

**PROFIT PLANNING AND CONTROL OF NABIL BANK LIMITED AND  
NEPAL SBI BANK LIMITED**

**A Dissertation submitted to the Office of the Dean, Faculty of Management  
in partial fulfillment of the requirements for the Master's Degree**

**By**

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**April, 2022**

**CERTIFICATE OF AUTHORSHIP**

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled "**PROFIT PLANNING AND CONTROL OF NABIL BANK LIMITED AND NEPAL SBI BANK LIMITED**". The work of this dissertation has not been submitted previously for the purpose of conferral of any degree nor has it been proposed and presented as part of requirements for any other academic purposes. The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declared that all information sources and literature used are cited in the reference section of the dissertation.

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# TRIBHUVAN UNIVERSITY

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Thesis

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### REPORT OF RESEARCH COMMITTEE

Mr. Hriday Narayan Mishra has defended research proposal entitled "**PROFIT PLANNING AND CONTROL OF NABIL BANK LIMITED AND NEPAL SBI BANK LIMITED**" successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Lecture Dr. Udaya Kishore Tiwari and submit the thesis for evaluation and viva voce examination.

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### APPROVAL SHEET

We have examined the dissertation entitled "**PROFIT PLANNING AND CONTROL OF NABIL BANK LIMITED AND NEPAL SBI BANK LIMITED**" presented by **Mr. Hriday Narayan Mishra** for the degree of **Masters of Business Studies (MBS)**. We hereby certify that the dissertation is acceptable for the award of degree.

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**ABBREVIATIONS**

ABBS	Any Branch Banking System
ADBL	Agriculture development Bank Limited
ATM	Automatic Teller Machine
BS	Bikram Sambat
CCC	Cash Conversion Cycle
COD	Cost of Deposit
CR	Current Ratio
EBIT	Earning Before Interest and Tax
EFD	Excluding Fixed Deposit
FD	Fixed Deposit
NLDO	Non Loan, Discount and Overdraft
LDO	Loan, Discount and Overdraft
NPM	Net Profit Margin
NRB	Nepal Rasta Bank
PPC	Profit Planning and Control
ROA	Return On Assets
ROE	Return On Equity
RONW	Return On Net Worth
NSBI	Nepal SBI Bank Limited
TU	Tribhuvan University
%	Percentages

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

Profit planning and control is viewed as a process designed to help management efficiently perform significant phase of the planning and control functions. Profit just does not happen, profit are managed. Profit is the primary measure of business in any economy. Before we go further the managerial process of profit planning, it is important to understand the concept of profit. There is several definition of profit. An economist will defined that profit is reward for the entrepreneurship for the entrepreneurship for taking the risk. An accountant will say the excess of firm's profit over the expenditure of producing revenues given fiscal year.

Planning is the first essence of management and all other function are performed within the framework of planning means deciding in advance what is to be done in future. Planning starts from forecasting and predetermine of future events. The primary purpose of planning in business is to increase the chance of making profit. The budget is the primary operation planning document. Committed performance budgets are called profit plan. Each manager and subordinate has the authority in varying degrees to make the decisions, the result of which will nearly accomplish or better his budgetary targets.

The excess income over expenditure is called profit. The word profit brings for visions of reserves. "Profit does not just happen, profits are managed" (Lynch and Williamson, 1989:125).

The concept of profit is not new but the concept of profit planning and control is new word in business literature. It can be defined profit planning and control is a tool of management used in profit making organization. The managerial skill which increase revenues and minimize the cost is called profit planning and control. Profit planning and control involves long-term commitment waiting for a reward which comes in future and always remains uncertain. Therefore, every planning entails some degree of uncertainty. So, we can conclude profit planning and control is as an organized and

formal approach for realize the planning, synchronization and control responsibilities of management which provides guidelines to the overall managerial task.

Sound- controlled profit planning and control programs facilitate the management to keep a level soft profits which will make certain the continuation of the business and the accomplishment of organization responsibilities. "Profit planning through volume of cost analysis, however, is a modern concept of management planning tools designated primarily for industrial enterprises. It involves a study of what a business cost and expenses should be and will be at different level of operations and it include a study of the resultant effect due to this hanging relationship between volume and cost " (Young Dong, 2001:74).

"A Profit plan is an advance decision of expected achievement based on the most efficient operating standards in effect or in prospect of time. It is established against which actual accomplishment is regularly compared" (Niel, 2001:305).

Every business or institution is established on the definite goals and objectives. All the tasks are performed by company according to their objectives. Mainly two types of institutions are established one is profit oriented and another is service oriented. The financial institutions act as mediators by transferring the resources from the surplus to the deficits, which provides fuel to economic development of the country. Economic activities of a nation can't be carried forward without support of the financial institution.

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

A tiny 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 at little over two percent annum at a situation when more than two-fifth of the country's population is in absolute poverty. Nepal's current economic situation is best with nearly half of the population living below poverty line, and unemployment and disguised unemployment together depriving one half of the labor force.

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

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

Nabil Bank Limited, the first foreign joint venture bank of Nepal, started operations in 12<sup>th</sup> July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 52 points of representation across the kingdom and over 170 reputed correspondent banks across the global. Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business. Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, credit cards, state-of-art, world-renowned software

from Infosys Technologies System, Bangalore India, Internet banking system and Telebanking system ([www.nabilbank.com.np](http://www.nabilbank.com.np)).

Nepal SBI Bank Ltd.(NSBL) is a subsidiary of State Bank of India (SBI) having 55 percent of ownership. The local partner viz. Employee Provident Fund holds 15% equity and General Public 30%. In terms of the Technical Services Agreement between SBI and the NSBL, the former provides management support to the bank through its expatriate officers including Managing Director who is also the CEO of the Bank. Central Management Committee (CENMAC), consisting of the Managing Director & CEO, Chief Operating Officer & Dy. CEO, Chief Financial Officer, Chief Risk Officer and Chief Credit Officer, exercises overall control functions with the help of 3 Regional Offices, and oversee the overall operations of the Bank.

NSBL was established in July 1993 and has emerged as one of the leading banks of Nepal, with 679 skilled and dedicated Nepalese employees working in 62 branches, 7 extension counters, 3 Regional Offices and Corporate Office. With presence in 32 districts in Nepal, the Bank is providing value added services to its customers through its wide network of 85 ATMs, internet banking, mobile wallet, SMS banking, IRCTC Ticket Online Booking facility, etc. NSBL is one of the fastest growing Commercial Banks of Nepal with more than 6.22 lakhs satisfied deposit customers and over 4.80 lakhs ATM/Debit cardholders. The Bank enjoys leading position in the country in terms of penetration of technology products, viz. Mobile Banking, Internet Banking and Card Services. The Bank is moving ahead in the Nepalese Banking Industry with significant growth in Net Profit with very nominal NPA ([www.nsbil.com.np](http://www.nsbil.com.np)).

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.

## **1.2 Statement of the Problem**

Profit is the very basic primary short term and long term objectives of every business organization. Even increasing ratio of profit is a good symbol of organization. By nature profit is a yard stick judging of managerial efficiency in terms of a means of measurement for the success.

The profit planning tool is a newly developed concept as a crucial way in the business organization. The concept of profit planning has not even familiarized in the most of the business concern. By proper profit planning a business can be managed more effectively and efficiently.

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

The present study has tried to analyze and examine the PPC side of commercial bank taking a case of NSBI & NABIL bank. Furthermore the study has tried to answer the following research questions.

1. What are the overall profit planning problems of Nabil bank ltd and SBI bank ltd?
2. Dose Nabil bank and SBI bank have appropriate profit planning system?
3. What is the position of budgeted and actual revenue and expenditure?
4. What is the position of financial performance of Nabil and Nepal SBI Bank in terms of outcomes ratios?

### **1.3 Objectives of the Study**

1. To Focus the current profit planning adopted and its effectiveness in Nabil bank ltd. and Nepal SBI Bank ltd.
2. To compare the budgeted and actual revenues and expenditures of sample banks.
3. To Analyze the Position of financial performance of Nabil and Nepal SBI Bank in terms of profitability, liquidity and assets turnover ratios.

### **1.4 Significance of the Study**

Profit is the life blood of the any organization because the continuity or survival of the each and every organization is depends upon the earning capacity of that organization.

This study is concerned with the profit planning in the commercial bank. It attempts to examine and analyze the applicability of profit planning system in the bank. Profit planning process significantly contributes to improve the profitability as well as the overall financial performance of an organization with the help of the best utilization of resources.

Profit planning is a part of an overall process and is an area in which finance function plays major role. It is now an important responsibility of financial manager while activities of those require an accounting background. It's also need knowledge of business principles, economic statistics and mathematics. Hence profit planning represents on overall plan of preparation for a definite period of time. Profit planning process significantly contributes to improve the profitability as well as the overall financial performance of an organization. Accomplishment of objectives in every organization depends upon the application of scarce resources most effectively. The financial performance of an organization also depends purely on the use of its resources. Budgeting is the key to productive financial planning. Therefore the planning process of every organization will be effective and result oriented, then the pace of development naturally steps forward. Profit planning is the core area of management.

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

### **1.5 Limitations of the Study**

The study confined only profit planning aspect of the Nabil Bank Ltd. and Nepal SBI Bank Ltd. So, the limitations of this study are:

- The study based on only past five years data from F/Y 2013/14 to 2017/18.
- The time and resource constraints, only two sampled banks were taken for study.

- The study is based on secondary sources of data.

## **1.6 Organization of the study**

The study is divided into the following five chapters.

### **Chapter- I Introduction**

The first chapter deals the background of the study, brief profile of the Nabil and Nepal SBI, statement of problem, objectives of the study, significance of the study, limitation of the study and organization of the study etc.

### **Chapter- II Conceptual Framework and Review of Literature**

Second chapter deals with the review of available literature. It takes in review of related books and previous published 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**

In this chapter, collected data will be presented, evaluated and analyzed by using suitable statistical and financial tools. The statistical tools, used are: Trade analysis , correlation analysis , regression analysis, . Ratio analysis is used as financial tools.

### **Chapter - V Summary, Conclusion and Recommendations.**

The fifth and last chapter covers the summary of the study, the main conclusion that flows from the study and offers some recommendations as well as suggestions for further improvement.

## **CHAPTER-II**

### **REVIEW OF LITERATURE**

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 may be known and further research can be conducted. It is an integral mandatory process in research works.

#### **2.1 Conceptual Framework**

##### **2.1.1 Concept of Profit**

Profit is the basic elements of profit plan so that the concept of profit planning may not be completed and meaningful in absence of the clear-cut well defined idea of profit. Oxford dictionary defines profit as a (a) financial gain and amount of money gained in business especially the difference between the amount earned and the amount spent (b) Advantage or benefits gained from something (Hornby and Cowie, 1992:63).

According to some theories, profits are the factor payment for taking the risk for agreeing to take what is left over after contractual outlays have been made. In the second type of profit theory they viewed as a wage for the service of innovation. Profits in this theory are tied to dynamic development. Profit 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 survivability of the enterprises.

##### **2.1.2 Concept of Planning**

Planning is the first essence of management and all other functions are performed within the framework of planning. Planning means deciding in advance what is to be done in future. Planning starts from forecasting and predetermination of future events. Planning is the whole concept of any business organization with proper and effective planning. No firm can accomplish its predetermined goals and objectives. Hence it is the life blood of any organization which helps them to run efficiently in competitive environment. Planning is a techniques were by the use pattern of resources is carried out (Agrawal,1989:24).

A planning process includes setting goals, evaluating resources forecasting by different methods and formulating a master plan. Planning depends upon the organized objectives. For the planning purpose a firm's objectives can distinguish mainly three types, the first is prime, the second is instrumental objectives are aims for accomplishment of more basis aim. For this purpose the company has established divisional departmental and individual job objectives. Specific objectives are those objectives that have been specified as to time and magnitude which is known as goals. As a result of specifying a time period and a target amount, this goal is capable of giving specific guidance to various senses of management planning. Objective setting of a firm is very difficult task. Unfortunately, most top management fails to develop a clear and operational statement of company objectives. More carefulness is necessary for this tedious job and it stated from firm's objectives. More carefulness is necessary for this tedious job. Carefully stated firm's objectives would yield at least the following benefits.

- Company objectives provide the ultimate criteria for resolving difficult company decisions and
- Company objectives are the basis for long-range profit planning.

Planning is the process of developing enterprises objectives and selecting future course of action to accomplish them. It includes (Welsch, Hilton, Gorden, 1992:127).

- Establishing enterprises objectives,
- Developing premises about the environment in which they are to be accomplished,
- Decision making,
- Identifying activities necessary to translate plans in to action, and
- Current re-planning to current deficiencies.

The planning processes both short and long term is the most crucial component of the whole system. It is both foundation and the bond for the other elements because it is through the planning process that we determine what we are going to do, how we are going to do it and who is going to do it. It operates as the brain centre of an organization and like the brain it both reason and communicate (Welsch, Hilton, Gorden 1992:73). Planning is the conscious recognition of the futurity of present decision (Drucker, 1989:87). Planning is the feed forward process to reduce

uncertainty about the future. The planning process is based on the conviction that management can plan its activities and condition that state of the enterprise that determines its density (Pandey, 1991:325).

Planning could be taken as the tools of achieving organizational goals efficiently and effectively from the selection of various alternatives with in a acceptable time frame. The essence of planning is:

- To accomplish goals
- To reduce uncertainty
- To provide direction by determining the course of action in advance.

Planning is determined course of action for achieving organizational goals or objectives effectively and efficiently at a fluid environment with a certain time frame through the selection of various alternatives. On the other hand it holds accountability and responsibility about result to individual. A full appreciation of the firm task requires distinguishing among three types of company's activities which we call strategic planning, management control and operational control. The strategic planning is a important function of top management. Planning requires the management to setting a future state toward which effort will be directed i.e. objective, assessing the organization's resources, i.e. what the organization is going to work with, assessing the current and future environment with which the organization must connected to achieve its goals and lately determine how and when to allocate resource accomplish the objective. Planning on the other hand is selecting objective and determining a course of action including allocation of resources in order to achieve those objectives in a specific time period. Planning states what, when, and how things will be accomplished. An adequate planning is necessary for control of operations.

### **2.1.3 Types of Planning**

#### **Corporate Planning**

The concept of corporate planning was first introduced and started in the United State in the late 1950's and nowadays it has been using in several companies in all over the world. The premises of the corporate planning are as follows (Robertson, 1968:245).

- Before drawing up a plan which is designed to decide some thing what the corporation wants to do.
- In these days of rapid change it is necessary to look ahead as for as possible to anticipate these changes.
- Instead of treating a company as a collection of departments treat it as a corporate whole, and
- Take full accounts of the company's environment before drawing up and plan.

He has also defined corporate planning as, it is to determine the long term goals of a company as a whole and then to generate plans designated to achieve these goals bring in mind probable change in its environment.

### **Strategic Long-Range Planning**

Strategic planning is a top management function in which the organization's purpose, mission and overall objectives and policies are developed to position the organization advantageously in its operating environment. It refers to the selection of company objective and the determination of the growth or at least constant and competitive policies that are most likely to accomplish those objectives. It is carried out the highest policy making level of the organization will travel. Management planning and control is the process carried on within the framework established by strategic planning. "Long range 5 to 10 years varying with the enterprise sometimes extended to 10 years. It is one of the most difficult times span involved in planning as many problems in short range planning can be traced to the absence of clear sense of direction and the practice which a comprehensive long-range plan provides. Basically, the long-range planning is more important for broad and long living enterprises. 'A long-range planning is closely concerned with the concept of the corporation as a long living institution (David, 1964:298).The planner must include the following factors in his/her plan from the analysis of available information.

