in other sector has less than 100 % on each year. The rate of such achievement is fluctuating trend over the study period. The achievement is 78 % in F/Y 2061/062 and it decreased in F/Y 2063/064 to 38 %. Then again it is increases to 55 % in F/Y 2064/065 and slightly fluctuating up to F/Y 2065/066. The average rate of achievement over the five year is 60.6 % this indicate that the bank can not achieve its target. For the analysis purpose the status of budgeted and actual NLDO is presenting in diagram below.

Figure 4.5
Bar Diagram Showing Status of Budgeted and Actual NLDO of NBBL



Above table and bar diagrams shows that there is less than 100% of achievement of targets in deployment of resources other than LDO that is NLDO. The average investment in other sector is lowest than the budgeted figure. The trend of actual deployment in other sector i.e. NLDO, is in fluctuating trend and budgeted is in increasing trend. It means that the banks target has not been achieved. It is significant to analyze the relationship between budgeted and actual deployment of resources other than LDO. In order to find out the variability, of budgeted deposit and actual NLDO of different years we have to calculate arithmetic mean, standard deviation, coefficient of variation techniques and correlation of coefficient. The detail calculations of these statistical tools were presented in appendix no. 3

Table 4.8
Summary of Budgeted and Actual Deployment in Other Sector

(Amount in Rs '000)

Fiscal Year	Budgeted Amount (X)	Actual Amount (Y)
Mean	8320000	4980000
Standard Deviation	906400	988700
Coefficient of Variance (CV)	0.1089	0.1985
Correlation Coefficient (r)	0.1522	
Probable Error (PE)	0.2557 (r < 6PE)	

Source: Appendix - 3

The above table shows that budgeted NLDO is more variable than actual NLDO. Since the coefficient of variations of actual NLDO is greater than that of budgeted NLDO, actual NLDO are more variable in nature. On the other hand budgeted NLDO is more consistent and homogeneous than actual NLDO. A greater coefficient of variation is said to be more heterogeneous. We can use another statistical tool correlation co-efficient to analyze the relationship between budgeted and Actual NLDO. There should be positive correlation between budgeted and actual NLDO. We can take the help of Karl person's coefficient of correlation to find correlation between actual and budgeted NLDO. For this purpose budgeted NLDO is denoted by X and actual NLDO is denoted by Y. Here X is independent variable and Y is dependent variable. Here the correlation between budgeted and actual NLDO is 0.1522, it means the relations between budgeted and actual NLDO are positively correlated. Significance of r is tested with PE we have $r < 6 PE$ this means the value of r is insignificant. So it is doubtful that the banks target has not been achieved because actual NLDO will go on opposite direction that of budgeted NLDO.

4.6 Actual Deposit and Outstanding LDO of NBBL

Customer deposit and deployment in LDO is major activities of NBBL. As it is understood the major source of resources mobilization of NBBL is the customer deposit and similarly the major outlet for deployment portfolio is for loan and advance and bills discount (LDO). It is desirable to analyze the comparative status of the same for the study period. Following table shows the actual balance of deposit and the actual position of deployment toward LDO.

Table 4.9
Status of LDO VS Actual Deposit of NBBL

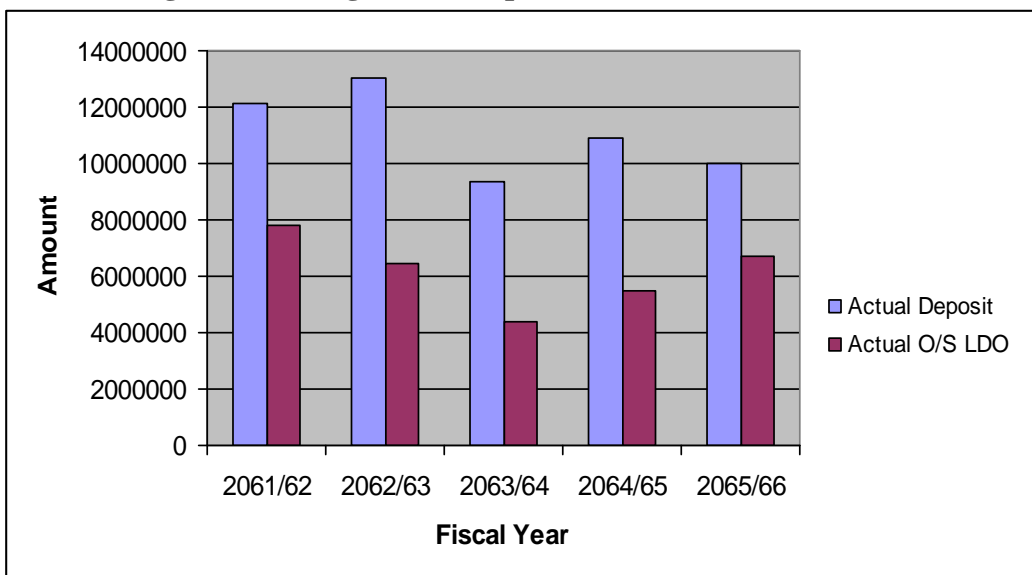
(Amount in Rs '000)

Fiscal Year	Actual Deposit	Actual O/S LDO	LDO to Deposit Ratio
2061/62	12125578	7787690	64.23 %
2062/63	13015136	6460247	49.64 %
2063/64	9385950	4409013	46.98 %
2064/65	10883653	5457809	50.15 %
2065/66	9997697	6704943	67.07 %

Source: Annul Reports of NBBL

The above table shows the status of actual deposit balance and actual o/s LDO. The actual deposit balance and actual o/s LDO both are in fluctuating trend throughout the study period. The utilization of deposit collection in terms of LDO is also fluctuating trend in percentage. The range of LDO to deposit ratio is 46.98 % to 67.07 %. This indicate that the bank invest in LDO out of total deposit in the range of 46.98 % to 67.07 % over the five year time period. For the analysis purpose the figure of actual deposit balance and actual o/s LDO is presenting in the figures.

Figure 4.7
Bar Diagram Showing Actual Deposit and Actual O/S LDO of NBBL



The above diagram is showing the position of actual deposit balance and actual outstanding balance of LDO. The position of actual deposit is higher than the actual LDO. Both are in fluctuating trend throughout the study period. Now researcher is going to analyze by using some statistical tools to find the variability of deposit and LDO. We have to calculate arithmetic mean, standard deviation, coefficient of variation, correlation of coefficient, probable error. The detail calculations of these statistical tools were presented in appendix no. 4

Table 4.10
Summary of Actual Deposit and Actual O/S LDO

(Amount in Rs '000)		
Statistical Tools	Actual Deposit	Actual O/S LDO
Mean	11020000	6120000
Standard Deviation	1367300	1130300
Coefficient of Variation (C.V)	0.1241	0.1846
Correlation Coefficient (r)	0.6118	
Probable Error (PE)	0.1887 (r < 6PE)	

Source: Appendix - 4

The above results showed that actual outstanding LDO was less variable than actual deposits. Hence the coefficient of variation of actual outstanding LDO was higher than that of actual outstanding deposits.

Another statistical tool, correlation of coefficient was used to analyze the relationship between actual outstanding deposits and actual outstanding LDO. The actual deposits decreased as the actual O/S LDO decreased. To find out correlation between actual deposits and actual outstanding LDO, Karl person's coefficient of correlation denoted by 'r' we can examine whether there was positive correlation between actual deposits outstanding and actual LDO outstanding or not. For this purpose, actual deposits (X) were assumed to be independent variable and actual o/s LDO (Y) is assumed to be dependent variable.

After this significance of 'r' was tested with probable error of 'r' the detail calculation of 'r' and probable of 'r' was presented in appendix 4. The value of r and P.E is respectively 0.6118 and 0.1887. Since r was less than 6PE the value of 'r' was in significant. There is imperfect correlation between actual deposits and actual O/S LDO.

