

PROFIT PLANNING AND CONTROL OF NABIL BANK LIMITED

By:

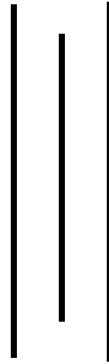
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INTRODUCTION

1. Background of the Study

It is obvious that economic development is impossible without the development of different sectors like Agriculture, Industry, and Trade of the country. So, development of their sectors needs a regular supply of financial resources. In developing countries there is always shortage of the capital for the development activities it is not possible to handle and develop all the sector by the government alone, at a time private people also can not undertake large business because per capital income of the people is very low while their prosperity to consume is very high. Due to low income their saving is very low and capital for motion is very low. So, their saving is not sufficient for carrying on development works.

The speedy development of any country in this modern era is depends upon to some extent with financial activities of the country. Financial activities play a role of catalyst in the process of economic development of the country. In Nepal financial sectors (banks, finance companies etc.) plays a vital role in the economic development of the country. The current state of Nepalese economy is characterized by unutilized natural sources, miserable agriculture, deficit trade, mass poverty, illiteracy and so forth. Agriculture is the main occupation of almost village people but no scientific methods of agriculture have yet been implemented. It is one of the richest countries in the world in terms of natural resources.

A tiny landlocked country is south Asia, Nepal remains as one of the 48 least developed countries in the world. The country's per capita income has been growing at little over two percent annum at a situation when more than two-fifth of the country's population is in absolute poverty. Nepal's current economic situation is best with nearly half of the population living below poverty line, and unemployment and disguised unemployment together depriving one half of the labor force. Investments in productive sectors increase

the economic activities. The unutilized financial resources should be diverted towards productive sector in order to increase the economic activities. To develop the Nepalese economy, the financial institutions should be established. The participations of the private sectors play ever more important role for the economic development. Hence, various banks, insurance companies, financial companies etc. have been established in the private sector and government sector as well to develop the economy to develop the economy of the country, their providing their active participation for the economic development. But however even with the rapid development and expansion of financial institutions, the country has not been able to achieve the desired income so far which is due to the poor capital market condition of our country and due to the early stage of economic growth.

As aforementioned, the financial institutions play a vital role in the economic development e.g. the banks, especially the commercial banks; finance companies and insurance companies have been established.

The Profit planning and control mechanism is being widely practiced in manufacturing industries but it is relatively new in non-manufacturing/service, industries/sectors. However this concept is equally applicable to any kind of business concern for the best utilization of the scarce resources and effectively and efficiently achieving goal.

Every company or institution is established based on the definite goals and objectives. According to the objectives, the company performs its tasks. Mainly two types of institutions such as profit oriented and service-oriented institutions are established, but most of them are profit oriented because profit is the lifeblood of the business which not only keeps it alive but also assures the future and makes it sound. Profit planning is an important tool of the firm to achieve the objectives. Profit do not just happen, profits are managed (Lynch & Williamson, 1989: 125). So, to manage the profit, the management should follow various processes of profit planning because the management process and profit planning and control are interrelated to each other.

Profit maximization is the basic objectives of a firm and to make its reliable service should render to its customers. Profit is a device to measure efficiency of a firm.

Planning is the first essence of a management and all other functions are performed with the framework of planning. Planning means deciding in advanced what is to be done in future. Planning starts from forecasting and predetermination of future events. The main objective of planning in business is to increase the chance of making profit. The budget is the primary planning operation document committed to performance. In this sense budget is also called a profit planning.

Planning is the process of developing enterprise objectives and selecting a future course of action to accomplish them. The term comprehensive profit planning and control is defined as a systematic and formalized approach for performing significant phase of the management planning and control function (Welsch, et al., 2001: 45).

-) The development and application of broad and long range objectives of the enterprise.
-) The specification of enterprise goals.
-) A long range profit plan developed in broad terms.
-) A short range profit plan detailed by assigned responsibilities (divisions, product, project etc.).
-) A systematic periodic performance reports detailed by assigned responsibilities, and
-) Follow-up procedures.