- Probable future opportunity
- Uncertainty and
- Challenges

Long range planning is the continuous process of making present entrepreneurial (risk taking) decision. Systematically and best possible organizing efforts is need to carry

out these decisions and measuring the result of these decisions against the expectations through organized systematic feed back (Drucker, 1964:165). It is a decision making process. Such decision should be related about:

- Determination of goals, objectives and strategies.
- Level and direction of capital expenditure.
- Accession of new sources of funds.
- Organization design and structure etc.

### **Tactical Short Term Planning**

A tactical planning is done at all level and involves directing the organizations activities to achieve overall strategic objectives with the organization's mission and policies. Standing plans provide consistency and efficiency for non going operations, and single use plans are developed for unique situation. Projects are short term plans designed to achieve objective within large scale programs. Short term plans cover about a year, and are less formal and detailed than long range plans, which usually cover more than three months. The short range planning is selected to conform to fiscal quarters or years because of the practical need for conforming plans to accounting periods and the same. What arbitrary limitation of the long range to three to five years is usually based as has been indicated on the prevailing belief that the degree of uncertainty over along period makes planning of questionable value (Horold and Cyric, 1964:45).

#### **2.1.4 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 for cast 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).

### **2.1.5 Planning Verses Forecasting**

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

### **2.1.6 Purposes of Profit Planning..**

Some purposes for the application of profit planning are:

- To state the firms expectations in clear and facilitate for attainability.
- To communicate expectations to all concerned with the management of the firm so that they are understood, supported and implanted.
- To provide a detail plan of action for reducing uncertainty and for the proper direction of individual and group efforts to achieve goals.
- To coordinate the activities and efforts in such as way the use of resource in maximized.

- To provide a means of measuring the performance of individuals and units and to supply information on the basis of which the necessary corrective action can be taken.

There is controversy is term of profit. It is defined by different people from different aspect. According to RM Lynch and Robert Williamson "usually profits does not just happen, profits are managed. Before we can make intelligent approaches to the management concept of profit, there are after all, several different interpretations of the term. Profit, an economist says that profit is the reward of entrepreneurship for risk taking. A labour leader might say that it is a measure of how efficiently labor has produced and that it provides a base for negotiating a wage increase. An inverter views it as a gauge for return on his/her investment. An internal revenue agent might regard, it is the base for determining income taxes. The accountant will define it simply as the excess of firm's revenue over the expenses of producing revenue in a given period. Management thinks of profit as a tangible expression of the goals it has set for the firm, a measure of the performance towards the achievement of it, as a means of measuring the health, growth and continuity of the economy (Lynch and Williamson, 1989:249).

### **2.1.7 Long Range and Short Range Profit Plan**

There are two types of profit plans developed; one strategic (long-range) and another tactical (short-range). The former profit plan takes a time horizon of 5 to 20 years and the later for short period. The long range planning is a picture of more summary data. A part of this plan is more or less informal as presented by tentative commitments made by the executive committee in the organizational planning seasons. The formal portion of long-range profit plan includes the following component detailed by each year.

- Income Statement
- Balance Sheet
- Capital Expenditure Plan
- Personnel Requirements
- Research Plan and
- Long Range Market Penetration Plan

Thus the long range profit plan covers all the key areas of anticipated activity; sales, expenses, research and development, capital expenditure, cash, profit and return on investment. The short range tactical profit plan shows the primarily annual results, the detail by months, responsibility and products. In an organization these annual summaries should be prepared to provide a general understanding of the profit plan and to provide an overall view of the comprehensive short range profit plan.

It is possible for the firms to develop these two profit plans for all aspects of the operations (Welsch, Hilton, Gordon, 2001:524). Assuming participatory planning and receipt of the executive instruments, the manager of each responsibility center will immediately initiate activities within his or her responsibility center to develop strategic profit plan and tactical profit plan. Certain format and normally the financial function should establish the general format, amount of detail, and other relevant procedural and format requirements essentially for aggregation of the plan. All these activities must be coordinating among the centers in conformity with the organization structure (Welsch, Hilton, Gordon, 2001:523).

The preparation of long-range profit planning in addition to short range profit planning is also viewed as a total planning concept of business. Long range planning is essential to maintain the annual profit at improving level. The ultimate measure of the success of a business is generally based on growth in the volume of sales, increasing return on capital investment, efficient organization and these are all long-term considerations.

### **2.1.8 Budgeting and Budget**

Budgeting is a forward planning and involves the preparation in advance for the quantitative as well as financial statement to indicate the intention of the management in respect of the various aspects of the business. A budget is a comprehensive and coordinated plan expressed in financial terms 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 in respect of future financial requirements, the plan when presented in written form is called budget. Budgeting in fact is a managerial technique and a business budget is such a written plan in which

all aspects of business operations with respect to a definite future period are included. It is a formal statement of policy, plan, objectives and goals established by the top-level management in respect of some future period (Gupta, 1981:136).

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

Budget is defined 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.

### **2.1.9 Budgeting: As a Device of Profit Plan**

Budgeting is a forward planning. It serves basically as a device (tool) for management, control; it is rather pivot of any effective scheme of control. Budgeting is the principal tool of planning and control offered to management by accounting functions (Welsch, 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 also 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 systems 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.

#### **2.1.10 Fundamental of PPC**

Comprehensively profit planning and control is one of the more important approaches that has been developed to facilitate effective performance of the management process. The concepts and techniques of PPC have wide application in individual business enterprises, government units, charitable organizations and virtually all group endeavors. "The fundamental concepts of PPC include the underlying activities or tasks that must be carried out to attain maximum usefulness from PPC. The fundamentals of PPC are (Welch, 2001:235):

- A management process that includes planning organizing, staffing, leading and controlling.
- A managerial commitment to effective management participation by all levels in the entity.
- An organization structure that clearly specifies assignments of management authority and responsibility at all organization levels.
- A management planning process.
- A management control process.
- Continuous and consistent co-ordination of all the management functions.
- Continuous feed forward, feedback, follow up, and re-planning through defined communication channels (both downward and upward).
- A strategic profit plan.
- A tactical profit plan.

- A responsibility accounting system.
- A continuous use of the exception principle.

### **2.1.11 Implementation of the Profit Plan**

Development of an annual profit plan ends with the planned income statement, the balance sheet and the planned statement of changes in financial position. These three statements summaries and integrate the details of plans developed by management for the period. They also report the primary impact of detailed plans on the financial characteristics of the firm. Before redistributing the completed profit plan it is general desirable to recast certain budget schedules so that technical accounting mechanics and jargon are avoided as much as possible.

The redesigned budget schedules should be assembled in on logical order, reproduced and distributed before the first day of the upcoming budget period. The profit plan completion data is important. Issuance of a profit plan after the beginning of the budget period is one sure way of destroying much of the budget potential. Timely completion of the planning budget suggests the need for a budget calendar (Welch, 1999:235).

The final test of whether the efforts and cost in developing a profit plan are worthwhile is its usefulness to management. The plan should be developed with the conviction that the enterprises are going to meet or exceed all major objectives. Participation enhances communication. If this principle is to be effective, the various executives and supervisors should have a clear understanding of their responsibilities. The copies of the complete profit plan be prepared and distributed to the member of executive management. The guiding principle in establishing the distribution policy might be to provide one copy to each member of the management team according to his/her overall responsibilities, while taking in to account the problem of security. After distribution of the profit plan a series of profit plan conferences should be held. The top executives discuss comprehensively the plans expectations and steps in implementation. At this top level meeting the importance of action, flexibility and continuous control may well be emphasized. In essence, each manager has to realize that the budget is a tool for his or her use. Conferences should be a held so as to convey the profit plan to each level of management.

The manager of each responsibility centre obtains an approved profit plan for this centre and it becomes the basis for current operations and exerts considerable coordinating and controlling effects. Performance must be measured and reported to management. Execution of the plan is assured through control procedure must be established so that accomplishment, or failure is immediately known. On this basis action can be taken to correct or minimize and undesirable effects. Short term performance reporting is essential.

A budget program viewed and administered in a sophisticated way does not hamper or restrict management, instead, it provides definite goals around which day today and month to month decisions are made. Flexibility in the use and application of both the profit plan and variable budgets also should be considered in detail. Flexibility in budget application is essential and it increases the probabilities of achieving or bettering the objectives (Welsch, 1999:238).

#### **2.1.12 Performance Reports**

Performance reporting is an important part of a comprehensive PPC system. Its phase of a comprehensive PPC program significantly influences the extent to which the organization's planned goals 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:

- Tailored to the organizational structure and focus of controllability (that is by responsibility centers).
- Designed to implement the management by exception principle.
- Repetitive and related to short term period.
- Adapted to the requirements of the primary users.
- Simple understandable and reports only essential information.
- Accurate and designed to pinpoint significant distinctions.
- Prepared and presently promptly.
- 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 in the organization.

## 2.2 Review of Related Studies

### 2.2.1 Review of Journals and Articles

Haugen and Banker (2012), published an article "*Commonality in the Determinants of Expected Stock Returns.*" They presented with evidence that the determinants of the cross section of expected stock return were stable in their identify and influence from period to period and from country. The determinants were related to risk, liquidity, price level, growth potential and stock price history. Out of sample predications of expected returns, using moving average values for the pay-offs to these firm characteristics were strongly and consistently accurate. Two findings, however, distinguished their paper from others in the contemporary literature. First, the stock with higher expected and realized rate of return was unambiguously of lower risk than the stocks with lower returns. Second, they found that the important determinants of expected stock returns were strikingly common to the major equity markets of the world. Given the nature of the texts, it was highly unlikely that those results may be attributed to bias or data snooping. Consequently, the result seems to reveal a major failure in the efficient market hypothesis.

Sharma(2013), published an article on "*Joint Venture Banks in Nepal Co-Existing and Crowding Out*" published in PRASHAN yearly on 2011 volume 35 said that, it would be definitely be unwise for Nepal not to let the JVBs to operate in the country and not to take advantages of them as additional means of resources mobilization as well as harbinger of new era in banking. But it will certainly be unfortunate for the country to develop the JVB s. And the most of the cost of the domestic banks .so far, one should admit frankly, no different treatment has been extended to the domestic and JVB s; at least from the government side, which is commendable. If Government keeps on the stance of treating the domestic and JVBs; equally deposit the leathers bargaining strength and the JVBs also show their alacrity to come forward to share the trials and the tribulations of this poor country. Both type of banks will coalesce and co-exists, complimenting each other and contributing for the nations accelerate developments. On the contrary, if the JVBs use their straight against trading in to the cumbersome path of the development along with the domestic banks and government.

Poudel(2070), in his article "*Financial Statement Analysis: An Approach to Evaluate Bank's Performance*" published in NRBSamachar said that the balance sheet, profit

and loss account and the accompanying notes are the most useful aspects of the bank. We need to understand the major characteristics of bank's balance sheet and profit and loss account. The bank's balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Fixed assets accounts form a small portion of the total assets. Financial innovations, which are generally contingent in nature, are considered as off-balance sheet items. Interest received on loans/advances and investments and paid on deposits are the major components of profit and loss account. The other sources of income are fee, commission, discount and service charges. The users of the financial statements of a bank need relevant, reliable and comparable information, which assist them in evaluating the financial position and performance of the bank and which is useful to them in making economic decisions. The disclosure requirement of the bank's financial statement has been expressly laid down in the concerned act. Commercial Bank Act 2031 B.S. requires the audited balance sheet and profit and loss account to be published in the leading newspaper for the information of general public.

Mundul (2015), has published an article entitled "*Corporate Financial Sector: Restructuring.*" He mentioned that corporate and financial sector restructuring are two aspects of the same problem. The amount of debt and company can sustain – and on which lenders can expect reliable debt service - is determined by the unit's cashflow. Indeed, a company cannot sustain interest payments in excess of its cashflow (i.e. interest coverage < 1:1), let alone make any repayments on the principal. Hence, substantially higher ratios of interest coverage are most desirable. He concluded that the corporate debtors and financial institution creditors will naturally seek to minimize their losses from corporate restructuring. The government has a role to play in balancing a variety of conflict interest.

### **2.2.2 Review of Theses**

Prior to this study, the several researchers have found various studies regarding profit planning and control of commercial banks. In this study, only relevant subject matters are reviewed which are as follows:-

Sharma (2008), has submitted his research work on the topic of "*Revenue collection of Nepal Electricity Authority.*" He has tried to analyze and evaluate the revenue collection of NEA. He has pointed out the specific objectives are:

- To highlight the NEA through its objectives, function and activities.
- To analyze the revenue trend by taking recent years variables.
- To give pragmatic suggestion for improving the performance in accordance with revenue collection.

On the basis of detail analysis of revenue collection in NEA conducted this study. He pointed out the following major findings.

- The revenue of NEA is increasing yearly among the three sectors of revenue collection like domestic, industrial and other. The revenue collection from other sources is unable to meet average revenue collection of NEA
- There has been fluctuating in the increasing revenue. It shows up and down by the cause of poor managerial decision and poor government policies.
- The revenue from industrial sector, domestic and other sector are fluctuated respectively.
- There are more risk to industrial sectors than other sectors. It means the revenue generating from industrial sector is more than other sectors.
- There is positive relationship between revenue generation and profitability of NEA but there is positive correlation in negative profitability therefore to increase in profit, the operating cost and other cost should be controlled.
- There can not be improved in the revenue collection of NEA. In spite of the government efforts, there are various problems like structural problems, social problem, economic problems and bureaucratic culture in staff etc.

Tiwari (2010), has conducted his research entitled "*Profit Planning in Nepal Electricity Authority.*" He has tried to examine whether the NEA applying profit planning system properly or not analyzed if there is any draw back in profit planning system of the authority. The basic objectives of this study are as follows.

Some major findings pointed by Tiwari are:-

- The authority fails to maintain its performance report systematically.
- Low level staffs are not encourages to participation but only executive level.
- Total acid turnover ratio, profitability ratio, return on net capital employed ratio are perfectly satisfactory.
- Overhead are not classified systematically and creates problem to analyze its expenses proper.

- The authority is suffering from high fixed cost.
- Specific goals and objectives are not conveyed to lower level staff and it denotes the absence of MBO principle of management.
- There is lack of proper coordination between the various responsible departments.
- Absence of skilled and partly academic manpower in budgeting section of authority.

Uprety (2012) has conducted a research on “*Profit Planning and Control of Commercial Banks in Nepal.*” In his study, he has selected Machhapuchhre Bank Limited as a sample bank. This study an analytical and descriptive type of research. The main objective of his study was to examine the main approaches of profit planning and to test the extant of achievement of planning of Machhapuchhre Bank Limited.

To complete the research, he has collected data from various sources are managed, analyzed and presented in proper tables and formats. He was mainly based on secondary data published by MBL. Both financial and statistical tool were used in his study. In financial tools CVP analysis and flexible budget were used. Similarly the statistical tools used were mean correlation, regression line, time series, coefficient of variance standard deviation, graphs, diagrams etc.