4.7 Interest Expenses

The bank collected from various sources. Among them some are non cost bearing and some are cost bearing sources. Interest expenses incurred for making payment of cost of such deposit amount which are interest bearing deposit. The interest holds highest percentage of expenses amount because deposit holds highest portion of total available resources. The bank may have different interest rate in different types of account. Interest expenses are the expenditure incurred for making payment of interest to the deposit-mobilized bank. The interest expenses to total deposit mobilized by the Bank are given in following table:

Table 4.11
Status of Average Cost of Deposit

(Amount in Rs '000)

Fiscal Year	Interest Expenses	Total Deposit	Cost of Deposit (%)
2061/62	547943	12125578	4.52 %
2062/63	518094	13015136	3.98 %
2063/64	432219	9385950	4.61 %
2064/65	397997	10883653	3.66 %
2065/66	409776	9997697	4.10 %

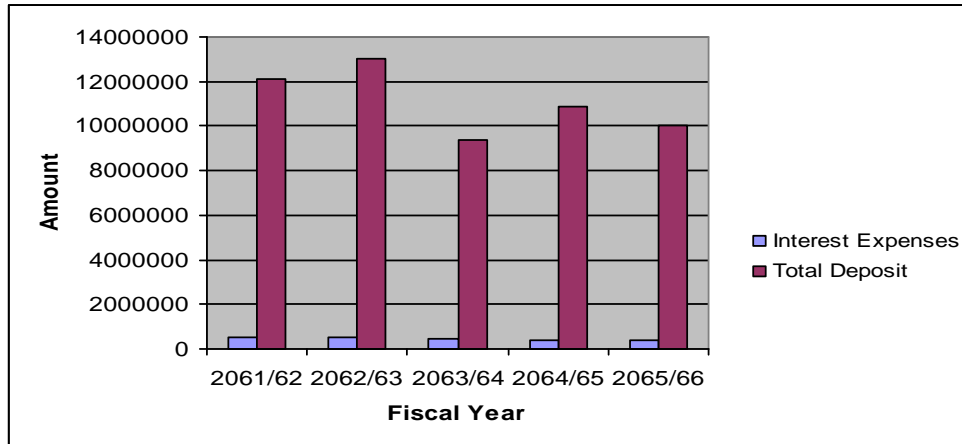
Source: Annual Reports of NBBL

As the customer deposit is one of the major sources for resources mobilization by the bank. For the deposit taken by the bank it has to pay interest. There are various kinds of deposit account from interest free deposit to varying interest deposit accounts. The average cost incurred by the bank for making interest payment to the depositors is called as the cost of deposit (COD) of the bank. For a bank lower COD refers to better position in terms of profitability.

The above table shows the total deposit and interest expenses of respective year. The deposit amount is in fluctuating trend likewise the interest too. The table shows the cost of deposit in percentage. From the fiscal year 2061/62 to fiscal year 2065/66 the percentage of cost of deposit is 4.52%, 3.98%, 4.61%, 3.66% and 4.10% respectively. It shows that the cost of deposit is very high so the banks profitability is not in better position. The NBBL cost of deposit (interest) range is 4.61 % to 3.66 % over the study

period. The cost of deposit of the bank is also fluctuating trend. The relation between interest expenses and the total deposit can shown on the bar diagram below.

Figure 4.8
Bar Diagram Showing Average Cost of Deposit of NBBL



The above bar diagram shows the status of interest expenses and total deposit in respective fiscal year. The amount of total deposit is in fluctuating trend likewise interest is changing trend accordingly. The amount of interest expenses is decreasing every year. The above result shows that the total deposit is more variable than of interest expenses. In the terms of cost of deposit, is also fluctuating trend. In order to find out the variability, of total deposit and actual interest expenses of different years were calculated the arithmetic mean, standard deviation and coefficient of variation technique and correlation of coefficient. The detail calculations of these statistical tools were presented in appendix no. 5

Table 12
Summary of Total Deposit and Interest Expenses

(Amount in Rs '000)

Statistical tools	Total Deposit (X)	Interest Expenses (Y)
Mean	11060000	420000
Standard deviation (S.D)	1339500	74830
Coefficient of Variance (C.V)	0.1211	0.1782
Correlation of Coefficient (r)	0.6265	
Probable error (PE)	0.1832 (r < 6PE)	

Source: Appendix - 5

The above results show that the Total deposits are less variable than interest expenses. Hence the coefficient of variation of total deposit was lower than of interest expenses. Another statistical tool, correlation of coefficient can be used to analyze the relationship between total deposit and interest expenses. There should be positive correlation between total deposit and interest expenses. In other words the total deposit increased as the interest expenses decrease or vice versa. To find out correlation between Interest expenses and total deposit with the help of Karl Person's coefficient of correlation and it is denoted by 'r' to examine whether there is positive correlation between Interest expenses and total deposit or not.

For this purpose Total deposit (X) was assumed to be independent variable and Interest expenses (Y) assumed to be dependent variable. So that increase in total deposit will support to decrease in Interest expenses and vice versa. After this significance of 'r' was tested with probable error of 'r' the detail calculation of 'r' and probable of 'r' was presented in appendix 5. From this appendix the value of 'r' and P.E is 0.6265 and 0.1832 respectively were calculated. Since $r < 6 \text{ P.E}$ ($0.6265 < 6 \times 0.1832$) the value of 'r' was insignificant. There was not perfect correlation between total deposit and interest expenses.

4.8 Interest Income

An interest income contributes the major portion to total revenue mix, this study attempts to analyze the interest income amount with other relevant data. Interest income is generated out of the loan and advances made by the bank. Therefore, this is popularly called yield on fund (YOF). Bills discounting is also one form of advances. So in this study we have grouped the outstanding loan, advances, overdraft and the bills discounted together called LABP and have included the bills discounting commission too in to the interest income amount(YOF). First let's see the interest income & total O/S LDO during the study period from 2061/62 to 2065/66.

Table 4.13
Status of Average Return of LDO of NBBL

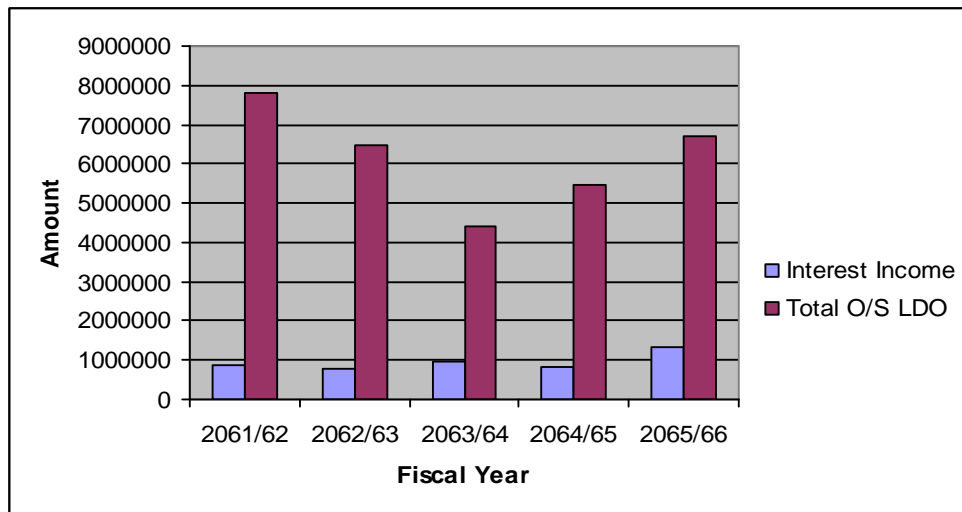
(Amount in Rs '000)

Fiscal Year	Interest Income	Total O/S LDO	Average rate of return
2061/62	876508	7787690	11.26 %
2062/63	758132	6460247	11.74 %
2063/64	982197	4409013	22.28 %
2064/65	828276	5457809	15.18 %
2065/66	1337112	6704943	19.94 %

Source: Annual Reports of NBBL

The above table shows the comparative status of interest income with the O/S LDO and the return on same LDO. In the fiscal year 2063/64 the Average rate of return is higher i.e. 22.28%. In this period total o/s loan is decreasing as interest income increasing. For a bank higher average rate of return refers to better position in terms of profitability. The interest income is in fluctuating trend as the LDO has also fluctuating whereas the rate of return on LDO is fluctuating trend. The range of rate of return lies within 11.26 % to 22.28 % in the five year period. Therefore in the F/Y 2063/64 and F/Y 2065/66 the bank has higher average rate of return i.e. 22.28% & 19.94% respectively than the other F/Y. So in this fiscal year the banks profitability position is growing. For more analysis purpose the data of interest income and o/s LDO presenting in bar diagram.

