

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Banking system and the Financial Institutions play very significant role in the economy. First and foremost is in the form of catering to the need of credit for all the sections of society. The modern economies in the world have developed primarily by making best use of the credit availability in their systems. An efficient banking system must cater to the needs of high end investors by making available high amounts of capital for big projects in the industrial, infrastructure and service sectors. At the same time, the medium and small ventures must also have credit available to them for new investment and expansion of the existing units.

Credit availability for infrastructure sector is also extremely important. The success of any financial system can be fathomed by finding out the availability of reliable and adequate credit for infrastructure projects. Fortunately, during the past about one decade there has been increased participation of the private sector in infrastructure projects.

The banks and the financial institutions also cater to another important need of the society i.e. mopping up small savings at reasonable rates with several options. The common man has the option to park his savings under a few alternatives, including the small savings schemes introduced by the government from time to time and in bank deposits in the form of savings accounts, recurring deposits and time deposits. Another option is to invest in the stocks or mutual funds.

In addition to the above traditional role, the banks and the financial institutions also perform certain new-age functions which could not be thought of a couple of decades ago. The facility of internet banking enables a consumer to access and operate his bank account without actually visiting the bank premises. The facility of ATMs and the credit/debit cards has revolutionized the choices available with the customers. The banks also serve as alternative gateways for making payments on account of income tax and online payment of various bills like the telephone, electricity and tax. The bank customers can also invest their funds in various stocks or mutual funds straight from their bank accounts. In the modern day economy, where people have no time to make these payments by standing in queue, the service provided by the banks is commendable.

While the commercial banks cater to the banking needs of the people in the cities and towns, there is another category of banks that looks after the credit and banking needs of the people living in the rural areas, particularly the farmers. Regional Rural Banks (RRBs) have been sponsored by many commercial banks in several Regions. These banks, along with the cooperative banks, take care of the farmer-specific needs of credit and other banking facilities.

The swift improvement of any nation in this century is depends upon financial activities of the country. Financial activities play a role of mechanism in the process of economic

development of the country. In Nepal, a financial sector (banks, finance companies etc.) plays an important role in the economic development. Unutilized natural resources, traditional agriculture system, unbalanced trade, extreme poverty and both inexperienced and corrupt administrations are the current state of Nepalese economy. Agriculture is the main source of income generation of the people but no scientific methods of agriculture have yet been introduced. It is one of the richest countries in the world in terms of natural resources available here have remained unutilized due to many reasons.

Nepal is a small landlocked country in south Asia. Nepal remains as one of the 48 least developed countries in the world. The country's per capita income has been growing a little over two percent year at a situation when most of the country's population is in absolute poverty. Nepal's current economic situation is nearly half of the population living below poverty line, and one half of the labour force is facing the problem of unemployment.

Investments in productive sectors raise the economic activities. The unutilized financial resources should be diverted towards creative sector in order to increase the economic activities. To develop the Nepalese economy, the financial institutions should be established in every part of the country. 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 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.

The financial institutions play an essential role in the economic development e.g. the banks, especially the commercial banks; financial companies and insurance companies have been established.

The profit planning and control system is being broadly practiced in manufacturing industries but it is comparatively latest in non-manufacturing/services, industries/sectors. However, this model is equally applicable to any kind of business concern for the best utilization of the limited resources and successfully and professionally achieving goal. Every company or institutions are established based on the specific goals and objectives. According to the objectives, the company performs is everyday jobs. Mainly two types of institutions such as profit oriented and service –oriented institutions are established, but most of them are income is the lifeblood of the business, which not only keeps it alive but also assures the future and makes it sound. Profit do not just happen, profits are managed (Lynch & Williamson, 1989:125). Therefore, to manage the profit, the management must follow a variety of processes of profit planning because the management process and profit planning and control are involved to each other. Profit maximization is the basic objectives of a firm and to make it reliable service should render to its customers. Profit is a tool to measure efficiency of a firm. Planning is the first spirit of a management and all

other functions are performed with the framework of planning. Planning means declining 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 income. 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 enterprises objectives and selecting a future course of action to accomplish them (Welsch, et.al, 2001;45). The term comprehensive profit planning and control it defined as a systematic and formalized approach for performing significant phase of the management planning and control function (Welsch,et.all., 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.

Commercial Banks have played major role in the economic development of the country and most of the credit- related schemes of the government to uplift the poorer and the under-privileged sections have been implemented through the banking sector. The role of the banks has been important, but it is going to be even more important in the future.

1.2 History of Banking Development

The History of Banking begins with the first prototype banks of merchants of the ancient world, which made grain loans to farmers and traders who carried goods between cities. This began around 2000 BC in Assyria and Babylonia. Later, in ancient Greece and during the Roman Empire, lenders based in temples made loans and added two important innovations: they accepted deposits and changed money. Archaeology from this period in ancient China and India, also shows evidence of money lending activity. The development of banking spread through Europe also and a number of important innovations took place in Amsterdam during the Dutch Republic in the 16th century, and in London in the 17th century. During the 20th century, developments in telecommunications and computing caused major changes to banks operations and let banks dramatically increase in size and

geographic spread. The Late-2000s financial crisis caused many bank failures, including of some of the world's largest banks, and much debate about bank regulation.(Wikipedia-the free encyclopedia,www.wikipedia.com)

The word bank was borrowed in Middle English from Middle French banque, from Old Italian banca, from Old High German banc, bank "bench, counter". Benches were used as desks or exchange counters during the Renaissance by Florentine bankers, who used to make their transactions atop desks covered by green tablecloths.

One of the oldest items found showing money-changing activity is a silver Greek drachm coin from ancient Hellenic colony Trapezus on the Black Sea, modern Trabzon, c. 350–325 BC, presented in the British Museum in London. The coin shows a banker's table (trapeza) laden with coins, a pun on the name of the city. In fact, even today in Modern Greek the word 'Trapeza' means both a table and a bank.

Another possible origin of the word is from the Sanskrit words 'byaya' (expense) and 'onka' (calculation) = byaya-onka. This word still survives in Bangla, which is one of Sanskrit's child languages. Such expense calculations were the biggest part of mathematical treatises written by Indian mathematicians as early as 500 B.C.

In its native form, banking is as old as in the genuine history and origins of the modern commercial banking are traceable in ancient times. In ancient Greece, around 2000 B.C., the famous temples of Ephesus, Delphi and Olympia were used as depositories for people surplus fund and these temples were the centers for money lending transactions. The priests of these acted as financial agents until public confidence was destroyed by the spread of disbelief in the religion. Later, however, for a few countries, banking as an organized system of money lending receded because of the religious belief that the charging of interest was dishonest. However, the banking as we know today, made its first beginning around the middle of 12th century in Italy. The Bank of Vedic, founded in 1157 A.D. was the first public banking institutions. Following this, in 14th century, the Bank Genoa was established in 1401 A.D. and 1407 A.D. respectively (Vaish, 1996:134).

In England, start of Banking can be accounting for as far back as the reign of Edward III. Those days, the Royal Exchanger used to exchange the various coins into British money and used to supply foreign money to the British men going out of the country. The bankers of Lombardy were famous in medieval Europe as the credit of planting the seed of modern banking in England goes to them when they settled in London in the locality now famous as the Lombard street.

The goldsmiths can be considered as the initial Bankers in England as they used to keep strong rooms with security guards employed. People entrusted their cash to them. The goldsmiths used to issue duly signed receipt of the deposits with the undertaking to return the money on demand charging some fee for safekeeping. These undertaking helped in gaining a further confidence of the public therefore the money were kept with them for longer periods. They were thereby encouraged to lend some part of these funds, which became profitable business to them. Therefore, they started offering interest on the

deposits to attract more funds. In the course of time independent banking concerned were set up. The Bank of England was established in 1694, under a Special Royal Charter. Further, in 1833 legislative sanction was granted for establishment of joint stock banks in London, which served as a big impetus to the development of joint stock banking. These banks took the initiative for extending current account facilities of withdrawals through ceruse.

In India, the ancient Hindu scrip tares refer to the Vedic period. During the Ramayana and Mahabharata eras, banking had become a full-fledged business activity and during the Smiriti period (after the Vedic period), the business of Banking was carried on by the members of vanish community. Manu, the great lawgiver of the time speaks of the earning of interest as the business of Bishyas. The bankers in the smiriti period performed most of those functions which the banks in modern times performs such as the accepting of deposits, granting loans, acting as the treasure, granting loans to the king in times of grave arises and banker to the state and issuing banker to the state and issuing and managing the currency of the country.(Vanish,1992:183)

The history of banking in Nepal is believed to be started from the time of Prime Minister Ranoddip Singh in 1877 A.D. He introduced many financial and economic reforms. The Tejaratha Adda was established at that time and its basic purpose was to provide credit facilities to the general public at a very concessional interest rate. The Tejarath Adda disbursed credit to the people on the basis of collateral of gold and silver. All employees of government were also eligible for this type of loan, which was settled by deducting from their salary. Tejaratha Adda extended credit only; it did not accept deposits from the public.

But the real banking started with the establishment of Nepal bank limited in 1994 B.S which was founded by Judda Samsher. It was the first bank with an authorized capital of Rs.1 corer and paid up capital of Rs. 8 Lakh 42 thousand is the first organized bank established in Nepal. Its main function was to provide loans and accept deposits. Later Nepal Rastra Bank was established as a central bank in 2013 B.S. This has helped organizing the monetary system in the country before which the duel currency system (Indian and Nepalese currency) was prevailing in the system largest sector of economy was none monetized. The bank was completely government ownership bank and it also started to issues notes since 2016 B.S. In the course of organized development of banking sector, second commercial bank, Rastriya Banijya Bank was established in 2022B.S. at the state ownership (NRB Report, 2045:16).

Later on, in F/Y 2039/40, the policy for allowing establishment of foreign joint venture banks was taken with an aim to having fair competition and skill development in banking sector, which had added new dimension in development of banking in Nepal. Accordingly, Nepal Arab Bank Ltd (presently renamed as Nabil Bank) has been established as the first joint venture bank in Nepal in 2041 B.S.(NRB Report, 2045:17).

Afterward, various commercial banks were opened with foreign joint venture under private sectors in Nepal, Then after, several commercial banks have been established in the recent years. Till there are 32 commercial banks licensed under NRB in Nepal which are enlisted below.

Table 1.1
Lists of Commercial Banks in Nepal

S.No.	Name of Banks
1	Agriculture Development Bank Ltd.
2	Bank of Asia Nepal Ltd.
3	Bank of Kathmandu Ltd.
4	Century Bank
5	Citizens Bank International Ltd.
6	Civil Bank
7	Commerz & Trust Bank Nepal Ltd
8	Development Credit Bank Ltd.
9	Everest Bank
10	Global IME Bank Ltd.
11	Himalayan Bank Ltd.
12	Janta Bank Nepal Ltd.
13	Kist Bank Ltd.
14	Kumari Bank Ltd.
15	Laxmi Bank Ltd.
16	Lumbini Bank Ltd.
17	Machhapuchhre Bank Ltd.

18	Mega Bank
19	NABIL Bank Ltd.
20	Nepal Bangladesh Bank Ltd.
21	Nepal Bank Limited.
22	Nepal Credit & Commercial Bank Ltd.
23	Nepal Industrial & Commercial Bank Ltd.
24	Nepal Investment Bank Ltd.
25	Nepal SBI Bank Limited.
26	NMB Bank Ltd.
27	Prime Commercial Bank Ltd.
28	Rastriya Banjiya Bank
29	Sanima Bank Ltd
30	Siddhartha Bank Ltd.
31	Standard Chartered Bank Ltd.
32	Sunrise Bank Ltd.

(Source: www.nrb.org.np)

1.3 Importance of Financial Institution

Financial institutions are indispensable for any productive sector. They provide loans, accept deposits, play advisory roles for the industrial sector, manage their investment, and do insurance business and guide industries and individuals to make right investment decisions at the right time.

Financial Institution can be considered as the catalyst to the economic growth of a country. The development process of a country involves the mobilization and deployment of resource and financial institutions have become much more significant than ever. Their

activities for the poor can be considered as the major role-played by the endeavor toward poverty alleviation.

In Nepal, there are several kinds of financial institutions such as Commercial Banks, Development Banks, Rural Development Banks, Finance Companies, Co-operatives, Insurance Companies involving in saving and Credit activities. The new generation private banks have now established themselves in the system and have set new standards of service and efficiency. These banks have also given tough but healthy competition to the public sector banks. Most of the financial institutions are under regulation of Nepal Rastra Bank (NRB) , the central Bank of Nepal.

1.4 Brief Introduction of Everest Bank Limited (EBL) and Statement of Problem

The Everest Bank Limited is one of the top commercial bank in Nepal, catering to more than 4.5 lacs customers today and earning profit since its establishment. Founded in 1994, the bank has been one of the leading banks of the country and has been catering its services to various segments of the society. With clients from all walks of life, the bank has helped develop the nation corporately, agriculturally and industrially. However, in recent years the economic condition of Nepal is not satisfactory. All business activities are going downwards. As a result, there is less investment opportunities and increment in collection of deposit. This may effect on profitability of the bank. So, the bank has to prepare the profit plan for future in order to take step to improve profitability. The main research questions are as under.

- 1) Does Everest Bank Limited have suitable profit planning system?
- 2) Does the Bank mobilize the deposits and other resources at optimum cost?
- 3) Does the Bank deployment resources generating satisfactory yield?
- 4) Does the Bank giving proper attention towards non-funded business activities thereby generating satisfactory amount of other income?
- 5) What are the overall Profit Planning Control problem of Everest Bank Limited and what suggestions can be recommended for their proper solution?

1.5 Objectives of the Study

The basic objectives of this study are to appraise the application of comprehensive PPC system in Everest Bank Limited. Thus, the major objectives are:

- 1) To examine Everest Bank Limited's profit planning based on overall managerial budgets of the Bank.
- 2) To analyze the variance of budgeted distribution and real achievements.
- 3) To study the growth of the business of the Bank over the time.
- 4) To grant idea and recommendation for improvements of the overall profitability of the Bank.

1.6 Signification of the Study

Profit is the ultimate goal of the any organization, because for the stability or endurance of the each any every business house is depends upon the earning power. This study is concerned with the profit planning and procedure in the commercial bank. It attempts to look at and analyze the applicability of profit planning system and procedure 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 optimum utilization of resources.

Profit planning and procedure is a part of an overall process and is an area in which finance function plays key role. It is now a vital responsibility of financial manager while activities of those require an accounting background. It is also have to be knowledge of business principles, economics statistics and mathematics. Hence, profit planning and procedure represents on overall plan of preparation for a definite period..

Profit planning is the key for management and it is the most important indicators for judging managerial efficiency which has to manage in every organization. Various efficient budgets are the basic tools for proper planning of profit and control. Therefore, Therefore this study will be great references in following terms:-

- This study will be helpful for those who want to know the profit-planning tool and for next researcher as a reference.
- It will assist other similar nature of commercial Bank to find out and manage different type of budgeting.
- It will be practical for government to formulate appropriate managerial policy.
- This study could be valuable for the researcher, scholars and students who want to investigate into the working capital management.

1.7 Limitations of the Study

The study has following types of limitations:

- 1) This study covers the associated data of the banks from F/Y 2007 to 2011.
- 2) Only profit planning side of the bank has been analyzed.
- 3) The data is collected only from some discussion with the personnel and visible area of the bank which has provided in annual report.
- 4) The result of the study may not be thoroughly applied over all types of commercial banks.
- 5) The result of the study may not be thoroughly applied over all types of Commercial banks.

1.8 Design of the Study

The study is separated into the subsequent five chapters.

Chapter I: Introduction

The initial chapter deals the background of the study, history of banking development, importance of financial institution, statement of problem, objectives, significance and limitation of the study.

Chapter II: Review of Literature

The subsequent chapter deals with the review of available literature. It takes in review of related books, journals, articles and previous unpublished Master Degree Dissertation etc.

Chapter III: Research Methodology

The third chapter is deals with the research methodology employed in this study. It includes research design, population and sample, data collection procedure and sources of data, data analysis techniques etc.

Chapter IV: Data Presentation and Analysis

The fourth chapter is the important chapter of the study, which contains the presentation, and examination of data as well as major aspects and finding of the study.

Chapter V: Summary, Conclusions and Recommendations

The concluding chapter covers the summary of the study, the main conclusion that comes from the study and offers some recommendations as well as suggestions for further improvement of the bank.

In the closing part of the thesis bibliography and appendix will be attained.

CHAPTER II

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

2.1 Introduction

A review may be a self-contained unit an end in itself or a preface and rationale for engaging in primary research. A review is a required part of grant and research proposals and often a chapter in theses and dissertations.

Generally, the purpose of a review is to analyze critically a segment of a published body of knowledge through summary, classification, and comparison of prior research studies, reviews of literature, and theoretical articles.

A literature review is an account of what has been published on a topic by certified scholars and researchers. Occasionally need to write one as a separate assignment, but more often it is part of the introduction to an essay, research report, or thesis. In writing the literature review, purpose is to convey to your reader what knowledge and ideas have been established on a topic, and what their strengths and weaknesses are. As a piece of writing, the literature review must be defined by a guiding concept (e.g. research objective, the problem or issue you are discussing or your argumentative thesis). It is not just a descriptive list of the material available, or a set of summaries

Besides enlarging knowledge about the topic, writing a literature review lets gain and demonstrates skills in two areas

- Information seeking:- The ability to scan the literature efficiently, using manual or computerized methods, to identify a set of useful articles and books
- Critical appraisal: - The ability to apply principles of analysis to identify unbiased and valid studies.

A literature review must do these things

- Be organized around and related directly to the thesis or research question you are developing.
- Synthesize results into a summary of what is and is not known.
- Identify areas of controversy in the literature.
- Formulate questions that need further research.

Review of literature is deep-seated in every area of research study, which helps to find out what research studies have been conducted in chosen field of study. In truth, review of literature begins with a explore for a suitable subject and continues all over the duration of the research work. It is a path to find out what other research in this area has uncovered. It is the process of locating, obtaining, reading and evaluating the research literature in the

area of the student's interest. It is also a means to avoid investing problems that are already been positively answered. The main reason for a full review of research in past is to know the outcomes of those investigations in areas where similar concepts and methodologies had used successfully.

Review of literature means reviewing research studies or other relevant propositions in the related area of the study so that all the past studies, their conclusions and deficiencies many are known and further research can be conducted. The most important reason of literature review is to learn not researcher such as, what research has been done in the subject? What the ones have been developed? Methods approaches used by other researcher's area of agreement or disagreement etc.

2.2 Conceptual Outline of Profit Planning and Control

2.2.1 Concept of Profit Planning and Control

Profit planning can be defined as the set of steps that are taken by firms to achieve the desired level of profit. Planning is accomplished through the preparation of a number of budgets, which, when brought through, from an integrated business plan known as master budget. The master budget is an essential management tool that communicates management's plan throughout the organization, allocates resources, and coordinates activities.

Planning involves developing objects and preparing various budgets to achieve those budgets. Control involves the steps taken by management to increase the likelihood that the objectives set down at the planning stage are attained and that all parts of the organization are working together toward that goal. To be completely effective, a good budgeting system must provide for both planning and control. Good planning without control is time wasting.

“The term comprehensive profit planning and control has recently come into existence in the business literature. It has its synonyms like comprehensive budgeting, managerial budgeting and budgeting.” This term is broadly defined as a systematic and formalized approach for performing significant phases of the management planning and control includes the following matter:

1. The development and application of broad and long range objectives for the enterprises
2. The specification of enterprise goals.
3. The development of strategic long-range profit plan in broad terms.
4. The development of tactical short-range profit detailed by assigned responsibility (division, product and projects).
5. The establishment of a system of periodic performance report detailed by assigned responsibility and follow up procedures(Welsh, 1999)

In many of the better-managed companies, comprehensive PPC has been identified as a way of managing. It focuses directly upon a rational and systematic approach to management objectives and realistic flexibility in performing the management process.

“ The international management institutions conferences on budgetary control held at Geneva in 1980 has defined 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”(Int’l mgmt institutions Geneva conference Doc, 1980).

“Profit planning is predetermined detailed plan of action developed and distributed as a guide to current operations and as a partial basis for the subsequent evaluation of performance. Thus it 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, 1994)

Profit plan represents and overall plan of operations, cover a definite period and formulates the planning decision of the management. It can be viewed as one of the major important approaches that have been developed to facilitate effective performance of the management process.

The basic concepts of PPC model includes: (Bajracharya,et. all 2005)

- PPC is the plan prepared in advance comprising both short-range plans.
- PPC is the concept where participation and viewpoints of every members of the organization is taken into even though prepared by top management.
- PPC is management laid process comprising of all management functions from planning to controlling and providing feedback.
- PPC is focused towards the enterprises goals.
- PPC is totally based on formulating plans and controlling those plans that are formulated with the assistance of budgeting and
- Finally, follow up procedure is conducted to check whether it is along with the budgeted plan or not.

Now a day’s profit planning system is especially familiar to business organization but the practicability of it depends upon the size of the business. The common objectives of PPC system whether applied to business administration is to formulate policy as well as with the implementation of policy. In addition, an objective established after the consideration of the probable courses of events in the future. In conclusion, PPC is directed towards the final objectives of the enterprises and generally include all of its important elements. It has main objectives of attaining the optimum profit in the enterprises.

2.2.2 Profit

Profit may refer to:

- **Profit (accounting)**, the difference between the purchase price and the costs of bringing to market.

A financial benefit that is realized when the amount of revenue gained from a business activity exceeds the expenses, costs and taxes needed to sustain the activity. Any profit that is gained goes to the business's owners, who may or may not decide to spend it on the business.

Calculated as:

$$\text{Profit} = \text{Total Revenue} - \text{Total Expenses}$$

- **Profit (economics)**, has two related but distinct meanings: **Normal profit** and **Economic profit**.

Normal profit is a component of (implicit) costs and so not a component of business profit at all. It represents the opportunity cost for enterprise, since the time that the owner spends running the firm could be spent on running another firm. The enterprise component of normal profit is thus the profit that a business owner considers necessary to make running the business worth his while i.e. it is comparable to the next best amount the entrepreneur could earn doing another job. Particularly if enterprise is not included as a factor of production, it can also be viewed a return to capital for investors including the entrepreneur, equivalent to the return the capital owner could have expected (in a safe investment), plus compensation for risk. In other words, the cost of normal profit varies both within and across industries; it is commensurate with the riskiness associated with each type of investment, as per the risk-return spectrum.

Only normal profits arise in circumstances of perfect competition when long run economic equilibrium is reached; there is no incentive for firms to either enter or leave the industry.

An economic profit arises when revenue exceeds the opportunity cost of inputs, noting that these costs include the cost of equity capital that is met by normal profits. If a firm is making an economic loss (its economic profit is negative), it follows that all costs are not being met in full, and the firm would do better to leave the industry in the long run. In terms of the wider economy, economic profit indicates that resources are being employed in useful endeavours, while economic losses indicate that those resources would be better employed elsewhere.

Profit is the basic elements of profit plan so that the concept of profit planning may not be complete and meaningful in absence of the clear-cut well-defined idea of profit.

According to Oxford dictionary profit means-, {1(a) financial gain (b) amount of money gained in business especially the difference between the amounts and the amount spend. {2} Advantage or benefits gained from some things.” (Hornby-1992)

According some theories, profit are factory payment for taking the risk for getting to take what is left over after contractual outlays have been made.

In the second type of profit theory are viewed as a wage for the service of Innovation. Profits in this theory are tied to dynamic development.

Profits around which all enterprises activities directly or indirectly revolve play the significant role for judging the managerial efficiency. In absence of profit, nobody can think about the long-term survivalists of the enterprises.

2.2.2.1 Long Range and Short Range Profit

Long range and short-range profit plans mean strategic and tactical profit plans respectively. The two types of profit plans are developed in PPC. “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 keep in considerations. Likewise, tactical profit plan is prepared for short period. By the time is prepared for a month, quarter, half year & a year.

2.2.3 Planning

Planning is the process by which an individual or organization decides in advance on some future course of action. It is the process of determining how the organization can get where it wants to go and it involves selecting from among alternatives future courses of actions for the organization as a whole and for every department and section within it.

Planning is the foundation of PPC. We should be clear in concept of planning “According to Oxford Dictionary, planning means:

- To (do something) arrangement for doing or using something, considered or workout in advanced.
- Way of arrangement something especially when shown on a drawing scheme.
- Go according to plan.” (Hornby, 1992:21)

“Planning is deciding in advance what is to be done in future.” (Bhusan, 1975:25) planning is a method of a course of action to achieve a desired result. Planning starts

from forecasting and determination of future events. It is the first functions of management and all other functions are performed with the framework of planning.

“Planning is the process of developing enterprises objectives and selecting a future course of action to accomplish them. It includes development premises about the environment in which they are to be accomplished.”(Welsch, 1999:27)

A plan is then a projected course of action. All planning involves anticipation of the future course of events and therefore bears an element of uncertainty in respect of its success.

Management planning and control begins with the establishment of the organization and continues as the process by which necessary resources are provided and employed effectively and efficiently towards the achievement of goals.

Planning is essential to accomplished goals. It reduces uncertainty and provides direction to the employees by determining the course of action and advance.

“Planning is the feed forward to reduce uncertainty about future. The planning process is based on the convection that management can plan its activities and condition the state determines its destiny.” (Pandey 1991:20)

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

“In planning the manager fixes the objectives of the organization as a whole and in the light of this, the goals of the various departments of the organization. Then, he proceeds to prepare a kind of blue print mapping out of way of attaining these objectives naturally then all other functions of the manager depends upon planning.” (Bhusan 1976:30)

Planning is the backbone functions of the management. Hence, we can point out the nature of planning.

- Planning is an intellectual process.
- Planning is a goal-oriented task.
- Planning is a primary function of management.
- Planning pervades all management activities.
- Planning is desired towards deficiency.

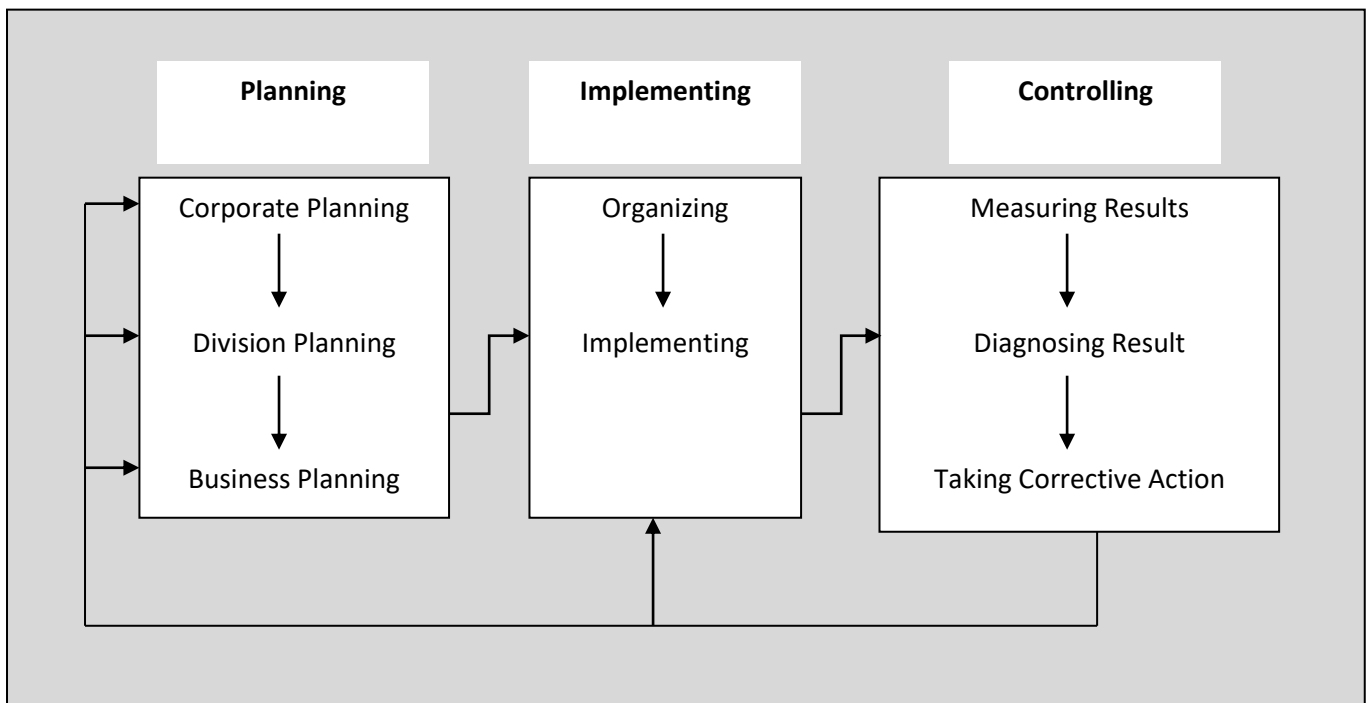
And the planning function has four important goals.

- **To Offset Uncertainty and Change:** - Organizational planning has two purposes: Protective and Affirmative. The protective purpose of planning is to minimize risk by reducing the uncertainties surrounding business conditions and clarifying the

consequences of related management actions. The affirmative purpose is to increase the degree of organizational success.

- **To Focus Attention on Objectives:** - Because all planning is directed towards achieving enterprise objectives, the very act of planning focuses attention on these objectives. Considered overall plans unify interdepartmental activities. Managers, being typically immersed in immediate problems, are forced through planning to consider the future and even consider the periodic need to revise and extend plans in the interest of achieving their objectives.
- **To Gain Economical Operation:-** Planning minimizes costs because of the emphasis on efficient operation and consistency. It substitutes joint directed effort for uncoordinated piecemeal activity, even flow, and deliberate decisions for snap judgements.
- **To Facilitate Control:-** Managers can not check on their subordinate accomplishments without having planned goals against which to measure. There is no way to measure control without plans to use standards.