Uprety has stated following major findings which are as follows:

- Machhapuchchhere Bank Ltd lacks active and organized planning department of undertake innovative products research, lunch and development work.
- Management is not free to operate the bank. Intervention of NRB and ministry of finance regarding personnel places and other matters has paralyzed the effectives of the bank.
- The analysis of the position of deposit in MBL shows that the deposit, which are raised by the bank is not fully utilized. In fact this also reflects the lack of definite policy of the MBL.
- MBL has the most sophisticate GLOBUS banking software enabling it to provide modern banking facilities like tale banking, internet banking point of sale services, ATM facilities, SWIFT facility and many more.
- It is the first private commercial Bank to keep sophisticated communication technology which has interlinked all its branches to the centralized database

system and has enabled the bank to provide Anywhere Banking facilities to all its valued customer.

- Loans were approval based on proprietors or promoters statements rather than verifying and evaluating the possibilities of happening and non happening of their plans and statements.
- While evaluating the loan application only the positive aspect or prospective are highlighted and the risk involved (negative aspects) is not adequately addressed.
- Addition Loans/Facilities are provided and loans are renewed without evaluating the past performance of the client. Even problematic loans are renewed for the sake of showing them good.
- Analysis of the real need of the project and its capability to pay back are not done. Appraisals are based on the directors and promoters rather than the viability of the project.

Sharma (2014), has conducted a research entitled "*Implementation of Profit Planning Techniques in Commercial Banks: A Case Study of Investment Bank Limited.*" The study was mainly concerned with budgeting system of NIBL. The fundamental objective of this study was to assess the budgeting system of NIBL to study the application of comprehensive PPC system in NIBL.

Descriptive as well as analytical research design was adopted in the research. This is a case study research. Here both primary and secondary data were used for this study. The main sources of secondary data were quarterly and annual financial reports, official records, web site, brochures, prospectus and other relevant publications of NIBL, NRB, CBS and relevant publications. The main variables considered were share capital, customer deposit, loan and advances, overdrafts, total resources and deployment, LC, bank guarantees, interest expenses, other expenses, interest income, and other income of NIBL. Various financial and statistical tools were used to analyzed the data.

The following major findings were obtained from the study:

- The bank is conscious about he human resources due to rapid growth and advent new branches. Develop skills to employees to empower them to provide excellent customer services bank supports to employees further advanced courses. Currently there are 622 employees over the 22 branches of NIBL and bank has aim to rise up to 50 branches with in the year 2010 A.D.

- NIBL is well performing in the deposit collection sector. Budgeted figure is higher than the actual deposit.
- The deployment of Banks available resources at various portfolios among which LDO hold the highest percentage i.e. 54% in average out of total deployment amount through out the five years of study period.
- The researcher find that the 100% of achievement of targets in deployment of resources other than LDO i.e. NLDO.
- The cash flow analysis of the NIBL shows that there is sufficient fund to repay the short term obligation and it has maintained the liquidity position as per the NRB direction.

Kunwar (2015) has conducted a research entitled “*Profit Planning in Public Utility Enterprises of Nepal: A Case Study of Nepal Electricity Authority.*” This was an analytical and descriptive survey study concentrated on financial accounting practices only and identifying the only short listed areas was concerned with financial accounting only.

Kunwar has used secondary data in his study. To analyze the collected data he has used some financial and statistical tools like mean, standard deviation, correlation, regression, trend line, percentage ratio analysis, C.V.P analysis, flexible budget, productivity measurement and variance analysis to present the data in systematic manner. The main objectives of this study was to evaluate the profit planning of Nepal Electricity Authority and its effectiveness.

Kunwar in his study stated some major findings which are as follows:

- Achievement of authority for actual sales was more variable than budgeted sales and actual production is also more variable than planned production.
- Overhead were not classified systematically and creates problem to analyze its expenses properly.
- NEA has no proper record of manufacturing and it has no proper practice of segregating cost into fixed, variable and semi variable.
- NEA is paying a large amount of interest every year and it was suffering from high fixed costs.
- NEA was suffering from idle cash and bank balance.
- Goals and objectives were not clear cut of the authority.

Ranabhat (2016) has conducted a research on “*Profit Planning of Nepal Investment Bank Limited.*” The major concern of his study is to find out the profit planning in

commercial bank by taking a case study of Nepal Investment Bank. His main objective was to analyze the effectiveness of the profit and cost expenses plan practices of concerned bank. This was an analytical and descriptive survey study concentrated on financial accounting practices only and identifying the only short listed areas was concerned with financial accounting only.

His major findings are as follows:

- Bank is operating 34 branches and planning to increase couple of branches more soon. Bank has planning to open branches in Dhangadi, Birtamod, Mahendranagar and in Baneshor.
- Bank has to plan open 50 branches by 2010.
- 289 staffs were sent for seminars and trainings including 18 staffs trained abroad.
- Profit is increasing every year. Interest income is the highest contributor in the total profit. The aggregate contribution of interest income is about 80% for the study years.

Thapa (2016), has conducted a research entitled “Profit Planning and Control (PPC) of Grand Hotel Pvt. Ltd.” The main objective of his study is to find out the relationship between sales (income from service and facilities) budget and profit of the company and to identify how far the different functional budgets are being applied as tools for profit planning in the company. To achieve the targeted objective of the research, Thapa was fully based on secondary data. To analyze the data he has used some financial and statistical tools like mean, standard deviation, correlation, regression, trend line, percentage ratio analysis, C.V.P analysis, flexible budget, productivity measurement and variance analysis to present the data in systematic manner.

Thapa has stated following major findings in his study:

- There is a positive correlation between sales target and sales achievement. However sales achievement in respect to sales and yet to be achieved.
- Inventory turnover of the company are quite satisfactory. Inventory turnover are found to be fluctuating over the past 6 years.
- The gross profit margin shows the decreasing trend which signifies the increasing trend of cost of goods sold.
- Percentage of NP on sales has declined for the year 2005/06. The net profit has not been able to go along with sales. Operating expenses are in increasing

trend which has affected the profit margin. The operating expenses occupy more than 50% of gross profit.

- Sales revenue was found to be very high than BEP which is good for the company. There was very high degree positive correlation between profits, cost and sales i.e. 0.9454.

### **2.3 Research Gap**

Most of the past research studies were about profit planning system is basically related to profit planning system of manufacturing organization or production oriented activities. The researcher could not find only one study so far that has been related to profit planning system of a commercial bank. All dissertations have pointed out there is no proper planning and controlling system and recommend for the effective implementation of profit planning and controlling system in the concerned institutions.

This study shall be a new one in this field as no study has been made so far in the profit planning and controlling of particularly Nabil and Nepal SBI Bank . This study has tried to indicate the role of budgets for effective formulation and implementation of profit planning system as well as to see how far the bank is practicing. This study has analyzed the financial position of Nabil and Nepal SBI Bank Nepal by applying the tools of ratio analysis and other mathematical and statistical tools. Finally it concludes the various finding of research and recommendation to Nabil and Nepal SBI Bank.

Above chapter two gives the detailed study about the conceptual framework of profit and profit planning, various activities of commercial bank and the applicability of profit and profit planning, in the bank with a specific reference to Nabil and Nepal SBI Bank Ltd.

## CHAPTER III

### RESEARCH METHODOLOGY

"Research Methodology refers to the various sequential steps to be adopted by researcher in studying a problem with certain objective in view."

Basic study of this study is to highlight the current practices of profit planning and its objective effectiveness in Nepalese Commercial banks. The study also deals with the necessary suggestion for their betterment of their profit planning in future. So this chapter proposes to outline the methods followed to achieve the predetermined objectives. Therefore, the chapter includes the following with regard to the methodology.

#### **3.1 Research Design**

The research is based on analysis of the past facts. In the study, researcher has analyzed the profit planning of two joint ventures banks for the past five years period. Thus, to achieve the stated objectives, descriptive cum analytical research methodology have been followed.

#### **3.2 Samples and Population**

A small portion chosen from the population for studying its properties is called sample and the number of units in the sample is known as the sample size. The method of selecting for study a small portion of the population to draw conclusion about characteristics of the population is known as sampling. Sampling may be defined as the selection on part of the population on the basis of which a judgment or inference about the universe is made. There are 27 'A' class commercial banks operating in Nepal, that are considered as population of the study. Among 27 commercial banks, only two banks are selected using convenient sampling method.

- Nabil Bank Limited.
- Nepal SBIBank Limited.

#### **3.3 Nature and Sources of Information**

The secondary data especially published annual reports have been collected directly from concerned banks and other supplementary data and information from official

records of concerned banks, booklets, magazines, bulletins, internet web-site, security exchange center, Nepal Rastra Bank etc.

Direct oral interview and telephone inquiries with the related employees of concerned banks have been used as a source of primary data for the required information.

### **3.4 Data Collection Procedure**

In course of collecting both the secondary and primary data, the researcher made several visits to the concerned banks. In different visits, researcher get permission for conducting the research on their (banks) financial aspects, obtained financial statements (annual reports of the study period) and clarification of the financial items.

Besides these, several visits to Central Library of T.U., Library of ShankerDevCampushave also been made to obtain related data regarding the study. Except the stated sources, a detailed review of literature has been carried out to draw the useful information.

### **3.5 Method of Data Analysis**

The gathered data, especially the profit and loss and balance sheet of the banks, has been analyzed to get the desired objectives with the help of various financial tools. Besides these, some graph charts and tables have been presented to analyze and interpret the findings of the study. The financial tools used are different ratios like liquidity ratio, utilization (or activity) ratios. Profitability ratios, capital structure ratios and capital adequacy ratios.

### **3.6 Tools and Techniques Employed**

This study is confined to examine the profit planning of NABIL bank and Nepal SBI bank, therefore the data have been collected accordingly and managed, analyzed and presented suitable tables, format diagram, graphs, and charts. Such presentation have been interpreted and explained wherever necessary. Financial, mathematical and statistical tools are used to analyze the presented data, which includes ratio analysis, percentage, regression analysis, Test goodness of fit regression estimates ( $r^2$ ), correlation, mean standard deviation, coefficient of variance etc.

### 3.6.1 Financial Tools

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

Ratio analysis: By ratio analysis we study the arithmetical relation ship of two data, in the study, we have applied liquidity ratio, capital structure ratio, activity ratio and profitability ratio of the bank.

#### 1. Statistical and Mathematical Tools

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

##### A. Percentage Increment.

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

##### B. Mean.

The central values that represent the characteristics of the whole distribution of the

Values around which all items of the distribution tend to concentrate are called average. Arithmetic mean of arithmetic average is one of the important statistical measures of average. The arithmetic mean of a given set of observation is their sum divided by the number of observation. Arithmetic mean is calculation by the following formula:

##### C. Standard Deviation ( $\sigma$ )

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 value from their mean. A small standard deviation means a high degree of uniformity of the

observation as well as homogeneity of a series and large standard deviation means just the opposite. Standard deviation can be calculated as,

#### **D. Coefficient of Variance. (C.V)**

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

#### **E. Correlation of Coefficient. (R)**

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

#### **F. Probable Error. (PE)**

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

## CHAPTER IV

### PRESENTATION AND ANALYSIS OF DATA

#### 4.1 Resource Mobilization Planning.

This Strategic profit plan of Nabil bank and Nepal Sbi bank is reflected in its Business budget that show the resource mobilization plan of two sample bank Here, the term resource have been used for the fund required by the bank for its activities. Bank mobilizes its resource from the following source: Deposit collection , Loan and Borrowing from other banks and Shareholders equity capital fund.

Among the above three sources, the deposits collection is the major source of resource mobilization which is in fact, one of the most important activities of every commercial bank. Loan and borrowing are obtained from local Banks, Foreign banks, Central Banks, and financial institution generally for a short period of time. The capital fund is raised from shareholder's equity. It reflects the next-worth of the bank. Commercial banks capital fund has been divided into two categories. Core capital and supplementary capital.

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

**Table 4.1**  
**Status of Resources Mobilization of Nabil**

(Amount in Rs.'000)

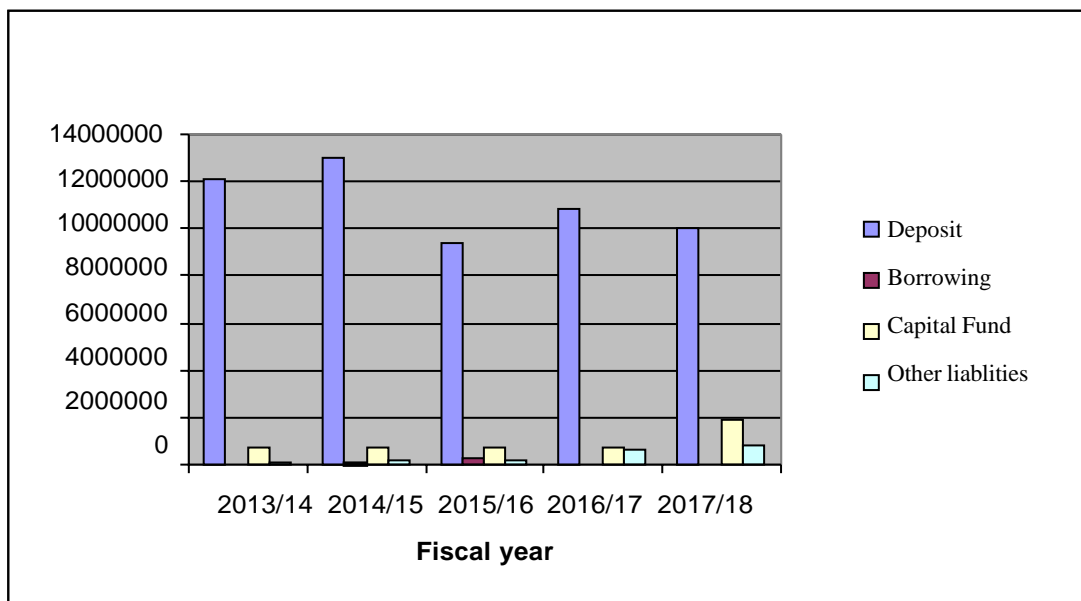
F/Y	Deposit		Borrowing		Capital Fund		Other Liabilities		Total
	Amount	%	Amount	%	Amount	%	Amount	%	
2013/14	12125578	93.8	-	-	719852	5.6	77535	0.6	12922965
2014/15	13015136	93.3	71000	0.5	719852	5.2	140268	1	13946256
2015/16	9385950	89.2	230000	2.2	719852	6.8	191720	1.8	10527522
2016/17	10883653	88.5	30000	0.2	744126	6.1	637509	5.2	12295288
2017/18	9997697	49.5	-	-	1860315	9.2	833857	4.1	20191869

(Sources: NABIL, Annual Reports.)

The above table shows the status of total resource of Nabil And Sbi bank. The resource are collected from customer deposit, shareholder fund, liabilities and borrowing. The major source of resource collection is customer deposit since it has higher figure in the above table. The average portion of deposits, borrowings, capital fund and other liability to total resource mobilization for five years is 82.86%, 0.58%, 6.58, and 2.54%, respectively. During the year 2014/15 and 2015/2016 deposit decreased so other resource has been increased as borrowing increase in the period. Capital fund seems to be fluctuating, in this situation bank should have issued the share. 2017/18 borrowing is nil, with decreased % of other liability these may be due to efficiency of management of bank show more customers managed to deposit. The data of table are presenting in bar diagram for the analysis purpose.

**Figure 4.1**

**Bar diagram showing status of Resource mobilization of Nabil**



From the above table and bar diagram it is clear that the customer deposit customer contribution the major share in resource mobilization. During the year 2014/15 the deposit amount will be increase as other resource has also increased except the amount of shareholders. And in the fiscal year 2017/18 the deposit amount would be decreasing, borrowing is nil as well as capital fund and other liabilities will be increase. Therefore the total source of resource mobilization contribution in two parts i.e.