Figure 4.9
Bar Diagram Showing Average Rate of Return of LDO



From the above figure researcher can find that the yearly interest income is in fluctuating trend in amount where as o/s LDO is also more fluctuating trend. In the terms of average rate of return, is also fluctuating trend. In order to find out the variability, of actual LDO and actual interest income of different years were calculated the arithmetic mean, standard deviation and coefficient of variation technique and correlation of coefficient. The detail calculations of these statistical tools were presented in appendix no. 6

Table 4.14
Summary of Actual O/S LDO and Interest Income

Statistical Tools	Actual O/S LDO (X)	Interest Income (Y)
Mean	6120000	900000
Standard Deviation	1130300	209800
Coefficient Variation (C.V)	0.1847	0.2331
Correlation Coefficient (r)	0.0759	
Probable Error (PE)	0.2999 (r <6PE)	

Source: Appendix - 6

The above results show that the actual outstanding LDO are more variable than interest income. Hence the coefficient of variation of actual outstanding LDO was lower than of interest income. Another statistical tool, correlation of coefficient can be used to analyze the relationship between actual outstanding LDO and interest income. There should be positive correlation between actual outstanding LDO and interest income. In other words the actual LDO increased as the interest income increase or vice versa. To find out correlation between Interest Income and actual outstanding LDO with the help of Karl Person's coefficient of correlation and it is denoted by 'r' to examine whether there is positive correlation between Interest Income and actual outstanding LDO or not.

For this purpose actual outstanding LDO (X) was assumed to be independent variable and Interest Income (Y) assumed to be dependent variable. So that increase in LDO will support to increase in Interest Income and vice versa. After this significance of 'r' was tested with probable error of 'r' the detail calculation of 'r' and probable of 'r' was presented in appendix 6. From this appendix the value of 'r' and P.E 0.0759 and 0.2999 respectively were calculated. Since $r < 6 \text{ P.E}$ ($0.0759 < 6 \times 0.2999$) the value of 'r' was

insignificant. There was not perfect correlation between actual outstanding LDO and interest income.

4.9 Interest Margin

Interest spread is the difference amount obtained by subtracting total interest expenses amount from the total interest earned. In other words, it is the margin on interest or net interest income of the Bank. The following table gives the status of interest income and expenditure and spread of the Bank during the study period.

Table 4.15
Movements in Interest Margin of NBBL

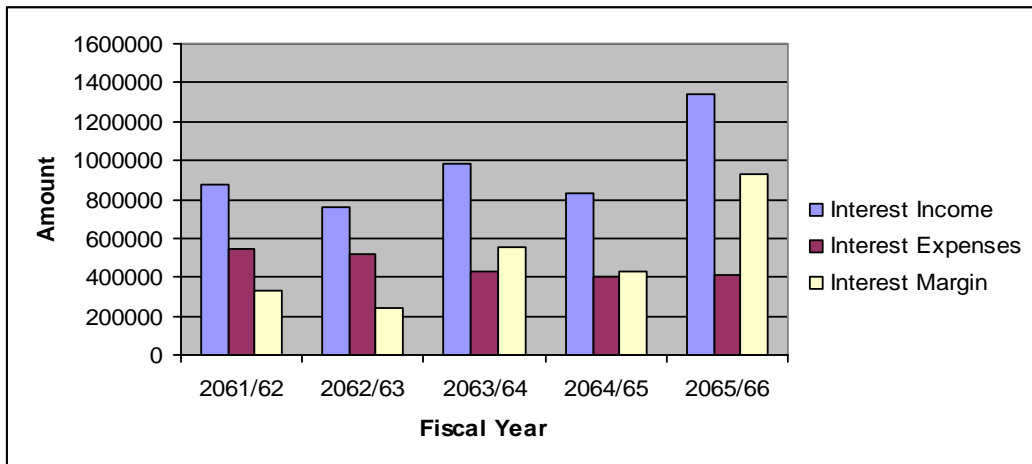
(Amount in Rs '000)

Fiscal Year	Interest Income (X)	Interest Expenses (Y)	Interest Margin (X- Y)
2061/62	876508	547943	328565
2062/63	758132	518094	240038
2063/64	982197	432219	549978
2064/65	828276	397997	430279
2065/66	1337112	409776	927336

Source: Annual Reports of NBBL

The above table shows the interest income and expenses till fiscal year 2065/66. The trend of both income and expenses was fluctuating. Increment in income was more till fiscal year 2065/66 which is fruitful to the bank. The study shows that NB Bank has been successfully able to convince its customers to deposit in the bank and also take loan from the bank in the current year. The position of interest income, interest expenses and interest margin is presenting in the bar diagram also.

Figure 4.10
Bar Diagram Showing Interest Margin of NBBL



The above bar diagram is showing the status of interest margin with comparison with interest income and interest expenses of NBBL. The fundamental purpose of this diagram is to show the relationship of interest margin. So the trend of interest margin throughout the five years period is fluctuating. The diagram shows that in the Fiscal year 2065/66, there is high increase in deposits and the customers also has been taking loans from the bank, this shows the bank management has shown its efficiency effectively.

4.10 Performance Evaluation of NBBL

Performance evaluation can help to outline the strength and weakness of management and help to improve the weakness of management and to energize to accomplishment of organizational goal. Here researcher going to analyze by using various technique and criteria to evaluate performance of NBBL, those financial tools is as follows:

- Ratio Analysis
- Cost Volume Profit Analysis

4.11 Ratio Analysis

An arithmetic relationship between two figures is known as ratio. Ratio Analysis is a financial device to measure the financial positions, major strengths, and weaknesses of a firm. To evaluate the performance of an organization by creating the ratios from the figures of different account consisting in balance sheet and income statement is known as

ratio analysis. Ratio can be classified for the purpose of exposition into four broad groups:

- a) Liquidity Ratio.
- b) Capital Structure Ratio.
- c) Activity Ratio.
- d) Profitability Ratio.

4.11.1 Liquidity Ratio.

The ability of a firm to meet its obligation in the short term is known as liquidity. It reflects the short-term financial strength of the firm. Commercial Banks must maintain its satisfactory liquidity position to satisfy the credit needs of the commercial to meet demands for deposits, withdrawals, pay nation by obligation in time and convert non-cash assets into cash to fulfill immediate needs without loss of bank and consequent impact on long run profit.

a. Current Ratio

It is the relationship of current assets and current liabilities. Current assets can be converted in to cash with in short period of time normally not exceeding one year. Current assets represents cash and bank balance investment in treasury bills, money at call, loans and advances, bills purchased and discount inter branch account, other short term loans, receivables and prepaid expenses. Current liabilities are those obligation which are payable within short period. Current liabilities consist of deposits, loan and advances, bills payable, Tax provision, staff bonus, dividend payable and miscellaneous current liabilities. Current Ratio is calculated by dividing the total current assets by current liabilities. Higher the current ratio better the liquidity position, for the many types of business 2:1 is considered to be an adequate ratio. If the current ratio of a firm is less tan 2:1, it means the firm has difficulty in meeting its current obligation. If the current ratio is more than 2:1 the company may have an excessive investment in current assets that do not produce satisfied return.