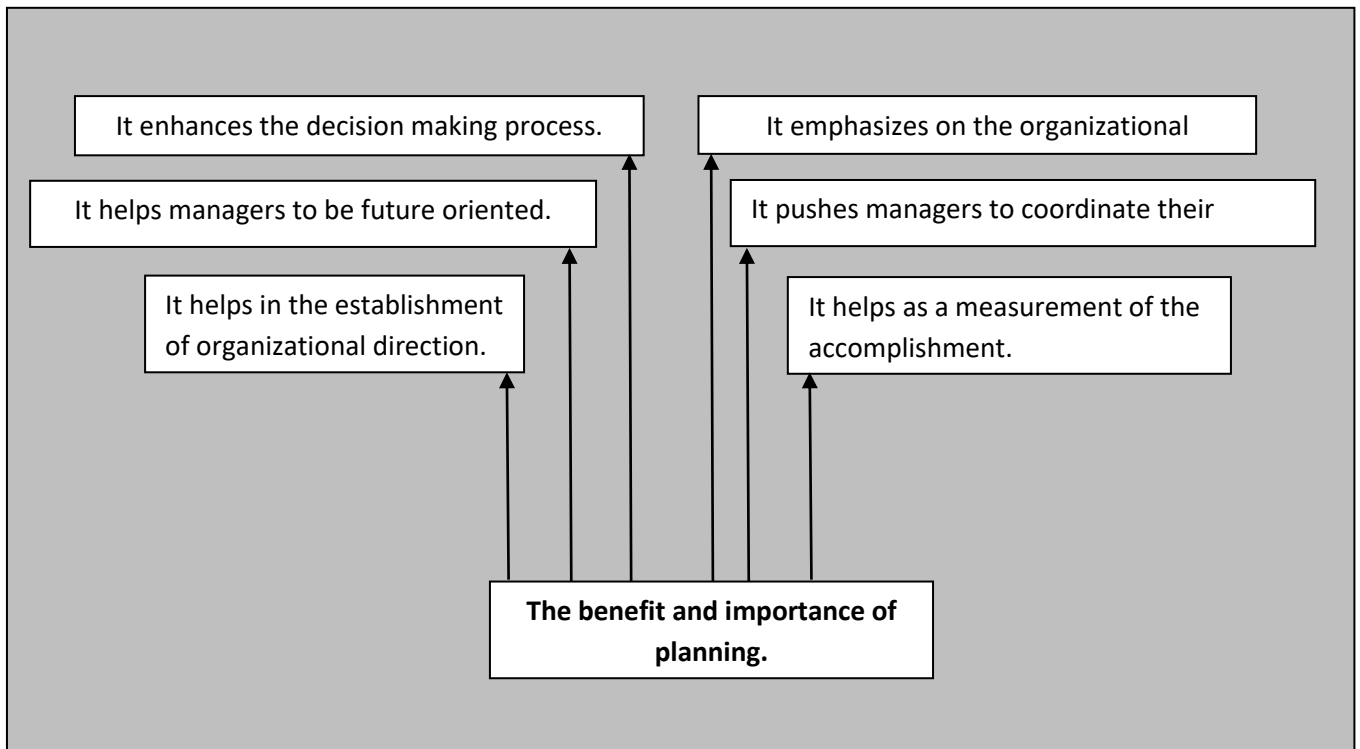
Figure 2.1
The Strategic-Planning, Implementing, and Control Processes.



(Source: - Philip Kotler's Marketing Management)

Figure 2.2

The benefit and importance of planning.



(Source: - Philip Kotler's Marketing Management)

2.2.3.1 Long Range and Short Range Planning

Long range planning is closely concerned with the concept of the organization as long living institution. It most important for broad and long living enterprises. Long range planning varying five to ten years with the enterprises in some times extended to ten years. Strategic planning is one of the most difficult time span involve 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 dimension & usually it covers one year's time. The management as a substantial part of the long-range plan uses short term planning.

2.2.3.2 Corporate and Division Strategic 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 part of plan. It was first started in the USA in 1950, and it is however being used in one form or another in many companies there.

According to Andrew Robertson, “Corporate planning is to be determined the long term goals of a company as a whole and then to generate plan designated to achieve these goals bearing in mind probable change in its environment”. He pointed out the premises of the corporate planning are:

- Before drawing up a plan, which is designed to do something decide what you want to do.
- In these days of rapid change, it is necessary to look ahead as far as possible to anticipate these changes.
- Instead of treating a company as a collection of department, treat it as a corporate whole.
- Take full account of the company environment before doing up any plan.

Long term planning is included in corporate planning. Corporate planning often is considered synonymous with long term planning. The main objectives of corporate planning areas 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 enterprises.

All corporate headquarters undertake four planning activities.

- Defining the corporate mission.
- Establishing strategic business units (SBUs).
- Assigning resources to each SBUs.
- Planning new businesses, downsizing, or terminating older businesses.

(Source:-Philip Kotler's Marketing Management)

2.2.3.3 Role of Forecasting in Planning

Forecasting is an integral part of decision-making activities of management. An organization establishes goals and objectives seek to predict the environmental factors. The need for forecasting is increasing as management attempts to decrease its dependence on change and become more scientific in dealing with its environment.

Since each area of organization is related to others. A good or bad forecast can affect the entire organization. Planning or budgeting is not nearly forecasting although forecasts from the basis of budgeting. Forecasting is the estimate of the future environment within 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 or units are to assume responsibility and be held accountable.

Forecasting is indispensable in planning. Forecast is statement of expected future conditions definite statements of what will actually happen are patently impossible.

Expectation depends upon the assumptions made. If the assumptions are possible, the forecast has a better chance of being useful forecasting assumptions and techniques vary with the kind of planning needed.

The short term forecasting is needed in budget making. A budget set for the following year will be much useful. It is regarded to sales levels, which will eventuate rather than current sales level. As budget distributed according to current sales may establish policy as to lines of emphasis, but will obviously, required successive adjustment if sales levels changes (Bratt, 1985:246)

2.2.4 Control

After being clear about the concept of profit and planning we move towards the third component of profit planning and control i.e. control. The dictionary meaning of control is;

- 1) Have a power or authority over somebody or something
- 2) Regular something
- 3) Management, guidance, restriction.
- 4) Standard of comparison for checking the results of the experiment.(Horn by 1992:32)

Controlling can be defined as process of measuring and evaluating actual performance of each organizational component of an enterprises and initializing corrective action when necessary to ensure efficient accomplishment of enterprises objectives, goals, policies and standards, planning establishes the objectives, goals, policies and standards of an enterprise. Control is exercised by using personal evaluation, periodic performance, reports and special reports.

"Control is an ambiguous word: it means the ability to direct oneself and one is work. It can also mean domination of person by another (management). Objectives are the basis of control in the first. Sense, but they must never become the basis of control as in the second for this would defeat their purpose, indeed one of the major contributions of management by substitute management. By objective is that it enables us to substitute management by self control for management by dominant."(Drucker P.F.-1954:20)

An important aspect of control that is frequently over looked is its relationship to the point of action or at the time of commitment. Effective control requires feed forward. In other words, it is assumed that objectives, plan policies, and standards have been developed and communicated to that manager who has the related performance responsibilities.

Thus, control must necessarily rest upon the concept of feedback which requires performances measurement and triggers corrective action designed to ensure attainment of the objectives. When plans become operational control must be exercised to measure progress. In some cases, control also results in the revisions of prior plans and goals or in the formulation of new plans changes in operations and reassignment of people. Control approach must be tailored to the characteristics of the operation and the organization on structure.

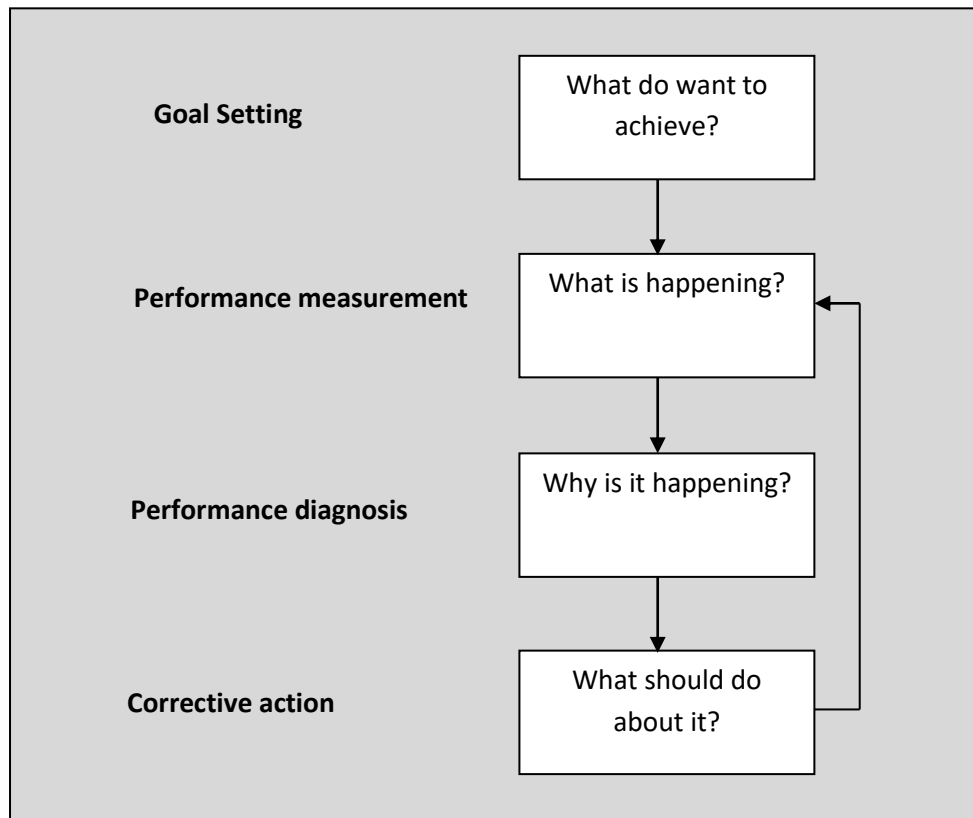
"A control process designed to help monitor the periodic activities of business and of each responsibility center has the following phases;

1. Compare actual performance for the period with the planned goals and standards.
2. Prepare a performance report that shows actual results, planned results and any difference between the two (i.e. variation above or below planned results.)
3. Analyze the variations and the related operations to determine the underlying causes of the variations.
4. Develop alternative course of action to correct any deficiencies and learn from the success.
5. Make a choice (corrective action) from the set of alternatives and implements it.
6. Follow up to appraise the effectiveness of the correction follow with feed forward for re-planning."(welsch-1999)

The comparison of actual result with planned goals and standard constitutes measurement of the effectiveness of control during a specified past period. The provides the basis for effective feedback. The facts shown in a performance report cannot be changed however the historical measurement may lead to improved control in the future.

The significant concept here is that objectives policies and standards fulfill two basic requirements in the overall control, process, namely (1) Feed forward to provided a basis for control at the point for measurement of the effectiveness of control after the action has taken place. Moreover, feedback is of instrumental in re-planning.

Figure 2.3
The Control Process



(Source: Philip Kotler's Marketing Management)

2.2.5 Budget and Budgeting

A budget (from old French bougette, purse) is a financial plan and a list of all planned expenses and revenues. It is a plan for saving, borrowing and spending.

A budget is an important concept in microeconomics, which uses a budget line to illustrate the trade-offs between two or more goods. In other terms, a budget is an organizational plan stated in monetary terms.

In summary, the purpose of budgeting is to:

1. Provide a forecast of revenues and expenditures, that is, construct a model of how our business might perform financially if certain strategies, events and plans are carried out.
2. Enable the actual financial operation of the business to be measured against the forecast.
3. Establish the cost constraint for a project, program, or operation.

A budget is a financial plan for the upcoming period. A capital budget, on the other hand, involves an organization's proposed long-range major projects. The focus of this section is on budget. Public and private entities both engage in the budgetary process. A government budget starts with the projection of sources and amounts of revenue and allocates the potential receipts among projects and legislatively mandated programs based on projected needs and public pressure. Government entities actually record budgets in the accounting records against which expenditures can be made.

A budget is a quantitative plan of operations that identifies the resources needed to fulfill the organization's goals and objectives. It includes both financial and nonfinancial aspects. Budgeting is the process of preparing a plan, commonly called a budget. A master budget comprises operating budgets and financial budgets. Operating budgets identify the use of resources in operating activities. They include production budgets, purchase budgets, human resources budgets, and sales budgets. Financial budgets identify sources and outflows of funds for the budgeted operations and the expected operating results for the period. Some variations of budgets are continuous budgets and continuously updated budgets. Rather than preparing one budget for the upcoming year, in a continuous budget one updates the budget for the following twelve months at the end of each month or each quarter. Such a budget remains more current and relevant. A good budget uses historical data as a base and for reference but at the same time incorporates anticipated costs and volumes based on a comprehensive knowledge and understanding of both internal and external factors that affect the business.

Budgeting is a forward planning and involves the preparation in advance for the quantitative as well as financial statement in indicate the intention of the management is respect of the various aspect of the business. "A budget is a comprehensive and coordinate plan expressed in financial term for the operation and source of an enterprise for some specific period in the future" (Pandey, 1991:98)

As regards the term 'Budget it can be visualized as the end result of the budgeting. If budgeting is the procedure for preparing plan is 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 in which all aspects of business operations with respect to 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 (Gupta, 1994). "Budgeting is a forward planning. It serve as a device for management control, it is a pivot of any effective scheme of control. Budgeting is the principal tool of planning and control offered to management by accounting functions." (Welsch, Hilton & Gorden, 1999.

A budget is forecast, in detail of the result of an officially recognized programmed of operations based on the highest reasonable expected operating efficiency. "Budget is

designed as a comprehensive and coordinated plan, expressed in financial terms for the operations and resources of enterprises for some specified period in the future.”(Fregmen, 1976:256). According to his definition the essential elements of a 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.

2.2.6 Budgeting: As a Mechanism of Profit Plan

Budgeting is a forward planning. It is a device (tool) for management, control; it is rather a pivot of any effective scheme of control. Budgeting is the principal tool of planning and control offered to management by accounting functions (Welsch, et. al 1999; 346). 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 control that serves as a guide to conduct operation and a basis for evaluating actual results. Actual results can be judged being satisfactory or unsatisfactory in the light of the relevant budgeted data and in the light of changes in conditions. Company controls operations through its budgeting and responsibility reporting system. Top executive are able to control every area of the organization through a system of budgetary planning 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
- Expectation as a framework for judging performance.

2.2.7 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.

Sound Forecasting

Forecasts are the foundation of budgets; these forecasts 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.

An Adequate and planned Accounting System

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

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 demarcating 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 on the function of budget preparation. Thus, an efficient organization helps not only in budget co-ordination but in it also plays important role in budget co-ordination and operation.

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 approves the departmental budgets. Thus in order to make a budgeting system more and more effective, a budget committee should always be set up.

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. However, for this purposes, policies should be precise and clearly defined swell as free from any ambiguity.

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.

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 (chairperson). The enthusiasm for budget operation as well as direction for it should initiate and come from top.

Good Reporting System

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

Motivational Approach

All the employees or staff other than executives should be strongly properly motivate towards budgeting system. In an organization, it is needed to make each staff member. Feel too much involved in the budgeting system. To meet this end motivational approach towards budgeting should be followed.

2.2.8 Basic Assumptions and Limitations of Profit Plan

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

1. Profit plan is based on estimates.
2. A PPC program must be continually adapted to fit changing circumstances.
3. Execution of a profit plan will not occur automatically the profit plan is not a substitute for management.

The profit plan should be regarded as a master but as a servant. It is not 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 when there are compelling business reasons (Welsch.et. al. 1998; 265)

2.2.9 Resources Mobilization Plan or Budget

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 are the customer deposits. 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. Therefore, 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, margins deposits etc. and (ii) interest bearing deposit i.e. saving deposits, fixed deposits of various tenure, call deposits 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 into 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 long-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 targets for deposit mobilization during a particular year is set in advance with each 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 of the banks. Banks resources other than customer deposits are the borrowing from other banks and the capital fund. Generally banks borrows from other banks to meet temporary requirement of liquidity which may occur, sometimes, during the occurs of banking operation caused due to unexpected withdrawals of deposit or deferment in loan repayments by the borrower by some reason or other. Such activities are managed from the tied 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.

Further, the bankers may choose by themselves whether to increase the owner's capital by raising the other item included in capital funds beside paid up capital and general reserves. It is always better to have a higher capital fund base of a bank because, creation of bank's assets and the size of lending to any particular borrower are tried up with the capital adequacy requirement by the central Bank.

2.2.10 Resources consumption Plan or Budget

Planning for development of resources starts from assessment of nature of resources to be mobilized. That is the assets are allocated based on the nature of resources. This approach of deployment of resources is called asset allocation approach. The fundamental criterion, which must be followed in allocating funds for acquiring different types of assets, is that the velocity 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 used to buy long dated high yielding securities, demand deposits 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 (Vanish, 1996:365). Funds kept as cash in vault and as balance with NRB and other banks in current account are the liquid assets of the bank. Normally banks have to maintain certain fixed percentage of their deposit liability in this form as directed by the central Bank from time to time. There is no yield in the fund deployed as liquid assets.

Deployment for lower income yielding assets are generally placing the funds in short term securities, treasury bills etc. which provide reasonable liquidity to be 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 loans advances and Bill 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 sector of economy for various kinds of trades and commercial activities and to various borrowers ensuring well diversification of the assets. The targets are allocated to the branches, which are generally operated as separated profit centers.

2.2.11 Planning for Non-Funded Business Activities

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 insurance business of the bank where the bank undertakes payment liabilities, which are contingent in nature and the banks charges certain percentage of commission on such transaction to their client who are availing these facilities from the bank. The bank fixed annual target for such business and those are allocated to the branches of the bank.

Expenditure planning

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

- a. Interest Expenses.

- b. Personnel Expenses.
- c. Office Operating Expenses.
- d. Expenses meeting the loss in Exchange Fluctuation.
- e. Non-operating Expenses.
- f. Expenses for provision for loan loss.
- g. Expenses for provision for staff bonus.
- h. Expenses for provision of income tax.

The interest expenses are incurred while paying for the deposit mobilized by the bank and include the expenses incurred for interest payment in all kinds of interest bearing deposit as per the agreed rate between the bank and the borrower. In the total expenses of a bank, the portion of interest expenses is quite higher. Therefore, the expenses are categorized into interest expenses and other expenses while the latter includes other expenses as mentioned above except the interest expense.

Interest expenses in a bank depend on the average cost of deposit (COD) mobilized by the bank. Lower the COD lower the interest expenses and thus higher the profitability. Therefore, from a profitability point of view banks plan their COD at the lowest possible level. The nature of interest expenses is that of variable expenses. The net earnings from interest income of a bank deducting the interest expenses for the deposit mobilized is called "Spread" which is similar to the 'Contribution Margin' in sales of commodities by a manufacturing unit.

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

Revenue Plan

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

- a. Interest income.
- b. Commission and discounts.
- c. Dividend.
- d. Other income
- e. Foreign exchange income.
- f. Non-operating income.

Generally, the interest income of a commercial bank holds a major source of earning of a bank. Therefore, total income of a bank is categorized in two-type viz. interest income and other income, while the later including other income items as listed above except the interest income. The interest income is earned by charging interest on the fund deployed in interest earning assets such as loan and advances, overdraft, investments in government securities, debenture etc. For this study, the income from Bills discounting has also been treated as interest income, as we consider loans overdraft and bills discounting together as a single asset portfolio as LDO.

As the average rate of interest on LDO are comparatively higher than any other kind of income yielding assets, from the profitability point of view, higher asset allocation into LDO, higher will be the income. The other income are generate from other activities of the bank such as issuance of L/C Bank Guarantees, from remittance charges, services charges, commitment charges, trading gain on foreign exchange, revaluation gain on foreign exchange reserves etc. The amount of other income of a bank greatly contributes in lowering the burden on the profitability. Higher the other income earned by the bank, lower will be the net burden amount and thus better will be profitability of the bank.

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

2.2.12 Performance Reports

Performance reports are documents that reveal how employees or operational projects are performing in terms of the company's goals. Performance reports can focus on the sales numbers, marketing campaigns, employees or new machinery that have been implemented to increase production. In essence, a performance report evaluates a given project or topic and concludes whether it is working or needs to be changed.

Performance reporting is an important part of a comprehensive PPC system. Its phase of comprehensive PPC program significantly influences the extent to which the organization has planned goals and 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 plans, 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 reports 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.

Features of Performance Reports

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

1. Adapted to the organizational structure and center of controllability (that is by responsibility centers)
2. Designed to apply the management by exception principle.
3. Repetitive and related to short term period.
4. Adapted to the requirements of the primary users.
5. Simple understandable and reports only essential information.
6. Accurate and designed to pinpoint significant distinctions.
7. Prepared and presently promptly.
8. Constructive in tone.

Aspects of performance Reports

The various managers use their performance reports depends on many factors, some behavioral and some technical. One important factor is the extent to while the performance reports serves the management and decisions making needs of the users. Top management needs reports that give a complete and readily comprehensive summary of the overall aspects of operations and identification of major events.

Middle management needs summary data as well as detailed data on day to day operation. Similarly lower level management needs reports that must be detailed, simple understandable and limited to items having a direct bearing on the supervisor's operational responsibilities.

In the design and preparation of performance reports careful attention must be given that titles and headings should be descriptive; column heading and side caption should clearly identify the data, and the technical jargon should be avoided. Reports should not be too long and complex; tabulations should be avoided. Performance reports should be standardized to a reasonable degree and if should be relevant.

Performance reports should be available on a timely basis. To attain a realistic balance between immediate reporting and the costs of detailed reporting, monthly performance reports are widely used on the organization.

2.3 Profile of Everest Bank Limited:

2.3.1 Introduction and Establishment

The bank has been one of the leading banks of the country and catering its services to various segments of the society since its establishment. In the development of worldwide opening up of the economy and liberalization, the bank has helped the nation corporately, agriculturally and industrially. With the renovation in the country, the liberalization process has gained even more impetus and as result, more and more foreign investments found their way as joint venture economy of the country. This trend is more high-flying in financial institutions.

Everest Bank Limited (EBL) has been established with an idea of extending professional banking services to a range of sections of society in the Nepal and thereby contributes for the financial expansion of the country. The bank had come into formal operations from 18th October 1994 (1st karkit 2051 B.S.). Everest Bank Limited is a joint venture with Punjab National Bank (PNB) one of the major commercial banks in India. Punjab National Bank has the century old history of successful banking, is known for its financial strength, fresh banking system and procedures. With its presence virtually in all the important centers at India, Punjab National Bank offers a wide variety of banking services which include corporate and personal banking, industrial finance, agricultural finance, financing of trade and international banking. For its excellence in banking services, it was recently awarded the "Best Bank Award 2011" amongst all banks in India by the leading corporate magazine, Business India. PNB is providing the top management services agreement signed between two institutions.

Everest Bank Limited has the interconnected domestic network of 46 branches, 22 collection counters and 58 ATMs in the various parts of Nepal and account holders of EBL can transact through more than 5600 branches and 6000 ATMs of Punjab National Bank.

2.3.2 Joint Venture Agreement and Technical Services Agreement

Punjab National Bank has the 20% equity in the bank. For every ten domestic services agreement between Everest Bank Limited (EBL) & Punjab National Bank (PNB) has the authority to appoint up to five executives including managing director of EBL. EBL is to pay a certain sum of money as management fee to PNB. However, EBL is responsible to grant accommodation facilities, transportation facilities and education allowance for the children of these executives.

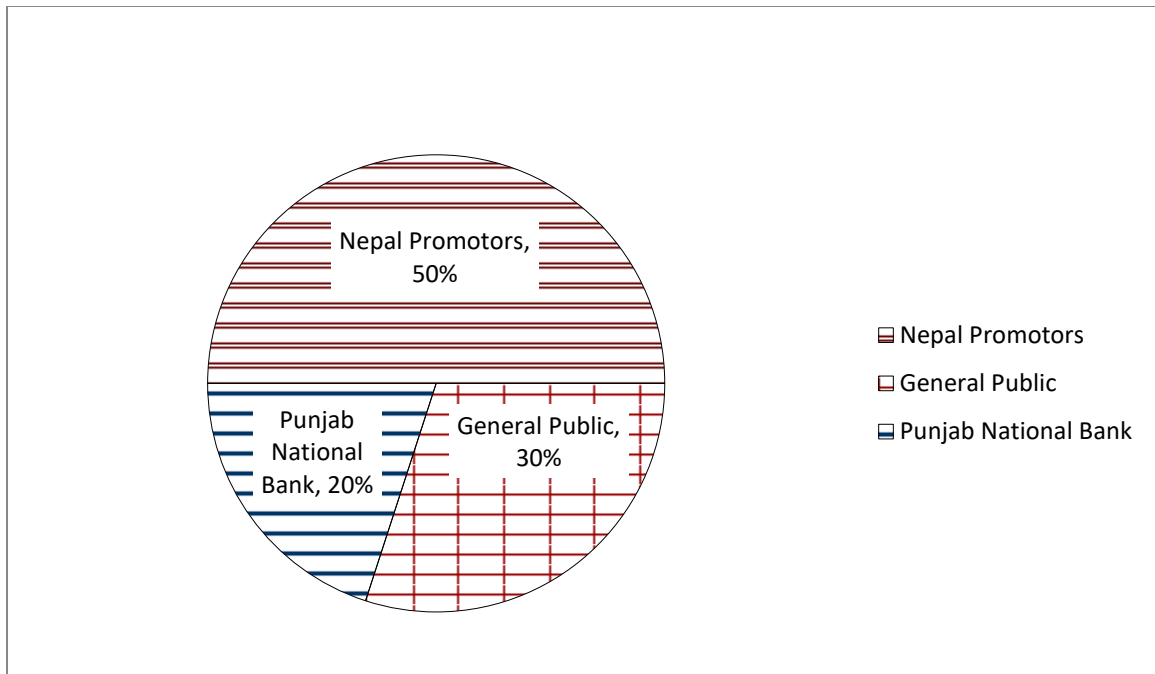
2.3.3 Share capital

The bank was started with an authorized capital of Rs.240.00 million paid up capital of Rs. 120.00 million. Over the years the authorized capital has been increased to Rs. 615.21 million and paid up capital has been increased to Rs. 316.90 million. The beginning share holding patterns of EBL was as follows:

A group of companies holding 50% of the capital Nepal promoters. Panjab National Bank holding 20%. The remaining 30% being held by the General Public (*www. EBL. com. np*).

The share holding model of EBL is shown in pie chart below:

Figure 2.4
Pie Chart showing status of Deployment



(Source: *www.ebl.com.np*.)

2.3.4 Branches.

Everest Bank Limited has the prime local network in the country and under the control of central bank of Nepal. It has an employee composition of 568 staffs. The head office of the bank is located at Lazimpat, Kathmandu. Besides, the head office, the bank has 46 branches with in the country. The bank is planning further more branches in the country. Branch details until fiscal year ended 2010/11 are as follows:

Table 2.1

Kathmandu office, Darbarmarg		
1	Bagbazar Branch	Padmakanya Campus Road, Kathmandu
2	Baglung Branch	Aawa Road, Baglung
3	Balaju Branch	Nayabazar, Kathmandu
4	Baneshwor Main Branch	New Baneshwor, Kathmandu
5	Besisahar Branch	Besisahar, Lamjung
6	Bhairahawa Branch	Prahari Tole, Siddhartha Nagar, Bhairahawa
7	Bhaktapur Branch	Suryabinayak, Bhaktapur
8	Biratnagar Branch	Mangala Devi Super Market, Morang
9	Birgung Branch	Adarshanagar, Birgung, Porsa
10	Birtamode Branch	Sanishare Road, Jhapa
11	Butwal Branch	Malli Complex, B.P. Chowk, Rupendehi
12	Chabahil Branch	Chabahil, Kathmandu
13	Chandranigahapur Branch	Gaur Road, Rautahat
14	Dhangadi Branch	Dhangadi, Kailali
15	Dubahi Branch	Dubahi, Sunsari
16	Golfutar Branch	Golfutar, Kathmandu
17	Gorkha Branch	Shakti Chowk, Gorkha Bazar, Gorkha
18	Gwarko Branch	Gwarko, Kathmandu
19	Hetauda Branch	Bank Road, Hetauda, Makawanpur
20	ICD (Dry Port)	Birgung Branch, Parsa
21	Ithari Branch	Ithari, Sunsari
22	Janakpur Branch	Mills Area, Janakpur, Dhanusa
23	Kalimati Branch	Kalimati, Kathmandu
24	Kritipur Branch	Nayabazar, Kritipur, Kathmandu

25	Krishnanagar Branch	Krishnanagar Bazar, Kapilvastu
26	Kushma Branch	Shahid Chowk, Kushma Bazar, Parbat
27	Lagankhel Branch	Lagankhel Bus Park , Lalitpur
28	Lazimpat Branch	EBL House, Lazimpat, Kathmandu
29	Lekhnath Branch	Taal Chowk, Lekhnath, Kaski
30	Lumbini Branch	Madhuvani VDC- 08, Rupendehi
31	Maitidevi Branch	Maitidevi, Near Seto Pul, Kathmandu
32	Narayangarh Branch	Sahidpath, Narayangarh, Chitwan
33	Nepalgung Branch	Surkhet Branch, Nepalgung
34	New Road Branch	New Road, Kathmandu
35	Pokhara Branch	New Road, Pokhara
36	Pulchowk Branch	Pulchowk, Lalitpur
37	Sandhikharka Branch	Sandhikharka VDC-09, Argakhachi
38	Satungal Branch	Satungal, Kathmandu
39	Simara Branch	Simara Chowk,Bara
40	Surkhet Branch	Birendra Chowk, Surkhet
41	Syangya Branch	Sahidchowk, Putalibazar, Syangja
42	Tatopani Branch	Tatopani Liping, Sindhupalchok
43	Taulihawa Branch	Purano Haat Bazaar, Taulihawa,Kapilvastu
44	Teku Branch	Teku, Kathmandu
45	Thamel Branch	A One Business Complex,Thamel,Kathmandu
46	Tulsipur Branch	BP Chowk, Tulsipur, Dang

(Source: Annual Report of EBL)

2.3.5 Management Team

Table 2.2

Management Team

S.N	Name	Post
1.	Mr. P.K. Mohapatra	Chief Executive Officer
2.	Mr. H.P. Kulkarni	Deputy General Manager
3.	Mr. J.K. Arora	Deputy General Manager
4.	Mr. Hum Nath Gurung	Deputy General Manager
5.	Mr. Pramod Raj Sharma	Company Secretary

(Source: Annual Report of EBL)

2.3.6 Department Head

Table 2.3

Department Head

S.N	Name	Department
1.	Mr. Rajan Kayastha	Accounts Department
2.	Mr. Keshab Raj Poudel	Credit Department
3.	Mr. Shirish Bohra	Correspondent Banking & Remittance Department
4.	Mr. Nila Hari Acharya	General Administration Department
5.	Mr. Kumar Joshi	Human Resource Department
6.	Mr. Raghunath Pradhan	Inspection Department
7.	Mr. Bijay Kumar Gautam	IT Department
8.	Mr. Dharma Prasad Gauli	Legal Department
9.	Mr. Sukra Prasad Gautam	Treasury Department

(Source: Annual Report of EBL)

2.3.7 Abroad Representative

Table 2.4

EBL Representative Abroad

S.N	Name	Country
1.	Ram Raja Upreti	India
2.	Deepak Bajimaya	Malaysia

3.	Ganesh Lamichhane	Quatar
4.	Bishal Dahal	United Arab Emirates
5.	Parashu Ram Subedi	United Arab Emirates

(Source: Annual Report of EBL)

2.3.8 Corporate Vision and Mission of EBL

Everest Bank Limited has defined its objectives and target in its vision and mission statement, which states as follows:

Vision

The vision of the bank has been stated as “Bankers with profitability, professionalism and excellence.” It is mentioned that the profitability is the core vision that shall be achieved with professionalism and excellence. Main points in a Corporate vision are as follows:-

- To position it as a progressive and customer friendly bank providing financial and other related services.
- To cater to various segments of society using advanced technology.
- To be committed to excellence in corporate values.