- Customer deposit collection
- Other resources than customer deposit

## **4.2 Customer Deposit Collection**

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

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

### **4.2.1 Deposit collection Budget of Nabil And Sbi Bank.**

Nabil and Sbi Bank prepare the plan for the deposit collection budget which has been found out following the time series approach was adopted to ascertain the budget figure for deposit collection from F/Y 2013/14 to 2017/18. The budget and actual deposit collection of two simple bank has presented in the table below:

**Table 4.2**  
**Status of Budgeted and Actual Deposit Collection**  
 (Amount Rs '000)

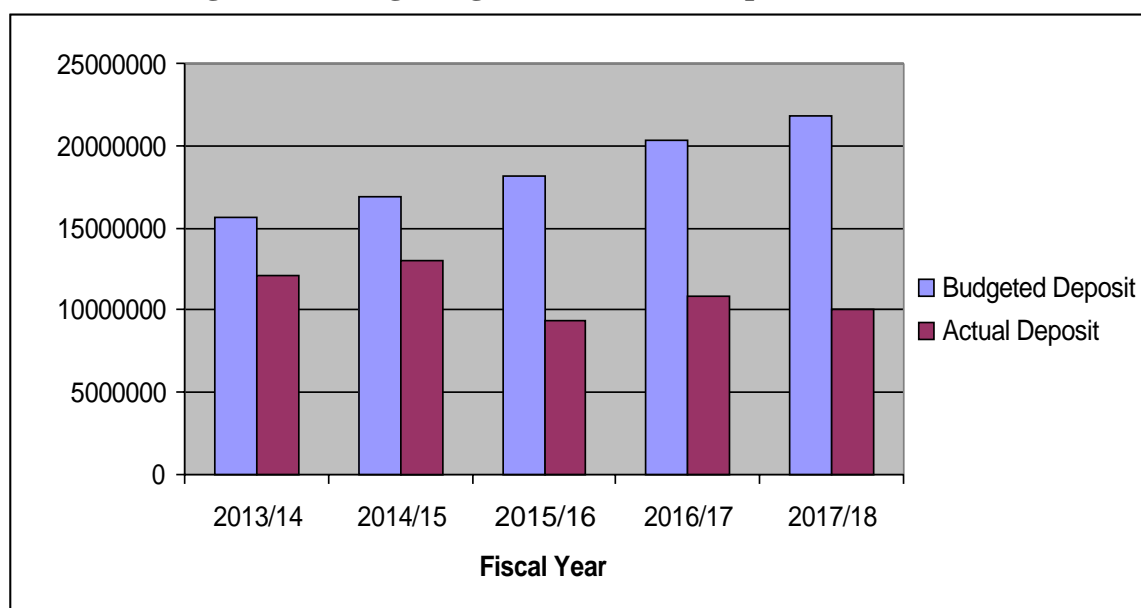
Fiscal Year	Budgeted Deposit	Actual Deposit	Achievement
2013/14	15609600	12125578	77.68 %
2014/15	16874400	13015136	77.13 %
2015/16	18139200	9385950	51.75 %
2016/17	20352400	10883653	53.48 %
2017/18	21833620	9997697	45.80 %

(Sources: NABIL, Annual Report)

The above table shows the status of budget and actual deposit collection of Nabil and Sbi Bank. The bank has achieved its objective of deposit collection every year less than 100%. In the fiscal year 2013/14 the achievement of deposit collection is 77.68% but this achievement is going to be decreasing every year. At the current fiscal year 2017/18 the achievement of deposit collection is 45.80%. it shows the deposit collection target has less than the budget amount. This gives lower level of achievement made by bank toward deposit collection sector. The above table is presented in the Bar Diagram :

**Figure 4.2**

**Bar Diagram Showing Budgeted and Actual Deposit Collection**



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

**Table 4.3**  
**Summary of Deposit Collection Budget and Actual Deposit**  
(Amount in Rs '000)

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

*Sources: Appendix – 1*

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

Budgeted deposit and the actual achievement decreased, which meant there should be negative correlation between, budgeted figure and achievement figures. Significance of correlation of (r) is tested with probable error PE. The detail calculation of 'r' and probable error PE was made in appendix 1. From that appendix the calculated value of r was -0.6402. this figure 'r' shows that there was negative correlation between

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

### **4.3 Resources Deployment Plan of Nbil and Sbi**

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

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

#### **4.3.1 Deployment to Maintain Liquidity Position**

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

#### **4.3.2 Deployment for Income Generating Activities**

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

- Loan, Discount, Overdrafts (LDO).
- Other Investment.

LDO refers Loan, Advance, Overdraft, Bills Purchase and discount and other loan which generates income in term of interest. Other investment includes, investment in securities, Treasury bill etc.

**Table 4.4**  
**Total Income Generating Deployment of NBBL**  
(Amount in Rs '000)

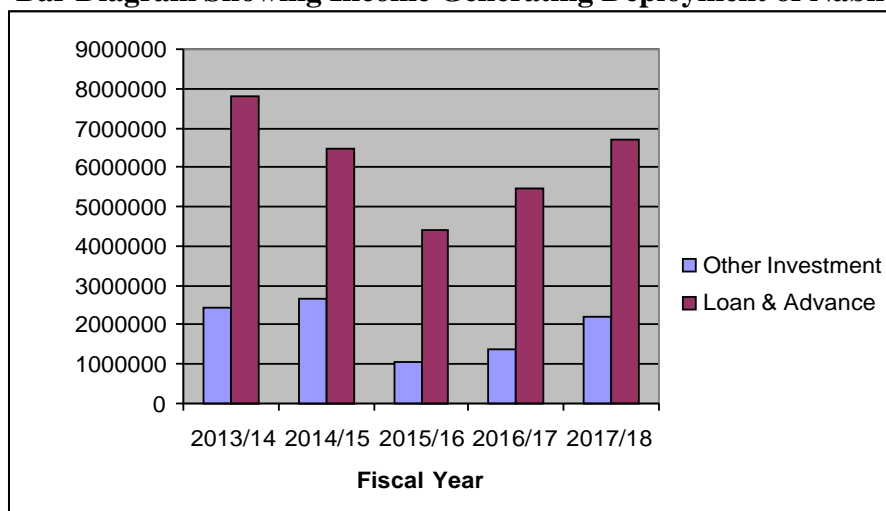
Fiscal Year	Other Investment		Loan & Advance		Total Amount
	Amount	%	Amount	%	
2013/14	2411720	23.65	7787690	76.35	10199410
2014/15	2661834	29.18	6460246	70.82	9122080
2015/16	1034560	19.01	4409013	80.99	5443573
2016/17	1389902	20.30	5457809	79.70	6847711
2017/18	2222432	24.89	6704943	75.11	8927375

*Source: Annual Report of Nabil*

The above table shows the status of income generating development of Nabil and Sbi. The major portion of deployment of the bank covers by the loan and advance. In the fiscal year 2013/14 the amount of other investment is less than the income generating amount of loans and advance. It shows that the commercial banks generate its income from loan deployment funds which generates income in terms of interest. The range of loan and advance is 70.82% to 80.99% where as the range of other investment is 19.01% to 29.18%. the above table is shown in the bar diagram.

**Figure 4.3**

**Bar Diagram Showing Income Generating Deployment of Nabil**



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

### 4.3.3 Deployment in Other Assets

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

## 4.4 Budgeted and Actual LDO of NABIL AND SBI

since the LDO is a major sector of deployment of the bank the researcher going to analyze about the position of LDO of Nabil and Sbi. The following table shows the budgeted amount resource allocation and achievement. Since the budgeted figure of LDO from the FY 2013/14 to FY 2017/18 was not available, so time model was used to find the budgeted amount of resource amount of resource deployment.

**Table 4.5**  
**Comparative Table showing Budgeted and Actual LDO of**  
**NABIL**

(Amount in Rs 000)

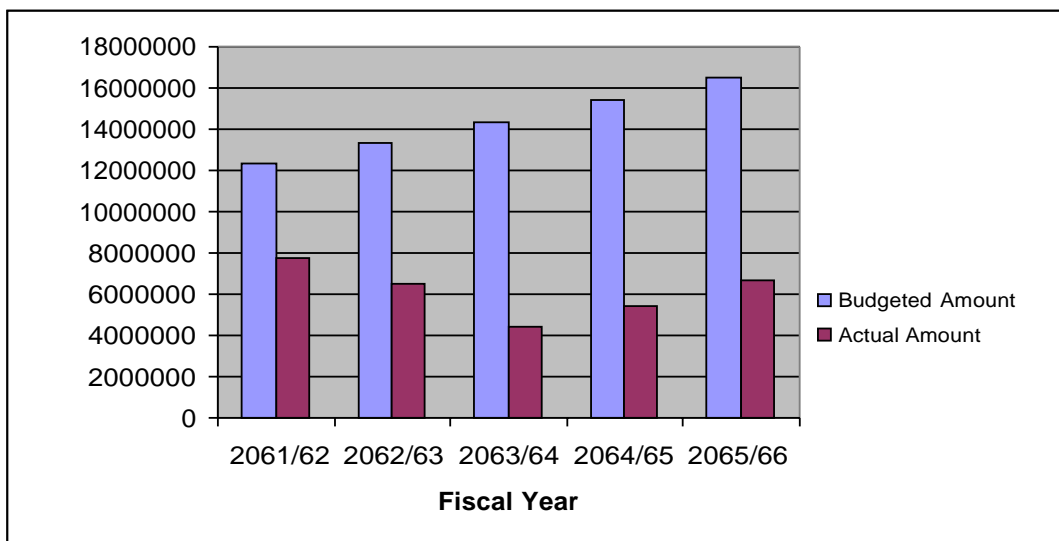
Fiscal Year	Budgeted Amount	Actual Amount	Achievement
2061/62	12312060	7787690	63.26 %
2062/63	13313065	6460247	48.53 %
2063/64	14314070	4409013	30.81 %
2064/65	15412075	5457809	35.41 %
2065/66	16523140	6704943	40.58 %

*Source: Annual Reports and Budget Statement of Nabil*

Above table shows that status of budgeted and actual LDO of Nabil and Sbi bank. The actual achievement of LDO is less than the 100% in every year. The investment in LDO is fluctuating trade in terms of amount where as the achievement percentage with budgeted figure is increasing trend. The range of achievement trend over the five year period is 38.81% to 63.26% it shows that Nabil and Sbi can not meet the targeted investment in LDO in every year and also the achievement trend is fluctuating trend. For the study purpose the figure of LDO are presented in bar and draw some conclusion accordingly.

**Figure 4.4**

**Bar Diagram Showing Budgeted and Actual LDO of NABIL**



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

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

**Table 4.6**  
**Summary of Budgeted LDO and Achievement**

(Amount in Rs '000)

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

*Source: Appendix - 2*

The above table shows that budgeted LDO is more variable than actual LDO. Since the coefficient of variation of actual LDO is greater than the of budgeted LDO, actual LDO are more variable nature. On the other hand budgeted LDO is more consistent and homogeneous than actual LDO. A greater coefficient of variation is said to be more heterogeneous. Here Nabil and Sbi bank actual LDO is the variable nature than budgeted LDO. We can used another statistical tool correlation co-efficient to analyzed the relationship between budgeted LDO and actual LDO. There should be negative correlation between budget and actual LDO. We can take the help of karl person's coefficient of correlation to find correlation between actual LDO and budgeted LDO. For this purpose budgeted LDO is denoted X and actual LDO is denoted by Y. here X is independent variable and Y is dependent variable. Here the correlation between budgeted and actual LDO IS -0.3521, it means the relation between budgeted and actual LDO are negatively correlation. Significance of r is tested with PE we have  $r < 6 PE$  this means the value of r is insignificant. So it is doubtful that actual LDO will go on opposite direction that of budgeted LDO.

#### 4.5 Resource Deployment in Other Sector (NLDO)

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

**Table 4.7**  
**Status of Budgeted and Actual Deployment in Other Sector**  
**(NLDO)**

(Amount in Rs '000)

Fiscal Year	Budgeted Amount	Actual Amount	Achievement
2063/14	7074887	5489461	78 %
2014/15	7749749	5264020	67 %
2015/16	8423411	3214242	38 %
2016/17	8946230	4928364	55 %
2017/18	9628410	6212405	65 %

*Source: Annual Reports and Budget Statement of NABIL*

The above table shows the status of budgeted and actual deployment in other sector than LDO (NLDO). The actual achievement of investment in other sector has less than 100% on each year. The rate if such achievement is fluctuating trend over the study period. The achievement is 78% in F/Y 2013/14 and it decreased in F/Y 2015/16 to 38%. Than again it is increases to 55% 2016/17 and slightly fluctuating up to F/Y 2017/18. The average rate of achievement over the five year is 60.6% this indicate that the bank can not achieve its target. For the analysis purpose the ststus of budgeted and actual NLDO is presenting in diagram below.

#### 4.6 Investment to Total Deposit Ratio

The ratio is derived by dividing investment by the amount of total deposits in the bank.

$$\text{Investment to total deposit ratio} = \frac{\text{Investment}}{\text{Total deposit}}$$

Investment comprise investment in HMG's treasury bills, development bonds, company shares and other type of investment.

The ratio shows the efficiency of mobilization of the major resources of the bank. High ratio indicates managerial efficiency regarding the utilization of deposits. When low ratio is the result of less efficiency in use of funds.

**Table 4.8**  
**Investment to Total Deposit Ratio**

For NABIL			Rs.In(000)
Year	Investment	Total Deposit	Ratio in %
2013/14	9939771	31915047	31.14
2014/15	10826379	37348256	28.96
2015/16	13703024	46410701	29.52
2016/17	13081206	49696113	26.32
2017/18	14055850	55023695	25.54
		<b>Total</b>	<b>141.48</b>
		<b>Average</b>	<b>28.29</b>

*(Annual report of Nabil bank)*

For NSBI			Rs.In(000)
Year	Investment	Total Deposit	Ratio in %
2013/14	5059600	23976300	21.11
2014/15	5948500	33322900	17.85
2015/16	5008300	36932300	13.56
2016/17	7743900	41127900	18.82
2017/18	7863600	50006100	15.72
		<b>Total</b>	<b>87.06</b>
		<b>Average</b>	<b>17.41</b>

*(Annual report of Nepal SBI bank)*

The table exhibits that the ratio of NABIL remained 31.14%, 28.96%, 29.52%, 26.32% and 25.54% respectively for the review period. Mean of the ratio stood 28.29%. According, ratios of NSBI appeared 21.11%, 17.85%, 13.56%, 18.82% and 15.72% in the corresponding years. Mean of the ratios appeared 17.41%.

The ratios showed decline trend in NABIL & NSBI. Remarkably, higher mean ratio of NABIL signifies that NABIL has more successfully allocated its deposits in investment portfolio. Conversely, NSBI has given less importance in this issue. In

other words, it shows the efficiency of NSBI in mobilizing the major resources of the bank.

#### 4.7 Performing Assets to Total Asset Ratio

This ratio measures the percentage of the assets funded for income generation. The ratio is calculated by dividing performing assets by total assets as:

$$\text{Performing assets to total assets ratio} = \frac{\text{Performing Assets}}{\text{Total Assets}}$$

Performing assets include those assets, which are invested for income generating purpose. These consist of loans, advances, bills purchase and discounted, investment and money at call or short notice.

High ratio indicates greater utilization of assets and hence sound profitability position.