The current ratio is expressed as follows:

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

By the following table we can calculate the current ratio of NBBL to measure the relationship of current assets and current liabilities.

Table 4.16
Current Ratio of NBBL

(Amount in Rs '000)

Fiscal Year	Current Assets (X)	Current Liabilities (Y)	Current Ratio (X/Y)
2061/62	12291546	12246278	1.00 : 1
2062/63	11536956	13200865	0.87 : 1
2063/64	7113741	9648711	0.74 : 1
2064/65	9243279	11552475	0.80 : 1
2065/66	11825354	10852310	1.09 : 1

(Sources: NB Bank, Annual Reports)

The above table shows the liquidity position of NBBL. The above table shows that the NBBL's current assets are Rs 12291546 in F.Y. 2061/62, which has reached to Rs 11825354 in F.Y. 2065/66. And the current liabilities have reached Rs 10852310 in F.Y. 2065/66 from Rs 12246278 in F.Y. 2061/62 with continuously fluctuating rate. The data shows the current ratio of NBBL is always less than 2:1, which means that the bank is not capable to meet its short-term obligation with current assets. The average current ratio is 0.90 times during five years study period. The liquidity position of NBBL is not at satisfactory level. It showed that Bank's solvency position was not better. Lack of appropriate current assets, there can barrier to perform activity on time.

4.11.2 Leverage Ratio

The leverage ratio also called capital structure ratio. The leverage ratio calculated to judge the long term financial position of a firm. These ratios measure the firm's ability to pay the interest regularly and to pay the principal on maturity. Capital Structure ratios or leverage, ratios measure the proportion of outsider's capital in financing the firm's assets

and are calculated by establishing relationship between borrowed capital and equity capital. A firm should have a strong short term liquidity as well as long-term financial position. Higher leverage ratio, indicates larger amount of borrowed funds used by the firm to finance its assets and it also indicates increasing obligations and know as risky firm. A firm must have sufficient margin of equity to pay the fixed charges and refund the borrowed funds in the maturing date. The following ratios are included in leverage ratio.

- Debt- Equity Ratio.
- Interest Coverage Ratio.

a) Debt-Equity Ratio

The relationship between long term debt and share holder's equity is called debt equity ratio. Debt-Equity ratio measures the long term financial solvency of a business concern. It is calculated by dividing to long term debt by Share holder's equity.

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

$$\text{Debt- Equity Ratio} = \frac{\text{Total Debt}}{\text{Total Shareholder's Equity}}$$

Table 4.17
Calculation of Debt to Shareholder's Equity of NBBL

(Amount in Rs '000)

Fiscal Year	Total Debt (X)	Total Shareholders Equity (Y)	Debt-Equity Ratio (X/Y)
2061/62	12168743	719852	16.905
2062/63	13131597	719852	18.242
2063/64	9686991	719852	13.457
2064/65	10944966	744126	14.708
2065/66	10018453	1860315	5.385

(Source: NBBL, Annual Report)

Above table shows Debt to total equity ratio is decrease in 2065/66 and continuously increasing trend till research period. The ratio is 16.905 times in the first year 2061/62, 18.242 times in the second year 2062/63, 13.457 times in the third year 2063/64, 14.708 times in the fourth year 2064/65 and 5.385 times in the fifth year 2065/66 of the research period. The average ratio is 13.739 times. Excess amount of debt capital structure results heavy burden in payment of interest. Risk of liquidation increase if the debt cannot be repaid in the time. High gearing ratio may provide high return to the equity shareholders if the bank makes profit. So the above table shows that debt to equity ratio of the bank varies from maximum of 18.242 times in the year 2062/63 to the minimum 5.385 times in the year 2065/66 during the study year. The analysis indicates that the bank has the wise debt equity ratio, which means the creditors have invested more in the bank than the owner.

b) Interest Coverage Ratio (ICR)

Interest Coverage Ratio measures the capacity to pay interest expenses. This ratio is calculated by dividing Net Profit before Interest & Tax (EBIT) by Interest cost amount.

$$\text{Interest Coverage Ratio} = \frac{\text{EBIT}}{\text{Interest expenses}}$$

By the following table we can calculate the Interest Coverage ratio of NBBL to measure the capacity of paying interest.

Table 4.18
Calculation of Interest Coverage Ratio

(Amount in Rs '000)

Fiscal Year	EBIT (X)	Interest Expenses (Y)	Times
2061/62	101601	547943	0.19
2062/63	1198717	518094	2.31
2063/64	445163	432219	1.03
2064/65	1236176	397997	3.11
2065/66	3033882	409776	7.40

Source: Annual Reports of NBBL

The above table shows the position of interest coverage ratio (ICR) of NBBL. The ICR is 0.19 times in F/Y 2061/62 this means EBIT is 0.19 times more than interest expenses. Likewise the ICR reached to 2.31 times in F/Y 2062/63. This result represents the NBBL has increased its EBIT. Then after the rate decreased to 1.03 in F/Y 2063/64 but it increased to 3.11 times in F/Y 2064/65 then again it increased to 7.40 times in F/Y 2065/66. The interest coverage ratio of NBBL ranges between 0.19 to 7.40 times. It means that the bank sufficiently capable to pay the interest expenses in current two years.

4.11.3 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. Turnover ratio is one of the tools measuring the financial performance of the NBBL, which is used to test the efficiency in the utilization of assets. It covers the following ratios:

a) 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 total revenue includes Interest income, Commission & discount income, Income from exchange fluctuation income and other operating incomes. The total assets turnover ratio is calculated as,

$$\text{m Total Assets Turnover Ratio} = \frac{\text{Total Revenue}}{\text{Total Assets}}$$

The PPC of NBBL is analyzed with the help of this ratio by considering the data of Fiscal year 2061/62 to 2065/66, which is shown below:

Table 4.19
Calculation of Total Assets Turnover Ratio

(Amount in Rs '000)			
Fiscal Year	Total Revenue	Total Assets	Ratios (in times)
2061/62	1083174	12480853	0.0868
2062/63	955234	11709282	0.0816
2063/64	1226031	7254548	0.1690
2064/65	1214372	9391027	0.1293
2065/66	1681880	11964553	0.1406

Source: Annual Reports of NBBL

The above table shows that the total assets turnover ratio of NBBL. The Ratio starts from 0.081 times in F.Y. 2062/63 to 0.169 times in F.Y. 2063/64. It shows that the every one rupee investment in assets generates Rs 0.081 revenue in F.Y. 2062/63. Accordingly we can interpret the implication of other ratios of various fiscal years. The general trend of the ratio shows the satisfactory position. The average total assets turnover ratio is 0.121 times during the five years study period. First two years ratio couldn't meet the average ratio but later three years are higher than the average. From the above analysis, it reveals that till the first two years of the study period bank was unable to utilize its assets properly. But during later years of study period company has adopted precaution to increase revenue by best utilization of assets. There are many factors responsible for decreasing its assets turnover ratio. The major factors are the less revenue earned by the bank and high investment in total assets and so on. NBBL should strive to generate high volume of revenue in coming fiscal years through the proper utilization of its total assets.

b) 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. It is calculated as,

$$\text{m Current Assets Turnover Ratio} = \frac{\text{Total Revenue}}{\text{Total Current Assets}}$$

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 4.20
Calculation of Current Assets Turnover Ratio

Fiscal Year	Total Revenue	Total Current Assets	(Amount in Rs '000)
			Ratios (in times)
2061/62	1083174	12291546	0.088
2062/63	955234	11536956	0.083
2063/64	1226031	7113741	0.172
2064/65	1214372	9243279	0.131
2065/66	1681880	11825354	0.142

Source: Annual Reports of NBBL

The above table shows that the current assets turnover ratio of NBBL from F.Y. 2061/62 to 2065/66 is continuously fluctuating over the study period. The average current assets turnover ratio of five years during the study period is 0.123 times. It indicates every one rupee capital investment in current assets generates Rs 0.123 as revenue. In the absence of common standard, we assume the average ratio as a standard to analyze PPC of the bank. The management should try to maintain the ratio as the average ratio.