Mission

The mission of bank states “we at Everest Bank Limited our goals is to aim and achieve the highest standard of professionalism and service to create a lifelong relationship with our client by providing personalized financial products and services through practical management.” It further states “our multinational team of innovative and dynamic master minds demonstration across the geographical and cultural boundaries with contemporary, competitively designed and differentiated quality financial products and services or achieve strategic advantages in a dynamic environment.” Main points in a Corporate Mission are as follows:-

- To provide excellent professional services & improve its position as a leader in the field of financial related services.
- To build & maintain a team of motivated and committed workforce with high work ethos.
- To use the latest technology aimed at customer satisfaction & act as an effective catalyst for socio-economic developments

Hence, the objectives and goals set by the bank can be noted from above statements are as follows:

- To aspire and achieve highest standard of professionalism.
- To maintain and cater society using latest technology for customer satisfaction.
- To aspire and achieve to provide highest standard of customized products and services to their clients.

- To build skilled workforce for socio-economic developments.
- To keep management proactively.
- To accomplish strategic advantages in the dynamic environment over their contemporary with their competitively designed and differentiated quality financial products.

Corporate Philosophy

The objective of the bank has been further reflected in the corporate philosophy of the bank that states as follows:

Life long relationship with our client is our valuable asset. We serve with excellence, always standing by to cater the need of our valued client. We developed relationship of mutual respect and faith founded on the bedrock of commitment to provide with value added and quality service. We create an environment that is progressive, productive and professional encouraging, management by grouping objectives and teamwork through proactive and multidisciplinary management to promote corporate excellence. We strive to enhance shareholders wealth remaining catalyst to the rapid growth and socio economic development of the nation.”

2.4 Review of Related Studies

Profit planning and control procedure is necessary for every type of organization. In this section of “review of related studies”, we can gather different approaches, method and recommendation of different scholars, writers and researchers which are suitable for developing profit planning and control system. Commercial banks came into the existence mainly with the objectives of collecting the idle funds mobilizing them into proactive sector and causing on overall economic development. Any institution accepting deposits subject to withdrawal on the demand and granting loans to the different sector, creation of credit is done by a bank. As far as the study concerned with the profit planning of commercial banks, we can collect different related studies of different resources as follows:

2.4.1 Review of Books

--- Philip Kotler (2003) has written the book “Marketing Management” which focuses on “*Winning markets through market-oriented strategic planning*” in which writer says “ It is more important to do what is strategically right than what is immediately profitable”.

Major Discussion Points in the Chapter:

- How strategic planning is carried out at the corporate and division levels?
- How is planning carried out at the business unit level?
- What are the major steps in strategically right process?

- How is planning, implementation and control carried out at the product level?

Major Dealing in the Chapter:

How do companies compete successfully in today's marketplace? One part of the answer is a commitment to creating and delivering superior value to target customers. We can add a second part: Successful companies know how to adapt to a continuously changing marketplace. They practice the art of market-oriented strategic planning, the managerial process of developing and maintaining a viable fit between the organization's objectives, skills and resources and its changing market opportunities. The aim of strategic planning is to shape the company's business, products, service, and, messages so that they can achieve targeted profit and growth.

Summary of the Chapter:

- Strategic planning takes place at four levels: corporate, division, business unit, and product. The aim of strategic planning is to shape the company's businesses and products so that they yield target profits and growth.
- Corporate headquarter is responsible for setting the strategic planning process in motion. The corporate strategy establishes the framework within which the divisions and business units prepare their strategic plans.
- Strategic planning for individual businesses entails the following activities: defining the business mission, analyzing external opportunities and threats, analyzing internal strength and weakness, formulating goals, formulating strategy, formulating supporting programmes, implementing the programs, and gathering feedback and exercising control.
- The marketing process consists of four steps: analyzing market opportunities, developing marketing strategies, planning marketing programs and organizing, implementing and controlling the marketing effort.
- Each product level within the business unit must develop a marketing plan for achieving its goal. The marketing plan is the one of the most important outputs of the marketing process.

--- Ojha and Gautam (2010) "*Budgeting: Profit Planning and Control*", published by Asmita Books, According to the books-

Profit Planning and control involves:

- Development and application of broad and long range objectives for the enterprises,
- Specification of goals,
- Development of strategic long range profit plans in broad terms.

- Specification of tactical short range profit plans detailed by assigned responsibilities.
- Developing a system of periodic performance reports detailed by assigned responsibilities.
- Control System,
- Follow up procedures

Fundamentals points of Profit Planning and Control are:

- Managerial involvement and commitment.
- Organizational adaptation.
- Responsibility accounting.
- Full communication.
- Realistic expectation.
- Flexible application.
- Timeless.
- Individual and group recognition.
- Follow up.

Limitation of Profit Planning and Control are:

- Based on Estimates.
- Danger of rigidity.
- Application for long period.
- Automatic Execution is not possible.
- Not substitutes for management.
- Costly affairs.
- Proper evaluation.
- Lower morale and productivity.

2.4.2 Review of Journal and Article

--- Arora,Kalpana (2012) columnist of “The Himalayan Times” - English national daily of Nepal dated June 24,2012 under the heading ”*Moving up the ladder* “which describes the Succession Planning and Capability Building Can Optimise the Benefits for both the Individual as well as the Organization. The main idea of the article related to The Problem and solution of the topic are as follows. *(The author is learning and development professional and the chief synergist at Kiai Peoplez Solutions at New Delhi)*

Major Focus Question of the Article

Why excellent team members failing miserably as team leaders?

Discussion

Many team members have the requisite skill set for the role of a team member; they lack skills for higher position. They are unable to replicate the magic when put in charge of a team. Following are some skills that are critical for those in a managerial or leadership role:

- Communication
- Problem Solving
- Decision Making
- Team Management
- Interpersonal skills
- Pro-activeness and initiative

It is important that an organization as well as the individual takes the initiative to build these skills so that concerned employees are able to shoulder higher responsibilities with the same ease and comfort.

Steps that can be taken by the organization:

- Defining functional and behavioral competencies for each position in the organization.
- Assessing and measuring the competencies to find out which employees have the requisite competencies for the next level positions.
- Building the competencies required through training, coaching and mentoring.
- Grooming and preparing employees in advance for senior level positions so that they can make an easy and natural progression.
- Having a career path in place and building confidence that organizational initiatives of skills development are aimed at career progression.

Steps that can be taken by the Individual:

- Constant up-gradation of industry and job knowledge-current as well as future trends.
- Volunteering for additional responsibilities or sharing responsibilities of their supervisors to get more and more exposure.
- Identifying the areas of their development and actively engaging in building those areas-individually as well as through organizational support.
- Having flexibility and willingness to learn and do more.

--- Report- Published in “The Kathmandu Post-Money Finance and Economy” dated april 9, 2012 under the heading “ *Rastriya Banijya Bank (RBB) submits three-year capital plan to central bank*”.

Under the Rs 12.5 billion plan, the bank seeks to fulfill the core capital requirement of Rs 8.5 billion in the first two years. RBB says the amount can be raised either by issuing right shares or issuing bonds. The bank plans to issue debenture for raising the supplementary capital of Rs 4 billion in the third year.

The Central bank and the government should approve the plan to take it to implementation phase. But the government has been reluctant to inject billions of Rupees to rescue RRB. The government is holding discussions with the World Bank about the possibilities of getting soft loans for injecting capital in RBB.

--- Report- Published in “The Kathmandu Post-Money Finance and Economy” dated June 28, 2012 under the heading “*Bank lending down while deposits swell*”. The report is as follows:

“Commercial banks have been able to lend just over 50 percent of their deposits this fiscal year. With only two weeks left for the fiscal year to end, commercial banks are struggling to increase their lending which has stagnated throughout the fiscal year.

Bank deposits surged by Rs 133.42 billion in the first 11 months while lending has remained at Rs 69.98 billion. For the last 11 months, the credit-to-deposit ratio has been mere 52 percent which means that for every Rs 100 collected as deposit, Rs 52 has been lent. As per international practice, a healthy credit-to-deposit ratio would be 80 percent.

(First 11 Months)		
	Fiscal Year 2010-11	Fiscal Year 2011-12
Deposit	Rs 687.58 billion	Rs 821 billion
Credit	Rs 528.02 billion	Rs 598 billion

The current situation is reversal over last year where Nepal Rastra Bank has to caution the banks regularly to maintain the credit-to-deposit ratio as prescribed by the central bank. Credit demand that looked to be improving in the third quarter has again declined in the last two months, in the last two months, banks deposits increased by Rs 32 billion while lending increased by Rs 11 billion only.

According to bankers, banks have learnt from last year’s liquidity crisis and have become more conservative in their lending to ensure that their credit-to-deposit ratio remains at a

comfortable level.”This also affected credit flow,” according to a banker. They say such slumps in lending will seriously affect the profitability of banks at the end of the fiscal year.

The aggregate profit of commercial banks had slumped by 15 percent by the end of the third quarter, and bankers are expecting a further decline by the end of the fiscal year. It is difficult to predict the actual figure, but the result of the fourth quarter will be much worse than that of the third,” said Sashin Joshi CEO of NIC bank.

Bankers attribute the political stalemate for the slow growth in credit demand. Dissolution of the Constitution Assembly (CA) has further pushed back investors’ investment plans and bickering over the new budget has made the private sector wary.

“The appetite for corporate loans has decreased significantly currently,” said BN Gharti, DGM of Kist Bank.”Hence, we have shifted our major thrust to areas like small and medium sized enterprises (SMEs) and agriculture business. He added that in order to improve the SME portfolio, Kist Bank’s board recently decided not to approve loans exceeding Rs 30 million.

Bankers say there has been a steady growth in lending to SMEs.”The portfolio doesn’t swell overnight while lending to such areas,” said Gharti.”It will take at least a couple of years.”

Along with squeezed credit demand, difficulties in loan recovery, especially realty loans, have added to the woes of banks.”Realty lending made in the past is still a big problem for banks as recovery has not been satisfactory,” said Joshi.”This will further hit profitability.” Problems in loan recovery have also pushed loan loss provisioning up, slashing profits. Other sources of income for banks are investment in government securities and inter-bank-lending.However; returns on both these investments are low at present. According to the central bank, the inter bank lending ratio rate is 0.56 percent and the return on 91-day Treasury bill is 1.25 percent.”

--- Report- Published in July 1, 2012 in “The Kathmandu Post-Money, Finance and Economy” under heading” *28pc fall in banks’ credit flow to private sector*”.

The Credit demand from industries like cement, iron and steel, which require more energy, has slowed down due to power crisis. Power crisis, protracted political stalemate and a slowdown in trading business have hit banks and financial institutions (BFIs) lending to the private sector. The growth rate of banks credit flow to the private sector has declined by almost 28 percent, according to the latest macro-economic report of the Nepal Rastra Bank. As of the first 10 months of this fiscal year, BFIs credit flow to the private sector increased by Rs 64.24 billion, compared to the rise of Rs 81.84 billion during the same period last year. Liquidity-rich BFIs also acknowledge that the demand for loans from corporate clients have slowed down considerably.”NRB statistics show the current

misery of BFIs-struggle for lending. It is a credit crunch,” said Anal Raj Bhattarai, CEO of Nepal Commerz and Trust bank.”There has been little demand for loans from both industrial and trading sector this year.

Bankers say continued depreciation of the Nepali rupee against the US dollar is another factor affecting credit flow, especially to the trading business. Importers are in wait and see mode as an appreciating dollar has made them rethink their plans to open letters of credit for fresh imports.

Bankers also attribute low credit demand to weak business confidence in the country.”Despite decreasing interest rates, banks are finding it hard to lend,” said Bhattarai, adding that interest rates on prime loans has come down to 10 percent from 13 percent.”I don’t think a further decrease on lending rates is the solution to the problem.”Bankers do not see the situation improving anytime soon.”People will rethink their investment plans as the country headed towards political uncertainty following the dissolution of the Constitution Assembly,” said Upendra paudel CEO of NMB bank.

The recession in lending will also affect profits of BFIs this year as lending is their biggest profit maker. Banks are also not willing to invest in NRB’s treasury bills due to low return-below 1 percent.”This means, banks’ profits will be severely affected this year,” said Poudel.

2.4.3 Review of Thesis

--- Thapa,Tirtha Bahadur (2006) has conducted study on “*Profit Planning in Merchandising Company: A case study of National trading Limited*”

Objectives of the Study are :

- To examine the practical and effectiveness of profit planning in National Trading Limited.
- To analyze the various functional budgets adopted by National Trading Limited.
- To evaluate the performance of budgeted and actual in NTL.
- To provide summary finding and recommendation.

Major Findings:

- NTL does not take in account its weakness and strength to support planned activities.
- NTL fails to maintain its periodic performance report for the evaluation of performance to find the underlying causes of poor achievements.
- It seems that budgeted sales are higher than actual sales.

- Financial position of NTL is not satisfactory.
- There is low degree of positive correlation between sales and profit and negative correlation between profit and assets.
- There is not complete and comprehensive budgeting system.
- NTL is operating above BEP and enjoying profit but not appropriate.

--- Kharel, Sushank (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 of the Study are:

- 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 between 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 then 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 invested 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.
- The return on loan and advances ratio and return assets of EBL is lowest of all. The ratio suggests that the earning capacity of the bank’s loan and advances is satisfactory.
- The total interest paid to working fund ratio is less than the interest earned to total working fund ratio. Therefore, it is profitable position as it is getting higher return that is interest cost.
- The degree of risk is average on EBL. The credit risk ratio is higher than the compared banks. However, the lowest C.V. of liquidity risk ratio and capital ratio over the study period provided for the assurance of consistency of the degree of risk.

- EBL has showing its good performance by increasing the total deposit loan and advances and investment in profitable sectors interested earnings by providing loan to clients.
- The trend of the total investment, total deposit loan and advances net profit of EBL shows better position than that of NABIL and BOK.

--- Chhetri,Him Bahadur (2010) is conducted a research entitled “*Profit planning of commercial Banks “A case study of Everest Bank Limited, Nabil Bank Limited and Bank of Kathmandu Limited”*” his objectives and some of major findings are listed below:

Objectives of the Study are:

- To find out the relationships 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.
- To provide suggestions and possible guidelines to improve investment policy and its problems.

Major Findings:

- Profit is fluctuating based on various related variables.
- Coefficient correlation between variables is positive.
- The trend analysis shows that all are in increasing trend.
- The assets quality & ratios of the bank is higher side.
- Lending policy as well as some restriction provided by NRB seems to be in the way of the bank to reach its objectives.

--- Kunwar,Parwati (2011) has made study on “*Comprehensive profit planning and control of Everest Bank Limited,*” her objectives and major findings are as follows:

Objectives of the Study are:

- To analyze the trend of profit EBL.
- To highlight the current profit planning premises adopted and its effectiveness in EBL.
- To observe EBL’s profit planning on the basis of overall managerial budgets developed by the Bank.
- To analyze the variance of budgeted allocation and actual achievements.
- To study the growth of the business of the Bank over the period.
- TO provide suggestion and recommendations for improvements of the overall profitability of the bank.

Major Findings:

- The general trend of bank's profit is growing stage but cost is not quite been able to make up to its profit potentiality.
- EBL Bank lacks active and organized planning department to undertake innovative products R & D works.
- The major resources of EBL bank are cost bearing deposit.
- Major portion of resources has been deployed in loan and advances.
- LDO ratio & CD ratios of the bank are at higher position.
- Lending policy as well as some restriction provided by NRB seems to be in the way of Bank to reach its major objectives.

--- Acharya,Rita Kumari (2011) has conducted a research work on the topic of "Analysis of *profit planning procedure-with reference to Nepal SBI bank Limited* "Following are the major objectives and major findings of her thesis work:

Objectives of the Study are:

- To observe Nepal SBI's profit planning based on overall budgets by the bank.
- To analyze the variance of budgeted allocation 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:

- NSBI has followed profit plan at different component.
- NSBI performs SWOT analysis before prepare of profit plan.
- NSBI has three types of core planning team to make plan, policy,program and budget.
- NSBI is well performing in the deposit collection.
- The researcher found that the 100% of achievement of targets in resources other than deposit.
- The status of income generating deployment of loan and advances is in increasing trend over the period.
- The current ratio of NSBI has not meet 2:1,it means the firm has meeting current obligation.
- The bank has not been able to maintain a minimum level of co-ordination between the departments and staff.
- 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.

- Budget is prepared just to fulfill the formalities but these are not used effectively from the profit planning process.
- Cash flow analysis of the bank shows the sources of cash inflow are adequately met by the bank for the cash outflow.
- Deposit mobilization is the major contributor for cash inflow in the bank.
- Loan and Advances is the major cash outflow factor of the bank.

2.5 Research gap:

Today's world is marketed by rapid changes and new developments, as such researcher conducted a few years may not be adequate to explain current phenomena. Thus, continues attempt needs to be taken and new researcher and conducted to build or existing know ledge base interpret and analyze events in the face of dynamism.

Most of 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 far that has been related to profit planning system of commercial bank in Rastra Banijya Bank, Himalayan Bank, Standard Chartered Bank, Nepal Bangladesh Bank. All the dissertations have pointed out that there is no proper profit planning system recommend for the effective implementation of profit planning system in the concerned institution. Through many affiliate researchers have been done in this area but these have been very few excusive researchers on this subject. This study may be a new study in this field as no study has been made profit planning of NIBL. 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 extraordinary items of income generation in financial intuition. To bring the forth 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 many 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:

The core purpose of this stage is to discuss the research methodology such as research design, population and sample, Data collection technique and analytical tools of the research study. It is commonly accepted that research is simply the process of arriving at dependable solution to problem through the planned and systematic collection analysis and interpretation of data. It is main tools for advancement of knowledge and accomplishment of purpose, thus research methodology is a way to systematically solve the research problem. It may be understood as science of studying how research is done scientifically (Kothari 1990/Shakya 2008:57). Research Methodology, as a vital part of research study, describes the various sequential steps to be adopted by research in studying research problem along with the logical behind them.

This study has strong relation with application of planning and control in a commercial bank with a specific reference to Nepal Investment Bank regarding the objectives to analyze, examine and interpret the application of profit planning in the Bank. The Research methodology includes:

- Research Design
- Population and Sample
- Hypothesis
- Nature and sources of Data
- Data Collection Procedure
- Research Variable
- Time Period of Profit Plan
- Methods of Data Analysis
- Method of Presentation

3.2 Research Design

Research design is considered as a "blueprint" for research. It deals with at least following four major problems:-

- Which questions to study?
- Which data are relevant?
- What data to collect?
- And how to analyze the results?

The best design depends on the research question as well as the orientation of the researcher. Every design has its positive and negative sides.

Research design can be divided into fixed and flexible research designs (**Robson, 1993**). Others have referred to this distinction as 'quantitative research designs' and 'qualitative research designs,' respectively. However, fixed designs need not be quantitative, and flexible design need not be qualitative. In fixed designs, the design of the study is fixed before the main stage of data collection takes place. Fixed designs are normally theory driven; otherwise it's impossible to know in advance which variables need to be controlled and measured. Often, these variables are measured quantitatively. Flexible designs allow for more freedom during the data collection process. One reason for using a flexible research design can be that the variable of interest is not quantitatively measurable, such as culture. In other cases, theory might not be available before one starts the research.

This study is a case study in nature. A true research design is concerned with various steps to collect the data for analysis and draw a relevant conclusion. Recommendation is another important aspect of design strategy. The research design allows the researchers to take an appropriate measure and direction towards the predetermined goals and objectives. A research design is the arrangement of conditions for the collection and analysis of data in a manner to combine relevance to the research purpose with economy in procedure. Research design is the plan, structure and strategy of investigation imagines obtaining answers to research questions and controlling various things. This study is an examination and evaluation of budget process in profit planning program of Everest Bank Limited. Various Functional budgets and other related accounting information and statement of Bank are the materials to analyze and evaluate the profit planning system of the Bank. Descriptive as well as analytical research designs have been adopted in this research. This is a case study research.

3.3 Population and Sample

This research aims to studying the profit planning aspect of commercial bank taking the case study of a single bank i.e. Everest Bank Limited and data have been analyzed for five years. Therefore, the fix year's data have been taken as sample for this case study.

3.4 Hypothesis

In common usage in the 21st century, a hypothesis refers to a provisional idea whose merit requires evaluation. For proper evaluation, the framer of a hypothesis needs to define specifics in operational terms. A hypothesis requires more work by the researcher in order to either confirm or disprove it. In due course, a confirmed hypothesis may become part of a theory or occasionally may grow to become a theory itself.

In statistical hypothesis testing two hypotheses are compared, which are called the **null hypothesis** and the **alternative hypothesis**. The null hypothesis is the hypothesis that states that there is no relation between the phenomena whose relation is under investigation, or at least not of the form given by the alternative hypothesis. The alternative hypothesis, as the name suggests, is the alternative to the null hypothesis: it states that there is some kind of relation. The alternative hypothesis may take several forms, depending on the nature of the hypothesized relation; in particular, it can be two-sided (for example: there is some effect, in a yet unknown direction) or one-sided (the direction of the hypothesized relation, positive or negative, is fixed in advance).

It is important to mention that the above procedure is actually dependent on the number of the participants (units or sample size) that is included in the study. For instance, the sample size may be too small to reject a null hypothesis and, therefore, is recommended to specify the sample size from the beginning. It is advisable to define a small, medium and large effect size for each of a number of the important statistical tests which are used to test the hypotheses.

For the target of the study, following null and alternative hypothesis has been developed:-

Null hypothesis; H_0 ; $\mu_1 = \mu_2$ there is no significant difference in profit planning and control of EBL.

Alternative Hypothesis, H_1 ; $\mu_1 \neq \mu_2$ there is significant difference in profit planning and control of EBL. (Two-tailed)

3.5 Nature and Sources of Data

This study is basically conducted on secondary data, depending on the nature of data and information.

The main sources of secondary data are quarterly and annual financial reports, official records, web site, published and unpublished reports, Magazines publication, personnel dialogues, prospectus and other relevant publications of EBL, NRB, central Bureau of Statistic and relevant publications. From these sources, the relevant historical data are gathered for analysis purpose.

3.6 Data Collection Procedure

Secondary data have been collected from the annual reports of EBL. Similarly other necessary data have been collected from the publication of coordination. Council of ministry of finance, Central bureau of statistic, National Planning Commission, official accounting and planning records of EBL publication of the Nepal Rastra Bank, the Central Bank of Nepal and related publication. For the reference of materials, the researcher visited library of Shankar dev Campus, Nepal commerce Campus and Central Department of T.U.

3.7 Data Processing

Data obtained from the various sources cannot be directly used in their original form. Further, they need to be verified and simplified for the purpose of analysis. Data, information's, figures and facts. So obtained need to checked, rechecked edited and tabulated for computation.

3.8 Time Period of Profit Plan

As per NRB, directives all the commercial Banks have identically to follow the accounting year of twelve months. Beginning from first Shrawan to end of Asadh which covers the last nine months of year (B.S) to the first three months of succeeding year (B.S.) EBL prepare the profit plan for twelve months of upcoming year which includes the business budget expenditure and profit plan for the year.

This study covers 5 years period from year 2063/64 (2006/07) to 2067/68 (2010/11) for this analysis. For the case of specific year study, the data of fiscal year 2067/068 (2010/11) have to analyze.

3.9 Methods of Data Analysis

Data collected from different source are in raw form and in the initial stage as judging independently does not help much. Thus, the help of various financial and statistical tools to achieve the objectives converts these data.

Financial Tools

Under this heading following financial ratios are calculated:

1. Liquidity Ratios

- a) Current Ratio.
- b) Cash and bank balance to current assets ratio.
- c) Investment on government securities to current assets.
- d) Loan and advance to current assets.
- e) Cash and bank balance to total deposit ratio.

2. Activity Ratio

- a) Loan and advances to total deposit ratio.
- b) Total investment to total deposit ratio.
- c) Loan and advances to total assets employed ratio.

3. Profitability ratio

- a) Return on equity.
- b) Interest earned to total assets employed ratio.
- c) Interest paid to total assets employed ratio.
- d) Interest earned to opening income ratio.
- e) Return on total assets employed ratio.
- f) Return on loan and advances ratio.
- g) Earnings per share.

Statistical Tools

Under this heading following statistical tours are calculated:

- 1) Percentile increment
- 2) Arithmetic Mean Average
- 3) Correlation Coefficient
- 4) Standard Deviation
- 5) Regression Analysis.
- 6) Coefficient of variance
- 7) Probable Error.
- 8) Test of goodness of fit of the Regression Estimation.
- 9) Coefficient of Determination.

1. Percentile Increment

This statistical tool gives the percentage change of previous year to current year. This tool helps to find out the increment in the study variable. Simply, the word percentage means

per hundred. In other word, the fraction with 100 as its denominator is known as percentage and numerator of this fraction is known as rate of percent.

2. Arithmetic Mean Average

The arithmetic mean is the “standard” average, often simply called the “mean”. The central values that represent the characteristics for the whole distribution or 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 given set of observation is their sum divided by the number of observation.

$$\bar{x} = \frac{1}{n} \cdot \sum_{i=1}^n x_i$$

The mean may often be confused with the median, mode or range. The mean is the arithmetic average of set of values, or distribution

3. Correlation of coefficient

Correlation analysis is statistical tool. It is used to find the relationship between variables. If two quantities vary in such a way that movement in one are accompanied by movements in the other these quantities are correlated. It shows the effect on other variable due to the change in one variable. The degree of relationship between the variables under consideration is measured through the correlation analysis. Thus correlation is statistical device, which helps us in analysis the co-variation of two or more variables. Karl Person’s Coefficient of correlation is widely used in practice. The person’s coefficient of correlation is widely used in practice. The person’s Coefficient of correlation is denoted by the symbol “r”.

The formula for computing Person’s “r” is :

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \times \sqrt{\sum y^2}}$$

Where,

r= the correlation coefficient

r =the correlation coefficient

$$x = X - \bar{X}$$

$$y = Y - \bar{Y}$$

X =Independent variable

Y =Dependent variable

Following general rules are applied to interpret the coefficient of correlation:

When $r=+1$, it means there is a perfect positive relationship between the variables.

When $r= -1$, it means there is a perfect negative relationship between the variables.

When $r= 0$, it means that there is no relationship between the variables i.e. the variable are uncorrelated.

4. Standard Deviation (σ)

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.

$$\sigma = \sqrt{\frac{\sum (x - \bar{X})^2}{N}}$$

5. Regression Analysis

Regression is the statistical tool which is used to determine the statistical relationship between two or more variables and to make estimation of one variable on the basis other variables in other words regression is that statistical tool with the help of which the unknown value of one variable can be estimated on the basis of known value of the other variable.

6. Co-efficient of Variation (CV)

Standard deviation is the absolute measure of dispersion. The relative measure of dispersion based on the standard deviation is known as the co-efficient of standard deviation. “The co-efficient of dispersion based on standard deviation multiple by 100 is known as the co-efficient of variation”. (Bajracharya; 2061)

$$CV = \frac{\sigma}{\bar{X}} \times 100$$

It is used for comparing the homogeneity and the uniformity of two or more distribution. The less CV, more the uniformity and consistency etc will be and the more the CV is the less the uniformity, consistency etc. will be.

7. Probable Error (PE)

The probable error of the correlation co-efficient is applicable for the measurement of reliability of the computed value of the correlation co-efficient ‘r’. It is also denote by P.E. it is calculated by the following formula.

$$\text{Probable Error (PE)} = 0.6745 \times \frac{1-r^2}{\sqrt{N}}$$

Where,

R=Correlation Co-efficient

N=number of pairs of observation

P.E. is used to interpret whether the calculated value of r is significant or not.

(i) If $r < \text{P.E.}$, it is insignificant, i.e., there is no evidence of correlation.

(ii) If $r > 6 \text{ P.E.}$, it is significant.

(iii) If $\text{P.E.} < r < 6 \text{ P.E.}$, nothing can be concluded.

3.10 Method of Presentation:

The techniques of presentation used herein are most of descriptive and analytical nature and the data have been presented in tabular form. Some of important tabulated information of the data has been graphically represented and explained.

CHAPTER IV

DATA ANALYSIS AND PRESENTATION

4.1 Introduction

Data analysis and presentation is the body tool of methods that help to describe facts, detect patterns, develop explanations and test hypothesis in systematic manner. It is used in all of the sciences. It is used in business, in administration, and in policy. Examination of data is a process of inspecting, cleaning, transforming, and modeling data with the goal of highlighting useful information, suggesting conclusions, and supporting decision making. Data examination has multiple facets and approaches. Data examination is the process within which several processes can be found. The general process of data examination is as follows

- **Data Cleaning:** - It is an important procedure during which the data are inspected and erroneous data are corrected if necessary, preferable and possible. Data cleaning can be done during the stage of data entry.

- **Initial Data Examination:** - it is aimed at answering the original research question. The initial data analysis phase is guided by following data characteristics.
 - Quality of data
 - Quality of measurement
 - Initial transformations
 - Characteristics of data sample
 - Analysis(correlations, statistics and graphical techniques)

- **Main Data Examination:-** In the main analysis phase analyses aimed at answering the research question are performed as well as any other relevant analysis needed to write research report.

The research is based on the investigation and interpretation of collected data. Without investigation, interpretations and presentations of the primary and secondary data don't give any meaning. So, I am trying to investigate about existing available data as much as possible.

In this chapter, various elements and variables related with profit of bank are investigated. This study is mainly focused on analysis of revenue collection, deposit, loan and advances, investment, assets etc. by using financial and statistical tools such as mean, standard deviation, coefficient of variation, variance analysis. For this purpose, data of 5-years period from F|Y 2006/07 to 2010/11 of Everest Bank Limited have been used.

4.1.1 Human Resources of EBL

Up to fiscal year 2010/11 there are altogether 586 staffs in EBL. The following table shows the increasing trend of employees.