**Table 4.9**

#### Performing Assets to Total Asset Ratio

For NABIL			Rs.In '000'
Year	Performing Assets	Total Assets	Ratio in %
2013/14	27429969	37132759	73.87
2014/15	28860361	43867398	65.79
2015/16	39191990	52151684	75.15
2016/17	38983833	58141437	67.05
2017/18	44094847	63200298	69.77
		<b>Total</b>	<b>351.62</b>
		<b>Average</b>	<b>70.32</b>

*(Annual report of Nabil bank)*

For NSBI			Rs.In '000'
Year	Performing Assets	Total Assets	Ratio in %
2013/14	20984936	27345500	76.74
2014/15	26533685	36919000	71.87
2015/16	34243059	39799000	86.04
2016/17	35247472	44347600	79.48
2017/18	44807633	51687200	86.69
		<b>Total</b>	<b>400.80</b>
		<b>Average</b>	<b>80.16</b>

*(Annual report of Nepal SBI bank)*

As revealed by the table, the ratios in NABIL were 73.87%, 65.79%, 75.15%, 67.05% and 69.77% for the respective years of review period. In the same manner, ratios were

76.44%, 71.87%, 86.04%, 79.48% and 86.69% from the year 2014/15 to 2018/19. The mean of the ratios stood 70.32% and 80.16% for NABIL and NSBI respectively.

The ratios in NABIL depicted fluctuating trend throughout the review period. In similar way, the ratios in NSBI also showed fluctuating trend throughout the review period. Mean of the ratio appeared greater in NSBI than in NABIL that signifies the more successful investment decision of the assets in profitable sector.

#### 4.8 Performing Assets to Total Debt Ratio

The ratio shows the pattern of use of the fund collected from the outsiders. It is calculated as :

$$\text{Performing assets to total debt ratio} = \frac{\text{Performing assets}}{\text{Total debt}}$$

High ratio represents the success of bank in utilization of creditors' fund in productive areas where as low ratio symbolized the idleness of the cost bearing resources.

**Table 4.10**

#### Performing Assets to Total Debt Ratio

For NABIL

Rs.In(000)

Year	Performing Assets	Total Debt	Ratio in %
2013/14	3045148.56	2910859.84	104.61
2014/15	3165610.59	2886929.8	109.65
2015/16	3881203.46	3515185.98	110.41
2016/17	4952045.8	4188805.68	118.22
2017/18	4898305.21	4433706.91	110.48
		<b>Total</b>	<b>553.38</b>
		<b>Average</b>	<b>110.680.</b>

(Annual report of Nabil bank)

For NSBI

Rs.In(000)

Year	Performing Assets	Total Debt	Ratio in %
2013/14	1089632.86	956496.61	113.92
2014/15	1647963.43	1677375.08	98.25
2015/16	2940642.48	2697260.04	109.02
2016/17	4147559.71	4104434.33	101.05
2017/18	5727644.84	4892453.4	117.07
		<b>Total</b>	<b>539.31</b>
		<b>Average</b>	<b>107.86</b>

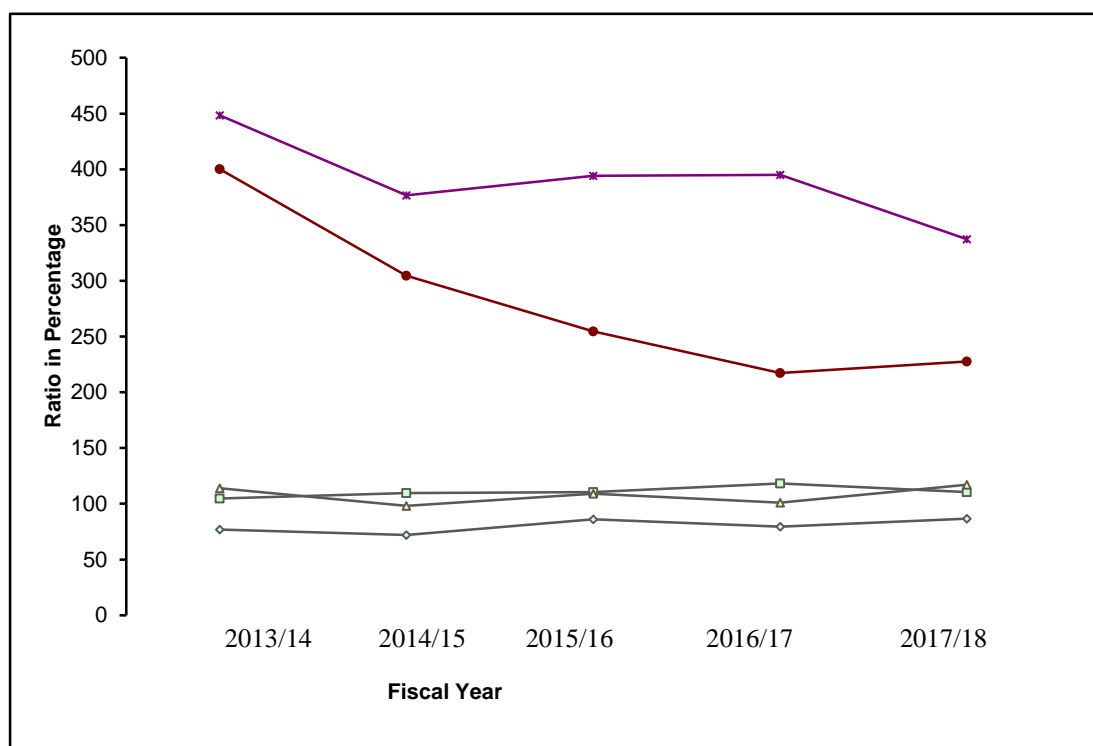
(Annual report of Nepal SBI bank)

The table exhibits that 104.61%, 109.65%, 110.41%, 118.22% and 110.48% remained the ratios for NABIL throughout the review period. The ratios stood 113.92%, 98.25%, 109.02%, 101.05% and 117.07% for the respective year from 2014/15 to 2018/19. Mean of the ratios stood 110.68% and 107.86% for NABIL and NSBI respectively.

The ratios in NABIL depicted increasing trend throughout the review period except decline in the final year of the study i.e. 2018/19. The ratios in NSBI showed fluctuating trend throughout the review period. But, finally, the ratio for both banks remained very close to each other. Mean of the ratio came greater in NABIL. This means NABIL has been more successfully in utilizing the cost bearing debt in profitable sectors. It gained higher rank for the beneficial use of outsiders' fund.

**Figure 4.5**

**Comparative Line Chart of Activity Ratios**



**4.9 Cost Effectiveness Measures/Ratios**

For the efficient operations of a firm management should focus their critical eyes upon the two main areas. One of them is concerned with the well management of investments and another one is to control cost effectively. The ratio is most important

since this ratio measures how individual elements of costs are controlled. Some major ratios regarding commercial banking sectors under this ratio can be examined as follows:

#### 4.10 Personnel Expenses to Total Income Ratio

This ratio is measured as total personnel expenses divided by total income. It is of interest to determine company policies in another important aspect of managing a company's personnel relationships. Calculated is drawn by using the formula as :

$$\text{Personnel expenses to total income} = \frac{\text{Personnel expenses}}{\text{Total income}}$$

In the ratio personnel expenses includes expenses related with personnel as salary and allowance, training expenses, uniforms and liveries, contribution to provident fund etc. Since this ratio represent the percentage expenses made to personnel out of the firm's Total Income they desire high ratio. However to high ratio is unfavorable to the bank thought it functions as catalyst for employee's working spirit.

**Table 4.11**  
**Personnel Expenses to Total Income Ratio**

For NABIL

Rs. In '000'

Year	Personnel Expenses	Total Income	Ratio in %
2013/14	500713	2515053	19.90
2014/15	454042	3373865	13.45
2015/16	366940	4724591	7.76
2016/17	339898	6001548	5.66
2017/18	262908	7145223	3.67
		<b>Total</b>	<b>50.44</b>
		<b>Average</b>	<b>10.08</b>

*(Annual report of Nabil bank)*

For NSBI

Rs.In '000'

Year	Personnel Expenses	Total Income	Ratio in %
2013/14	128100	1848200	6.93
2014/15	163000	2565300	6.35
2015/16	207700	3500800	5.93
2016/17	239500	4728800	5.06
2017/18	315600	5483100	5.75
		<b>Total</b>	<b>29.33</b>
		<b>Average</b>	<b>5.87</b>

*(Annual report of Nepal SBI bank)*

The table shows that the ratios in NABIL appeared 19.90%, 13.45%, 7.76%, 5.66% and 3.67% correspondingly from the year 2011/12 to 2015/16. Where as ratios for NSBI for the same period were 6.93%, 6.35%, 5.93%, 5.06%, and 5.75% respectively. Mean of the ratios remained 10.08% and 5.87% in NABIL and NSBI respectively.

Over the study period, ratios in NABIL depicted decreasing trend. In ranged from 19.90% in the year 2011/12 to 3.67% in the year 2015/16. Where as, the NSBI has ratio reached to 6.93% from 5.75% in the second year of the review period. Mean ratio appeared higher in NABIL. From the result conclusion can be drawn that NABIL has spent large portion of increase for personnel. From the other side, it seems more satisfactory for the employees and success of the organization to attract efficient manpower from outside and utilize their talent. It might have maintained higher ratio to build the well employee-management relationship, reduce the employee's absenteeism and turnover.

#### **4.11 Office Operating Expenses to Total Operating Income Ratio**

The ratio is simply derived by dividing total office operating expenses by total operating income. The ratio can be presented as :

$$\text{Office operating expenses to total operating income ratio} = \frac{\text{Office operating expenses}}{\text{Total operating income}}$$

The ratio depicts ratio of office operating expenses regarding total operating income that affects the further cost decisions of the firm. High ratio is indicator of higher level of operating expenses. So, low ratio is favorable to the bank, as it reflects the operational efficiency.

**Table 4.12**  
**Office Operating Expenses to Total Operating Income Ratio**

For NABIL			Rs.In '000'
Year	OOE	Total O. Income	Ratio in %
2013/14	40234.46	415929.6	9.67
2014/15	44750.13	452415.33	9.89
2015/16	49145.46	495286.2	9.92
2016/17	59360.82	505229.16	11.75
2017/18	60750.35	508372.72	11.95
		<b>Total</b>	<b>53.19</b>
		<b>Average</b>	<b>10.64</b>

*(Annual report of Nabil bank)*

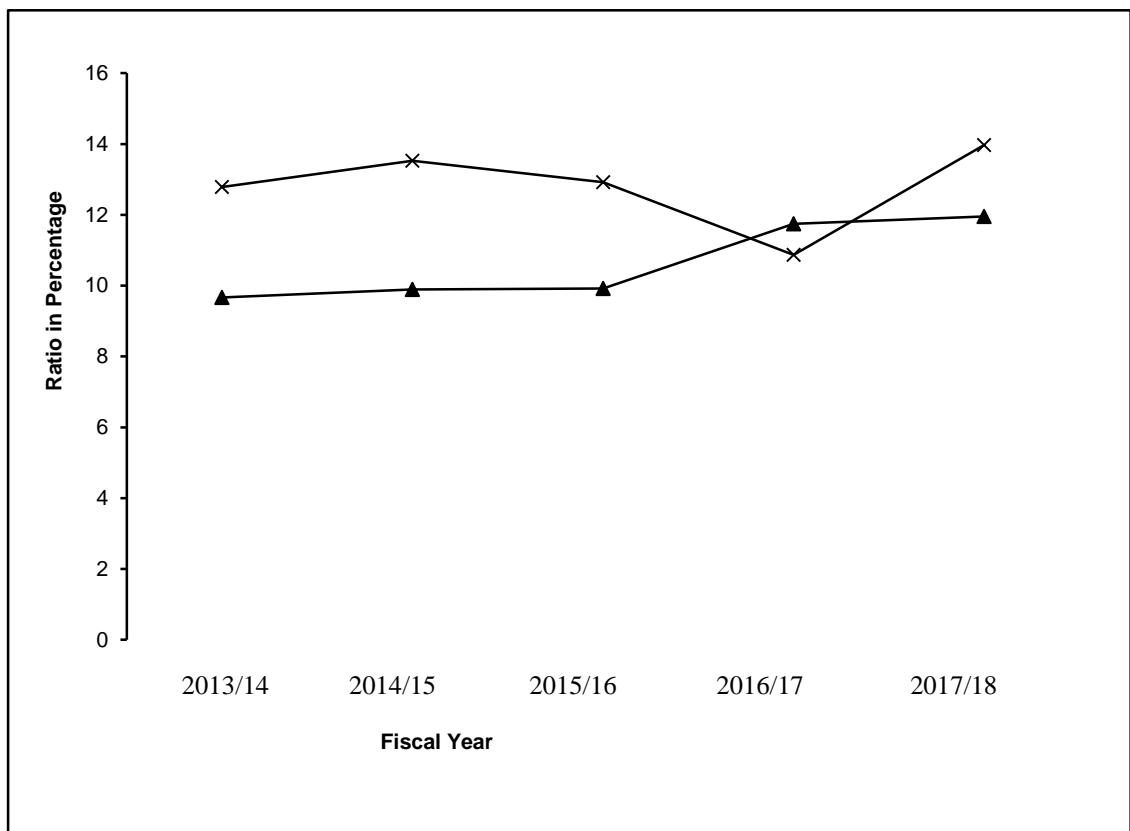
For NSBI			Rs.In(000)
Year	OOE	Total O. Income	Ratio in %
2013/14	17481.67	136688.93	12.79
2014/15	29145.77	215495.52	13.53
2015/16	42099.67	325775.8	12.92
2016/17	50451.37	464117.62	10.87
2017/18	75426.19	539790.51	13.97
		<b>Total</b>	<b>64.08</b>
		<b>Average</b>	<b>12.82</b>

*(Annual report of Nepal SBI bank)*

The table demonstrates that the ratio in NABIL remained 9.67%, 9.89%, 9.92%, 11.75% and 11.95% in the respective year of review period. Mean of the ratios was 10.64%, where as ratios of NSBI for the same period were 12.79%, 13.53%, 12.92%, 10.87% and 13.97% respectively. Mean of the ratios stood 12.82%.

The ratios in NABIL showed increasing trend. It ranged from 9.67% in the first year of the review period to 13.97% in the last year of the review period. The ratios in NSBI showed fluctuating trend. There was slight decrease in the ratio in the year 2014/15. The ratio remained in 10.87%, which is lowest of the review period, in the year 2014/15. Lower mean ratio of NABIL suggests that the bank be in much better condition regarding the operational efficiency that NSBI.

**Figure 4.6**  
**Comparative Line Chart of Cost Effectiveness Ratios**



#### **4.12 Financial Policy Measures**

Financial policy measures relate to strategic decisions as well as investment management and cost management. Under this two major types are analyzed.

#### **4.13 Leverage or Capital Structure ratios**

The long-term creditors to judge the long-term financial position of the firm use these ratios. These ratios indicate the proportion of funds contributed by owners as compared to creditors. That's why financial risk and the firm's ability of using debt for the benefit of shareholders can be measured by calculating these ratios.

In practice, leverage is approached in two ways. One approach examines balance sheet ratios and determines the extent to which borrowed funds have been used to finance the firm. The other approach measures the risk of debt by income statement ratios designed to determine the number of times fixed charges are covered by operating profits. These sets of ratios are complementary and most analysts examine both.