c) Fixed 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 plans of profit and vice versa. It is calculated by the help of following formula,

$$\text{m Fixed Assets Turnover Ratio} = \frac{\text{Total Revenue}}{\text{Total Fixed Assets}}$$

Fixed assets turnover ratio is analyzed considering relevant data of five years of study period from F.Y. 2059/60 to 2063/2064 as follows:

Table 4.21
Calculation of Fixed Assets Turnover Ratio

(Amount in Rs '000)			
Fiscal Year	Total Revenue	Total Fixed Assets	Ratios (in times)
2061/62	1083174	189307	5.722
2062/63	955234	172325	5.543
2063/64	1226031	140807	8.707
2064/65	1214372	147748	8.219
2065/66	1681880	139199	12.083

Source: Annual Reports of NBBL

The above table shows that the fixed assets in F.Y. 2061/62 were Rs 189307 and Rs 139199 in F.Y. 2065/66. The revenue is Rs 1083174 and 1681880 in F.Y. 2061/62 and 2065/66 respectively. The trend of revenue is continuously growing till F.Y. 2065/66 except the F.Y 2062/63. This is a very good scenario of Revenue.

The fixed assets and the fixed assets turnover ratio are fluctuating in fiscal years under study. The average ratio is 8.055 times; it indicates that the every one rupee invested in fixed asset is able to earn Rs 8.055 as revenue.

4.11.4 Profitability Ratio

Profitability ratio is related to profit. It shows the overall efficiency of the business concern. The earning capacity of a business is measured by profitability ratio. Maximization of profit is the main objectives of each and every business concern. It is very necessary to earn maximum profit for the successful running of a business concern. There is no doubt that profit is the ultimate goal of a company. The future of a organization depends upon it. It is the operating result of a firm and reflects its ability to ensure adequate return to shareholders. The profitability of a firm is tested with profitability ratios. By assuming the total income as sales, profitability ratios are analyzed as follows:

a) Gross Operating profit Margin

Gross operating profit margin reflects the efficiency of management. Gross operating profit comes after deduction of operating expenses from gross sales (total income). The gross profit margin is a percentage of operating profit on total income. It is expressed as follows,

$$\text{m Gross Operating profit margin} = \frac{\text{Gross operating profit}}{\text{Total Revenue}}$$

Note: Gross Operating Profit = (Interest Income + Commission and Discount + Other Operating Income + Exchange Fluctuation Income) – (Interest Expenses + Staff Expenses + Other Operating Expenses + Exchange Fluctuation Loss + Provision for Possible Loss).

Gross Operating profit margin is analyzed considering relevant data of five years of study period from F.Y. 2061/62 to 2065/2066 as follows:

Table 4.22
Calculation of Gross Operating Profit Margin

(Amount in Rs '000)

Fiscal Year	Gross Operating Profit	Total Revenue	Gross Operating Profit Margin (%)
2061/62	(627150)	1083174	(57.89) %
2062/63	(1705706)	955234	(178.56) %
2063/64	(935859)	1226031	(76.33) %
2064/65	174453	1214372	14.37 %
2065/66	710301	1681880	42.23 %

Source: Annual Reports of NBBL

The above table shows the overall trend of gross profit margin is increasing but is fluctuated. It shows the financial performance especially gross profit of the company with total income. Gross operating profit margin is not satisfactory. Average gross operating profit margin of NBBL is (51.24) % for five years study period. It is only an approximate that is used in the absence of common standard. The gross operating profit margin is

negative for the Fiscal year first, second, third and average. Minus change over margin and Gross operating profit margin indicate the unfavorable position that shows the inefficiency of management to maintain the operating expenses at the level of income. But in the recent years the margin is increasing rate; it is the good symptom for the bank.

b) 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. It is calculated as,

$$\text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Total Revenue}}$$

Net profit margin is analyzed considering relevant data of five years of study period from F.Y. 2061/62 to 2065/2066 as follow:

Table 4.23
Calculation of Net Profit Margin

(Amount in Rs '000)			
Fiscal Year	Net Profit	Total Revenue	Net Profit Margin (%)
2061/62	(781930)	1083174	(72.19) %
2062/63	(1797159)	955234	(188.14) %
2063/64	(1061580)	1226031	(86.59) %
2064/65	596487	1214372	49.12 %
2065/66	2158104	1681880	128.32 %

Source: Annual Reports of NBBL

The data presented on the above table shows that the net profit of the bank follows a trend of ups and down, during the study period but its margin is continuously increasing in last two years. The average net profit margin is (33.89) % and is an approximate that is used for comparative study in absence of standard. There is net loss in year 2061/62 to 2063/64 which is definitely the symptoms of weak performance. But the net profit margin is increasing in recent years, 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.

c) Return on Total Assets (ROA)

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. This ratio shows the relationship of Net Profit and total assets is to determine how efficiently the total assets and is to determine how efficiently the total assets have been used by the management. This ratio indicates the ability of generating profit per rupees of total assets. The ROA is measured as below of 5 years of the study period. It is calculated as under,

$$\text{Return on Total Assets (ROA)} = \frac{\text{Net Profit after tax}}{\text{Total assets}}$$

Table 4.24
Calculation of Return on Total Assets

(Amount in Rs '000)

Fiscal Year	Net Profit after tax	Total Assets	Return on Total Assets (%)
2061/62	(1716811)	12480854	(13.76) %
2062/63	(649543)	11709281	(5.55) %
2063/64	(877381)	7254548	(12.09) %
2064/65	838179	9391027	8.93 %
2065/66	2624106	11964553	21.93 %

Source: Annual Reports of NBBL

The above table shows that the total assets of the company and the ROA are fluctuated in the study period. The average return on total assets under the study period is (0.108) % and ROA in F.Y. 2061/62 to 2063/64 is negative. The management must be responsible for it. It is caused by inefficiency of management, due to the increasing competition in banking sector in the country, political situation and technology. Therefore, the management of NBBL must be conscious to improve the condition. But in the latest two years the return on total assets is increasing continuously, it is the good improvement of the bank.

d) Return on Shareholder's Equity (ROSE)

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 network has been tabulated as below. It is calculated by using following formula,

$$\text{Return on Shareholder's fund} = \frac{\text{Net profit after tax}}{\text{Shareholder's equity}}$$

Table 4.25
Calculation of Return on Shareholder's Equity Fund

(Amount in Rs '000)

Fiscal Year	Net Profit after tax	Shareholder's equity fund	ROSE (%)
2061/62	(1716811)	234576	(731.88) %
2062/63	(649543)	(1562583)	41.57 %
2063/64	(877381)	(2624163)	33.44 %
2064/65	838179	(2191448)	(38.25)%
2065/66	2624106	1112242	235.92%

Source: Annual Reports of NBBL

Where, Shareholder's equity Fund = Share capital + Reserve & Surplus.

Above table shows the total shareholder's equity fund is negative in F.Y. 2062/63 to 2064/65 due to the negative reserve and surplus. Return on Shareholder's equity fund is fluctuated during the study period and negative in F.Y. 2061/62 and 2064/65. The average return on shareholder's fund is also negative i.e. (91.84) %. It indicates the dissatisfactory condition of the bank. It is because of stability of the bank i.e. it can't change itself with modernization till now. So, management must take corrective measure to improve the condition to attract the prospective shareholders otherwise the market value of share may fall down. But in the last one year the return is highest among the five years return, it is the improvement of the bank.