As like in the other profit oriented organizations, a commercial bank has also to make reasonable profit for its survival. Most of the commercial banks are formed as a company with joint stock and the shares being traded at stock exchanges. Therefore, profit made by them is the important parameter for measurement of effectiveness efficiency of them.

2. Statement of the Problem

The profit planning and control tool is a newly developed concept as a crucial way in the business organization. The concept of profit planning has not even familiarized in the

most of the business concern. By proper profit planning a business can be managed more effectively and efficiently.

Every financial institutions, as a commercial bank must make profit out of its operations for its survival and fulfillment of the responsibilities assigned. Major activities of a commercial bank comprise mobilization of resources, which involves cost, and profitable deployment of those resources, which generates income. The different interest income over the interest cost, which is popularly called as interest margin, can be considered as the contribution margin in the profit of the bank. The bank attempts to compensate the other operational expenses by generating other income out of non-fund based business activities of the bank.

The present study aims to analyze and examines the application of PPC tool in the commercial banks taking a case of Everest Bank Ltd. Nabil Bank Ltd. and Bank of Kathmandu. In this ground, the study deals with the following issues for the purpose of this study.

- How properly the collected fund has been used?
- What is the profitability position of the banks?
- What is the trend position of banks in terms of deposits collection and net profit?
- What is the effect of investment decision on profitability position of the banks?
- Is there significant relationship between loan and advances, total interest earned to total outside assets etc?

3. Objectives of the Study

The basic objective of the study is to analysis the profit planning policy of commercial banks with reference to NABIL. The specific objectives of the study are:

- 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.

- To provide suggestions and possible guidelines to improve investment Policy and its problems.
- To study the growth of the business of the bank over the period.

4. Significance of the Study

Profit is the life blood of the any organization because the continuity or survival of the each and every organization is depends upon the earning capacity of that organization. This study is concerned with the profit planning in the commercial bank. It attempts to examine and analyze the 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 with the help of the best utilization of resources.

Profit planning is a part of an overall process and is an area in which finance function plays major role. It is now an important responsibility of financial manager while activities of those require an accounting background. It's also need knowledge of business principles, economic statistics and mathematics. Hence profit planning represents on overall plan of preparation for a definite period of time.

Profit planning is crucial for management. Profit is the most important indicators for judging managerial efficiency and does not just happened for this every organization has to manage. Various functional budgets are the basic tools for proper planning of profit and control. Therefore, this study will be useful for those who want to know the profit-planning tool and also for next researcher as a reference.

5. Limitations of the Study

The study confines only profit planning aspect of the Nabil Bank Ltd. So, the limitations of this study are:

1. This study focuses on profit planning control and its application in the Nabil Bank.
2. Only profit planning aspect of Nabil Bank has been analyzed.

3. This study covers the related data of the banks from FY 2004/05 to 2008/09.
4. The study is mostly based on secondary source of data.

6. Organization of the Study

Chapter I - Introduction:

This chapter includes background of the study, statement of problem, objective of study, significance of study, limitation of the study and profile of Nabil Bank Ltd.

Chapter II - Review of Literature

This chapter includes the concept of commercial banks, conceptual framework of relevant terminologies, the summary of the financial statements of the commercial banks and review of previous works and publications.

Chapter III - Research Methodology

This chapter includes the research design, data collection procedures and the tools and techniques to be employed for the analysis of the data.

Chapter IV - Data Presentation and Analysis

This part of the study includes presentation and analysis of financial figures of bank. This presentation and analysis helps to come to the ultimate conclusion of the study. The financial figures of the individual institutions as well as of the industry as a whole are dissected and analyzed in detail to arrive at the conclusion. The analysis is made on the basis of various tools and techniques like ratio analysis, comparisons and trend analysis. This part also contains the list of major findings derived from the analysis.

Chapter V - Summary, Conclusion and Recommendations

Summary of the findings of the study are outlined in this chapter. Conclusion on the position of the Nabil bank is presented in this section. Recommendations on the solutions to the foreseen problems foreseen problems are also recommended which could be helpful in better performance in the forthcoming years.