Some of the ratios under this classification can be presented as follows:

#### **4.14 Total Debt Ratio**

The ratio of total debt to total asset is simply known as debt ratio. It determines the proportion of amount financed by creditors to the total fund. This ratio is used to analyze the long-term solvency i.e. ability to pay all the liabilities of the firm. Ratio is as follows:

$$\text{Total debt ratio} = \frac{\text{Total debt}}{\text{Total assets}}$$

Creditors prefer moderate debt ratio, in contrast owners enjoy high earning by maintaining their control over the organization in case of high leverage.

**Table 4.13**  
**Total Debt Ratio**

For NABIL		Rs.In(000)	
Year	Total Debt	Total Assets	Ratio in %
2013/14	2910859.84	37132759	7.83
2014/15	2886929.8	43867398	6.58
2015/16	3515185.98	52151684	6.74
2016/17	4188805.68	58141437	7.20
2017/18	4433706.91	63200298	7.01
		<b>Total</b>	<b>35.36</b>
		<b>Average</b>	<b>7.07</b>

*(Annual report of Nabil bank)*

For NSBI		Rs.In(000)	
Year	Total Debt	Total Assets	Ratio in %
2013/14	956496.61	27345500	3.49
2014/15	1677375.08	36919000	4.54
2015/16	2697260.04	39799000	6.77
2016/17	4104434.33	44347600	9.25
2017/18	4892453.4	51687200	9.46
		<b>Total</b>	<b>33.51</b>
		<b>Average</b>	<b>6.70</b>

*(Annual report of Nepal SBI bank)*

As presented in above table, the ratio in NABIL from the year 2011/12 to 2015/16 appeared 7.83%, 6.58%, 6.74%, 7.20% and 7.01% respectively. Mean of the ratios stood 7.07%. In the same way, these remained 3.49%, 4.54%, 6.77%, 9.25% and 9.46% in NSBI respectively. Mean of the ratios stood 6.70%.

The ratios showed fluctuating trend in NABIL but increasing trend in NSBI up to the fifth year of the study period. Mean of the ratios appeared greater in NABIL as compared to that in NSBI, which signifies that former followed more aggressive policy in raising the capital. On the other hand, leverage position in NSBI seems less risky.

#### **4.15 Coverage Ratio**

Coverage ratios are designed to relate the financial charges of a firm to its ability to service them. It measures the relationship between what is normally available from operation of the banks and the claim of the outsiders. Under this, following are calculated.

#### 4.16 Interest Coverage Ratio

Interest coverage ratio, also called times interest earned, is examined by dividing earning before interest and taxes by the interest charges. Since the income taxes are computed after deduction of interest expenses EBIT is used in the formula to calculate this ratio and there is no effect of income taxes ability of the firm to pay current interest.

This ratio predicts the extent to which the firm's earning can be decline without inability to meet annual interest costs. Ratio can be shown as follows:

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

A higher ratio is desirable; but too much high ratio indicates that the firm is very conservative in using debt. and that is not using credit to the best advantage of shareholders. A lower ratio indicates excessive use of debt or in efficient operations.

**Table 4.14**  
**Interest Coverage Ratio**

For NABIL			Rs.In '000'
Year	EBIT	Interest Charge	Ratio in %
2013/14	324278.84	240745.68	1.35
2014/15	335810.49	310794.98	1.08
2015/16	369805.53	281657.91	1.31
2016/17	322111.02	271798.13	1.19
2017/18	345452.15	288579.31	1.20
		<b>Total</b>	<b>6.13</b>
		<b>Average</b>	<b>1.22</b>

*(Annual report of Nabil bank)*

For NSBI			Rs.In '000'
Year	EBIT	Interest Charge	Ratio in %
2013/14	99938.51	74721.13	1.34
2014/15	157395.27	118702.2	1.33
2015/16	239148.94	178371.62	1.34
2016/17	338764.16	236707.6	1.43
2017/18	384435.46	257051.21	1.50
		<b>Total</b>	<b>6.94</b>
		<b>Average</b>	<b>1.39</b>

*(Annual report of Nepal SBI bank)*

The above table highlights that the ratios appeared 1.35, 1.08, 1.31, 1.91 and 1.20 respectively from the year 2011/12 to 2015/16 in NABIL. Mean of the ratios was 1.22. These remained 1.34, 1.33, 1.34, 1.43 and 1.50 for NSBI respectively for the same period. Mean of the ratios was calculated as 1.39.

The ratios in NABIL showed fluctuating trend. The ratio was highest for the year 2012/13 which was 1.31. The lowest ratio was in the year 2012/13 which was 1.08, which signify that the fund available for the payment of interest remained sufficient, however, the margin was not satisfactory. In NSBI the ratio was constant up to the third year but showed slightly increasing trend from fourth year of the study period. Higher mean ratio of NSBI is symbol of better debt serving capacity of the bank as well as possibility of declining its profit in fewer amounts after meeting the interest cost.

#### 4.17 Provision for Possible Losses to Loans and Advances

Coverage of possible losses on loans and advances is measured by this ratio. This ratio is computed by dividing the amount allocated for possible losses by the amount of loans and advances as :

$$\text{Losses to loans and advances} = \frac{\text{Provision for possible losses}}{\text{Loans and advances}}$$

**Table 4.15**

#### **Provision for Possible Losses to Loans and Advances**

For NABIL

Rs.In(000)

Year	Prov. for P.L	Loans & Advances	Ratio in %
2013/14	1186769	21365053	5.55
2014/15	1615927	27589933	5.85
2015/16	2062962	32268873	6.39
2016/17	2190661	38034098	5.75
2017/18	3061169	41605683	7.35
		<b>Total</b>	<b>30.89</b>
		<b>Average</b>	<b>6.18</b>

*(Annual report of Nabil bank)*

For NSBI

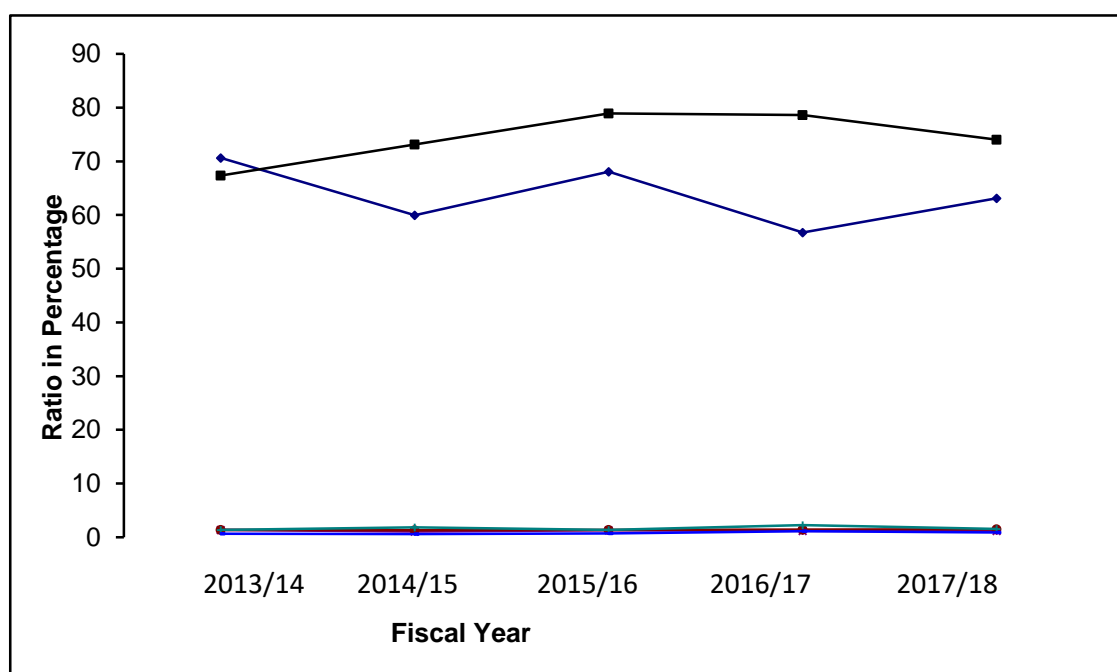
Rs.In(000)

Year	Prov for P.L	Loans & Advances	Ratio in %
2013/14	531500	18836400	2.82
2014/15	618200	24469600	2.53
2015/16	610000	28156400	2.17
2016/17	604200	31661800	1.90
2017/18	705900	36616800	1.92
		<b>Total</b>	<b>11.34</b>
		<b>Average</b>	<b>2.26</b>

*(Annual report of Nepal SBI bank)*

The above table reveals that the ratio of NABIL were 5.55%, 5.85%, 6.39%, 5.75% and 7.35% respectively throughout the study period. In the same manner, 2.82%, 2.53%, 2.17%, 1.90% and 1.92% were the ratios of NSBI. Mean of the ratios stood 6.18% and 2.26% for NABIL and NSBI respectively.

The ratios of both the banks followed fluctuating trend over the period. The ratios was highest in the year 2015/16 in NABIL as well as in NSBI. Average ratio is very high in NABIL than NSBI, which means NABIL has granted greater portion of its loans in riskier sector than that of NSBI.

**Figure 4.7****Comparative Line Chart of Leverage Ratios**

#### 4.18 Liquidity Ratio

Liquidity ratio measures the firm's ability to meet their current obligations by making comparison between short-term obligations and the short-term resources available.

Every firm should be able to meet their obligations as they become due. Especially in case of banks they should ensure that they do not suffer from lack of liquidity and have excess liquidity. For this purpose they must maintain optimum liquidity position because both the conditions of liquidity are unfavorable. Otherwise, their failure to meet obligations lead to poor credit worthiness and loss of creditor's confidence.

Banks can experience lack of liquidity when cash out flows (due to deposit withdraws, loan and advances etc.) exceed cash inflows (new deposits, loan repayments, interest, commission, etc). They can resolve any cash deficiency by either creating additional liabilities or by selling assets. The following are the selected ratios, used to analyze the liquidity position of the firm.

#### 4.19 Cash and Bank Balance to Total Deposit (Excluding Fixed Deposit) Ratio

This ratio shows the ability of banks immediately funds to meet their deposits (current, call margin and saving). This ratio is calculated by dividing the cash and bank balance by the amount of total deposits (excluding fixed deposit). The ratio can be expressed as :

$$\text{Cash and bank balance to total deposits} = \frac{\text{Cash and bank balance}}{\text{Total deposits (excluding fixed deposits)}}$$

High ratio indicates sound liquidity position of the bank. Even after that, too high ratio is not good enough as it reveals the under utilization of fund.

**Table 4.16**

#### **Cash and Bank Balance to Total Deposit (Excluding Fixed Deposit) Ratio**

For NABIL

Rs.In '000'

Year	C & B Bal.	T.D. exl. F.D	Ratio in %
2013/14	511427	29856130	1.71
2014/15	674395	17792024	3.79
2015/16	635987	24468052	2.59
2016/17	744592	23095122	3.22
2017/18	1050659	24707692	4.25
		<b>Total</b>	<b>15.56</b>
		<b>Average</b>	<b>3.11</b>

(Annual report of Nabil bank)

For NSBI

Rs.In(000)

Year	C & B Bal.	T.D. exl. F.D	Ratio in %
2013/14	255150	8387130	3.04
2014/15	460719	13026290	3.53
2015/16	278605	18590570	1.49
2016/17	834993	17061470	4.89
2017/18	592757	24860660	2.38
		<b>Total</b>	<b>15.53</b>
		<b>Average</b>	<b>3.11</b>

*(Annual report of Nepal SBI bank)*

The table shows that the ratios of NABIL remained 1.71%, 3.79%, 2.59%, 3.22% and 4.25% for the respective years of the study period. Mean of the ratios appeared 3.06%. In similar way, these appeared 3.04%, 3.53%, 1.49%, 4.89% and 2.38% respectively in NSBI for same period. Mean of the ratios was calculated 3.11%.

The ratio in NABIL showed fluctuating trend. The highest ratio was in the fifth year of the study period which is 4.25% trend up to the third year. Mean ratio of NSBI appeared slightly greater than that of NABIL. It indicates the better liquidity position of NSBI.

#### 4.20 Fixed Deposit to Total Deposit Ratio

Fixed deposit is the long term interest bearing deposit. Of course, it is high interest paid liabilities but increasing fixed deposit prove to be an additional advantages if utilized properly by granting long-term loans to their potential clients at higher interest rate. This ratio is tested to determine the proportion of fixed deposit out of the total deposit. The ratio is computed by dividing fixed deposit by total deposit, is given below:

$$\text{Fixed deposit to total deposits ratio} = \frac{\text{Fixed deposit}}{\text{Total deposit}}$$

The higher the ratio the more the interest bearing income and lowers the proportion of current / short term deposits and vice versa.

**Table 4.17**  
**Fixed Deposit to Total Deposit Ratio**

For NABIL		Rs.In(000)	
Year	Fixed Deposit	Total Deposit	Ratio in %
2013/14	1558917	31915047	4.88
2014/15	19556232	37348256	52.36
2015/16	21942658	46410701	47.27
2016/17	26600991	49696113	57.31
2017/18	30316003	55023695	55.09
		<b>Total</b>	<b>216.91</b>
		<b>Average</b>	<b>43.38</b>

*(Annual report of Nabil bank)*

For NSBI		Rs.In'000	
Year	Fixed Deposit	Total Deposit	Ratio in %
2013/14	15589170	23976300	65.01
2014/15	20296610	33322900	60.90
2015/16	18341730	36932300	49.66
2016/17	24066430	41127900	58.51
2017/18	25145440	50006100	50.28
		<b>Total</b>	<b>284.36</b>
		<b>Average</b>	<b>56.87</b>

*(Annual report of Nepal SBI bank)*

The table shows ratios in NABIL for the respective years of the review period stood 4.880%, 52.36%, 47.27%, 57.31% and 55.09%. Mean of the ratios appeared 43.38%. For NSBI, these remained 65.01%, 60.90%, 49.66%, 58.51% and 50.28% respectively. Mean of the ratios was 56.87%.

The ratios for NABIL showed fluctuating trend. In last year the ratio was higher than other years of the study period. And very low in year 1<sup>st</sup>. In NSBI, the ratios showed decreasing trend up 2011/12 to 2015/16 of the study period. Mean of the ratio remained greater in NSBI than NABIL. From the result, it is clear that in both banks FD have occupied greater portion of total deposit. Both banks can experience high profit by investing the fund in long term loans since the fund available from fixed deposit is higher. If the investment decision is not taken properly they may face problem of high interest charge for the fixed deposit.

#### 4.21 NRB Balance to Current and Saving Deposit Ratio

Commercial banks are required to hold certain portion of current and saving deposits in Nepal Rastra Bank's account. It is to ensure the smooth functioning and sound liquidity position of the bank. The ratio is computed by dividing the balance held with Nepal Rastra Bank by current and saving deposits including call and other deposits.

$$\text{NRB balance to current and saving deposit ratio} = \frac{\text{NRB Balance}}{\text{Current and saving deposit}}$$

As per the directive of NRB, the required ratio is 7%. Therefore, the ratio measures whether the bank is following the directives of NRB or not.