4.12 Major Findings of the Study

The major findings of this research study on profit planning of Nepal Bangladesh Bank are as follows:

1) Resource Mobilization

- a) The major concentration of resource mobilization of the Nepal Bangladesh Bank is at deposit mobilization. In this respect they incurred higher cost toward deposit mobilizations.
- b) Deposit mobilization by the bank is found to be considerably growing every year but not so faster.
- c) NB Bank is not well performing in the deposit collection sector. Actual deposit amount is less than the budgeted amount.
- d) From the data analysis of deposits were less variable than the budgeted one.
- e) The bank has achieved its objectives of deposit collection every year less than 100 %.
- f) It is found 'r' is -0.6402 and PE is 0.1780. The figure of 'r' shows that there is negative imperfect correlation between budgeted deposit and actual deposit.
- g) The relation of PE with 'r' is ($r < 6PE$), it is insignificant so that the actual deposit is going on opposite direction.

2) Resources Deployment plan

- a) The major portions of the resources were deployed in LDO. The targets of deployment of fund on LDO cannot meet every year.
- b) The trend of actual deployment is in fluctuating trend and budgeted deployment amount is in increasing trend. Therefore the actual achievement of LDO can't meet the budgeted LDO over the study period.
- c) The coefficient of variations of actual LDO is greater than that of budgeted LDO, so the actual LDO are more variable in nature.
- d) The greater coefficient of variance is said to be more heterogeneous.
- e) The correlation between budgeted and actual LDO is -0.3521, it means the relations between them are negatively correlated.

- f) Significance of 'r' is tested with PE, we have $r < 6PE$. This means the value of r is insignificant. Therefore the actual LDO will go on an opposite directions that of budgeted LDO.

3) Expenditure

- a) The amount of interest expenses is decreasing every year, which shows that the total deposit is more variable than of interest expenses.
- b) The cost of deposit of the bank was in fluctuating trend every year in the study period.
- c) The interest holds highest percentage of expenses amount as deposit is the major resources of the bank. The COD of NBBL is in the range of 3.66 % to 4.61 % it means the bank pays the interest 4.14 % in average over the period.

4) Revenue

- a) Interest income amount of the bank was the highest among other income items in the total revenue.
- b) The yearly interest income is in fluctuating trend in amount where as the O/S LDO is also in fluctuating trend. In terms of average rate of return it also in fluctuating trend its ranges of 11.26 % to 22.28 %
- c) The average rate of returns over the study period is 16.77 %
- d) There is positive correlation between actual outstanding LDO and interest income.
- e) The trend of interest margin throughout the five years study period is fluctuating.
- f) There is high increase in deposit and the customer also has been taking loans from the bank.

5) Ratio Analysis

- a) The current ratio of NB Bank has not almost met the standard of 2:1.
- b) The data shows the current ratio of NBBL is always less than 2:1, which means that the bank is not capable to meet its short-term obligation with current assets.

- c) The average current ratio is 0.90 times during five years study period. The liquidity position of NBBL is not at satisfactory level.
- d) The Debt-Equity ratio shows that debt to equity ratio of the bank varies from maximum of 18.242 times in the year 2062/63 to the minimum 5.385 times in the year 2065/66 during the study year. The analysis indicates that the bank has the wise debt equity ratio, which means the creditors have invested more in the bank than the owner.
- e) Debt equity ratio shows that the NBBL's financial strength is not very strong because it hasn't more internal fund to repay the borrowing capital.
- f) The Interest Coverage ratio of NBBL ranges between 0.19 to 7.40 times. It means that the bank sufficiently capable to pay the interest expenses in current two years.
- g) The average total assets turnover ratio is 0.121 times during the five years study period. First two years ratio couldn't meet the average ratio but later three years are higher than the average.
- h) There are many factors responsible for decreasing its assets turnover ratio. The major factors are the less revenue earned by the bank and high investment in total assets and so on.
- i) The average current assets turnover ratio of five years during the study period is 0.123 times. It indicates every one rupee capital investment in current assets generates Rs 0.123 as revenue.
- j) The fixed assets and the fixed assets turnover ratio are fluctuating in fiscal years under study. The average ratio is 8.055 times; it indicates that the every one rupee invested in fixed asset is able to earn Rs 8.055 as revenue.
- k) The gross operating profit margin is negative for the Fiscal year first, second, third and average. Minus change over margin and Gross operating profit margin indicate the unfavorable position that shows the inefficiency of management to maintain the operating expenses at the level of income. But in the recent years the margin is increasing rate; it is the good symptom for the bank.
- l) The net profit of the bank follows a trend of ups and down, during the study period but its margin is continuously increasing in last two years.

- m) The average net profit margin is (33.89) % and is an approximate that is used for comparative study in absence of standard. There is net loss in year 2061/62 to 2063/64 which is definitely the symptoms of weak performance.
- n) The total assets of the company and the ROA are fluctuated in the study period. The average return on total assets under the study period is (32.16) % and ROA in F.Y. 2061/62 to 2063/64 is negative. The management must be responsible for it. It is caused by inefficiency of management, due to the increasing competition in banking sector in the country, political situation and technology.
- o) The total shareholder's equity fund is negative in F.Y. 2062/63 to 2064/65 due to the negative reserve and surplus. Return on Shareholder's equity fund is fluctuated during the study period and negative in F.Y. 2061/62 and 2064/65. The average return on shareholder's fund is also negative i.e. (91.84) %. It indicates the dissatisfactory condition of the bank.
- p) The Return on Capital is negative due to the higher rate of increase in capital fund than that of the net profit.
- q) The Cost Volume Profit analysis shows that the bank's earning trend will be decline. If it can increase its revenue and decrease in burden then the bank's earning trend should be growing.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter is focused on the findings and conclusions obtained from the study of "Profit Planning in commercial banks: A case Study of Himalayan Bank Limited". This chapter is comprised of three sections, the first section deals with the summary of the study; the second section draws the conclusions of the study. Lastly, the third section proposes the suggestions to the problems observed on the basis of the findings.

5.1 Summary

Nepal is a developing country, which started its economic development plans and policies more than four decades ago and has adopted the economic development plans through liberalization recently. The policy of liberalization that the government adopted after restoration of democracy in 1990 calls for primitive and facilitative role of the government together with its strict regulatory functions. The subject matter of economic development has been limited due to variety of geographical structural and economic constraints. The economic growth of a country can't imagine without financial institutions.

Commercial banks play a vital role as a financial institution which plays a quite important role of every economy by providing capital for the development of industry trade and business. Commercial bank pools between savers and users thereby raising employment opportunity. Besides the economic contribution commercial banks are also recognizes its social responsibilities by contributed to various social and welfare organization. The major income source of bank is interest margin which depends upon the deployment of available resources. The bank generally deployed their resources for the purpose of liquidity, lending and investing in securities. So the overall profitability of bank depends on lending procedure, lending policy and investment policy. The main objective of the study is to evaluate the budgeting and profit planning system of NBBL. The study is

mostly based on secondary data and required data have been collected by using various sources. There are many commercial banks operating in Nepal which are taken as population of the study among them NBBL has been taken as a sample of the study and collected data has been analyzed by using various statistical and financial tools. NBBL is one of the well established commercial bank in Nepal. NBBL is able to maintain its position as a market leader in the banking sector and there is ongoing effort and commitment in enhancing its financial position.

5.2 Conclusion

On the basis of major findings of study some conclusion has drawn about the NBBL. Profit planning and controlling system of NBBL is not effective because it can't generate more profit in F/Y 2061/62 to F/Y 206/64. But this two current fiscal year the bank has been generated satisfactory profit level. There is variance in budgeted and actual performance and it can't cross budgeted figure during the study period. This analysis concludes that the growth of the bank is insignificant. But in this two current fiscal year, NBBL is increasing its internal fund by increasing capital. This means the banks strengthen their capability internally. The relationship between budgeted and actual figures is negatively correlated. The non fund consuming business of NBBL is not remarkable since it can't give the return to the bank without investing the funds. The average cost of deposit (COD) of bank is normally high it means the bank is not able to collect cost free deposit. The major income source is interest margin. The trend of interest margin is fluctuating trend but it was highly increasing in current fiscal year. The bank cant maintained the cash and bank balance to meet the current obligations so the liquidity position of NBBL is not so better. The NBBL use more external fund to repay its borrowings so the financial position or strength of NBBL is not strong. The two current fiscal year shows that the return on assets and return on capital is satisfactory which shows the good earning capacity of the bank.