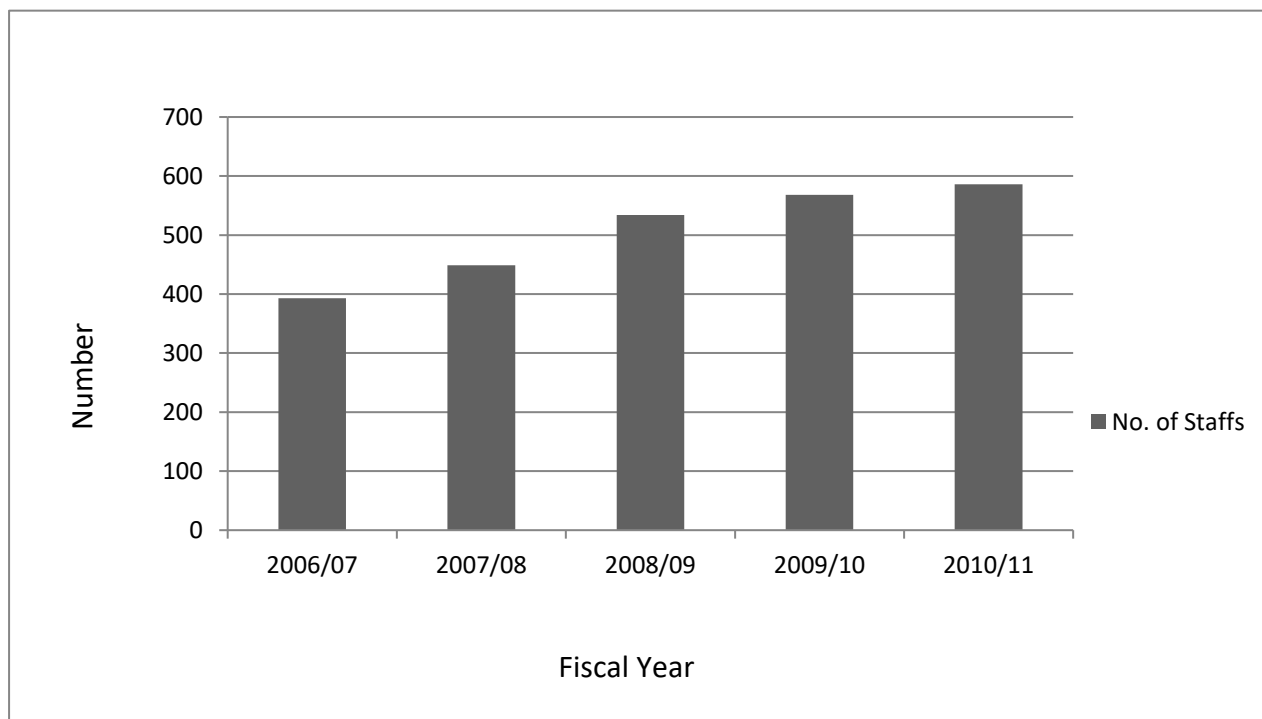
Table 4.1
Status of employees in EBL

Fiscal Year	2006/07	2007/08	2008/09	2009/10	2010/11
No of Staffs	393	449	534	568	586

(Source: Annual Report of EBL)

Following graph presents the increasing trend of staffs in the bank.

Figure 4.1
Graph showing increasing trend of staffs in EBL



From the above table 4.1 and Figure 4.1 it is clear that the number of staffs in EBL increasing yearly. In the F/Y 2006/07 it has 393 staffs in EBL and in the End of F/Y 2010/11 it has 586 staffs in EBL.

4.1.2 Branch offices of EBL

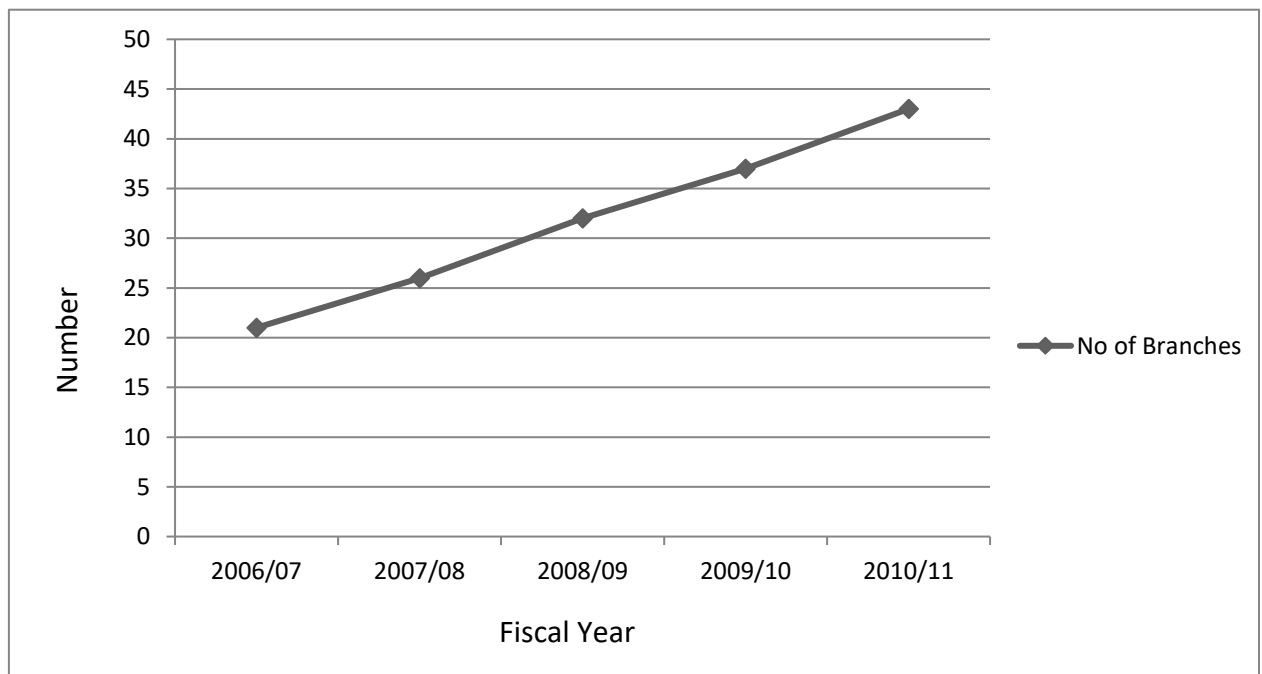
Up to Fiscal year 2010/11 there are 43 branches of the bank all over the country which is only 21 in fiscal year 2006/07. According to the annual report of the bank number of branches from fiscal year 2006/07 to 2010/11 presented in following table.

Table 4.2
Status of Branches of EBL

Fiscal Year	2006/07	2007/08	2008/09	2009/10	2010/11
No.of Branches	21	26	32	37	43

(Source: - Annual report of EBL)

Figure 4.2
Trend line showing increasing trend of Branch



4.1.3 Operating profit and Net profit of EBL

According to the annual report published by the bank operating profit and net profit of the bank from fiscal year 2006/07 to 2010/11 are as follows.

Table 4.3
Status of Operating and Net profit of EBL

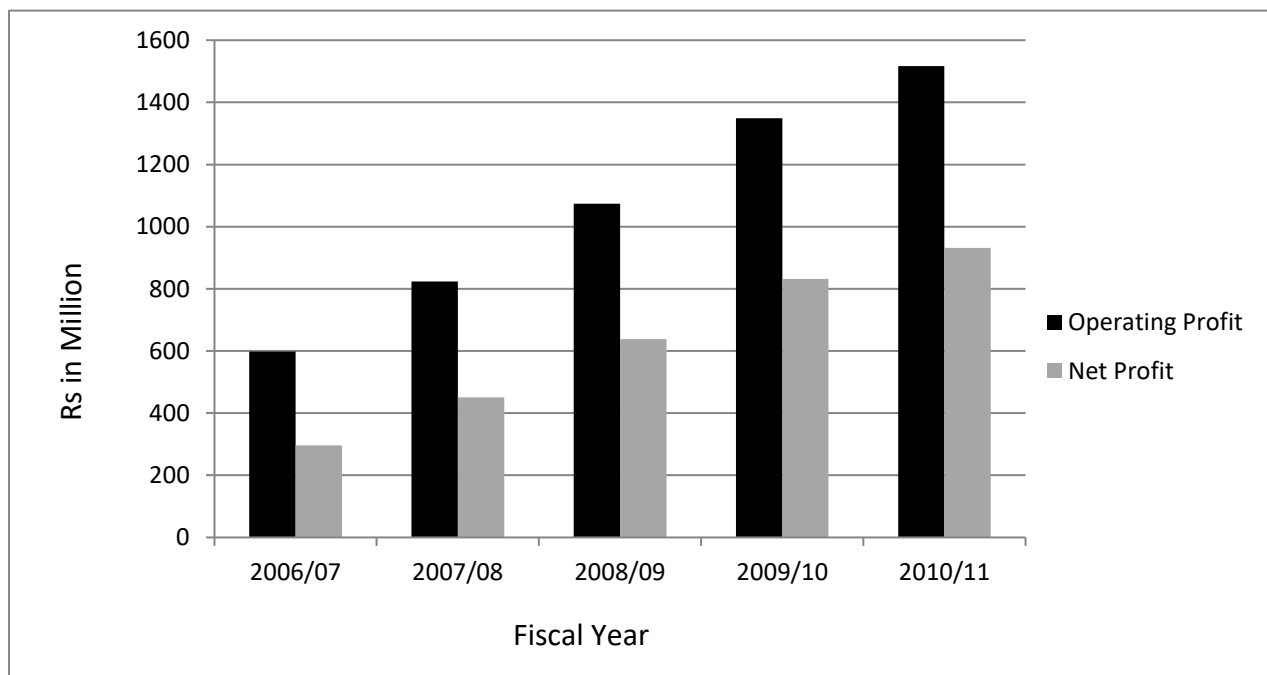
(Rs in Million)

Fiscal Year	2006/07	2007/08	2008/09	2009/10	2010/11
Operating profit	597.9	823.9	1073.5	1349.1	1516.7
Net profit	296.4	451.2	638.7	831.8	931.3

(Source: - Annual Report of EBL)

Following Graph presents the status of Operating and Net profit of EBL.

Figure 4.3
Graph Line Showing Operating and Net Profit of EBL



4.1.4 Total Income and Expenses of EBL

From the Annual Report of the bank total income and expenses from fiscal year 2006/07 to 2010/11 are as follows.

Table 4.4
Status of Total income and expenses of EBL

(Rs in Million)

Fiscal Year	2006/07	2007/08	2008/09	2009/10	2010/11
Total Income	1370.7	1848.2	2565.3	3500.8	4728.8
Total Expenses	772.8	1024.3	1491.8	2151.7	3212.1

(Source: - Annual Report of EBL)

Following line graph presents the comparison of increase in total income and expenses of EBL from fiscal year 2006/07 to 2010/11.

Figure 4.4
Line Graph showing increasing trend of Total Income and Expenses of EBL.

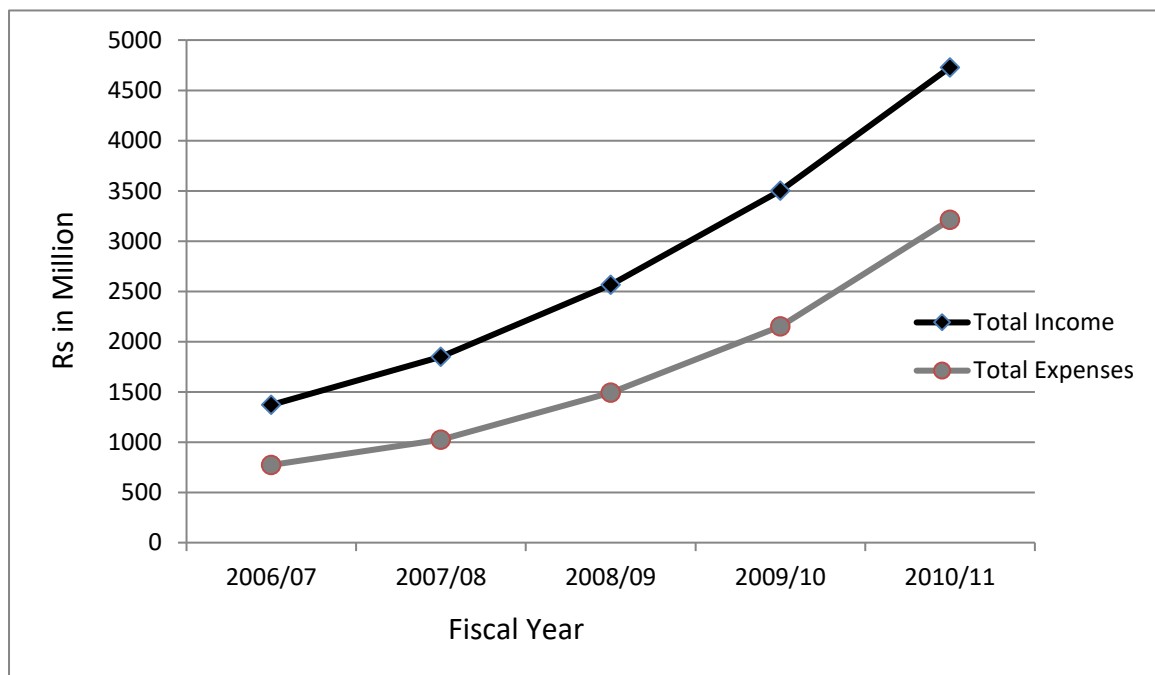


Table 4.5
Summary of Operating and Net Profit

Statistical Tool	Operating Profit (X)	Net Profit (Y)
Mean	1072.4	630.4
Standard Deviation	334.94	234.37
Coefficient of Variation(CV)	31.23%	37.17%
Correlation of coefficient (r)	0.9996	
Probable Error (PE)	0.0000241	

(Source: Appendix-1)

The above table shows that Net profit is more variable than Operating profit since the CV of Net Profit is higher than Operating Profit. Operating Profit is more consistent and homogenous and Net Profit is quite more variable in nature. A greater CV represents less homogenous. Significance of correlation of (r) tested with PE by the calculation it is found that $r = 0.9996$ and $PE = 0.0000241$. The figure of “r” shows that there is the somehow perfect correlation between Operating and Net Profit. The relation of PE with “r” is $r > 6PE$, so it is significant.

Table 4.6
Summary of Total Income and Expenses

Statistical Tool	Total Income (X)	Total Expenses (Y)
Mean	2802.8	1730.6
Standard Deviation	1201.33	876.96
Coefficient of Variation(CV)	42.86%	50.67%
Correlation of coefficient (r)	0.9966	
Probable Error (PE)	0.000204	

(Source: Appendix-2)

The above table shows that Total Expenses is more variable than Total Income since the CV of Total Expenses is higher than Total Income. Total Income is more consistent and homogenous and Total Expenses is quite more variable in nature. A greater CV represents less homogenous. Significance of correlation of (r) tested with PE by the calculation it is found that $r = 0.9966$ and $PE = 0.000204$. The figure of “r” shows that there is the somehow correlation between Total expenses and Total Income. The relation of PE with “r” is $r > 6PE$, so it is significant. So, the Total Expenses going on same direction.

4.1.5 Deposits, Loans & advances and Investments of EBL

The following table and graph presents the status of deposit, loans and investments of EBL during five year period of fiscal year from 2006/07 to 2010/11.

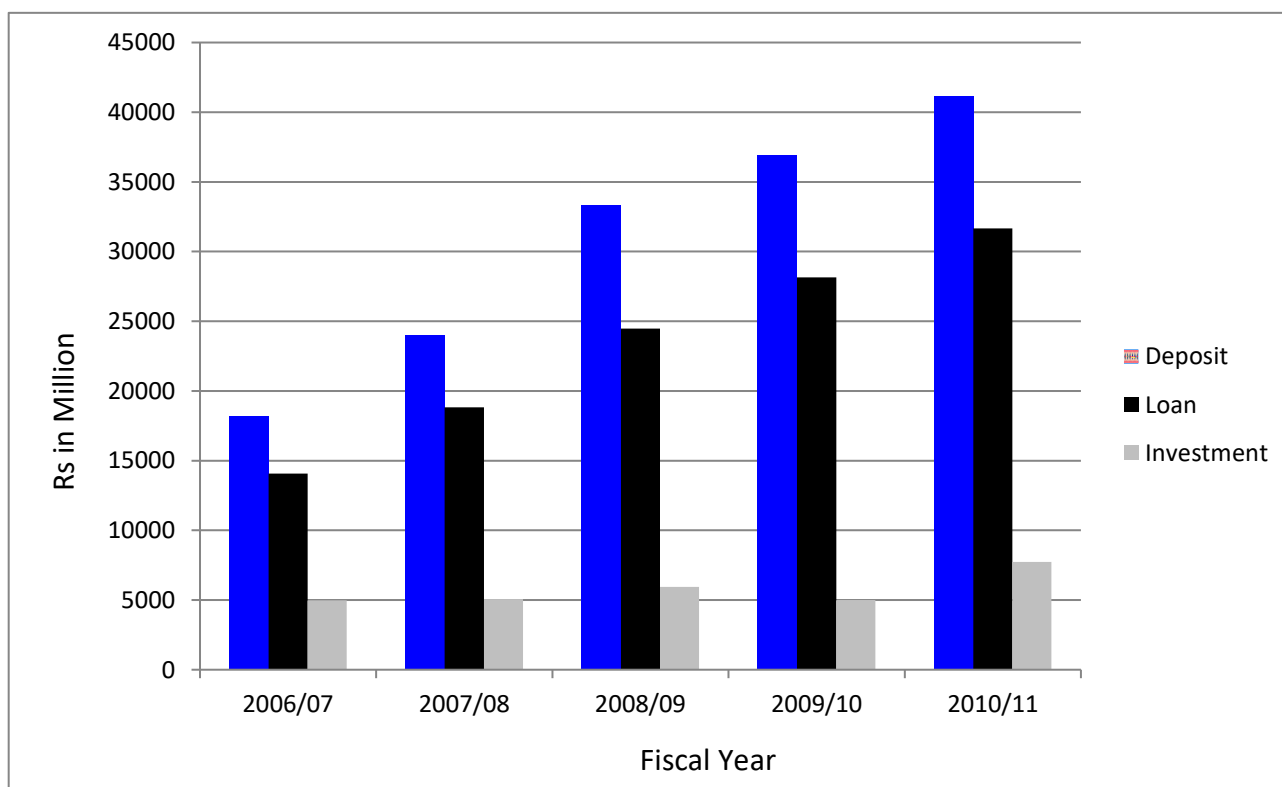
Table 4.7
Status of deposit, loan and investment of EBL

(Rs in Million)

Fiscal year	2006/07	2007/08	2008/09	2009/10	2010/11
Deposit	18186.2	23976.3	33322.9	36932.3	41127.9
Loan & Advances	14082.7	18836.4	24469.6	28156.4	31661.8
Investment	4984.3	5059.6	5948.5	5008.3	7743.9

(Source: - Annual Report of EBL)

Figure 4.5
Graph showing status of deposit, loan and investment of EBL



4.1.6 Resource Outline Planning

Resources are required fund which is needed for bank function and it includes cost bearing resources and cost free resources. Bank mobilizes its resources from following sources:-

- Capital Fund
- Loan and Borrowing
- Deposit Collection and
- Other Liabilities.

Among the above sources, the deposit collection is the major source of resource outline, which is in fact, one of the most important activities of a commercial bank. Loan and borrowing are obtained from local banks, foreign banks, central bank and other financial institution for a short period of time. The capital fund which includes reserve fund also is raised from shareholder's equity. The following table presents the status of available resources of EBL.

Table 4.8
Status of Available resources of EBL.

(Rs in Million)

Fiscal Year	Deposit	Borrowing	Shareholders Fund	Other Liabilities	Total Resources (Year wise)
	Amount	Amount	Amount	Amount	
2006/07	18186.2	300.0	1201.5	2163.4	21851.1
2007/08	23976.3	300.0	1921.2	1449.0	27646.5
2008/09	33322.9	612.0	2203.6	1363.2	37501.7
2009/10	36932.3	704.6	2759.1	1586.8	41982.8
2010/11	41127.9	782.0	3113.6	1816.8	46840.3

(Source: - Annual Report of EBL)

The following graph presents the increasing trend of total resources used by the bank during the five year period from fiscal year 2006/07 to 2010/11.

Figure 4.6
Graph line showing yearly increasing trend of total resources used by the bank during 5 year period.

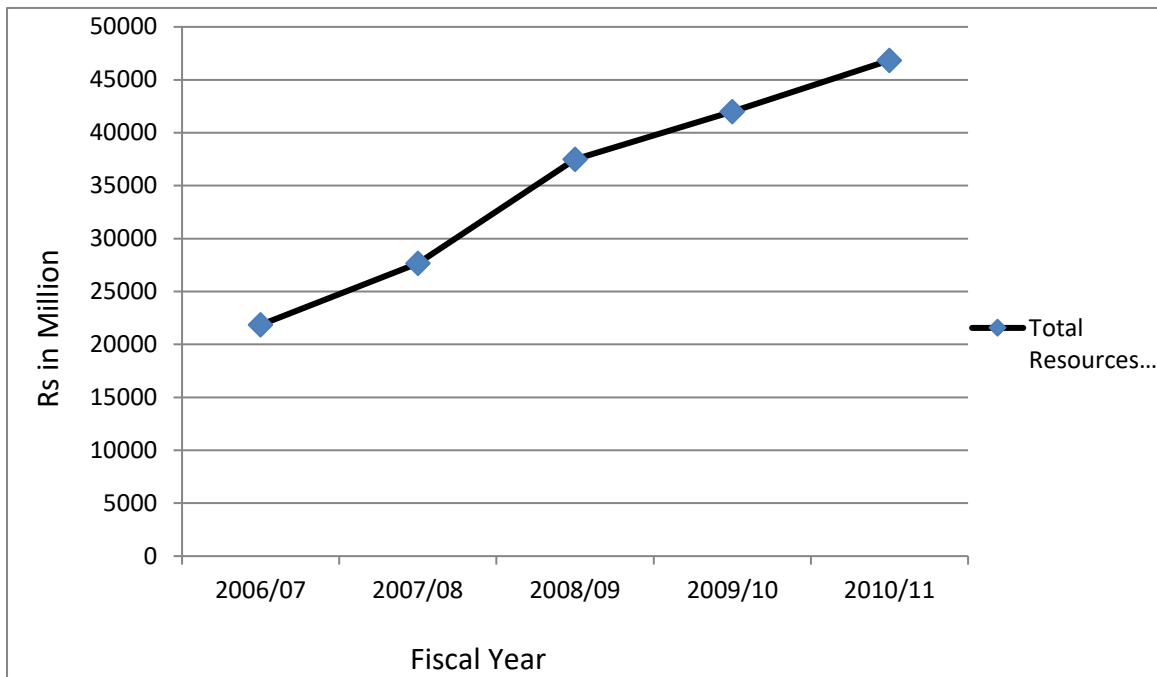
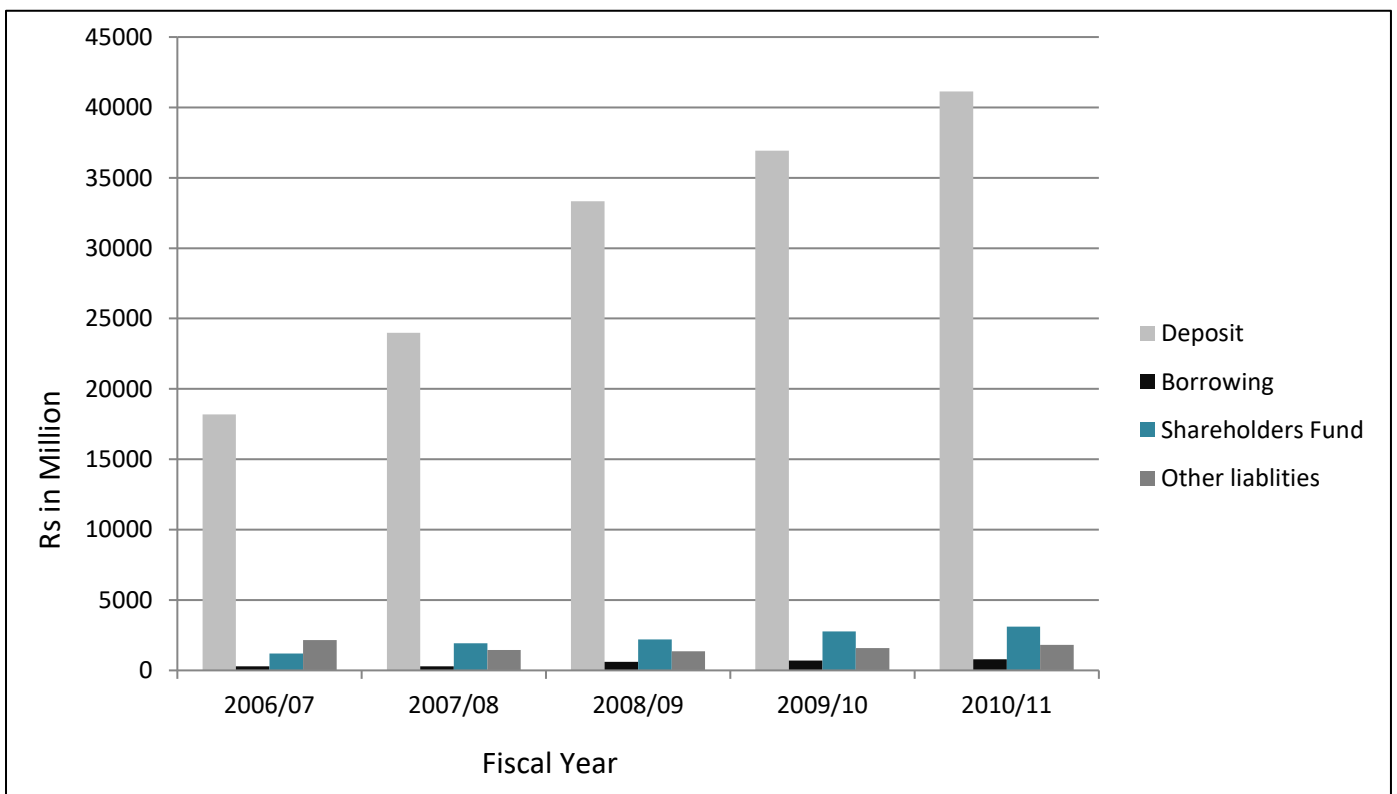


Figure 4.7
Bar diagram showing fiscal year wise available resources during 5 year period



On the basis of above data observation and data presentation, the deposit collection is a major source of fund collection. The bank has increased capital fund every year. Other liabilities has fluctuated trend during five year study period. So we have divided total resource in two parts. One is deposit collection and another is other resources (other than deposit).

- **From Customer Deposit Collection.**
- **Other Resources than Customer Deposit.**

Deposits from various sources (Deposit Mix) of the EBL during fiscal year 2010/11 are as follows:-

Table 4.9
Status of Deposit Mix in Fiscal year 2010/11

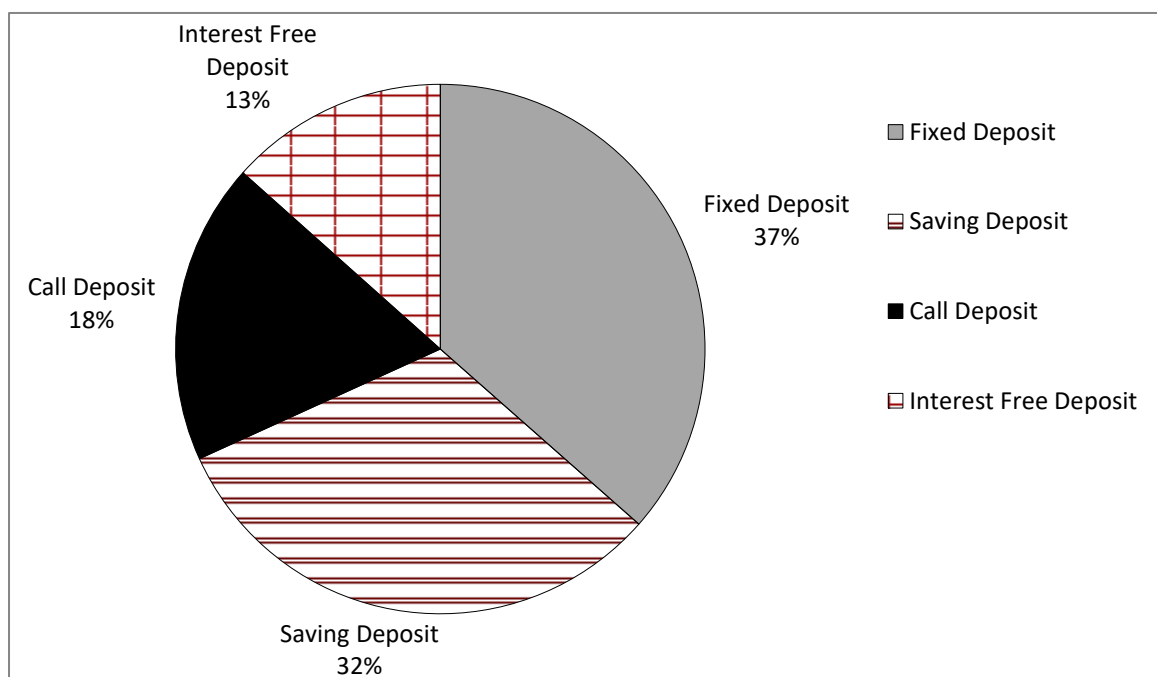
(Rs in Million)

Fiscal Year (2010/11)	Fixed Deposit	Saving	Call	Interest Free	Total Deposit
Deposit	15011.7	13037.6	7567.5	5511.1	41127.9
Mix	36.5 %	31.7 %	18.4 %	13.4 %	100 %

(Source: Annual Report of EBL)

Figure 4.8

Pie Chart showing deposit mix of fiscal year 2010/11



4.1.7 From Customer Deposit Collection:

Resource mobilization in commercial bank firstly depends on deposit collection from the customer. As it is the most important source of resources mobilization. Higher the deposit collection from the customer shows higher level of resource mobilization. As per the data FY 2006/07 to 2010/11 the customer deposit is high as comparison to other resources. These deposits are collected from different sectors individual and corporate customers. If deposits are utilized properly, it will increase the profit of the bank. Deposits are collected as per the bank's rules. Types of deposit account of the customer can be categorized into Interest bearing deposit account and interest free deposit account.

1) Interest Free Account

- a) Current Deposit Account
- b) Margin Deposit Account
- c) Other Deposit Account

2) Interest Bearing Account:

- a) Saving Account
- b) Call Deposit Account
- c) Fixed Deposit Account
- d) Certificate of a Deposit

4.1.8 Deposit Collection Plan of Everest Bank Limited

EBL prepares the budget for the deposit collection each year. The budgeted and actual deposit collection of EBL during 5 year fiscal period is presented in the table below:

Table 4.10
Status of Budgeted and Actual Deposit Collection.