**Table 4.18**

#### NRB Balance to Current and Saving Deposit Ratio

For NABIL

Rs.In(000)

Year	NRB Bal.	CA & SB Dep	Ratio in %
2013/14	574125.66	13608842.6	42.19
2014/15	693064.21	22798002.9	30.40
2015/16	371866.85	21154357.2	17.58
2016/17	302752.29	36829393.9	8.22
2017/18	1177463.61	243978926.1	48.26
		<b>Total</b>	<b>146.65</b>
		<b>Average</b>	<b>29.33</b>

*(Annual report of Nabil bank )*

For NSBI

Rs.In(000)

Year	NRB Bal.	CA & SB Dep	Ratio in %
2013/14	1214740.5	4035242.1	30.10
2014/15	1681503.5	8168640.4	20.58
2015/16	1305208	1578535.4	8.27
2016/17	3856572.2	22898707	16.84
2017/18	3577002.2	2755026.1	12.98
		<b>Total</b>	<b>88.78</b>
		<b>Average</b>	<b>17.76</b>

*(Annual report of Nepal SBI bank)*

As revealed by the table, the ratios in NABIL remained 42.19%, 30.40%, 17.58%, 8.22% and 48.26% in the respective years from 2011/12 to 2015/16. Mean of the ratios was 29.33%. In NSBI, these stood 30.10%, 20.58%, 8.27%, 16.84% and 12.98% for the same period correspondingly. Mean of the ratios appeared 17.76%.

The trend of the ratios showed declining up to the fourth year of the study period in NABIL. It rose drastically to 48.26% from 8.22% in the final year of the study period. In NSBI the ratio decline up to the third year. It inclined to 16.84% in the fourth year and again declined to 12.98% in the final year of the study period. Mean ratio of the both banks lay at significant level above the standard. Comparatively it is greater in NABIL, which indicates the better liquidity position of it than NSBI. But the higher cash balance in NRB returns nothing and it may affect the profitability of the bank adversely.

#### 4.22 NRB Balance to Fixed Deposit Ratio

This ratio shows the percentage of amount deposited by the bank in NRB as compared to the fixed deposit. The ratio is achieved with the relationship between the NRB balance and fixed deposit as:

$$\text{NRB balance to fixed deposit ratio} = \frac{\text{NRB balance}}{\text{Fixed deposit}}$$

According to the directive of NRB, the ratio should be maintained at 4.5%. Hence, the ratio so calculated finds whether the bank has obeyed the direction of central bank or not.

**Table 4.19**

#### **NRB Balance to Fixed Deposit Ratio**

For NABIL

Rs.In(000)

Year	NRB Bal.	Fixed Deposit	Ratio in %
2013/14	574125.66	1558917	24.09
2014/15	693064.21	19556232	33.00
2015/16	371866.85	21942658	15.36
2016/17	302752.29	26600991	10.34
2017/18	1177463.61	30316003	37.59
		<b>Total</b>	<b>120.37</b>
		<b>Average</b>	<b>24.07</b>

*(Annual report of Nabil bank)*

For NSBI

Rs.In(000)

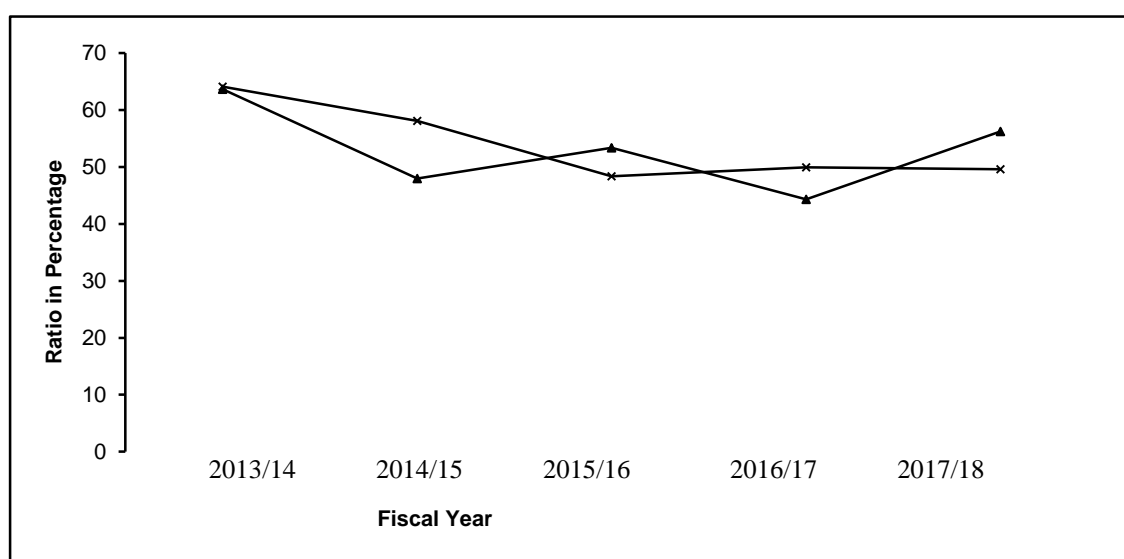
Year	NRB Bal.	Fixed Deposit	Ratio in %
2013/14	121474.05	15589170	16.84
2014/15	168150.35	20296610	14.85
2015/16	130520.8	18341730	8.83
2016/17	385657.22	24066430	16.88
2017/18	357700.22	25145440	13.19
		<b>Total</b>	<b>70.59</b>
		<b>Average</b>	<b>14.12</b>

*(Annual report of Nepal SBI bank)*

The table shows, the ratio of NABIL were found 24.09%, 33.00%, 15.36%, 10.34% and 37.59% respectively from the year 2011/12 to 2015/16. Similarly, ratios in NSBI appeared 16.84%, 14.85%, 8.83%, 16.88% and 13.19% respectively. Mean of the ratios were calculated as 24.07% and 14.12% respectively for NABIL and NSBI.

The ratios in NABIL showed incensement in the second year and than decrease up to the third year and reached to 10.34%. But it included in the last year of the study period and reached to 37.59%. The ratios are very fluctuating in NABIL. The ratios in NSBI are in decreasing trend up to third year. It increased in the fourth year and remained 16.88% but it again decreased in fifth year and reached to 13.19%. Mean ratio of NABIL remained higher than that of NSBI that reveals the thicker safety margin against the F.D. from the customer point of view. From the bank side, idleness of high interest bearing deposit in such a great extent may have adversely affected the profitability of the bank.

**Figure 4.8**  
**Comparative Line Chart of Liquidity Ratios**



#### 4.23 Income and Expenditure Analysis

This analysis depicts the major sources of income and expenses of any organization. The analysis guides the analyst to conclude the areas to be focused for investment and the possibilities for effective control over expenses. It covers the following:

#### 4.24 Income Analysis

Commercial banks generate income from the investment made in various sectors and services provided by them. The banks, being service-oriented organization, do not

produce physical goods. They produce loans and advances and innovations and sell the same. In the course of carrying out their functions, they receive income from various sources, which have been split up into the following major four headings.

**Table 4.20**  
**Income Analysis**

NABIL Rs. In '000'

Income/Year	2013/14	2014/15	2015/16	2016/17	2017/18
Interest income	1978697	2798486	4047726	5254030	6133739
%	78.67	82.94	85.67	87.54	85.84
Comm& Discount	159320	179693	215482	290855	364075
%	6.33	5.32	4.56	4.84	5.09
Foreign Exchange	196487	251920	291441	276103	447070
%	7.81	4.46	6.16	4.60	6.25
Other Income	180832	245617	169548	180570	201085
%	7.19	7.28	3.58	3.00	2.81
Total Income	2515053	3373865	4724591	6001548	7145223
%	100.00	100.00	100.00	100.00	100.00

*(Annual report of Nabil bank)*

Income Analysis for NSBI Rs. In (000)

Income/Year	2013/14	2014/15	2015/16	2016/17	2017/18
Interest income	1848200	2231811	2905664	4331026	4959998
%	90.00	87	83.00	91.58	91
Comm& Discount	113450	143467	173467	203468	233569
%	6.13	5.60	4.95	4.30	4.25
Foreign Exchange	36964	102612	210048	109679	46259
%	2.00	4.00	6.00	2.32	0.84
Other Income	34561.34	87220.2	2117988.4	851184	214389
%	1.87	3.40	6.05	3.80	3.91
Total Income	1848200	2565300	3500800	4728800	5483100
%	100.00	100.00	100.00	100.00	100.00

*(Annual report of Nepal SBI bank)*

### Interest Income

Interest is the main and major sources of income for the commercial banks. They receive interest from various heads of investment title i.e. loans and advances, government securities, debenture, bonds deposits in other banks and inter bank lending.

The table shows that the interest income for NABIL registered 78.67%, 82.94%, 85.67%, 87.54% and 85.84% during the study period from 2011/12 to 2015/16 respectively. Interest income ranged from 78.67% (first year) to 87.45% (fourth year). It showed increasing trend up to 4th year but decreased in year 5<sup>th</sup>. The interest income remained dominate in the total income.

The interest income in NSBI remained 90%, 87%, 83%, 91.58% and 91% in respective years of the study period. It ranged from 90% (first year) to 83% (third year). It showed decreasing trend up to third year but increase marginally and reached to 91.58% & 91 in the final year of the study period. It is also the prime source of income of NSBI.

Average of the interest income appeared 84.13% and 88.51% for NABIL and NSBI respectively. It indicates that the average interest income covered slightly greater proportion in NSBI. It means, NSBI might have focused more of its activities towards the lending and investment in government securities.

### **Commission and Discount**

Commission and discount include income received as commission. Commercial banks render various types of services to their customers. They provide remittance, guarantees, transfer, standing instructions, letter of credit, purchase and discount of bill of exchange facilities along with other agency and merchant banking functions. For making such facilities available, they receive certain commission, which also holds a significant portion of the total income.

The table shows that the income as commission and discount in NABIL rescored 6.33%, 5.32%, 4.56%, 4.84% and 5.09% accordingly to the study period. It ranged from 6.33% (first year) to 5.09% (final year). It revealed increasing trend except slight decrease in the fourth year of the study period.

In the same way the table shows the commission and discount earned by NSBI in the respective years of the study period stood 6.13%, 5.60%, 4.95%, 4.30% and 4.25%. It ranged from 6.13% (fourth year) to 4.25% (second year). The ratio decreasing trend up to fifth year of the study period.

On the average, commission income remained 5.22% in NABIL and 5.05% in NSBI. From the result, it can be concluded that commission and discount income occupied comparatively greater portion in NABIL.

### **Foreign Exchange Income**

One of the major functions of commercial banks is transaction of foreign currency. Both the banks are authorized by NRB to deal with foreign currencies. Income under this heading encompasses not only gain from sales of foreign currency, but also gain from revaluation of our currency i.e. foreign exchange fluctuation income also.

From the table, the income of NABIL from foreign exchange appeared 7.81%, 4.46%, 6.16%, 4.60% and 6.25% respectively for the study period. The ratio fluctuation trend.

In the same way, foreign exchange income appeared 2%, 4%, 6%, 2.32% and .84% for NSBI in the respective year of the study period.

The ratio showed increasing trend up to the third year but decreased drastically and reached to .84% in the final year of the study period.

Average of the income in NABIL and NSBI remained 5.85% and 3.02% respectively. This source of income holds greater portion in NABIL.

### **Other Income**

Income not included in any of the above headings are the components of this heading. Other income comprise various titles of income viz. revaluation gain, net income from sale of investment and assets, non-banking assets, fixed assets written back and other.

The table highlights that other income of NABIL for the respective years of the study period appeared as 7.19%, 7.28%, 3.58%, 3% and 2.81%. In the same way, the other income for NSBI appeared 1.87%, 3.40%, 6.05%, 3.80% and 3.91% respectively during the study period. The ratio showed fluctuating trend. This heading of income has also significantly contributed in total income of the bank.

Mean of these sources of NABIL and NSBI was calculated 4.77% and 3.80% respectively. Higher percentage guides that this income contributes more in NABIL than NSBI.

Following table shows the budgeted and actual performance of NABIL and NSBI.

**Table 4.21**  
**Budgeted and Actual Income Analysis**

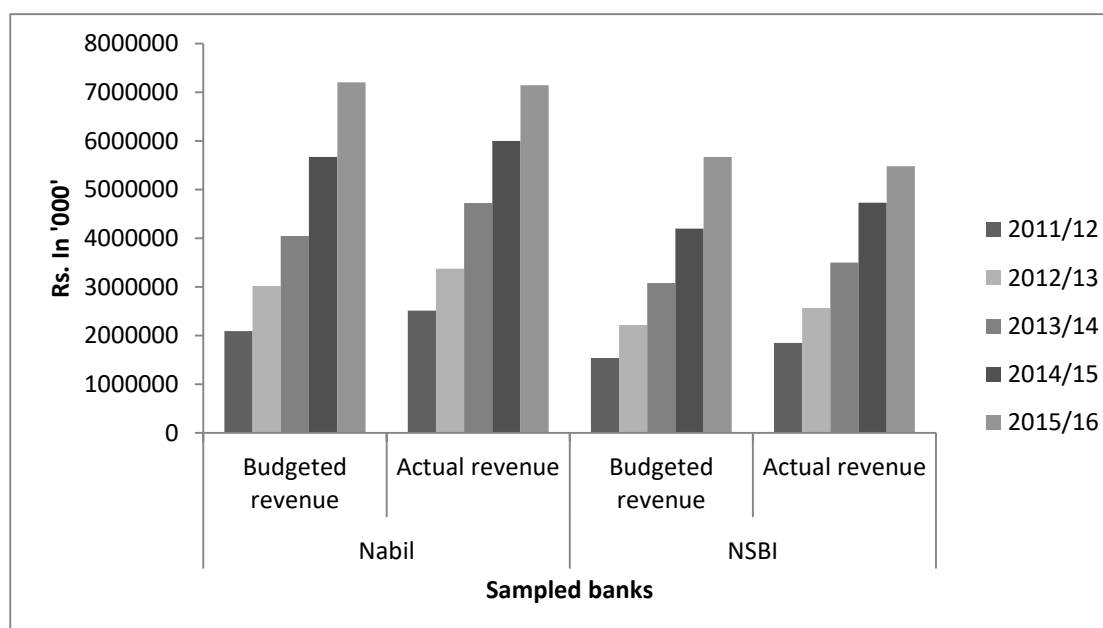
Rs. In '000'

Income year	NABIL		NSBI	
	Budgeted revenue	Actual revenue	Budgeted revenue	Actual revenue
2013/14	2095877.5	2515053	1540166.7	1848200
2014/15	3018063.6	3373865	2217840	2565300
2015/16	4048638	4724591	3078360	3500800
2016/17	5669509.2	6001548	4200960	4728800
2017/18	7201857.6	7145223	5674560	5483100

(Annual report of Nepal SBI bank)

**Figure 4.9**

**Budgeted and Actual Income of NSBI**



From table 4.24 and figure 4.6, budgeted and actual income of NABIL and NSBI is found similar for maintaining budgeted and actual revenue. Both banks have higher actual revenue in all income year except 2015/16. In the year 2015/16, both banks have less actual revenue than budgeted revenue. Higher budgeted revenue than actual revenue shows the poor performance of both banks in the year 2015/16. In the remaining four income year, both banks have sound performance in case of revenue

collection. Higher revenue collection shows that there is sound performance of NABIL and NSBI than anticipated.

The presented figure No. 4.6 shows that the revenue collection is highly increasing of NABIL bank than NSBI. Hence, NABIL is found stronger than NSBI.

#### 4.25 Expenses Analysis

Expenses are the cost incurred in course of operation of various activities. The bank needs to pay interest in deposit, borrowing and inter branch transaction. They should pay salaries and other facilities for the actual work performer i.e. team of personnel. Certain portion of their income is spent for the day-to-day operation. Besides all these expenses they should make provision for bonus, loans loss and tax out of their total income. For the study purpose, four major categories of expenses has been analyzed.