The result of the study shows that the overall performance of NBBL is not satisfactory and progressive because the bank use more external fund to repay its borrowing. There is

the declination of faith of customers towards the bank because of its heavy investment on non performing assets.

5.3 Recommendations

On the basis of the study on profit planning of NB Bank, the following suggestions are recommended to improve the Profit Planning system of the Bank:

- Commercial Banks and Financial institutions are increasing day by day in Nepal. It grows the competition with the banks so NBBL should make some policy to keep its position as before among the Nepalese banks.
- Employee training at advance level should be given more focus in order to keep the manpower updated with the changing practices and technologies.
- Nepal's accession to the WTO would permit international banks to operate in Nepal so NBBL needs to make their business plan and strategy accordingly which can convert challenges into opportunities.
- NB Bank should be conscious about the factors affecting the business like Global economic crisis, existing abnormal situation, political uncertainty etc.
- 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 far from the Head office.
- Objectives of the Bank should be clearly defined in order to avoid the risk of it being misinterpreted.
- Every business concerns have one another obligation i.e. corporate social responsibility so NBBL needs more involvement in social activities in the coming days.
- The bank needs to put more focus on the non fund consuming business activities like LC, Bank guarantee, foreign exchange and other. It supports in the overall profitability of the bank.
- The average cost of deposit of 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 highly yielding assets, which are generally not liquid and obviously risky for the Bank.

- Bank should implement its activities with prior planning; there must be budgeting system, which enables it to achieve its objectives.
- International relations of the NB Bank are not satisfactory in comparison to others banks. Due to tough competition the bank should make negotiation with the international banks to increase its transactions in the international areas.
- People in rural area of Nepal are still out of banking services. So NBBL is suggested to take bold steps to expand and upgrade its network to reach such area with their products and services.
- Non performing assets could wreck bank's profitability but while lending to the borrowers proper analysis of the loan proposal must be done which will decrease the chances of bad loan to the bank.

The research report is concluded with the above mentioned major findings, summary, conclusions, and recommendations.

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Appendix - 1

Deposit Collection Budget of NB Bank

(Amount in Rs. '0000000)

Year	X	Y	$x = x - \bar{x}$	$y = y - \bar{y}$	xy	x^2	y^2
2061/062	156	121	-29.2	10.8	-315.36	852.64	116.64
2062/063	168	130	-17.2	19.8	-340.56	295.84	392.04
2063/064	181	93	-4.2	-17.2	72.24	17.64	295.84
2064/065	203	108	17.8	-2.2	-39.16	316.84	4.84
2065/066	218	99	32.8	-11.2	-367.36	1075.84	125.44
	$\Sigma X =$ 926	$\Sigma Y =$ 551	$\Sigma x = 0$	$\Sigma y = 0$	$\Sigma xy =$ -990.3	$\Sigma x^2 =$ 2558.8	$\Sigma y^2 =$ 934.8

$$\text{Mean } (\bar{x}) = \frac{\Sigma X}{N} = \frac{926}{5} = 185.2$$

$$\text{Mean } (\bar{y}) = \frac{\Sigma Y}{N} = \frac{551}{5} = 110.2$$

$$\text{S.D. } \sigma_x = \sqrt{\frac{\Sigma x^2}{n}} = \sqrt{\frac{2558.8}{5}} = 22.62$$

$$\text{S.D. } \sigma_y = \sqrt{\frac{\Sigma y^2}{n}} = \sqrt{\frac{934.8}{5}} = 13.67$$

$$r_{xy} = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \times \sqrt{\Sigma y^2}} = \frac{-990.2}{\sqrt{2558.8} \times \sqrt{934.8}} = -0.6402$$

$$\text{C.V.}_x = \frac{\sigma_x}{\bar{x}} \times 100 = \frac{22.62}{185.2} = 0.12214$$

$$\text{C.V.}_y = \frac{\sigma_y}{\bar{y}} \times 100 = \frac{13.67}{110.2} = 0.12405$$

$$\text{P.E.} = 0.6745 \times \frac{1 - r^2}{\sqrt{n}} = 0.6745 \times \frac{1 - (-0.6402)^2}{\sqrt{5}} = 0.1780$$

$$6 \text{ P.E.} = 6 \times 0.1780 = 1.0681$$

$\therefore r < 6\text{PE}$

\therefore Since the value r is insignificant.

Appendix - 2

Status of Budgeted & Actual Deployment for LDO of NBBL

(Amount in Rs. '0000000)

Year	X	Y	$x = x - \bar{x}$	$y = y - \bar{y}$	xy	x^2	y^2
2061/062	123	77	-20.6	15.8	-325.48	424.36	249.64
2062/063	133	64	-10.6	2.8	-29.68	112.36	7.84
2063/064	143	44	-0.6	-17.2	10.32	0.36	295.84
2064/065	154	54	10.4	-7.2	-74.88	108.16	51.84
2065/066	165	67	21.4	5.8	124.12	457.96	33.64
	$\Sigma X =$ 718	$\Sigma Y =$ 306	$\Sigma x = 0$	$\Sigma y = 0$	$\Sigma xy =$ -295.6	$\Sigma x^2 =$ 1103.2	$\Sigma y^2 =$ 638.8

$$\text{Mean } (\bar{x}) = \frac{\Sigma X}{N} = \frac{718}{5} = 143.6$$

$$\text{Mean } (\bar{y}) = \frac{\Sigma Y}{N} = \frac{306}{5} = 61.2$$

$$\text{S.D. } \sigma_x = \sqrt{\frac{\Sigma x^2}{n}} = \sqrt{\frac{1103.2}{5}} = 14.854$$

$$\text{S.D. } \sigma_y = \sqrt{\frac{\Sigma y^2}{n}} = \sqrt{\frac{638.8}{5}} = 11.303$$

$$r_{xy} = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \times \sqrt{\Sigma y^2}} = \frac{-295.6}{\sqrt{1103.2} \times \sqrt{638.8}} = -0.3521$$

$$\text{C.V.}_x = \frac{\sigma_x}{\bar{x}} \times 100 = \frac{14.854}{143.6} = 0.1034$$

$$\text{C.V.}_y = \frac{\sigma_y}{\bar{y}} \times 100 = \frac{11.303}{61.2} = 0.1847$$

$$\text{P.E.} = 0.6745 \times \frac{1 - r^2}{\sqrt{n}} = 0.6745 \times \frac{1 - (-0.3521)^2}{\sqrt{5}} = 0.2643$$

$$6 \text{ P.E.} = 6 \times 0.2643 = 1.5858$$

$\therefore r < 6\text{PE}$

\therefore Since the value r is insignificant.