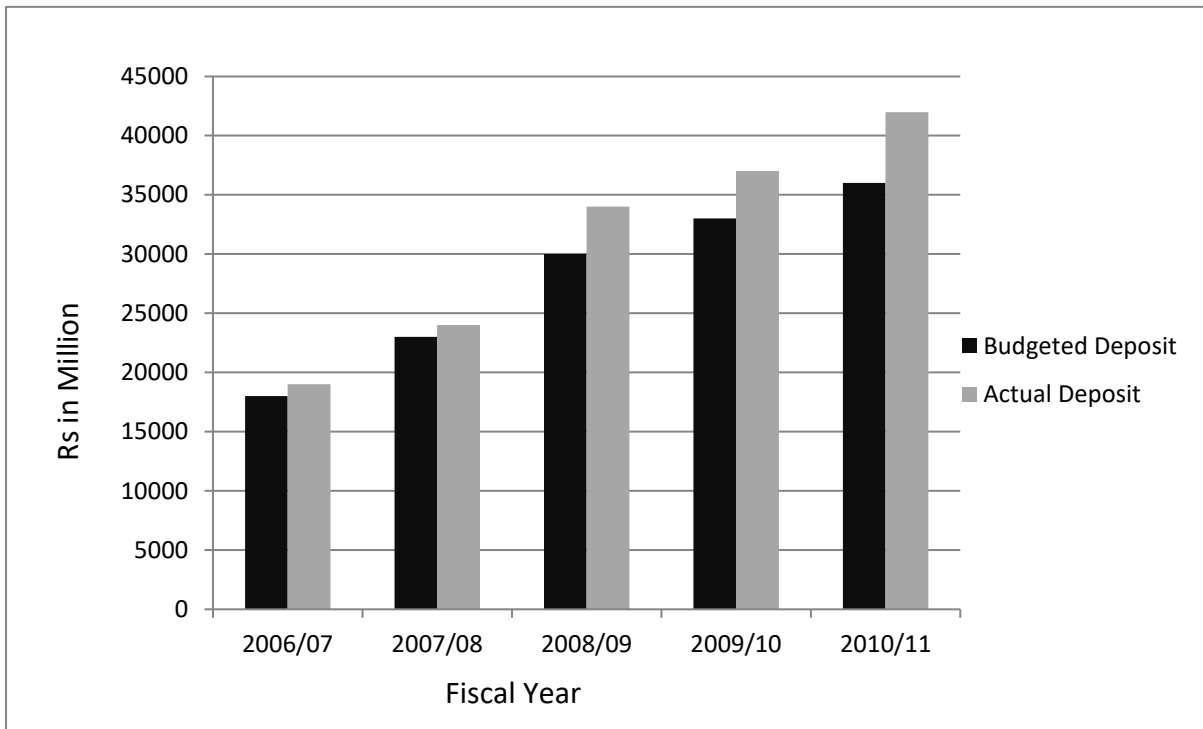
(Rs. in Million)

Fiscal Year	Planned Target Figure	Actual Figure
2006/07	17550	18186.2
2007/08	23000	23976.3
2008/09	30000	33322.9
2009/10	32500	36932.3
2010/11	36000	41127.9

(Source: Annual Report & Budget Statement of EBL)

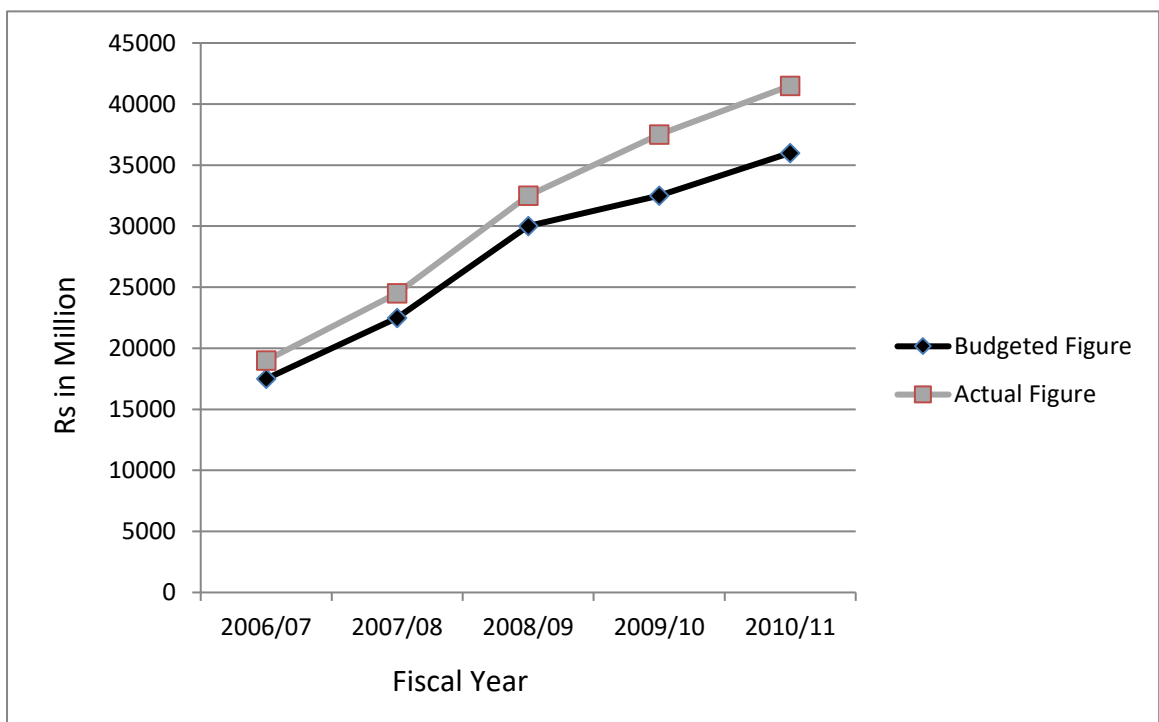
The above table shows the status of budgeted and actual deposit collection of EBL. The bank has achieved its objectives of deposit collection every year more than 100%. The data of table are presenting in bar-diagram from the analysis purpose.

Figure 4.9
Bar Diagram Showing Budgeted and Actual Deposit Collection



The above bar diagram shows the budgeted and actual figure of deposit collection of EBL. The actual deposit has over the budget figure, so that the targeted collection of deposit has met every year by EBL. The position of budgeted and actual deposit collection showing in the scatter diagram.

Figure 4.10
Scatter Diagram Showing Budgeted and Actual Deposit collection



The above scatter diagram shows that the actual deposit line is on the higher side compared to budgeted deposit line. This shows that EBL is able to meet its purpose of deposit collection every year showing high level of achievement. The overall aspects of deposits are considered it can be said that management have prepared very optimistic budget to show its efficiency. The estimated budgeted figures are very low. In fact management is playing games with the stakeholder by underestimating the budgeted figure to show their better performance. Thus, it can be said that deposit collected EBL is at minimum satisfactory level compared to what it has planned in advance and what the true picture is.

4.1.9 Movement of Deposit Collection of EBL

Table 4.11
Movement of Deposit Collection of EBL

(Rs. In Million)

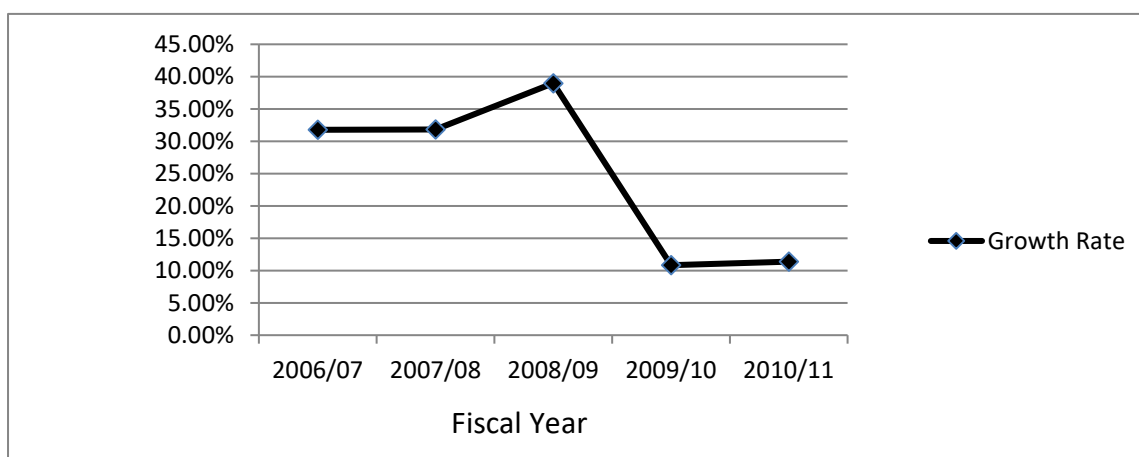
Fiscal Year	Deposit Amount	Growth In Amount	Growth in Percentage
2005/06	13802.4	-	-
2006/07	18186.2	4383.8	31.76 %
2007/08	23976.3	5790.1	31.84 %
2008/09	33322.9	9346.6	38.98 %
2009/10	36932.3	3609.4	10.83 %
2010/11	41127.9	4195.6	11.36 %

(Source: Annual Report & Budget Statement of EBL)

The above table 4.5 shows the fluctuating trend of movement in deposit collection of EBL during five year study period. For growth amount calculation deposit amount of fiscal year 2005/06 is considered as base value. During fiscal year 2006/07 movement of deposit collection is increased by 31.76 % as comparison to fiscal year 2005/06. During this five year period deposit collection movement gained its highest growth of 38.98 % in the fiscal year 2008/09. In fiscal year 2009/10, EBL experienced lowest growth of 10.83 % during this five year study period and it increased to 11.36 % in subsequent fiscal year.

Figure 4.11

Line Graph showing fluctuating trend of growth rate of deposit.



4.1.10 Extra Resources of EBL:

Extra resources of EBL contribute double figure ratio in total resources. It is formed of shareholder fund and other liabilities except deposit collection. The budgeted and actual other resources of EBL presented in the following table.

Table 4.12
Other Resources of EBL:

(Rs. In Million)

Fiscal Year	Budgeted Amount	Actual Amount	Achievement
2006/07	3000	3364.9	112.16
2007/08	3500	3370.2	96.29
2008/09	2500	3566.8	142.67
2009/10	4000	4345.9	108.65
2010/11	4500	4930.4	109.57

(Source: Annual Report & Budget Statement of EBL)

The above table 4.10 shows more than cent percent achievement in resources other than deposit except in the F|Y 2007/08. The achievement trend of other resources is in increasing w trend where as the increment ratio is in declining trend. The bank has highest achievement in F|Y 2008/09 where achievement was 142.67 percent. The achievement percentage is ranged between 96.29% to 142.67% and percentage below 100% indicates the lower achievement of budgeted figure. The status of resources other than deposit figure. The status of resources other than deposit presented in Scatter and Bar diagram below.

Figure 4.12
Scatter Diagram Showing Other Resources of EBL

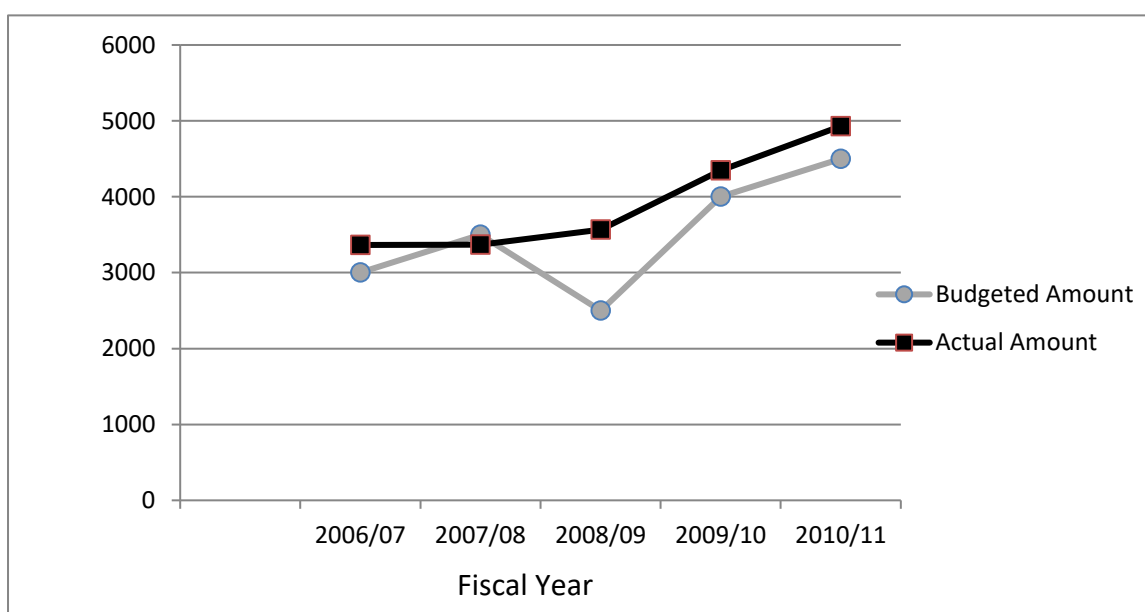
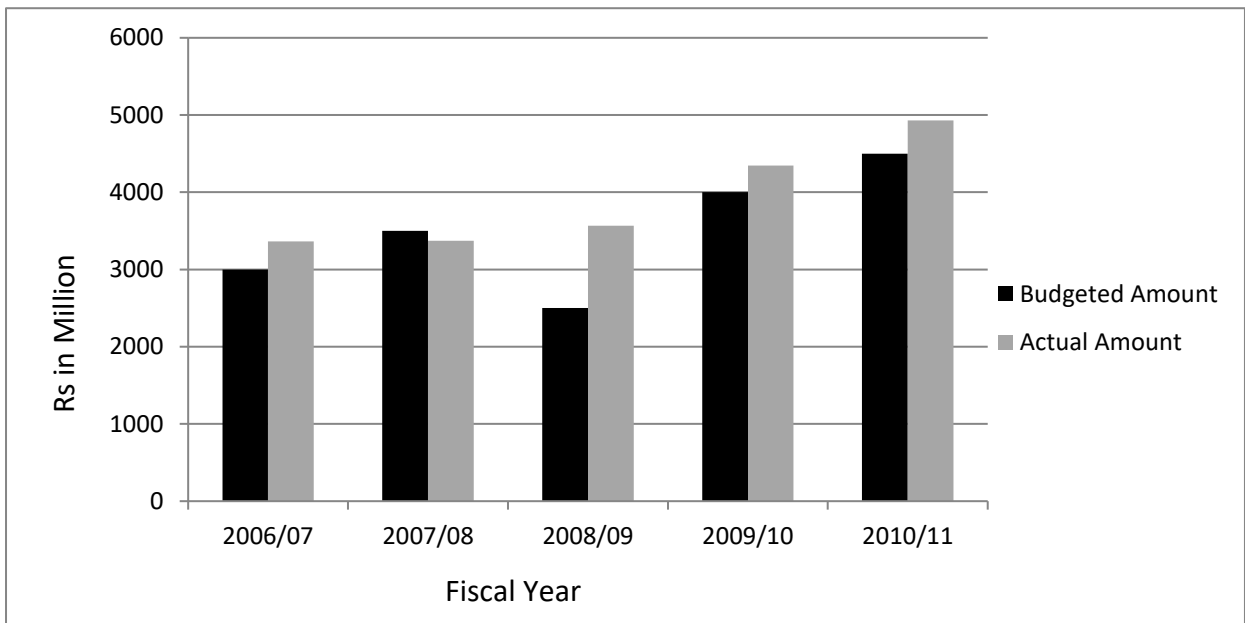


Figure 4.13
Bar Diagram Showing other Resources of EBL



From the above table 4.10 and diagrams we can find the status of budgeted and actual other resources of EBL on five year study period. EBL has been maintaining higher actual resources achievement than budgeted figure except the year 2007/08 where EBL has failed to maintain targeted figure.

4.2 Commercial Planning System and Planning Structure of EBL

EBL has applied the profit planning and procedure tool in the whole sector. EBL has analyzed the SWOT analysis by individual branch and sector before preparing a profit plan and procedure. The SWOT analysis is the foundation for developing strategies and tactics that then it become the road map for business operating plan.

Prior to defining the company’s strengths, weaknesses, opportunities and threats it need to:

- Have a written Vision, Mission and Values statement.
- Have completed a thorough internal and external business status evaluation.

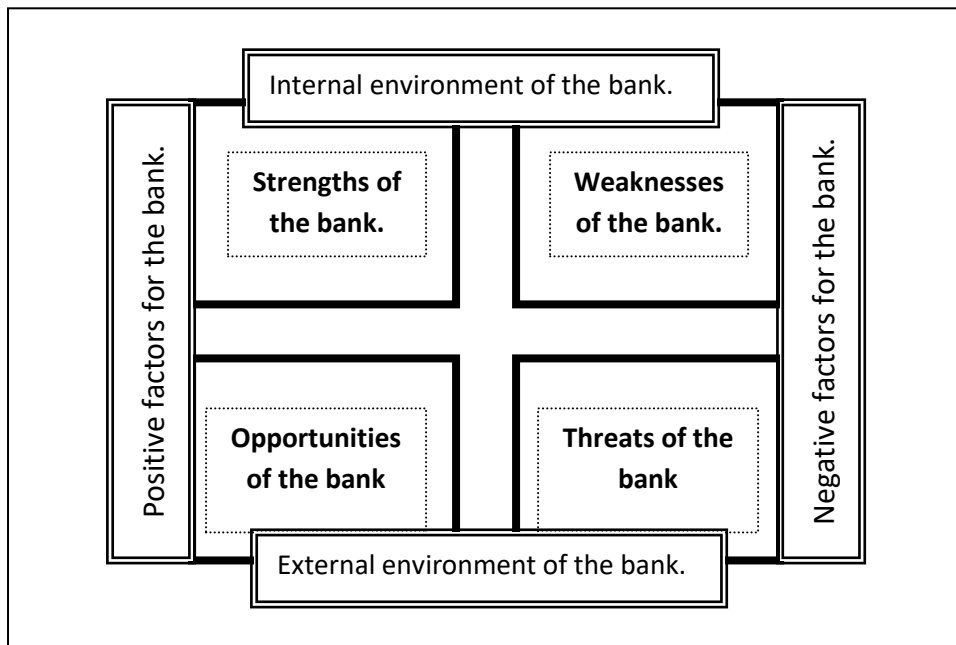
And following points makes a SWOT analysis effort successful.

- It must start with Vision, Mission and Values statement.
- It must objectively prepare business’s internal and external status.
- It must be realistic, short, simple and forthright in preparing the business’s strengths and weaknesses.

- Developing strategies and tactics that match the SWOT analysis results.
- Writing an operating plan based on SWOT Analysis, strategies and tactics.
- Implementation of a resulting operating plan.

Figure 4.14

SWOT Analysis process.



Following are the Strength, Weakness, Opportunity and Threat identified by management of EBL.

Strength: It is present in the internal environment of the bank and it includes positive factors. Strength facilitates profitable performance. The following points present the strength of the bank.

- Skilled and quality manpower of the bank.
- Market position of the bank.
- Financial resources of the bank.
- High level of services to the customer.
- Profitability of the bank.
- Growing channels and market of the bank.
- Increasing goodwill of the bank.
- Quality service system.
- Low cost under urban sector investment.
- Adequate internal sources.
- Large scale network of loan flow.
- High development of physical facility of bank.
- Corporate good governance.
- Development oriented work system.

Weakness: It also present in the internal environment and it includes negative factors of the bank. Weakness facilitates to improve the performance of the bank. The following elements are included under the weakness of the bank.

- Lack of effective project analysis.
- Lack of knowledge of market.
- Lack of investigation and development.
- High operating cost.
- Low productivity of employee.
- Lack of professional employees.

Opportunity: It is present in the external environment and includes positive factors for the bank. Environmental scanning should be done to identify opportunity of the bank. It involves:

- New Complimentary market.
- Competition weaknesses.
- Umbrella Law adopted by Nepal Rastra Bank.
- Increasing Computerized System.
- High possibility of non-agricultural sector market expansion.
- Extend marked.

Threat: It is also present in the external environment and includes negative factors for the bank. Threat leads to determination in profit planning. It includes:

- Economy of the Country.
- Lose of key staff.
- Increasing Competition
- New government regulation.
- Decreasing profits.
- External invasion for running program.
- No elasticity at interest rate.
- High bargaining power of customer from the high competition.
- WTO policies.

After the SWOT analysis from internal as well as external environment EBL analyzes previous data with different elements. After analyzing the previous data each branch office

tries to find out the good or bad sector of the bank. After that EBL does the portfolio analysis. Under the portfolio analysis EBL selects the good portfolio and make a resource management clear. First of all EBL has made the plan considering the following details:

- EBL considers the vision, mission, objectives and process conduct.
- Concept of plan formulation method and process are considered.
- Plan formulation process should be straightforward and elastic.
- Most recent precise statistics are considered.
- For making plan appraisal is essential.
- Marketplace portfolio is considered.
- Appropriate stakeholder is considered.

Core planning Team: Core planning team is the managerial level team which formulates strategic, objectives and goals for the concerned time period. They mainly focus on efficient managerial system, utilization of resources and mobilization of those resources to the concerned level of the bank. EBL has three types of core planning teams.

- Central Core planning Team (CCPT): CCPT is the managerial level team of central office which formulates corporate plan and annual plan. The head of this team is the director for Budgeting section of EBL, who prepare plan and present it to board of director meeting to section it. It is prepared with the help of RCPT and BCPT reports.
- Regional core planning TEAM (RCPT): RCPT is formulated to make plan, Policy, program and budget for the regional level office. It processed its reports with recommendations to CCPT.
- Branch core planning Team (BCPT): BCPT is formulated to make plan for main branch and other branches. It formulates income and expenses budget for their respective branches.

Planning Formulation Methodology: EBL formulates Planning methodology as follows.

- As reported earlier, CCPT is the corporate managerial level planning team. They conduct the seminar at the head office for making plan formulation process/method, duties and function of work team. Then, they set objectives and goals for the certain timeframe and make goals for the certain timeframe and make plan and policies to fulfill those goals. They make policies for utilization and mobilization of resources of the bank.

Likewise regional and branch level team sets the plans and policies as per the directions given by the top level management.

After making plan, EBL formulates the profit plan in order to achieve maximum level of profit by reducing overhead cost, provisioning fund and non-performing assets.

4.3 Expenditure Planning Ability of EBL:

Effective and efficient management of preparation of expenditure planning is crucial therefore preparation of expenditure planning must ensure that:

- Sufficient funds for expenditure are available for the required activities.
- There are adequate controls on their effective and proper use.
- Funds are available for expenditure at the time that they are needed.

Preparation of Expenditure planning is most essential to maintain the objectives and planned programs for any Commercial bank and it constitutes expenses and the benefits derived from the expenditure. As we know that income is not possible without adequate expenses. So expenditure planning is the most essential part of the business. Expenditure plan helps to organization to achieve the goal and objectives in a systematic manner. The major expenses of the bank are Interest Expenses followed by management expenses, Income tax, Staff expenses, provision for risk and Staff bonus. The following table shows the status of expenditure incurred by the Everest Bank Limited over the five year study period from fiscal year 2006/07 to 2010/11.

Table 4.13
Status of Expenditure of EBL from fiscal year 2006/07 to 2010/11

(Rs. In Million)

Fiscal Year	2006/07	2007/08	2008/09	2009/10	2010/11
Expenditure	Amount	Amount	Amount	Amount	Amount
Interest Exp.	517.2	632.6	1012.9	1572.8	2535.9
Employees Exp.	94.1	158.0	186.9	226.4	293.2
Mgmt Exp.	177.5	233.7	292.0	352.6	383.2
Provision for Risk	89.7	99.3	93.1	77.1	98.3
Employees Bonus	45.5	65.9	89.1	118.8	133.2
Income Tax	158.3	207.4	252.7	357.1	427.6
Year wise Total	11082.3	1396.9	1926.7	2704.8	3871.4

(Sources: Annual Report of EBL)

The above table shows the total expenses of EBL from fiscal year 2006/07 to 2010/11. The trend of all expenses is in increasing as per the overall volume of business increased.

The major expense of bank is interest expenses it ranged 46 % to 60 % out of total expenses. The another expenses of bank is employees of expenses ranged between 9 % to 12 % the amount of employees expenses increasing every year likewise the management expenses, provision for Risk, employees bonus and tax ranged between 14 % to 18 %, 3 % to 9 %, 5 to 6 % and 13% to 15% respectively out of total expenses. The expenditure of EBL has analyzed by the help of line diagram below.

Figure 4.15
Line Diagram showing trend of Expenses of EBL during 5 year fiscal period.

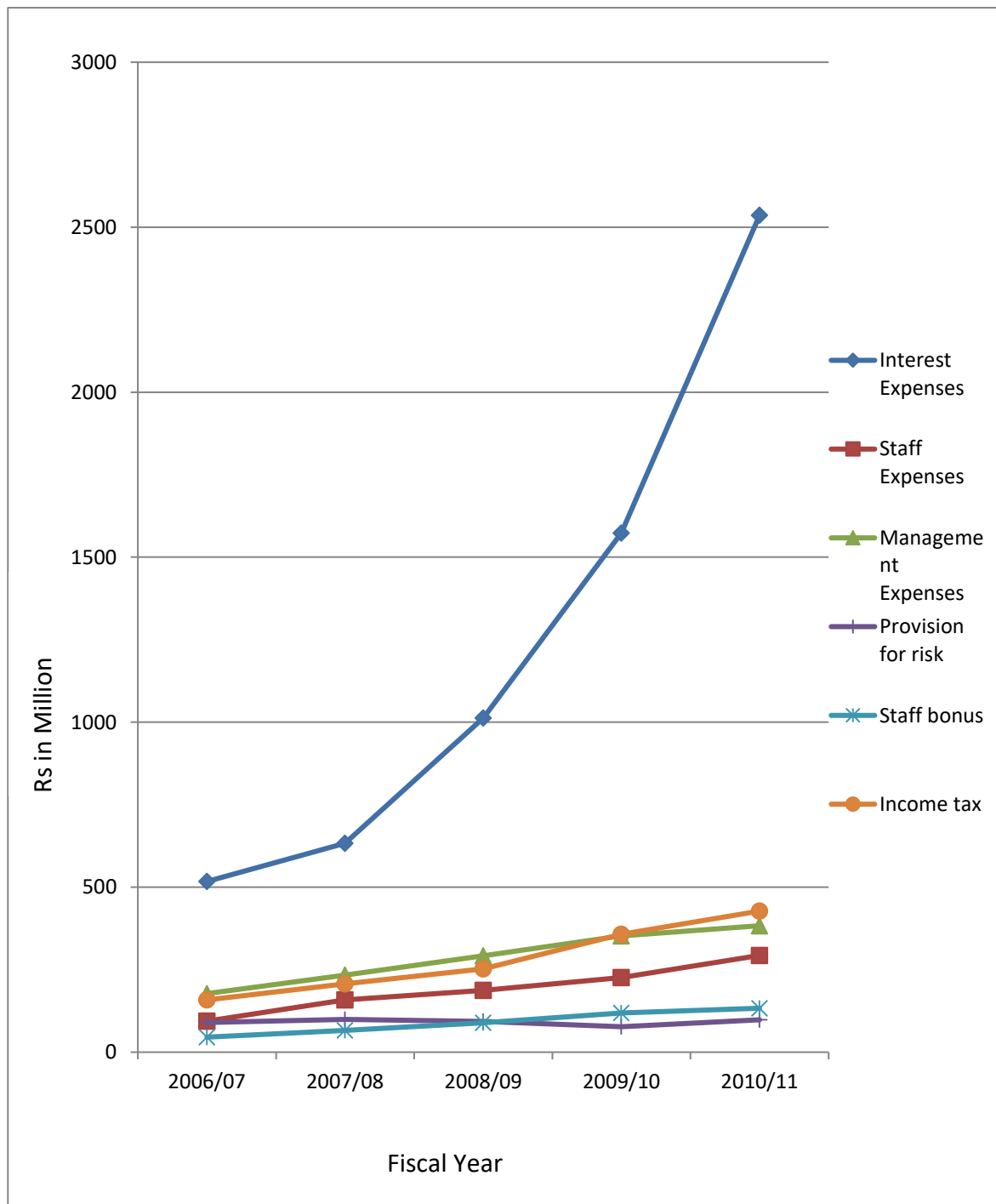
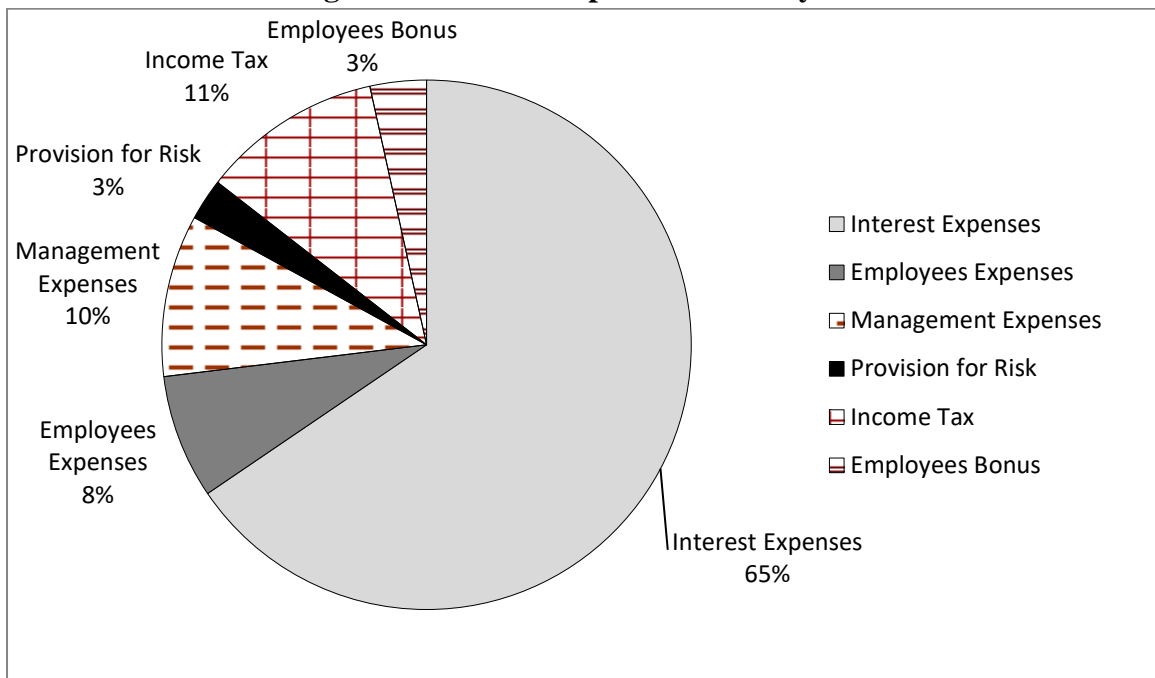


Figure 4.16
Pie Chart showing status of Total Expenses in fiscal year 2010/11 of EBL



By the above expenditure table, line diagram 4.3 and pie chart diagram 4.3.1 it is clear that interest expenses on deposit from the customers contribute more than 50% expenditure each year of the bank. Similarly other expenses (Expenses other than interests) except provision for risk are in increasing trend. Provision for risk experienced fluctuated behavior. For the study purpose we can divide the total expenses of the bank into two categories.

- Interest Expenses of the bank.
- Other Expenses (Expenses other than Interests) of the bank.

4.3.1 Interest Expenses of EBL

Any Commercial bank collects the amount from various sources among them some sources are non cost bearing and some are cost bearing sources. Interest expenses incurred for making payment for the customers as cost of deposit amount, which are interest bearing in nature. The interest holds highest portion of total available resources of the bank. The bank may have different interest rate in different types of account. For analyze the average cost of deposit throughout the five fiscal year study period from 2006/07 to 2010/11.

Table 4.14
Status of Average Weighted Cost of Deposit during 5 year study period.