Appendix - 4

Summary of Actual Deposit & Actual O/S LDO

(Amount in Rs. '00000000)

Year	X	Y	$x = x - \bar{x}$	$y = y - \bar{y}$	xy	x^2	y^2
2061/062	121	77	10.8	15.8	170.64	116.64	249.64
2062/063	130	64	19.8	2.8	55.44	392.04	7.84
2063/064	93	44	-17.2	-17.2	295.84	295.84	295.84
2064/065	108	54	-2.2	-7.2	15.84	4.84	51.84
2065/066	99	67	-11.2	5.8	-64.96	125.44	33.64
	$\Sigma X = 551$	$\Sigma Y = 306$	$\Sigma x = 0$	$\Sigma y = 0$	$\Sigma xy = 472.8$	$\Sigma x^2 = 934.8$	$\Sigma y^2 = 638.8$

$$\text{Mean } (\bar{x}) = \frac{\Sigma X}{N} = \frac{551}{5} = 110.2$$

$$\text{Mean } (\bar{y}) = \frac{\Sigma Y}{N} = \frac{306}{5} = 61.2$$

$$\text{S.D. } \sigma_x = \sqrt{\frac{\Sigma x^2}{n}} = \sqrt{\frac{934.8}{5}} = 13.673$$

$$\text{S.D. } \sigma_y = \sqrt{\frac{\Sigma y^2}{n}} = \sqrt{\frac{638.8}{5}} = 11.303$$

$$r_{xy} = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \times \sqrt{\Sigma y^2}} = \frac{472.8}{\sqrt{934.8} \times \sqrt{638.8}} = 0.6118$$

$$\text{C.V.}_x = \frac{\sigma_x}{\bar{x}} \times 100 = \frac{13.67}{110.2} = 0.1241$$

$$\text{C.V.}_y = \frac{\sigma_y}{\bar{y}} \times 100 = \frac{11.30}{61.2} = 0.1846$$

$$\text{P.E.} = 0.6745 \times \frac{1 - r^2}{\sqrt{n}} = 0.6745 \times \frac{1 - (-0.6118)^2}{\sqrt{5}} = 0.1887$$

$$6 \text{ P.E.} = 6 \times 0.1887 = 1.1322$$

$$\therefore r < 6\text{PE}$$

\therefore Since the value r is insignificant.

Appendix - 6

Summary of Actual O/S LDO & Interest Income

(Amount in Rs. '0000000)

Year	X	Y	$x = x - \bar{x}$	$y = y - \bar{y}$	xy	x^2	y^2
2061/062	77	8	15.8	-1	-15.8	249.64	1
2062/063	64	7	2.8	-2	-5.6	7.84	4
2063/064	44	9	-17.2	0	0	295.84	0
2064/065	54	8	-7.2	-1	7.2	51.84	1
2065/066	67	13	5.8	4	23.2	33.64	16
	$\Sigma X = 306$	$\Sigma Y = 45$	$\Sigma x = 0$	$\Sigma y = 0$	$\Sigma xy = 9$	$\Sigma x^2 = 638.8$	$\Sigma y^2 = 22$

$$\text{Mean } (\bar{x}) = \frac{\Sigma X}{N} = \frac{306}{5} = 61.2$$

$$\text{Mean } (\bar{y}) = \frac{\Sigma Y}{N} = \frac{45}{5} = 9$$

$$\text{S.D. } \sigma_x = \sqrt{\frac{\Sigma x^2}{n}} = \sqrt{\frac{638.8}{5}} = 11.303$$

$$\text{S.D. } \sigma_y = \sqrt{\frac{\Sigma y^2}{n}} = \sqrt{\frac{22}{5}} = 2.098$$

$$r_{xy} = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \times \sqrt{\Sigma y^2}} = \frac{9}{\sqrt{638.8} \times \sqrt{22}} = 0.0759$$

$$\text{C.V.}_x = \frac{\sigma_x}{\bar{x}} \times 100 = \frac{11.30}{61.2} = 0.1846$$

$$\text{C.V.}_y = \frac{\sigma_y}{\bar{y}} \times 100 = \frac{2.098}{9} = 0.2331$$

$$\text{P.E.} = 0.6745 \times \frac{1 - r^2}{\sqrt{n}} = 0.6745 \times \frac{1 - (-0.0759)^2}{\sqrt{5}} = 0.29990$$

$$6 \text{ P.E.} = 6 \times 0.2999 = 1.7994$$

$\therefore r < 6\text{PE}$

\therefore Since the value r is insignificant.

Appendix - 3

Status of Budgeted & Actual Deployment in other sector (NLDO)

(Amount in Rs. '0000000)

Year	X	Y	$x = x - \bar{x}$	$y = y - \bar{y}$	xy	x^2	y^2
2061/062	70	54	-13.2	4.2	-55.44	174.24	17.64
2062/063	77	52	-6.2	2.2	-13.64	38.44	4.84
2063/064	84	32	0.8	-17.8	-14.24	0.64	316.84
2064/065	89	49	5.8	-0.8	-4.64	33.64	0.64
2065/066	96	62	12.8	12.2	156.16	163.84	148.84
	$\Sigma X = 416$	$\Sigma Y = 249$	$\Sigma x = 0$	$\Sigma y = 0$	$\Sigma xy = 68.2$	$\Sigma x^2 = 410.08$	$\Sigma y^2 = 488.8$

$$\text{Mean } (\bar{x}) = \frac{\Sigma X}{N} = \frac{416}{5} = 83.2$$

$$\text{Mean } (\bar{y}) = \frac{\Sigma Y}{N} = \frac{249}{5} = 49.8$$

$$\text{S.D. } \sigma_x = \sqrt{\frac{\Sigma x^2}{n}} = \sqrt{\frac{410.8}{5}} = 9.064$$

$$\text{S.D. } \sigma_y = \sqrt{\frac{\Sigma y^2}{n}} = \sqrt{\frac{488.8}{5}} = 9.887$$

$$r_{xy} = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \times \sqrt{\Sigma y^2}} = \frac{68.2}{\sqrt{410.8} \times \sqrt{488.8}} = 0.1522$$

$$\text{C.V.}_x = \frac{\sigma_x}{\bar{x}} \times 100 = \frac{9.064}{83.2} = 0.1089$$

$$\text{C.V.}_y = \frac{\sigma_y}{\bar{y}} \times 100 = \frac{9.887}{49.8} = 0.1985$$

$$\text{P.E.} = 0.6745 \times \frac{1 - r^2}{\sqrt{n}} = 0.6745 \times \frac{1 - (0.1522)^2}{\sqrt{5}} = 0.2557$$

$$6 \text{ P.E.} = 6 \times 0.2557 = 1.534$$

$\therefore r < 6\text{PE}$

∴ Since the value r is insignificant.

Appendix - 5
Summary of Total Deposit & Interest Expenses

(Amount in Rs. '0000000)

Year	X	Y	$x = x - \bar{x}$	$y = y - \bar{y}$	xy	x^2	y^2
2061/062	121	5	10.4	0.8	8.32	108.16	0.64
2062/063	130	5	19.4	0.8	15.52	376.36	0.64
2063/064	94	4	-16.6	-0.2	3.32	275.56	0.04
2064/065	109	3	-1.6	-1.2	1.92	2.56	1.44
2065/066	99	4	-11.6	-0.2	2.32	134.56	0.04
	$\Sigma X = 553$	$\Sigma Y = 21$	$\Sigma x = 0$	$\Sigma y = 0$	$\Sigma xy = 31.4$	$\Sigma x^2 = 897.2$	$\Sigma y^2 = 2.8$

$$\text{Mean } (\bar{x}) = \frac{\Sigma X}{N} = \frac{553}{5} = 110.6$$

$$\text{Mean } (\bar{y}) = \frac{\Sigma Y}{N} = \frac{21}{5} = 4.2$$

$$\text{S.D. } \sigma_x = \sqrt{\frac{\Sigma x^2}{n}} = \sqrt{\frac{897.2}{5}} = 13.395$$

$$\text{S.D. } \sigma_y = \sqrt{\frac{\Sigma y^2}{n}} = \sqrt{\frac{2.8}{5}} = 0.7483$$

$$r_{xy} = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \times \sqrt{\Sigma y^2}} = \frac{31.4}{\sqrt{897.2} \times \sqrt{2.8}} = 0.6265$$

$$\text{C.V.}_x = \frac{\sigma_x}{\bar{x}} \times 100 = \frac{13.395}{110.6} = 0.1211$$

$$\text{C.V.}_y = \frac{\sigma_y}{\bar{y}} \times 100 = \frac{0.7483}{4.2} = 0.1782$$

$$\text{P.E.} = 0.6745 \times \frac{1 - r^2}{\sqrt{n}} = 0.6745 \times \frac{1 - (0.6265)^2}{\sqrt{5}} = 0.1832$$

$$6 \text{ P.E.} = 6 \times 0.1832 = 1.0992$$

$$\therefore r < 6\text{PE}$$

\therefore Since the value r is insignificant.