(Rs. In Million)

Fiscal Year	Interest Expenses	Total Deposit	Weighted Cost of Deposit (%)
2006/07	517.2	18186.2	2.84
2007/08	632.6	23976.3	2.64
2008/09	1012.9	33322.9	3.04
2009/10	1572.8	36932.3	4.36
2010/11	2535.9	41127.9	6.17

(Sources: Annual Report of EBL)

WCOD= Weighted Cost of deposit

The above table shows the total deposit and interest expenses of the EBL from fiscal year 2006/07 to 2010/11. The deposit amount is growing trend likewise the interest. The table shows the weighted cost of deposit in percentage. The EBL weighted cost of deposit (Interest) range between 2 % to 7% over the study period. The WCOD of the bank experienced fluctuating trend and the highest weighted cost of deposit is 6.17% in the year 2009/010. The following diagram presents the relation between interest expenses and total deposit.

Figure 4.17
Horizontal Bar Diagram Showing Status of Total Deposit and Interest Expenses of EBL

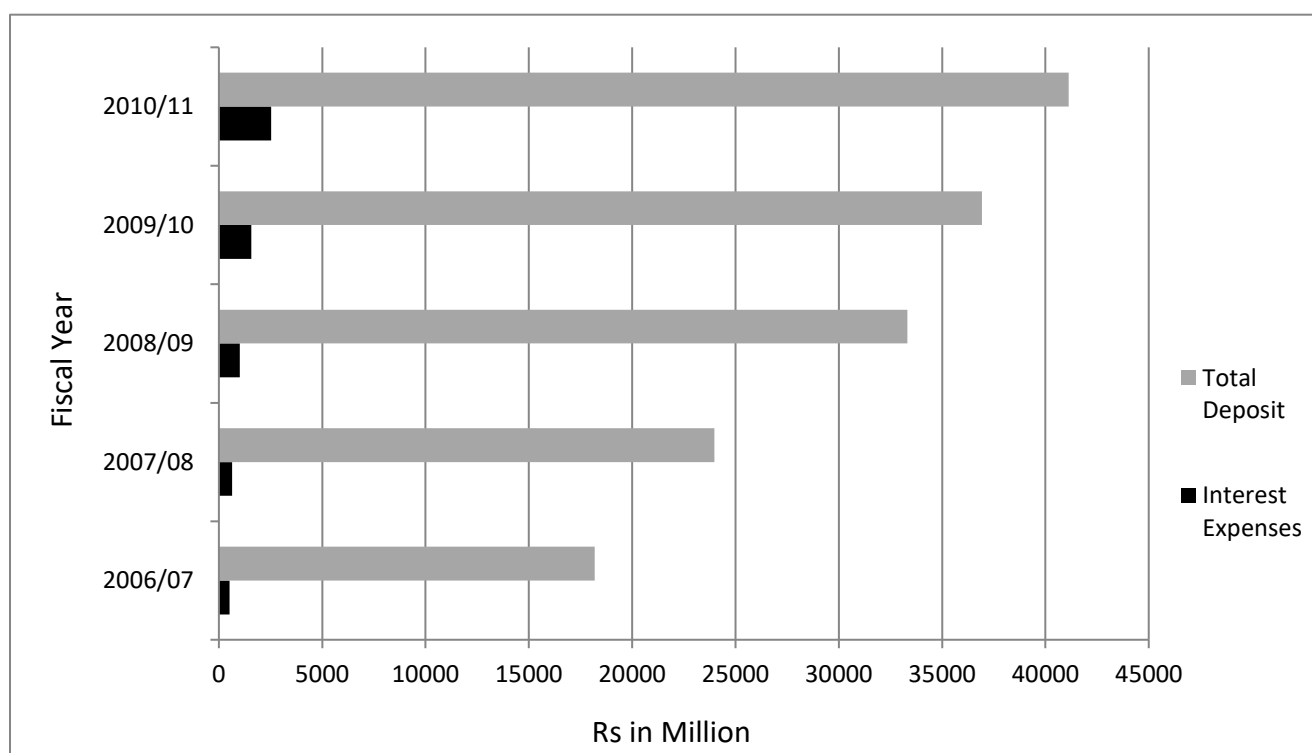
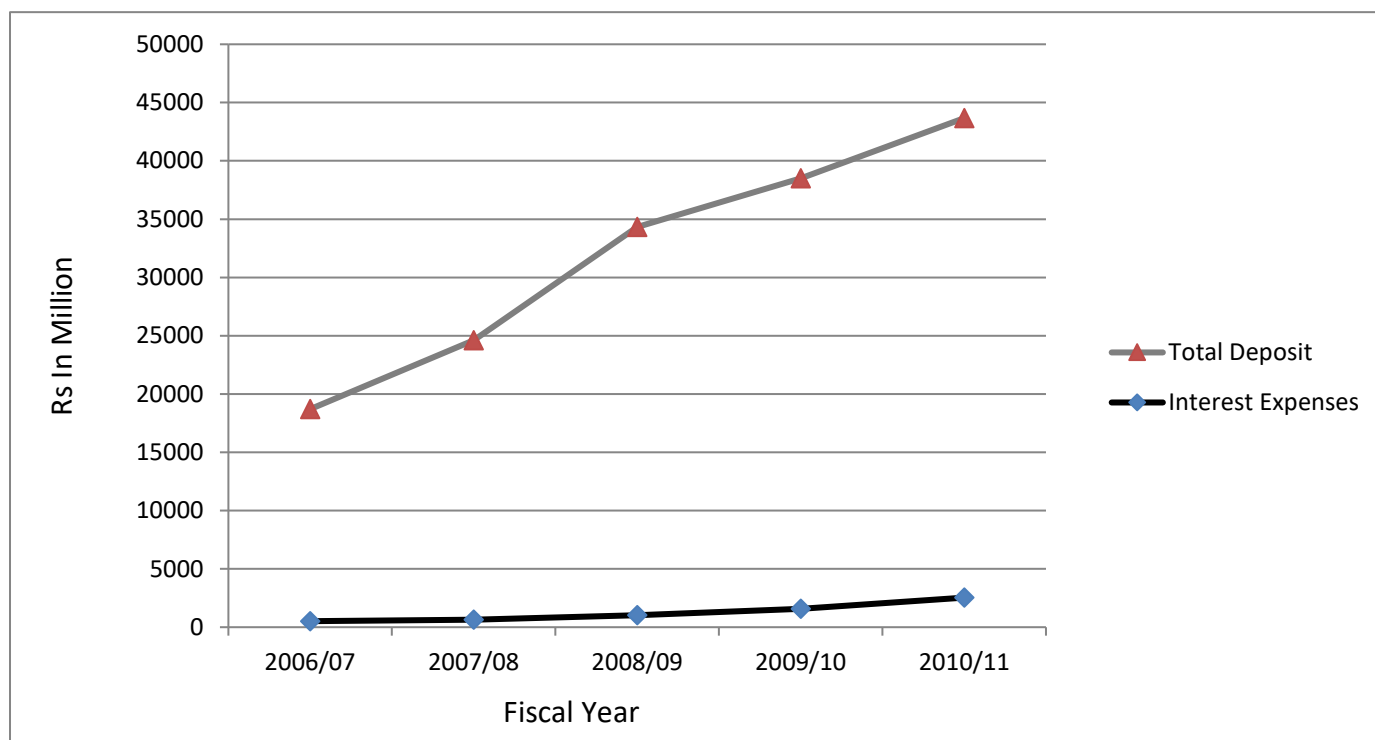


Figure 4.18
Line Diagram showing comparison of Status of Total Deposit and Interest Expenses
of EBL



The above horizontal bar diagram and line diagram shows the status of interest expenses and total deposit in respective fiscal year. The amount of total deposit is in increasing trend which is followed by interest expenses. The amount of interest expenses is increasing every year because deposit is also increasing.

4.3.2 Other Expenses (Expenses other than Interests) of EBL:

For the successful day to day operation commercial bank needs different types of expenses fund under different heading. Interest is major expenses for the bank. Besides interest expenses bank needs some of administrative and other expenses. They are:

- Staff Expenses
- Management Expenses
- Provision for risky Loan
- Staff Bonus
- Income Tax

The following table shows the non-interest expenses (Expenses other than interest) of EBL during five year study period.

Table 4.15
Status of Other expenses of EBL

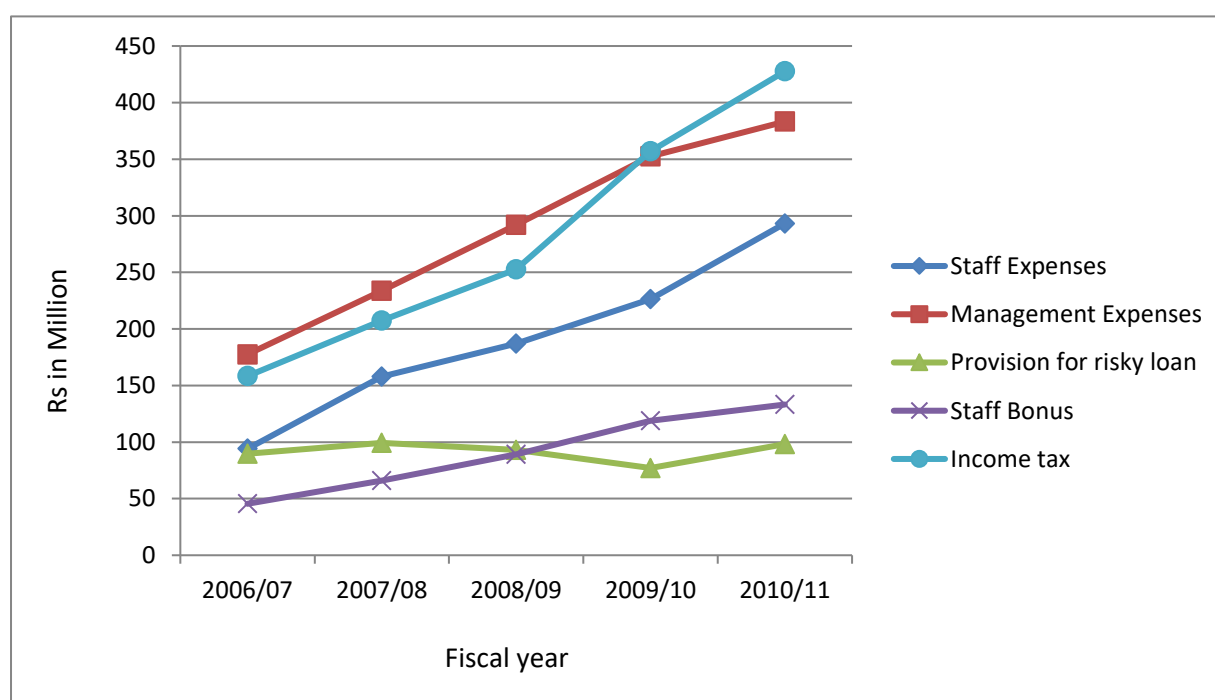
(Rs in Million)

Fiscal year	2006/07	2007/08	2008/09	2009/10	2010/11
Expenditure	Amount	Amount	Amount	Amount	Amount
Staff Expenses	94.1	158.0	186.9	226.4	293.2
Management Expenses	177.5	233.7	292.0	352.5	383.2
Provision for Risky Loan	89.7	99.3	93.1	77.1	98.3
Staff Bonus	45.5	65.9	89.1	118.8	133.2
Income tax	158.3	207.4	252.7	357.1	427.6
Total	565.1	737.0	913.8	1131.9	1335.5

(Source: Annual Report of EBL)

The above table shows the non interest expenses i.e. other expenses of EBL from fiscal year 2006/07 to 2010/11. The bank has extending its network all over the country which results increasing trend of employees every year. The range of staff expenses is 9 % to 32% between F|Y 2006/07 and 2010/11. Every expense is in inclining trend except provision for risky loan which showed fluctuated behavior. The following line diagram presents the behavior of expenses during five year fiscal period.

Figure 4.19
Line diagram showing Increasing trend of other expenses of EBL



Above line diagram shows the behavior of expenses other than interest expenses of EBL over the five fiscal year period. From the line diagram it is clear that payment of income

tax increase dramatically. Until the year 2008/09 management expenses saw highest expenses but payment of income tax overtook management expenses in the year 2009/10. In the year 2010/11 payment of tax experienced highest expense and it is predicted that in upcoming future it will generate more payment among other expenses. In fiscal year 2006/07 staff bonus saw lowest payment in the group but provision for risky loan experienced fluctuated behavior. Staff expenses and management expenses were increasing gradually over the period.

4.4 Revenue Planning Ability of EBL:

For successful survival of any business activities are related with revenue generating activities. Thus, the major objective of every business concerns is to collect higher revenue by optimum utilization of available resources. Mainly EBL generates its revenue from its fund based income generating activities and non-fund based business activities. Interest income is the major source of revenue for the bank. Therefore; EBL has been using two types of revenue collection procedures. They are:

- From Interest income of the bank.
- From other income (Income other than interest) of the bank.

Income from interest is the major source of revenue collection for the EBL. EBL has been generating sufficient amount of income from this source for successful day to day operation. Investing fund for generating Interest income also called return of Loan, Discount and Overdraft contributes major portion of total revenue mix. Following table analyze the comparative status of total interest income of fiscal year 2009/10 and 2010/11.

Table 4.16
Status of Interest Income of EBL

(Rs in Million)

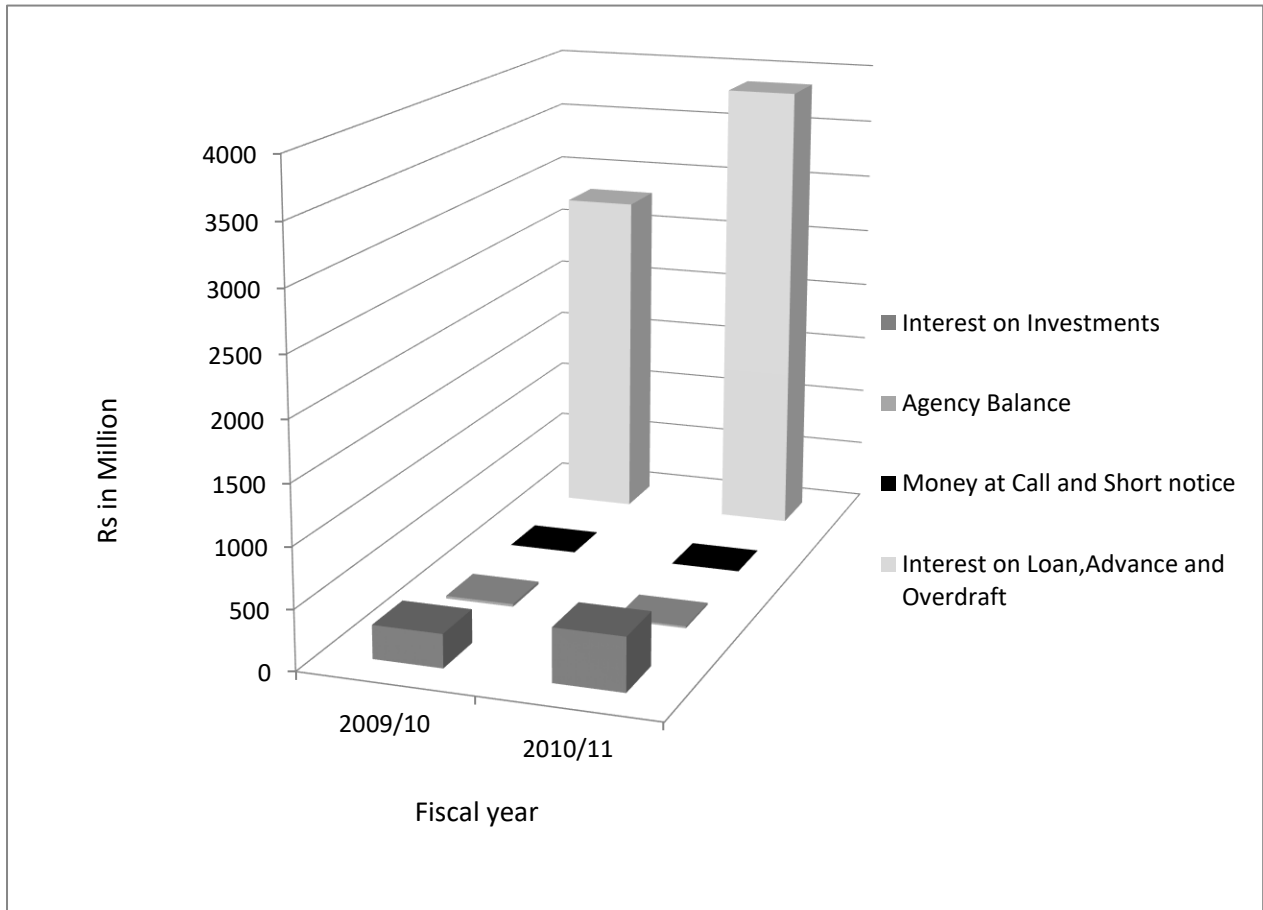
Interest Income	2009/10	2010/11
Interest on Loan & Advance, Overdrafts	2801.4	3869.9
Interests on Investments	278.9	445.3
Agency Balance	21.7	15.8
Money at Call & Short notice.	.7	.2
Total	3102.7	4331.2

(Sources: Annual report of EBL)

The above table shows the comparative status of interest income for fiscal year 2009/10 and 2010/11. The table shows that Interest on loan, advance and overdraft and interest on investment were in increasing trend whereas agency balance and money at call and short

notice were in decreasing trend. The following bar diagram presents the status of interest income of EBL.

Figure 4.20
Diagram Showing Status of Interest Income of EBL



From the chart, it becomes clear that the yearly total interest income is in increasing trend based on the increasing amount of interest on LDO and Interest on investments. Agency balance and money at call and short notice experienced decreasing trend during this two year fiscal period. As a whole Income from the interest of the bank is in increasing trend. It indicates the bank has been utilizing its fund resources in very well manner to generate higher amount of income.

4.5 Resources Consumption and Allocation Ability of EBL

Resource Consumption and allocation means to assign the available resources in an economic way. Thus, Economic Distribution of available resources in to different sector is called consumption and allocation of resources .Optimum utilization of resources is the key point for business success. EBL has been allocating its resources to maintain liquidity

position of the bank, to generate income and to purchase of fixed assets and other assets. Consumption of Available resource of EBL can be allocated in to three headings.

- To carry on the liquidity position of the bank.
- To generate income by optimum utilization of available resources.
- To purchase of fixed and other assets.

a) To carry on the Liquidity position of the bank.

The liquidity position is the difference between the sum of liquid assets and incoming cash flows on one side and outgoing cash flows resulting from commitments on the other side, measured over a defined period, being the measure of the liquidity risk. Liquidity need to maintain for the purpose of payment of withdraws 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. EBL has been maintaining adequate amount of liquidity position by optimum utilization of available resources.

b) To generate income by optimum utilization of available resources.

EBL has been utilizing its available resources in income generating activities. As we know that the major function of commercial banks is to collection of deposit and invests them in different sector. Investment in secure sector makes any commercial bank healthy. EBL has been investing its resources in income generating and healthy sector since its establishment.

c) To purchase of fixed and other assets.

EBL has been providing services through advanced technology and equipment. Technology and equipments refers to the fixed property of the bank. As we know that assets needs in the organization to show the performance of business and such assets may be fixed or current. So, EBL has been utilizing its resources to purchase of fixed and other property.

4.5.1 Total Ability of Investment Consumption of EBL:

Investment in productive sector is the most important factor for long term survival and to generate higher income for any commercial bank. The following table presents the total resources consumption status of EBL of five fiscal years.

Table 4.17
Total Resources consumption Status of EBL

(Rs. In Million)

Fiscal Year	Cash & Bank Balance		Inv. & Money at call		Loan and Advance		Fixed Assets		Other Assets		Total year wise
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
2006/07	2391.3	10.74	4984.3	22.38	14082.7	63.25	415.2	1.86	392.8	1.74	22266.3
2007/08	2667.9	9.37	5405.6	18.99	18836.4	66.19	812.5	2.85	736.6	2.59	28459.0
2008/09	6164.4	16	5948.5	15.44	24469.6	63.53	1015.1	2.64	919.2	2.39	38516.8
2009/10	7818.9	18.34	5008.3	11.76	27556.4	64.67	1234.1	2.9	999.3	2.33	42617.0
2010/11	6122.9	12.89	7744.0	16.3	31057.7	65.35	1585.8	3.33	1014.5	2.13	47524.9

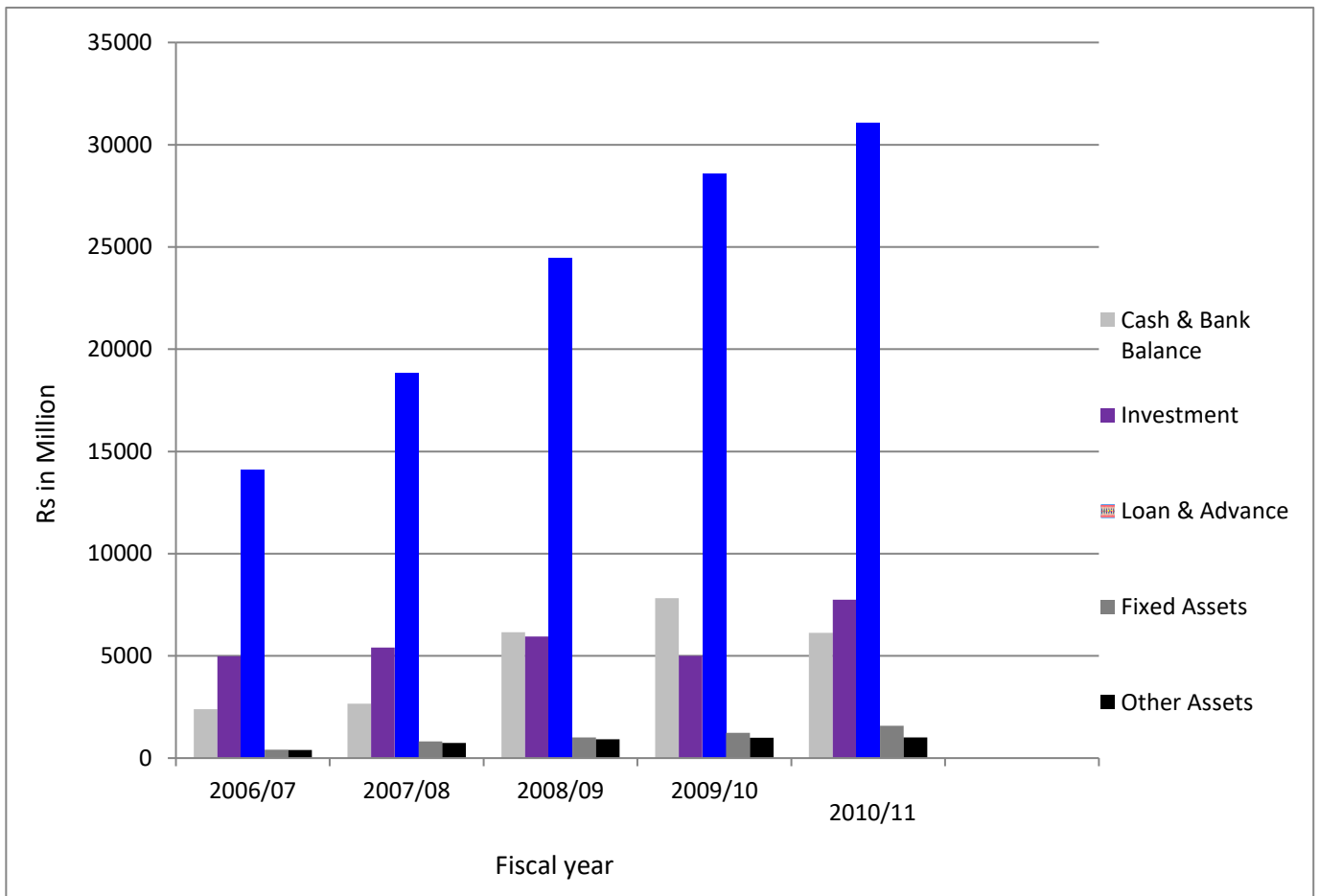
(Source: Annual Reports of EBL)

Above table shows the total consumption of funds in various sectors of EBL during five year fiscal period from 2006/07 to 2010/11. The range of cash and bank balance of EBL throughout the study period is 9% to 19%, it means the bank use their fund to maintained liquidity position 9% to 19% out of total consumption. The trend of cash and bank balance slightly fluctuating trend.

Similarly the bank uses their fund in investment 11% to 23% over the period. The main use of resource in the loan and advances. The range of loan and advance is 63% to 67%. EBL use the resources in fixed assets and other assets in small percentage out of total consumption. The range of fixed assets and other assets are range between 1% to 3% up to fiscal year 2010/11.

From the table it is clear that bank has been mainly using funds in loan and advances to generate income. For the examination purpose the total consumption of EBL is presented in bar diagram below:

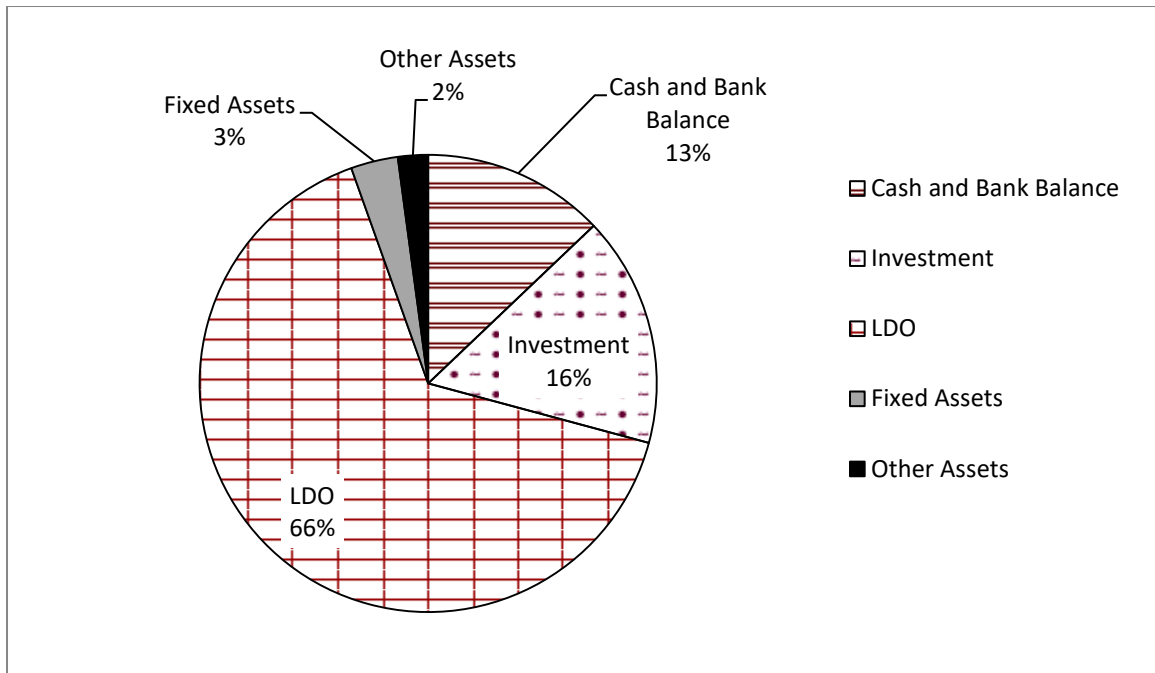
Figure 4.21
Bar Diagram Showing the Status of total Consumption



The above bar diagram shows the consumption of resources at various departments of EBL among which LDO is in highest position and shows the increasing trend over the study period. Similarly the cash and bank balance is in second position out of total consumption amount the trend of cash and bank balance is increasing trend over the five years of study. The third position of consumption holds by investment which shows erratic behavior over the study period. The other assets and fixed assets hold the fourth and 5th position but it is in fluctuating trend over the five years of time period.

In conclusion the trend of utilization of resources by the bank has been increasing in every sector.

Figure 4.22
Pie Chart showing status of Consumption of funds in fiscal year 2010/11



The above pie chart shows the total consumption in 2010/11 of EBL in various sectors. The loan and advances holds the highest area of the chart and it has 66% of consumption out of total consumption. This means the bank deploy more of their resources in the consumption of loan and advance than other. Like wise investment is 16% out of total consumption. The third highest sector of investment is cash and bank balance this shows the bank keeps the liquidity of 13% out of total consumption in average over the five year of study period. Similarly, the bank uses their resources in fixed assets and other assets 2% and 3% respectively over the five years period.

By the above table, and charts it is clear that the highest portion (above 60 %) of consumption is hold by loan and advance out of total consumption of the bank. Therefore, this study presents the status of total consumption of investments in Loan, Discount and Overdraft of the bank.

4.5.2 Consumption in Loan, Discount and Overdraft (LDO) of EBL.

From the above data it is clear that LDO is a major sector where the EBL invests more, thus it is necessary to analyze about the status of LDO. Following table shows the budgeted and actual LDO during five year fiscal period.

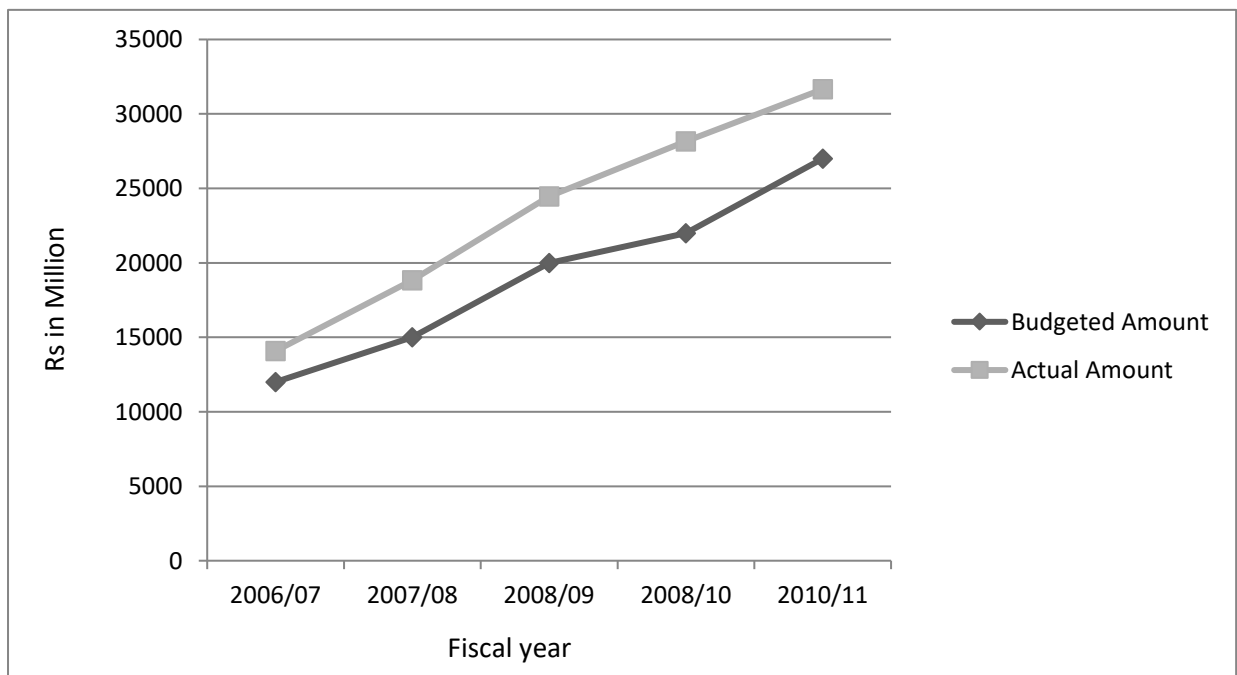
Table 4.18
Table showing Budgeted and Actual Loan, Discount and Overdraft of EBL.

(Rs in Million)			
Fiscal Year	Budgeted Amount	Actual Amount	Achievement
2006/07	12000.0	14082.7	117.36%
2007/08	15000.0	18836.4	125.58%
2008/09	20000.0	24469.9	122.35%
2009/10	22000.0	28156.4	127.95%
2010/11	27000.0	31661.8	117.27%

(Source: Annual Report & Budget Statement of EBL)

Above table shows the status of budgeted and actual LDO status of EBL. The actual achievement of LDO is more budgeted every year i.e. above 100%. The investment in LDO is increasing trend. The achievement percentage with budgeted figure is in fluctuating trend. The range of achievement over the five year period shows that EBL has met the targeted investment level in each year. For the study purpose the figure of LDO are presented in diagrams below.

Figure 4.23
Scatter Diagram Showing Status of Budgeted and Actual LDO of EBL



The above scatter diagram shows the actual LDO line is on the higher side compared to budgeted LDO line. This shows that EBL is able to meet its objective of investing is able

to meet its objective of investing LDO every year. This shows high level of achievement of EBL is dispersing loan to its customer. But if the overall aspects of LDO are considered then it can be said that management have prepared very confident budget to show its efficiency. The estimated budgeted figures are very low. In fact management is playing games with the stakeholder by underestimating the budgeted figure to show their better performance. Thus, it can be said that LDO provided by EBL is at the minimum satisfactory level compared to what it has planned in LDO and what the true picture is.

Table 4.19
Summary of Actual and Budgeted LDO of EBL

Statistical Tools	Budgeted LDO (X)	Actual LDO (Y)
Mean	19200	23441.4
Standard Deviation(σ)	5268.78	6468.03
Coefficient of Variation (CV)	27.44 %	27.59 %
Correlation of coefficient (r)	0.9679	
Probable Error (PE)	0.0192 (r>6PE)	

(Sources: Appendix-03)

The above table shows that Actual LDO is more variable than Budgeted LDO since the CV of Actual LDO is higher than Budgeted LDO. Budgeted LDO is more consistent and homogenous and Actual LDO is quite more variable in nature. A greater CV represents less homogenous. Significance of correlation of (r) tested with PE by the calculation it is found that $r = 0.9679$ and $PE = 0.00192$. The relation of PE with “r” is $r > 6PE$, so it is significant. So, the Actual LDO going on same direction.

Another tool regression line can be fitted to show the degree of relationship between them and to forecast the achievement with given target the regression line of “Y” on “X” is as follows.

$$Y - \bar{Y} = r \times \frac{\delta_Y}{\delta_X} (X - \bar{X})$$

$$Y - 23441.4 = 0.9679 \times \frac{6468.03}{5268.78} (X - 19200)$$

$$Y - 23441.4 = 0.9679 \times \frac{6468.03}{5268.78} (X - 19200)$$

$$Y = 1.1882X + 672.808 \text{ ----- Required Equation}$$

From the above Equation it is clear that Actual LDO is in increasing trend. With the help of above equation we can determine expected LDO.

4.5.3 Movement in LDO of EBL:

Movement of LDO indicates that yearly difference of total transaction in LDO sector investments. Consumption of investments in this sector is increasing in amount but decreasing in rate. The following table presents the status of movement of LDO.

Table 4.20
Table showing progress in LDO of EBL

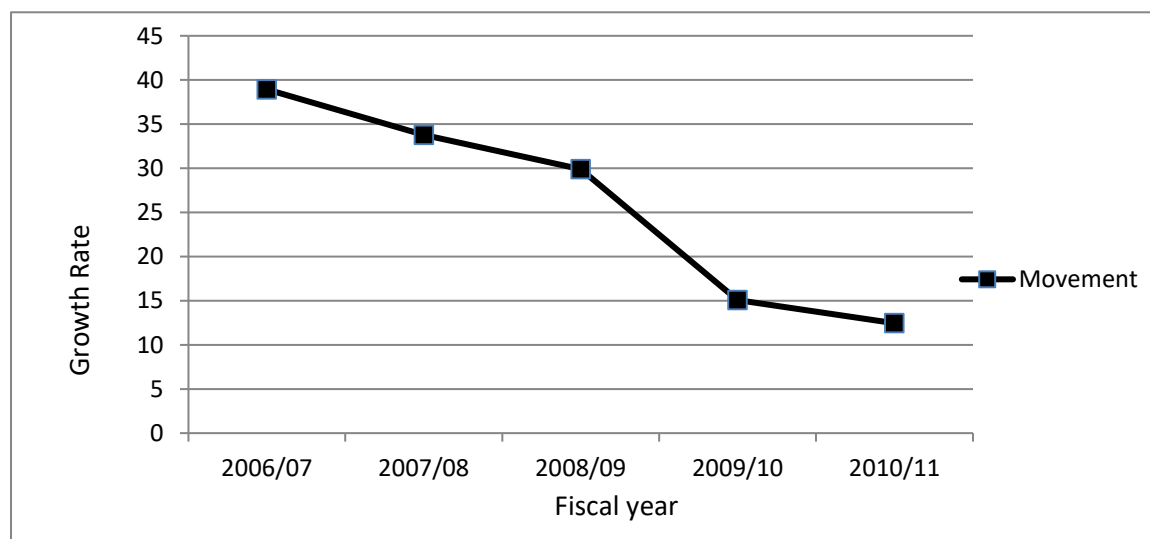
(Rs. In Million)

Fiscal Year	LDO	Growth in Amount	Growth (%)
2005/06	10136.2	-----	-----
2006/07	14082.7	3946.5	38.93%
2007/08	18836.4	4753.7	33.76%
2008/09	24469.9	5633.5	29.91%
2009/10	28156.4	3686.5	15.07%
2010/11	31661.8	3505.4	12.45%

(Source: Annual Reports of EBL)

The above table shows that the progress of LDO in EBL during five fiscal year study period. F/Y 2005/06 is considered as base year for calculation of growth rate. And from the table it is clear that rate of growth in movement of LDO is in declining trend. The following diagram presents the trend of growth percentage during the five year study period from F/Y 2006/07 to F/Y 2010/11.

Figure 4.24
Movement of Growth Rate of LDO of EBL from fiscal year 2006/07 to 2010/11



From the above scatter diagram it is clear that EBL has been facing decreasing mode of movement from fiscal year 2006/07. In fiscal year 2008/09 growth rate in movement of LDO is around 30 % and it decreased dramatically in 2009/10 and remained about 16%. In remaining fiscal year it is decreasing gradually.

4.6 Current Balance Sheet Status of EBL:

A balance sheet is a statement prepared at the end of each fiscal period stating therein all the assets and liabilities of a business arranged in the regular order to exhibit the true and correct state of affairs of the concern as on a given date. A balance sheet is prepared from a trial balance after the balances of nominal accounts are transferred to the trading account or to the profit and loss account. The remaining balances of personal or real accounts represent either assets or liabilities at the closing date. These assets and liabilities are shown in the balance sheet in a classified form - the assets being shown on the right side and the liabilities on the left hand side.

The function of the correctly prepared balance sheet is to exhibit the true and correct view of the state of affairs of any concern. In a balance sheet as the assets and liabilities are shown in details after being properly valued, a trader can judge the position of the business from it.

Table 4.21
Balance sheet of EBL at the end of fiscal year 2010/11

(Amount in Rs)

S.N.	Capital and liabilities	Amount
1	Share Capital	1,39,15,70,439
2	Reserve and Surplus	1,72,19,75,617
3	Debenture and Bonds	30,00,00,000
4	Loans and Borrowings	48,20,00,000
5	Deposit Liabilities	41,12,79,14,339
6	Bills Payable	4,97,16,572
7	Proposed Dividend	57,68,97,427
8	Income Tax Liabilities	2,69,00,414
9	Other Liabilities	55,92,37,454
Total Capital and Liabilities		46,23,62,12,262

S.N.	Assets	Amount
1	Cash in Hand	1,04,89,98,721
2	Balance with Nepal Rastra Bank	4,70,63,20,590
3	Balance with other Banks & Financial Institutions	36,75,43,641
4	Money at Call and Short Notice	-----
5	Investments	7,74,39,28,321
6	Loan, Advances and Bills Purchased	31,05,76,91,462
7	Fixed Assets	46,02,58,735
8	Non-Banking Assets	-----
9	Other Assets	85,14,70,792
Total Assets		46,23,62,12,262

(Source: Annual Report of EBL)

The above balance sheet for fiscal year 2010/11 shows the total assets and capital & liabilities of Rs 46,23,62,12,262. In capital and liabilities side of balance sheet Deposit liabilities has higher amount i.e. Rs 41,12,79,14,339 as comparison to other items. This indicates that the major source of capital for EBL is customer deposit. The deposit liability for EBL has been increasing since its establishment. On the other hand Loan, Advances and Bills Purchased of the assets side shows the higher amount followed by investments and Balance with NRB. The major contribution for current assets are bank and cash balance maintain healthy liquidity of the bank.

4.7 Current Profit and Loss Account Status of EBL:

Profit and loss account is the account which determines the net result of the business transactions. It is the account which reveals the net profit (or net loss) of the business.

Table 4.22
Profit and Loss Account of EBL at the end of fiscal year 2010/11
(Amount in Rs)

S.N.	Particulars	Amount
1	Interest Income	4,33,10,26,087
2	Interest Expenses	(2,53,58,75,552)
	Net Interest Income	1,79,51,50,535
3	Commission and Discounts	20,34,68,424
4	Other Operating Income	14,80,61,979
5	Exchange Income	4,62,59,065
	Total Operating Income	2,19,29,40,003
6	Staff Expenses	(29,31,30,567)
7	Other Operating Expenses	(38,31,12,054)
8	Exchange Loss	-----
	Operating Profit before Provision for possible Losses	1,51,66,97,382
9	Provision for possible Losses	(9,82,99,482)
	Operating Profit	1,41,83,97,900
10	Non Operating Income/Loss	14,33,385
11	Write -Back of loan loss provision	5,63,37,478
	Profit from Regular Activities	1,47,61,68,763
12	Profit/Loss from transaction of extraordinary nature	(1,20,51,522)
	Profit after Inclusion of all transaction	1,46,41,17,241
13	Provision for staff Bonus	13,31,01,567
14	Provision for Income Tax	
	Tax for the year	(42,75,31,909)
	Tax for Earlier year	(5,60,247)
	Current year deferred tax	2,83,80,110
	Net Profit	93,13,03,628

(Source: Annual Report of EBL)

The above Profit and Loss account shows that the Interest Income, commission and discount, other operating profit and exchange income are the major source for profit generation of the EBL. The above account also reveals that every income and expenses increasing yearly as a result EBL is able to generate higher profit than last year by optimum utilization of available resources. In fiscal year EBL has generated Rs 93, 13, 03,628 as a net profit at the same time operating profit has Rs 1,41,83,97,900.

On the expenses side EBL has used more funds in operating expenses than staff expenses. EBL has generated Exchange income but not experienced exchange loss in the fiscal year 2010/11.

4.8 Ability of Performance of EBL:

With the help of different financial tools the core result of the study can be achieved. To analyze the current performance evaluation and ability of the EBL it is necessary to evaluate different components. It will help to find out the strength and weakness of management as well as it also generate different components to find out opportunity and threat for the bank. To measure the performance of EBL mainly ratio analysis tool have been used.

4.8.1 Computation of Ratio Analysis:

Ratio analysis is a technique of analysis and interpretation of financial statement through mathematical expression. It may be defined as the mathematical expression of the relationship between two accounting figures, which will be used to evaluate performance of an organization by comparing the ratios from the figures of different accounts ratio analysis. Ratio used for financial analysis of business can be classified into four categories.

- **Liquidity Ratio**
- **Leverage Ratio**
- **Activity Ratio**
- **Profitability Ratio**

4.8.1.1 Determination of Liquidity Ratio:

Liquidity Ratio is ability of a firm to pay short-term liabilities. Liquidity ratio reflects the short-term financial strength of a firm. This ratio is calculated by the help of current liabilities. Here the researcher is going to calculate the current ratio of EBL. Current ratio is calculated dividing current assets by current liabilities. The details of current assets and current liabilities shown on appendix No 04.

$$\text{(Current Ratio = Current Assets/Current Liabilities)}$$

Table 4.23
Current Ratio status of EBL

(Rs. In Million)

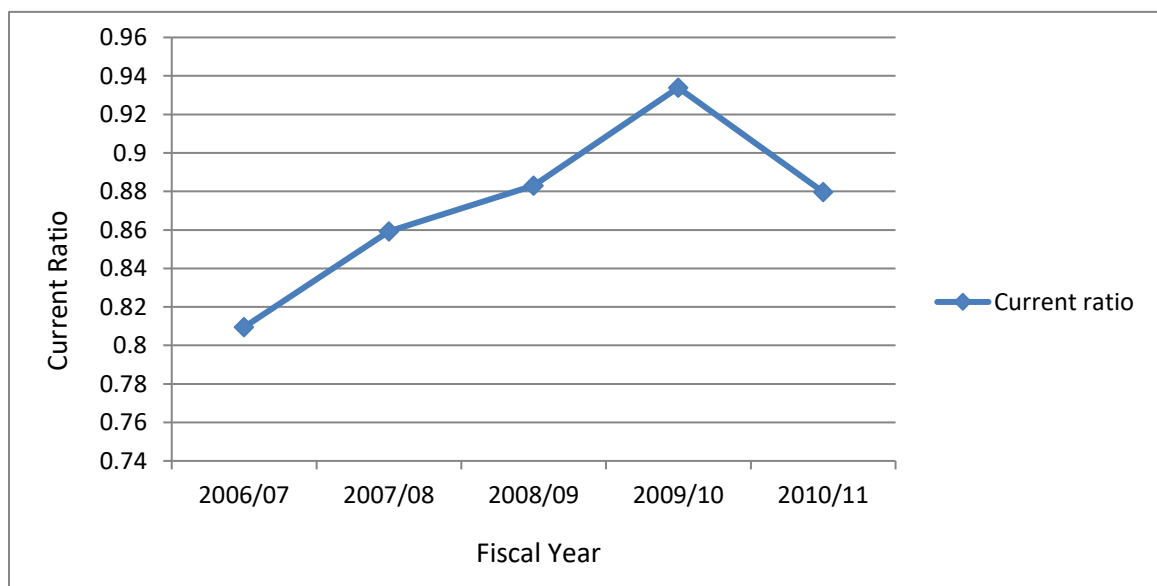
Fiscal Year	Current Assets (X)	Current Liabilities (Y)	Current Ratio (X/Y)
2006/07	16474.0	20349.6	0.8095 (80.95 %)
2007/08	21850.3	25425.3	0.8593 (85.93 %)
2008/09	30634.0	34686.1	0.8831 (88.31 %)
2009/10	35975.2	38519.1	0.9339 (93.39 %)
2010/11	37784.6	42944.7	0.8798 (87.98 %)

(Sources: Annual Report of EBL and Appendix-04)

The following scatter diagram presents the trend of current ratio during five year study period.

Figure 4.25

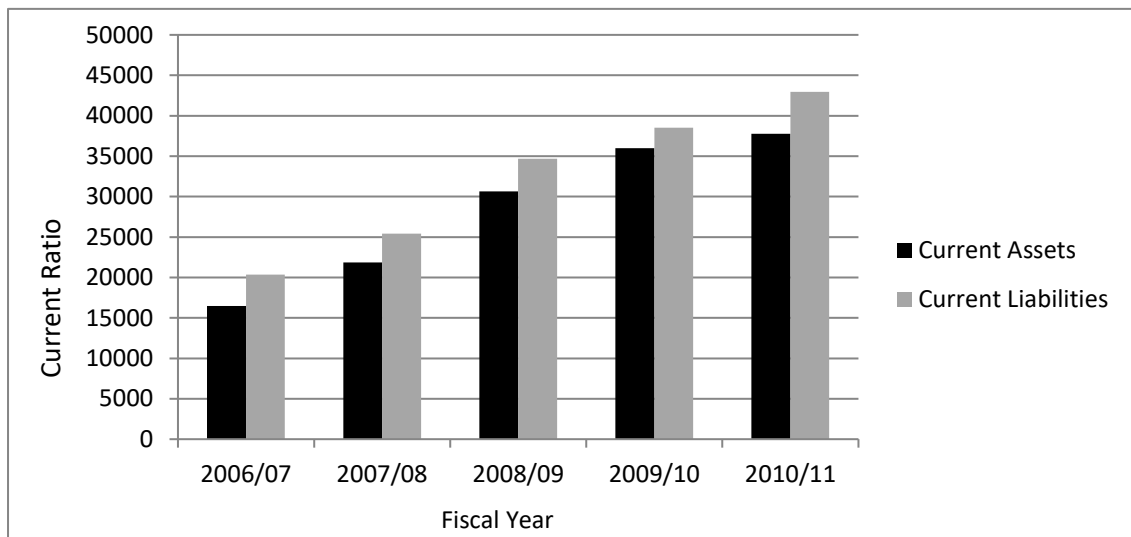
Scatter diagram showing trend of current ratio during five year period



The above table and diagram shows the liquidity position of EBL. 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 than 2:1, it means the firm has difficulty in meeting 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. In the time of study period current ratios are increasing trend up to fiscal year 2009/10 but in the year 2010/11 EBL experiences lower current ratio than 2009/10.

Figure 4.26

Bar Diagram showing Status of Current Assets and Current Liabilities



As the current ratio is below the normal standard however it can be conclude that the liquidity position is poor as it is only quantitative measures not qualitative and the situation of the bank is quite different than that of general business enterprise

4.8.1.2 Determination of 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 the following ratios are included in leverage ratio.

- **Debt- equity Ratio**
- **Interest coverage ratio**

4.8.1.2.1 Determination of Debt-equity ratio:

The ratio showing 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 shareholder's equity. The Debt Equity Ratio can be calculated dividing to borrowings by shareholder equity.

$$\text{(Debt-Equity Ratio=Borrowings/Shareholder's Equity)}$$

Table 4.24
Debt Equity Ratio of EBL

(Rs. In Million)

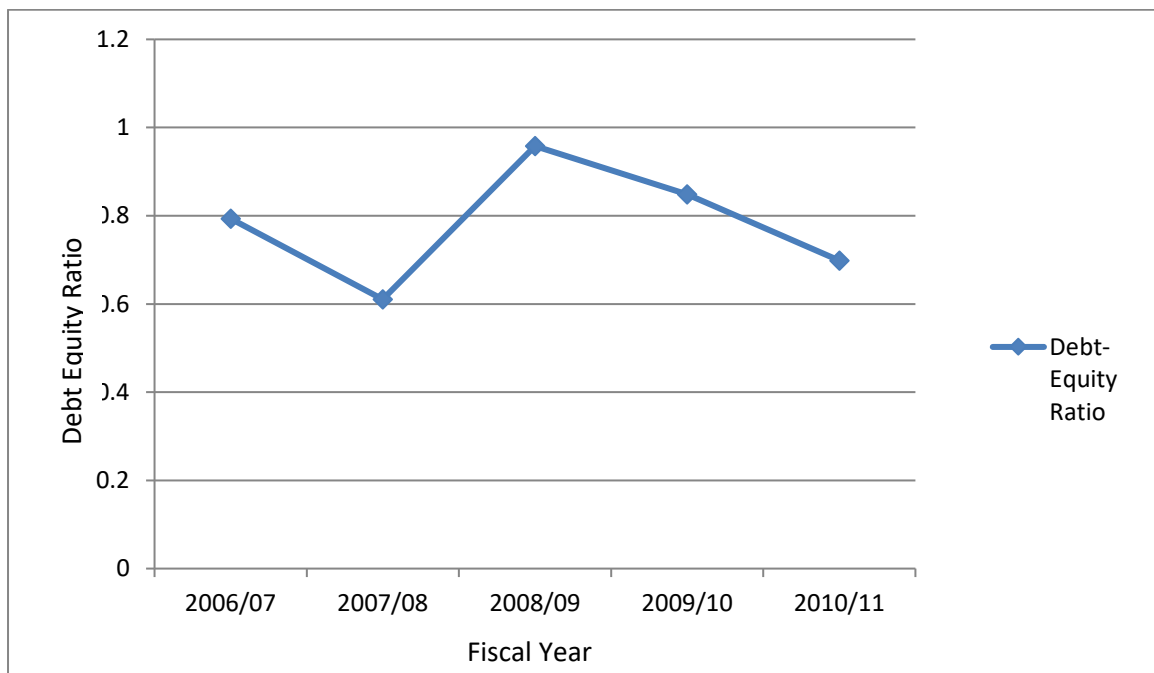
Fiscal Year	Borrowings (X)	Shareholders' Equity(Y)	Debt Equity Ratio (X/Y)
2006/07	300.0	378.0	0.7936 (79.36%)
2007/08	300.0	491.4	0.6105 (61.05%)
2008/09	612.0	638.8	0.9580 (95.80%)
2009/10	704.6	830.5	0.8484 (84.84%)
2010/11	782.0	1119.6	0.6984 (69.84%)

(Source: Annual Report of EBL)

Here the range of debt of debt equity ratio is fluctuating every year. EBL has portion of equity than long-term debenture where as for a banking sector fixed deposit also consider as long term obligation but in above analysis only borrowing have calculated as a long-term debt. The above table shows that EBL's financial weakness is very poor it has not more internal fund to repay debt and shareholder's equity. The following Scatter diagram presents the trend of Debt-Equity ratio from 2006/07 to 2010/11.

Figure 4.27

Scatter diagram showing the trend of Debt-Equity ratio



The above diagram shows that Debt-Equity ratio is gradually decreasing since fiscal year 2008/09. The ratio is lower at 2007/08 and higher at 2008/09 during five year study period.

4.8.1.2.2 Determination of 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 expenses amount.

$$(\text{Interest Coverage Ratio} = \text{EBIT} / \text{Interest Expenses})$$

Table 4.25
Determination of Interest Coverage Ratio

(Rs in Million)

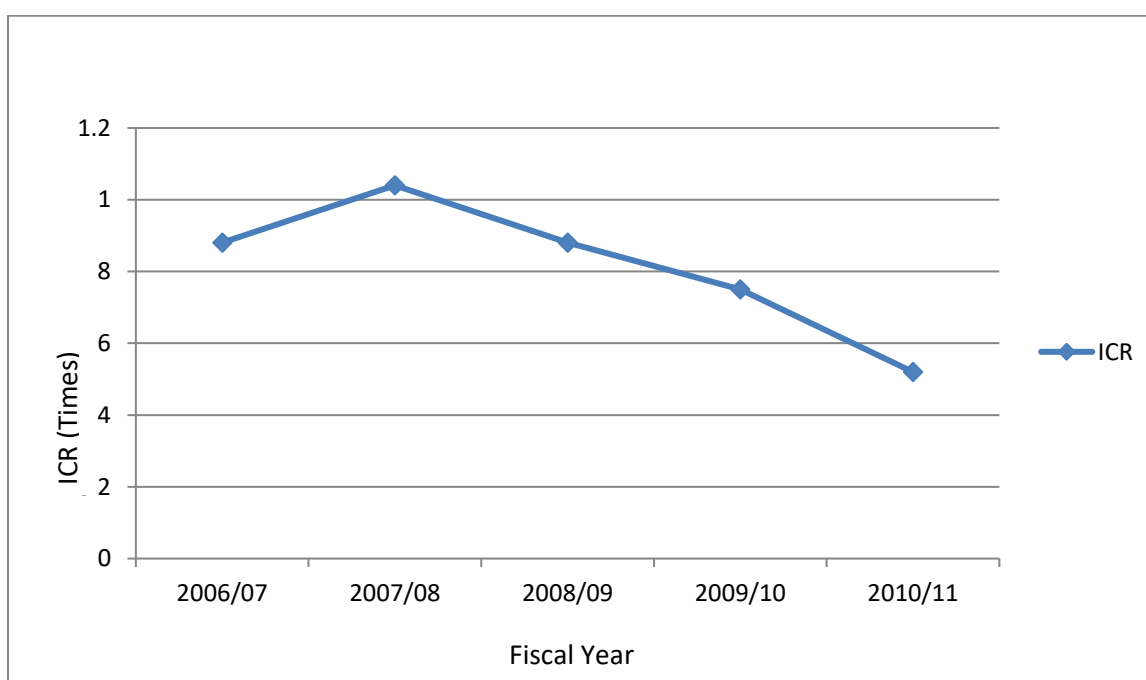
Fiscal Year	EBIT(V)	Interest Expenses (Y)	Times
2006/07	454.7	517.2	0.88
2007/08	658.6	632.6	1.04
2008/09	891.3	1012.6	0.88
2009/10	1188.0	1572.8	0.75
2010/11	1331.0	2535.9	0.52

(Source: Annual Reports of EBL)

The above table shows the position of interest coverage ratio (ICR) of EBL. The ICR is 0.88 times in F|Y 2006/07 this means EBIT is 0.88 times less than interest expenses. Likewise the ICR reached to 1.04.88 times in F|Y 2007/08. After that the interest coverage ratio of EBL decreasing gradually and reached to 0.52 in 2010/11.

Figure 4.28

Status of ICR of EBL during Five year period



The above diagram clearly presents that ICR of the EBL is decreasing continuously since 2007/08 and reached minimum level in 20010/11 during the study period.

4.8.1.3 Determination of Activity Ratio:

The relationship between activity of bank and human resources is called activity ratio. These ratios reflect how efficiently the organization is utilizing their employees. The major activity of a bank is collection deposit and LDO. So, following table and figure presents the relationship between them.

(Deposit per Employees = Deposit Collected/No. of Employees)

(LDO per Employees = LDO Deployed/No. of Employees)

Table 4.26

Calculation of the activity ratio of EBL from 2006/07 to 2010/11

(Rs. In Million)

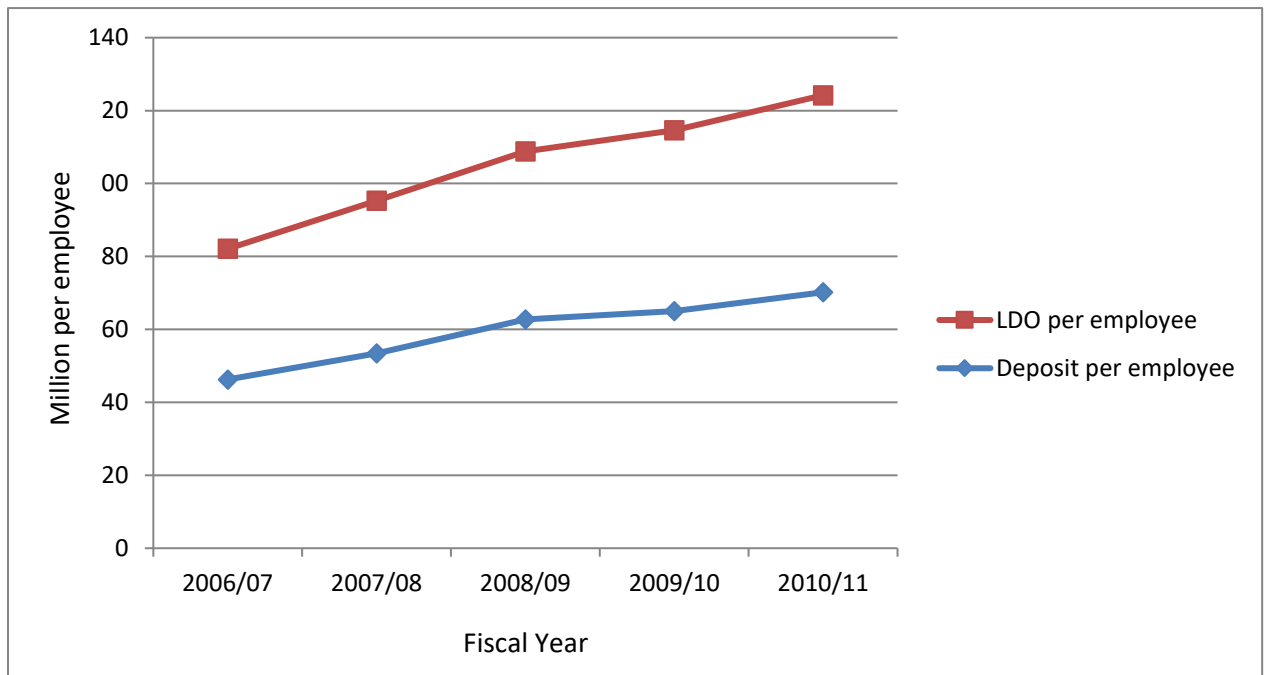
Fiscal Year	Deposit Collected (A)	LDO Deployed (B)	No. of Employees(C)	Deposit Per employees (D)=A/C	LDO per employees (E) =B/C
2006/07	18186.2	14082.7	393	46.27	35.83
2007/08	23976.3	18836.4	449	53.39	41.95
2008/09	33322.9	24469.9	531	62.75	46.08
2009/10	36932.3	28156.4	568	65.02	49.57
2010/11	41127.9	31661.8	586	70.18	54.03

(Source: Annual Reports of EBL)

The above table shows the relationship of major activities of bank with its human resources. Three factors i.e. Deposit Collected each year(A),LDO deployed each year(B) and No of employee(C) all are in increasing trend in the EBL as a result activity ratio shows a increasing trend each year. In Fiscal year 2006/07 Deposit per employees is 46.27 million per employee and LDO per employee is 35.83 million per employee. In 2010/11 both ratio get their highest level of 70.18 million deposits per employee and 54.03 million LDO per employee. The below diagram clearly shows the increasing trend of Deposit per employee and LDO per employee.

Figure 4.29

Status of deposit and LDO per employee of EBL



4.8.1.4 Determination of Profitability Ratio

Profitability ratio is related to profit. It shows the overall efficiency of the business concern. 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. Here, this researcher going to measure of EBL profitability by total assets and total capital fund to net profit. It is computed by dividing to Net profit. Total assets and net profit to capital fund.

Table 4.27
Profitability ratio of EBL

(Rs. In Million)

Fiscal Year	Net Profit after Tax(A)	Total Assets (B)	Return On Assets (C)=(A/B)×100	Total Capital Fund (D)	Return on Capital (E) = (A/D) ×100
2006/07	296.4	21851.1	1.36%	1201.5	24.67%
2007/08	451.2	27646.5	1.63%	1921.2	23.49%
2008/09	638.7	37501.7	1.70%	2203.6	28.98%
2009/10	831.8	41382.8	2.01%	2759.1	30.15%
2010/11	931.3	46236.2	2.014%	3113.6	29.91%

(Sources: Annual Report of EBL)

The above table shows the status profitability ratio of EBL. The ratio shows the relation of net profit after tax with the total assets and total capital employed. The rate of return of an assets is increasing trend, it is ranged between 1.36% to 2.014% throughout the five year period. Likewise the return on capital ratio presenting the relation of net profit with the capital employed. The range of return on capital employed is 23.49% to 30.15% it is fluctuating trend through five years of study period. The following diagrams below clearly shows the increasing trend of ROA and fluctuating trend of ROC.

Figure 4.30

Status of ROA during five year period

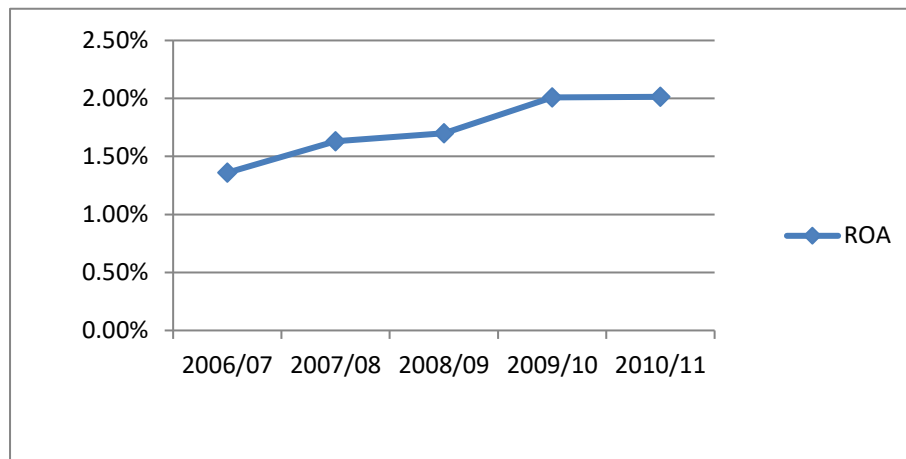
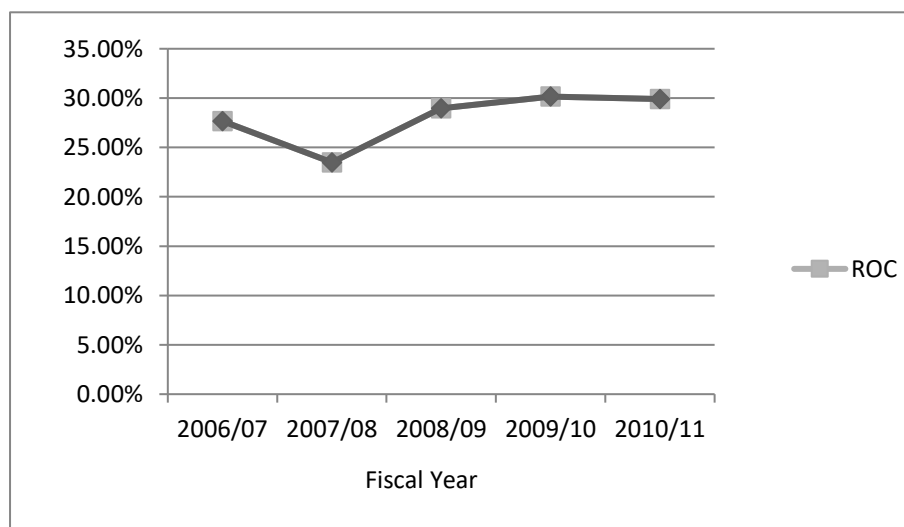


Figure 4.31

Status of Return on Capital (ROC) of EBL during study period



4.9 Tendency Ability Analysis and Projection Ability Analysis for next five years:

Here, In this heading the trend analysis ability and the financial condition are presented which is responsible to provide the future ability of the bank position.

In this study, the method of least square is used for analysis the ability of the bank's total deposit trend and net profit trend.

- The main assumption is that other things being will remain unchanged until F/Y 2015/16.
- The bank will have same situation until 2015/16 as now.
- The economy of the surrounding until 2015/16 will remain same as present stage.
- The forecast will be true only when the limitation of least square method is carried out.

a) Trend Analysis of Total Deposit of EBL

For the analysis purpose the trend value of deposit for five years from 2006/07 to 2010/11 calculated in Appendix-5 which presented in the table below and forecasted for next five years till next 2015/16.

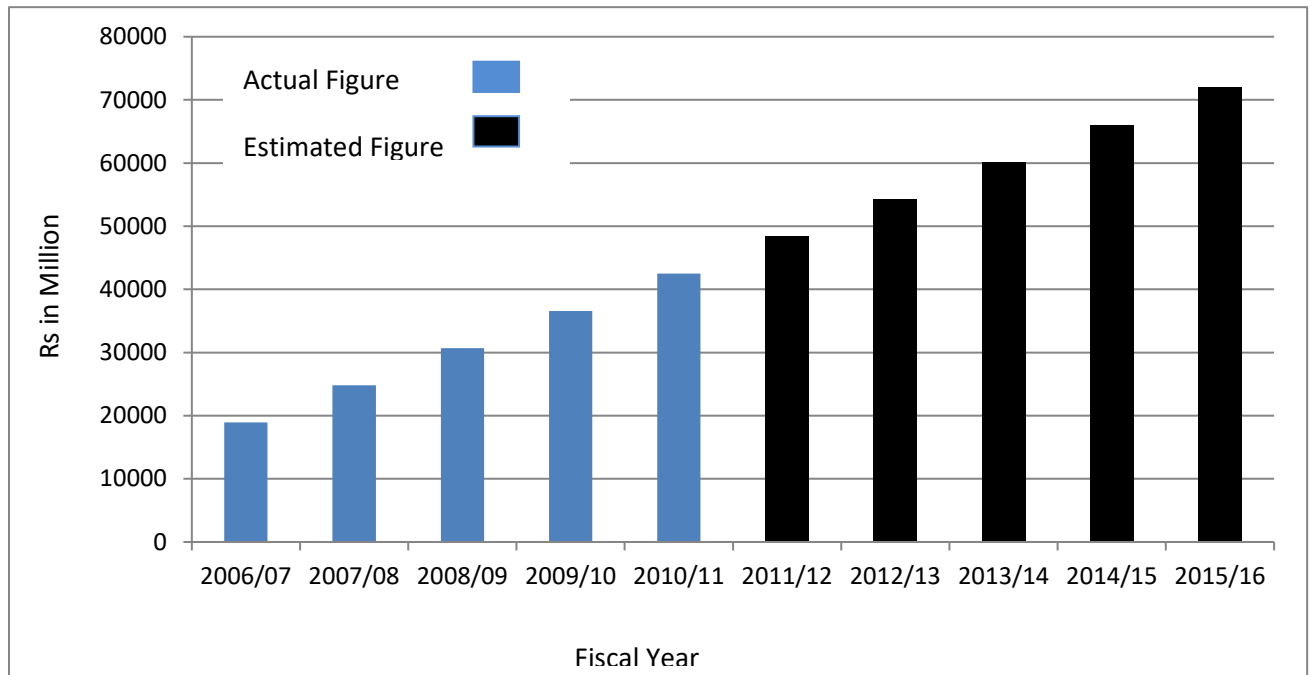
The following table shows the trend values of 10 years from 2006/07 to 2015/16 of EBL.

Table 4.28
Trend values of Total Deposit

Year	Trend Value
2006/07	18941
2007/08	24825
2008/09	30709
2009/10	36593
2010/11	42477
2011/12	48361
2012/13	54245
2013/14	60129
2014/15	66013
2015/16	71897

(Source: Appendix -05)

Figure 4.32
Trend Values of Total Deposit of EBL



b) Trend Analysis of Net profit of EBL.

In this part by using actual data of EBL from 2006/07 to 2010/11 the trend of net profit estimated from 2011/12 to 2015/16.

Table 4.29
Trend values of net profit.

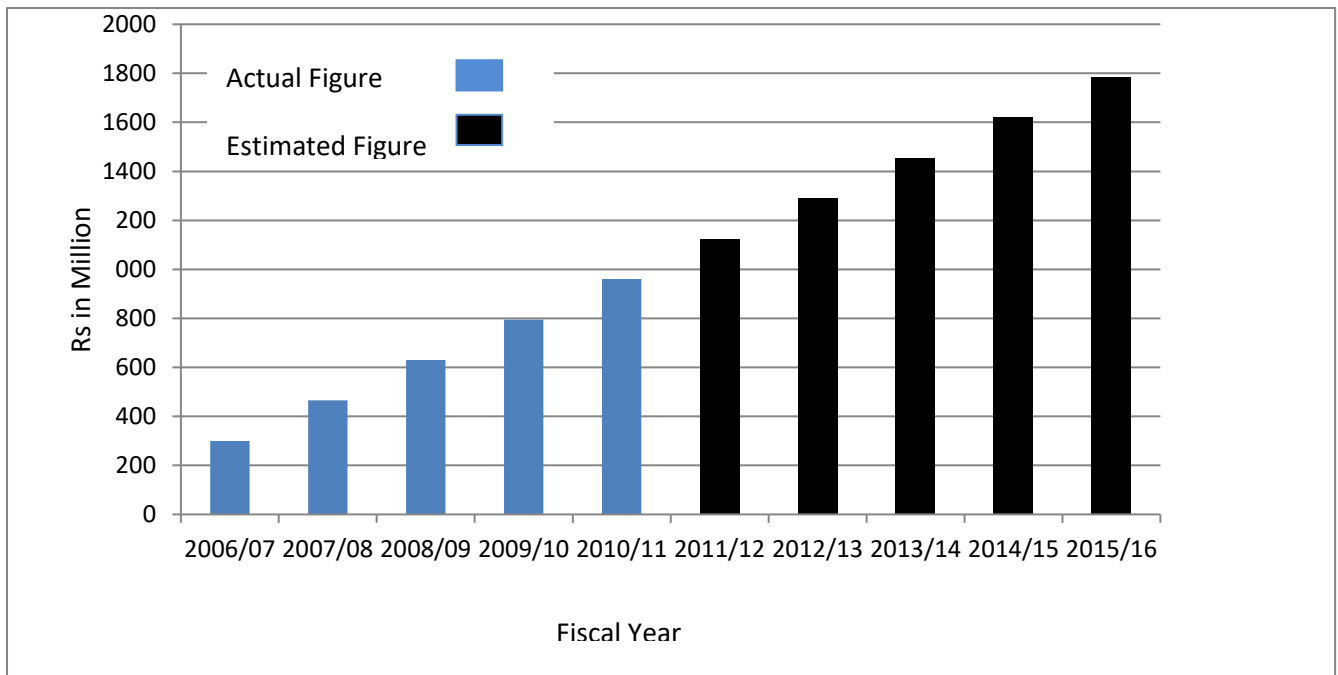
(Rs. In Million)

Year	Trend Value
2006/07	300
2007/08	465
2008/09	630
2009/10	795
2010/11	960
2011/12	1125
2012/13	1290
2013/14	1455
2014/15	1620
2015/16	1785

(Source: - Appendix -06)

The following diagram presents the status of trend value of net profit of EBL.

Figure 4.33
Trend Values of Net Profit of EBL



4.10 Major Finding of the study:

From the all above presentation, examination and interpretation of secondary data of Everest Bank Limited, the following points are the most important Judgment (findings) of the study:

- EBL has been following Profit Planning and Controlling procedure at different sector and component.
- SWOT analysis is the major key for the bank to achieve more result than budgeted figure.
- The Bank has been doing SWOT analysis before preparation of profit plan and procedure and applying correct measures for improvement in different sector of the bank.
- EBL has been making policy, plan, budget and program by using planning team of the bank which is widen up to branch level.
- The bank has skilled and qualified employees and catering services in various sectors.

- The bank has been extending its branches countrywide since its establishment.
- Deposit Collection from the customers is the main source of cash inflow in the bank. It is increasing yearly in amount but decreasing in rate. But actual figures are higher than the budgeted figures.
- Interest expenses hold the 50% of total expenditure of the bank during the study period.
- The status of non-interest expenses is also in increasing trend.
- Net profit and Operating profit of the bank have been increasing yearly.
- The Bank has able to maintain proper expenses by optimum utilization of available resources which help to generate more profit.
- Expenses other than interest of the bank are also in increasing trend except provision for risky loan which shows the erratic behavior.
- The study found that the 100% of achievement of targets in resources other than deposit.
- Loan and advances is the major cash outflow issue of the bank which generate interest income for the bank.
- The status of income generating consumption of loan and advances is in increasing trend over the period.
- The bank has 87% average contribution of customer deposit in the resources mobilization as per the data F|Y 2006/07 to 2010/11 and uses the other resources of 13% in average.
- The consumption among which LDO hold the highest percentage i.e. above 60% in average out of total consumption amount in the five year of study period.
- The current ratio of EBL has not met 2:1; it means the firm has difficulty in meeting 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.
- Debt-Equity ratio shows that the EBL's financial weakness is very poor it has not more internal fund to repay the borrowing capital.
- Interest coverage ratio of EBL ranges between 0.52 to 1.04 times. It means the bank sufficiently not capable to pay the interest expenses.
- The rate of return on assets is increasing trend but rate of return on Capital experienced fluctuating trend during the study period.
- The trend analysis of deposit and net profit shows the increasing trend thought the study period and the forecasting for next five years has also seen increasing trend.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

A safe and sound financial sector is a prerequisite for continuous growth of any economy. Financial institutions play an important role for the economic development of the country. Globalization, deregulation and advances in information technology in recent years have brought about significant changes in the operating environment for banks and other financial institutions. Nepal is a poor and developing country in the scenario of the world. Nepal has been adopting different economic plans, policies and procedures for the overall economic development and trying to repair broken economic. Most of the people of Nepal rely on selling agricultural products to the foreign country and buying industrialized products from them due to lack of industry and infrastructure which results huge financial deficit for the country. Investment in Industry, trade and business only makes any country prosper. Financial institutions provide platform and capital for the commencement of those sectors. Therefore, financial institutions are necessary to carry on the economic condition of the country.

Banks play a very useful and dynamic role in the economic life. Commercial banks are on the top of financial institutions in Nepal and play key role for the commencement, improvement and development of industry, trade and business by providing capital. Banks have become an essential part of economic life in every field. The development of agriculture and industry are not possible without banks. Modern trade also cannot be thought of without commercial banks. Economic activities in the fields of consumption, production, distribution and other branches of economics cannot be carried on properly without banks. Government also cannot effectively use various monetary and fiscal measures without banks for the accomplishment of various socio-economic objectives.

The main target of this study is to examine the budgeting and profit planning procedure system of EBL. This study is based on secondary data and collected through various sources. The collected data have been analyzed by using various statistical tools, financial tools and variance. The above examination shows that the collection from customers deposit is the main source of Capital Formation in the EBL. The key source of income in the EBL is interest income which is generated by appropriate consumption of available resources. The bank generally consumed their resources in liquidity lending and investing in securities. The profitability of EBL depends on investment policy, lending procedure and lending policy. Threats from the external environment like unstable political situation, high inflation and unfavorable government policies have made problems for the development of the bank. The EBL has been maintaining successful performance since its establishment despite of unfavorable and competitive banking circumstances.

5.2 Conclusion

The Everest bank limited is more conscious about its human resources. EBL have the policy of skill development programs, reward system and other motivation activities for the human resources. EBL is awarded the bank of the year by London based Financial Times Group's. EBL increasing its internal fund by increasing capital yearly. EBL is able to meet and cross its targeted deposit collection and deployment of LDO. The relationship between deposit and loan & advances is positively correlated.

The bank 100% of achievement of target in deposit, deployment resources like LDO. The interest holds highest percentage of expenses amount as deposit is the major resources of the bank. The major income source is interest is in increasing trend every year.

The liquidity position of EBL has poor position bank has not maintained the cash & bank balance to met the current obligations. Debt equity ratio shows that the EBL's financial condition is very poor it has not more internal fund to repay the borrowing capital. The return on assets and return on capital is satisfactory of EBL; it shows the good earning capacity of the bank. Trend analysis of deposit & net profit shows the increasing trend thought the study period and the forecasting for next five years has seen increasing trend. However, the result of the study shows the overall performance of EBL is Satisfactory and progressive. The following point concludes the research work.

- EBL has been following Profit Planning and controlling procedure at different sector and component and SWOT analysis is the major key for the bank to achieve more result than budgeted figure.
- Profit planning procedure of the bank is directly affected by internal of external environment.
- EBL has been making policy, plan, budget and program by using planning team of the bank which is widen up to branch level.
- The bank has skilled and qualified employees and catering services in various sectors of society.
- The bank has been extending its branches countrywide since its establishment.
- Deposit Collection from the customers is the main source of cash inflow in the bank. It is increasing yearly in amount but decreasing in rate. But actual figures are higher than the budgeted figures.
- Interest expenses hold the 50% of total expenditure of the bank.
- The status of non-interest expenses is also in increasing trend.
- Net profit and Operating profit of the bank have been increasing yearly.

- The Bank has able to maintain proper expenses by optimum utilization of available resources which help to generate more profit.
- Expenses other than interest of the bank are also in increasing trend except provision for risky loan which shows the erratic behavior.
- The study found that the 100% of achievement of targets in resources other than deposit.
- Loan and advances is the major cash outflow issue of the bank which generate interest income for the bank and it is increasing in amount.
- The status of income generating consumption of loan and advances is in increasing trend over the period.
- The current ratio of EBL has not met 2:1; it means the firm has difficulty in meeting 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.
- Debt-Equity ratio shows that the EBL's financial weakness is very poor it has not more internal fund to repay the borrowing capital.
- Interest coverage ratio of EBL ranges between 0.52 to 1.04 times. It means the bank sufficiently not capable to pay the interest expenses.
- The rate of return on assets is increasing trend but rate of return on Capital experienced fluctuating trend during the study period.
- The trend analysis of deposit and net profit shows the increasing trend thought the study period and the forecasting for next five years has also seen increasing trend.

5.3 Recommendations.

By examination and analysis of data of EBL this study would like to provide some proposal and suggestions for the better improvement of bank in future. This recommendation based on the study on Profit Panning Ability and procedures of EBL are as follows:

1. Dissolution of the Constitution Assembly (CA) has further pushed back investor's investment plans and bickering over the new budget has made the private sector wary. Bankers attribute the political deadlock for the slow growth in credit demand. In this reverse political situation of the country EBL should motivate innovative and income generating investments plans to maintain sufficient credit-to-deposit ratio.

2. EBL should formulate and implement innovative new profit plan and procedure methods to grab higher market share.
3. EBL should maintain sufficient – a healthy credit-to-deposit ratio as per international practice it would be 80 percent.
4. The current situation is reversal over last year where Nepal Rastra Bank has to caution the banks regularly to maintain the credit-to-deposit ratio as prescribed by the central bank.
5. EBL have learnt from last year's liquidity crisis and have become more conservative in their lending to ensure that their credit-to-deposit ratio remains at a comfortable level."This also affected credit flow.
6. Power crisis, protracted political stalemate and a slowdown in trading business have hit banks and financial institutions (BFIs) lending to the private sector. The growth rate of banks credit flow to the private sector has declined by almost 28 percent, according to the latest macro-economic report of the Nepal Rastra Bank. So, EBL should make more Credit demand from industries like cement, iron and steel, which require more energy, has slowed down due to power crisis.
7. Continued depreciation of the Nepali rupee against the US dollar is another factor affecting credit flow, especially to the trading business. Importers are in wait and see mode. In this situation to increase credit flow EBL should make innovative credit flow plan to ensure high return to the importers.
8. Nepal's agreement to the WTO permits easy access to international banks to operate in Nepal. So, EBL need to make their business plan and strategy according to the overall working environment, which can convert challenges in to opportunities.
9. Commercial banks in Nepal increasing yearly. Now, total number of commercial banks reached 32. This increasing number of commercial banks grows the competition. So, EBL should make long term strategic planning and procedures to lead.
10. EBL should be conscious about to convert threats of external environment into opportunities.
11. EBL should pay more attention about the changing technological environment and need to provide innovative products and services that reduce the cost of fund it give more growth and profitability.

12. Every business concerns have social responsibility i. e. corporate social responsibility [CSR]. Involvement in social work helps to increase goodwill and identity of the company. So, EBL should involve in more social work in coming days.
13. Deposit collection from the customer is the main source of inflow of funds of EBL but this is the cost bearing source of the bank. In coming days EBL needs to increase cost free resources too, and reducing the burden of the bank.
14. 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.
15. Marketing department must be well trained and informed about the competitors and rivals.
16. EBL invest in LDO above 60% out of total available resources. The over come from the situation it is recommended to follow liberal lending policy, invest more in secured loan and advances, and maintain stability on the investment policy.
17. The bank should be mechanism made for the purpose of achieve mission, vision and goal.
18. Expenses grow as the volume of activities increases, so it cannot be avoided but can be controlled. The bank can minimize those expenses not related for income generating activities. Therefore, the bank enhances its profitability.
19. People in rural area of Nepal still out of banking services so EBL is suggested to take bold steps to expand and upgrade its network to reach such area with their products and services.
20. Commercial banks are the profit motive banks: they cannot keep their eyes closed from profit. They should be careful in increasing profit actually to maintain the confidence of shareholder's depositors and their customer. So, it is strongly recommended to utilize its risky assets a shareholders fund to gain highest profit margin.
21. As NRB's publications are the major sources of data and information regarding this topic, untimely and late publication makes the researcher wait long and even individual banks do not put available information regarding interest rate structure on their published report. So, NRB and even individual joint venture banks are suggested to publish all necessary publication in time and in their

publications respectively for the convenience of researcher and other interested people.

22. The government before issuing license for the commercial banks should make a market study for the background and reputation of the people establishing a bank. This will help in avoiding the corrupt banking in the country and existing commercial banks will get benefit from these policies because they do not have to face false competition policies launched by the corrupt banks.
23. The banks should improve and change their servicing and operational behavior and should invite modern technologies accord to the situation. For this purpose, a research department should be built, keeping skilled and efficient workers. It helps to analyze market of the banks from different dimensions. It also helps in improving management, operation and investment policy.

The study report is accomplished with the above-mentioned major findings, summary, conclusion and recommendations.

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APPENDICES

Appendix-1

Calculation of correlation between Operating and Net Profit

(Rs in Million)

Fiscal Year	Operating Profit(X)	Net Profit (Y)	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2	xy
2006/07	598	297	-474.4	-333.4	225055.36	111155.56	158164.96
2007/08	824	452	-248.4	-178.4	61702.56	31826.56	44314.56
2008/09	1074	639	1.6	8.6	2.56	73.96	13.76
2009/10	1349	832	276.6	201.6	76507.56	40642.56	55762.56
2010/11	1517	932	444.6	301.6	197669.16	90962.56	134091.36
	$\sum X$ = 5362	$\sum Y$ = 3152	$\sum x = 0$	$\sum y = 0$	$\sum x^2$ = 560937.2	$\sum y^2$ = 274661.2	$\sum xy$ = 392347.2

$$\bar{X} = \frac{\sum X}{N} = \frac{5362}{5} = 1072.4$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{3152}{5} = 630.4$$

$$\delta_x = \sqrt{\frac{\sum x^2}{N} - \left(\frac{\sum x}{N}\right)^2} = \sqrt{\frac{560937.2}{5} - \left(\frac{0}{5}\right)^2} = \sqrt{112187.44} = 334.94$$

$$\delta_y = \sqrt{\frac{\sum y^2}{N} - \left(\frac{\sum y}{N}\right)^2} = \sqrt{\frac{274661.2}{5} - \left(\frac{0}{5}\right)^2} = \sqrt{54932.24} = 234.37$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \times \sqrt{\sum y^2}} = \frac{392347.2}{\sqrt{560937.2} \times \sqrt{274661.2}} = 0.9996$$

$$CV_X = \frac{\sigma_x}{\bar{X}} \times 100 = \frac{334.94}{1072.4} \times 100 = 31.23\%$$

$$CV_Y = \frac{\sigma_y}{\bar{Y}} \times 100 = \frac{234.37}{630.4} \times 100 = 37.17\%$$

$$PE = 0.6745 \times \frac{1-r^2}{\sqrt{N}} = 0.6745 \times \frac{1-0.9996^2}{\sqrt{5}} = 0.0000241$$

$$6PE = 6 \times 0.0000241 = 0.000144 = (r > 6PE)$$

Appendix-02

Calculation of correlation between Total Income and Expenses

(Rs in Million)

Fiscal Year	Total Income(X)	Total Expenses (Y)	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2	xy
2006/07	1371	773	-1431.8	-957.6	2050051.24	916997.76	1371091.68
2007/08	1848	1024	-954.8	-706.6	911643.04	499283.56	674661.68
2008/09	2565	1492	-237.8	-238.6	56548.84	56929.96	56739.08
2009/10	3501	2152	698.2	421.4	487483.24	177577.96	294221.48
2010/11	4729	3212	1926.2	1481.4	3710246.44	2194545.96	2853472.68
	$\sum X$ = 14014	$\sum Y$ = 8653	$\sum x = 0$	$\sum y = 0$	$\sum x^2$ = 7215972.8	$\sum y^2 =$ 3845335.2	$\sum xy$ = 5250186.6

$$\bar{X} = \frac{\sum X}{N} = \frac{14014}{5} = 2802.8$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{8653}{5} = 1730.6$$

$$\delta_x = \sqrt{\frac{\sum x^2}{N} - \left(\frac{\sum x}{N}\right)^2} = \sqrt{\frac{7215972.8}{5}} = \sqrt{1443194.56} = 1201.33$$

$$\delta_y = \sqrt{\frac{\sum y^2}{N} - \left(\frac{\sum y}{N}\right)^2} = \sqrt{\frac{3845335.2}{5}} = \sqrt{769067.04} = 876.96$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \times \sqrt{\sum y^2}} = \frac{5250186.6}{\sqrt{7215972.8} \sqrt{3845335.2}} = 0.9966$$

$$CV_X = \frac{\sigma_x}{\bar{X}} \times 100 = \frac{1201.33}{2802.8} \times 100 = 42.86\%$$

$$CV_Y = \frac{\sigma_y}{\bar{Y}} \times 100 = \frac{876.96}{1730.6} \times 100 = 50.67\%$$

$$PE = 0.6745 \times \frac{1-r^2}{\sqrt{N}} = 0.6745 \times \frac{1-0.9966^2}{\sqrt{5}} = 0.000204$$

$$6PE = 6 \times 0.000204 = 0.001224 = (r > 6PE)$$

Appendix-03

Calculation of correlation between Budgeted and Actual LDO

(RS in Million)

Fiscal Year	Budgeted Amount(X)	Actual Amount(Y)	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2 "0000"	y^2 "0000"	xy "0000"
2006/07	12000	14083	-7200	-9358.4	5184	8757.97	6738.05
2007/08	15000	18836	-4200	-4605.4	1764	2120.98	1934.27
2008/09	20000	24470	800	1028.6	64	1058.02	82.29
2009/10	22000	28156	2800	4714.6	784	2222.75	1320.09
2010/11	27000	31662	7800	8220.6	6084	6757.83	6412.07
	$\sum X$ = 96000	$\sum Y$ = 117207	$\sum x = 0$	$\sum y$ = 0	$\sum x^2 =$ 13880	$\sum y^2$ = 20917.55	$\sum xy$ = 16486.77

$$\bar{X} = \frac{\sum X}{N} = \frac{96000}{5} = 19200$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{117207}{5} = 23441.4$$

$$\delta_x = \sqrt{\frac{\sum x^2}{n} - \left(\frac{\sum x}{n}\right)^2} = \sqrt{\frac{13880}{5}} = \sqrt{2776 \times 10000} = 5268.78$$

$$\delta_y = \sqrt{\frac{\sum y^2}{n} - \left(\frac{\sum y}{n}\right)^2} = \sqrt{\frac{20917.55}{5}} = \sqrt{4183.55 \times 10000} = 6468.03$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \times \sqrt{\sum y^2}} = \frac{16486.77 \times 10000}{\sqrt{13880 \times 10000} \sqrt{20917.55 \times 10000}} = 0.9679$$

$$CV_X = \frac{\sigma_x}{\bar{X}} \times 100 = \frac{5268.78}{19200} \times 100 = 27.44 \%$$

$$CV_Y = \frac{\sigma_y}{\bar{Y}} \times 100 = \frac{6468.03}{23441.4} \times 100 = 27.59 \%$$

$$PE = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-0.9679^2}{\sqrt{5}} = 0.0192$$

$$6PE=6 \times 0.0192=0.1152= (r>6PE)$$

Appendix-04

Calculation of Total Current Assets and Total current Liabilities

(Rs in Million)

Fiscal year	Total Current Assets= Total uses –Investments-Other assets	Total current liabilities=Total sources-Capital & reserve-Loan
2006/07	16474.0	20349.6
2007/08	21850.3	25425.3
2008/09	30634.0	34686.1
2009/10	35975.2	38519.1
2010/11	37784.6	42944.7

(Source: Annual Report of EBL)

Appendix-05

Calculation of trend value of Total Deposit of EBL from 2006/07 to 2015/16.

(Rs in Million)

F/Y(t)	Total Deposit(Y)	X=[t-2008/09]	X ²	X*Y	Y= a+bx
2006/07	18186	-2	4	-36372	18941
2007/08	23976	-1	1	-23976	24825
2008/09	33323	0	0	0	30709
2009/10	36932	1	1	36932	36593
2010/11	41128	2	4	82256	42477
	$\sum Y = 153545$	$\sum X = 0$	$\sum X^2 = 10$	$\sum XY = 58840$	

$$a = \frac{\sum Y}{N} = \frac{153545}{5} = 30709$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{58840}{10} = 5884$$

Now, By using straight line method for calculation of trend of total deposit, we have

$$Y = a+bX \text{ i.e } 30709 + 5884 X$$

Now Expected trend Value from 2011/12 to 2015/16

Year(t)	X = [t- 2008/09]	Y = a + b X
2011/12	3	48361
2012/13	4	54245
2013/14	5	60129
2014/15	6	66013
2015/16	7	71897

Appendix-06

Calculation of trend value of net profit of EBL from 2006/07 to 2015/16.

(Rs in Million)

F/Y(t)	Net Profit(Y)	X=[t-2008/09]	X ²	X*Y	Y= a+bx
2006/07	297	-2	4	-594	300
2007/08	451	-1	1	-451	465
2008/09	639	0	0	0	630
2009/10	832	1	1	832	795
2010/11	931	2	4	1862	960
	$\sum Y = 3150$	$\sum X = 0$	$\sum X^2 = 10$	$\sum XY = 1649$	

$$a = \frac{\sum Y}{N} = \frac{3150}{5} = 630$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{1649}{10} = 164.9 = 165(\text{Approx})$$

Now, By using straight line method for calculation of trend of total deposit, we have

$$Y = a+bX \text{ i.e } 630 + 165 X$$

Now Expected trend Value from 2011/12 to 2015/16

Year(t)	X = [t- 2008/09]	Y = a + b X
2011/12	3	1125
2012/13	4	1290
2013/14	5	1455
2014/15	6	1620
2015/16	7	1785