**Table 4.21**  
**Expenses Analysis**

NABIL		Rs. In (000)			
Income/Year	2011/12	2012/13	2013/14	2014/15	2015/16
Interest	2407456.8	3107949.8	2816580	2717981.3	2885793.1
%	80.17	83.45	78.56	75.44	75.49
Staff	102313.3	141235.3	179150	235335.2	266476.9
%	3.41	3.79	5.00	6.53	6.97
Office	402344.6	447501.3	491450	593605.2	607503.5
%	13.40	12.02	13.71	16.48	15.89
Bonus	90950.6	2779.5.	97942.	55903.2	63191.8
%	3.03	0.75	2.72	1.55	1.65
Total Expenses	3003065.3	3724481.4	3585130	3602824.9	3822965.3
%	100.00	100.00	100.00	100.00	100.00

*(Annual report of Nabil bank)*

NSBI		Rs.In (000)			
Income/Year	2011/12	2012/13	2013/14	2014/15	2015/16
Interest	747211.3	11870220	17823720	2367076	2570512.1
%	72.76	71.66	72.55	72.95	67.86
Staff	76895.1	133890	186320	259998.8	321868.2
%	7.49	8.08	7.58	8.01	8.50
Office	174818.7	291457.7	421000	504513.7	754261.9
%	17.02	17.59	17.12	15.55	19.91
Bonus	28019.3	44152.7	67530	113396.2	141538.1
%	2.73	2.67	2.75	3.49	3.74
Total Expenses	1026944.4	1656522.4	2458560	3244984.7	3788180.3
%	100.00	100.00	100.00	100.00	100.00

*(Annual report of Nepal SBI bank)*

### **Interest expenses**

Expenses analysis depicts that interest payment for both banks occupy the major proportion of operating expenses. Interest expenses are composed with interest paid on various deposits, loan and borrowing and inter branch transaction. Since transfer of the money from surplus spending units to the deficit spending units is the significant functions of the commercial banks, interest generally occupies more than half of the total operation expenses.

As observed in table, the interest expenses out of the total expenses in NABIL recorded 80.17%, 83.45%, 78.56%, 75.44% and 75.49% respectively during the study period. The ratio depicts the fluctuating trend over the study period. It ranged from 75.44% to 83.45%.

Interest expenses from 2007/08 to 2014/15 in NSBI were 72.76%, 71.66%, 72.55%, 72.95% and 67.86%. The ratio is quite constant up to the fourth year but decreased in the final year of the study period and reached to 67.86%. Mean of the interest expenses appeared 78.62% and 71.56% in NABIL and NSBI respectively. From the proportion, it can be concluded that interest expenses covered more portions in NABIL compared to that in NSBI. It may be result of their success to attract the depositors due to higher rate of interest during the study period.

### **Staff expenses**

Organization itself does nothing but their success or failure is mainly based upon their employees. Efficient and well-motivated staffs are the ornaments of any organization. For all these, organization needs to make some expenses in return to the services provided by them. In this way, staff expenses include all the expenses made upon their employees such as salary and allowance, training, uniform and liveries, contribution to provident fund, incentive, fringe benefits etc

The table reveals that the staff expenses in NABIL remained 3.40%, 3.79%, 5.00%, 6.53% and 6.97% respectively from the year 2011/12 to 2015/16. It showed increasing trend throughout the study period. It ranged from 3.40% to 6.97%.

The staff expenses in NSBI were 7.49%, 8.08%, 7.58%, 8.01% and 8.50% respectively during the study period. It showed fluctuating trend up to the third year

and showed increasing trend than after. The ratio increased in the second year but decreased in the second year.

Average of the staff expenses was calculated 5.14% for NABIL and 7.93% for NSBI. From the point of view of the staff, NSBI seems more attractive but NABIL seems more efficient in its operation.

### **Office Operation Expenses**

In the context of Nepalese commercial banks, office expenses occupy major portion in the composition of total expenses. These include those expenses incurred for the routine operation of the commercial banks, such as house rent, lighting, waterpower, building, repair and maintenance, insurance, postage/telex, telephone, advertisement/publicity, stationary and printing, remittance fee and expenses, traveling expenses, bank commission, board meeting fee and expenses, adult fee and expenses, depreciation, amortization, expenses for AGM etc.

The table shows that the office operation expenses covered 13.40%, 12.02%, 16.48% and 15.89% respectively during the study period in NABIL. The ratio decreased in the second year but increased in the third year and fourth year of the study but again decreased in the final year. It showed fluctuating trend.

The office expenses in NSBI remained 17.02%, 17.59%, 17.12%, 15.55% and 19.91% respectively during the study period. The ratio appeared in quite constant proportion i.e. around 17% from first year to third year and decreased in the fourth year but increased and reached to 19.90% in the final year of the study period.

Mean of the expenses appeared 14.30% and 17.74% for NABIL and NSBI respectively. It reveals that NABIL is more efficiently performing its operation.

### **Bonus Facility**

Out of the operating profit of the bank, they need to make some further provisions like provisions for staff bonus, loan losses and income tax. In this way, they distribute certain sum of their profit to their staff as a bonus on reward for their well performance. It plays vital role for motivating their employees in their work and to attract potential outsiders.

The table reveals that proportion of bonus expenses in NABIL over the study period were respectively 3.03%, 0.75%, 1.55% and 1.65%. It showed fluctuating trend over the study period. It fall very sharply in second year and again increased in the second

year. NSBI spent 2.73%, 2.67%, 2.75%, 3.49% and 3.74% respectively for the year 2011/12 to 2015/16 for staff bonus. It showed increasing trend during the study period except marginal decrease in the second year. The ratio remained quite constant for the first three years. According to the mean of the expenses 1.94% for NABIL and 3.08% for NSBI. NSBI is more efficient and motivating its staff.

Following table shows the budgeted and actual expenditure analysis of NABIL and NSBI.

**Table 4.22**  
**Budgeted and Actual Expenses Analysis**

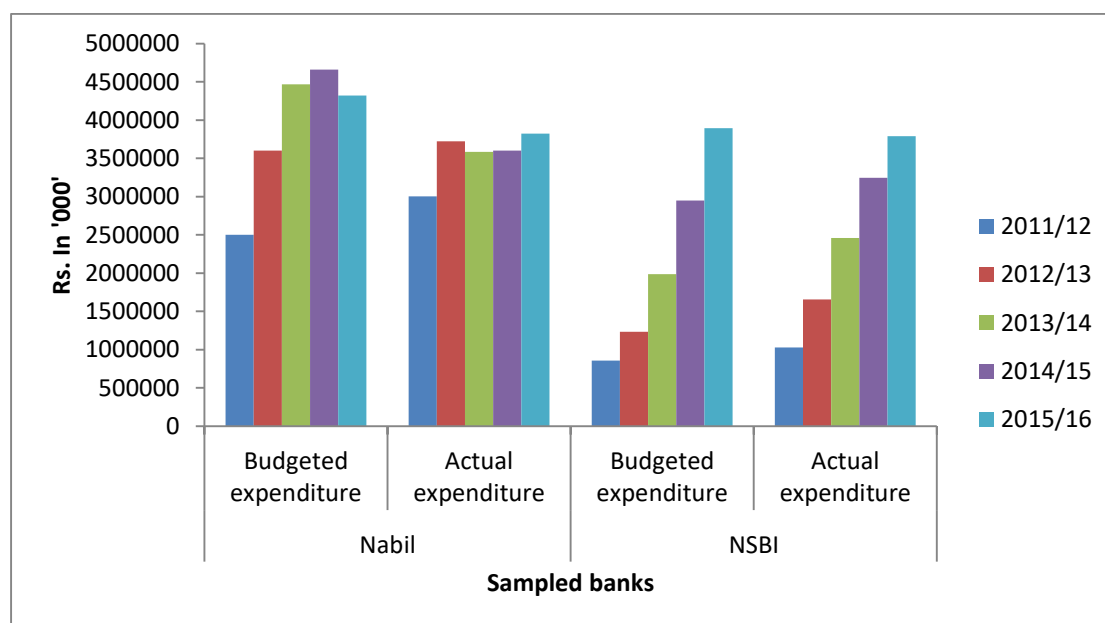
Rs. In '000'

Income year	NABIL		NSBI	
	Budgeted expenditure	Actual expenditure	Budgeted expenditure	Actual expenditure
2011/12	2502554	3003065.3	855787	1026944.4
2012/13	3603678.4	3724481.4	1232333.3	1656522.4
2013/14	4469377.7	3585130	1987826.9	2458560
2014/15	4660669	3602824.9	2950272	3244984.7
2015/16	4323389.9	3822965.3	3893981.6	3788180.3

(Annual report of Nepal SBI bank)

**Figure 4.10**

**Budgeted and Actual Expenditure of NABIL and NSBI**



From table 4.26 and figure 4.7, the budgeted and actual figure of NSBI has seemed highly fluctuating than NABIL. In case of NABIL bank, there is highly fluctuation of budgeted and actual expenditure. However, budgeted figure is almost greater than actual figure in every income year except in the year 2011/12 and 2012/13. In the year 2011/12 and 2012/13, NABIL bank has less actual expenditure than budgeted. The figure of actual and budgeted shows that NABIL bank is able to maintain its budgeted and actual performance. Similarly, in the case of NSBI, actual expenditure is found higher than budgeted expenditure except in the year 2015/16. In the year 2015/16, NSBI has able to reduce its actual expenditure than budgeted expenditure.

From the analysis, NABIL bank is found able to maintain its budgeted and actual expenditure during the study period except two income year. But, NSBI is found somehow weak for maintaining budgeted expenditure since it has higher actual expenditure than budgeted expenditure. Hence, it can be said that, NABIL is stronger than NSBI regarding maintaining budgeted and actual expenditure.

#### **4.26 Major Findings**

The followings findings have been derived from the analysis and interpretation of the data.

- Average net profit margin remained greater in NABIL. It signifies that profitability that profitability with respect to the gross earnings is stronger in NABIL than that of NSBI.
- Average return on assets in NABIL was considerably higher than in NSBI. It implies that NSBI proved to be weaker in utilizing the bank assets for the profit generation.
- Return on net worth on an average was lower in NSBI. It reveals the better earning position of NABIL with respect to its shareholders fund.
- Average interest earned to total assets ratio was found marginally higher in NABIL than that of NSBI. It reveals both bank have managed its assets properly to earn interest.
- Return on risk assets remained remarkably higher in NABIL than in NSBI. It again reveals the higher rate of profit realization through risk assets loans and advances and overdrafts, bills purchased and discounted of NSBI. The ratio through the study period showed higher fluctuation in NABIL.

- As revealed by higher return on total deposit (excluding fixed deposit) in NABIL, it seemed to be more successful in utilizing the accumulated deposit (excluding fixed deposit) for profit making.
- Major return to equity showed that the equity holder of NABIL are getting positive and high return from the organization but in contrast the share holders of NSBI are getting negative return. It indicates the equity holders of NABIL are getting higher profit than that of NSBI. It can be concluded that NSBI has better utilized the incremental equity for the profit generation.
- Loans and advances to total deposit ratio appeared higher in NABIL. It indicates that NABIL is more successful in utilizing the depositors fund to earn profit.
- Average of loans and advance to fixed deposit ratio in both banks in this regard. Both the banks have properly utilized this high interest bearing debt in terms of loans and advances for income generation.
- As depicted by significantly higher loans and advances to saving deposit ratio in NABIL, it seemed more successful in utilizing the short term interest earning saving deposit in form of loans and advances.
- Higher ratio of investment to total deposits ratio of NABIL showed that it has more successfully allocated its deposits in investment portfolio. The ratio seemed to be very less in NSBI.
- Performing assets to total assets ratio of NABIL seemed comparatively greater than that of NSBI. It signifies the more successful investment decision of NABIL regarding the assets in profitable sectors. The ratio in NSBI also seemed satisfactory.
- Performing assets to total debt ratio of NABIL exceeded the same of NSBI on an average. From this it can be concluded that NABIL allocated the cost bearing fund more successfully than NSBI.
- Personal expenses to total income ratio remained lower in NSBI. It indicates that NSBI carried out its operation more efficiently with lesser expenses on staff. But NABIL might have maintained higher ratio to build good employees management relationship reduce their absenteeism, turnover and attract potential manpower towards the organization.

- As revealed by the considerably lower office operation expenses to total operation income ratio, NSBI is in much better condition regarding the operational efficiency than NABIL.
- Debt-assets ratio appeared higher in NABIL as compared to that of NSBI, which suggests the more aggressive policy of the former in raising the capital. On the other hand leverage position of NSBI seemed less risky.
- As revealed by the leverage factors, both the banks have employed greater extent of debt in their capital structure. Comparatively, NABIL seemed more levered, i.e. more risky than the NSBI in this regard.
- Considerably higher interest coverage ratio in NABIL, revealed the better debt serving capacity of the bank. The ratio in NSBI also seemed satisfactory which is more than one.
- Provision for possible losses to loans and advances granted by the bank are inferior in contrast to NABIL.
- Average cash and bank balance to total deposit (excl.F.D) ratio of NABIL remained greater than that of NSBI. It indicates the better liquidity position of NABIL.
- Average fixed deposit to total deposit ratio appeared slightly higher in NABIL. Thus the bank can experience high profit by investing fund in long term loans. On the other hand NSBI can grasp the opportunity of less cost bearing fund in current assets so as to strengthen the liquidity position.
- NRB balance to current and saving deposit ratio remained sufficiently higher above the standard set by NRB. Comparatively it is greater in NABIL which indicates the better liquidity position than that of NSBI.
- Both the banks have maintained VRB balance to fixed deposit ratio above the standard prescribed by NRB. Mean ratio appeared comparatively higher in NABIL, that reveals the thicker safety margin against the F.D. That's why idleness of such high interest bearing deposit in such a great extent may have adversely affected the profitability of the NABIL.
- Income & expenditure analysis shows that interest remained dominant in total income and expenses of both the banks. More than three fourth of the income was occupied by interest. Commission and discount occupied second major

portion of income in both the banks. Regarding the expenses, in both the banks second proportion was placed by office operation expenses.

- Budgeted and actual income of NABIL and NSBI is found similar for maintaining budgeted and actual revenue. Both banks have higher actual revenue in all income year except 2015/16. The budgeted and actual figure of NSBI has seemed highly fluctuating than NABIL.
- In case of NABIL bank, there is highly fluctuation of budgeted and actual expenditure. However, budgeted figure is almost greater than actual figure in every income year except in the year 2011/12 and 2012/13. The figure of actual and budgeted shows that NABIL bank is able to maintain its budgeted and actual performance. Similarly, in the case of NSBI, actual expenditure is found higher than budgeted expenditure except in the year 2015/16. In the year 2015/16, NSBI has able to reduce its actual expenditure than budgeted expenditure.

## CHAPTER V

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Summary

Commercial banks are major financial institutions, which occupy quite an important place in the framework of every economy because they provide capital for the development of industry trade and business and other resources deflect sectors investing the saving collected as deposit commercial banks , by playing active role have changed the economic structure of the world. Commercial banks have its own role and contribution in the economic development; it maintains economic confidence of various segments and extends credit to people. The banking sector has to play developmental role to boost the economy by adopting the growth oriented investment policy and building up the financial structure for future economic development formulation of sound investment policies and planned effort pushed forward the force of economic growth.

The income and profit of the bank depends upon its lending procedure, lending policy and investment of its fund utilize in different securities. Commercial banks able to utilize its deposits properly i.e. providing loans and advances or lending for a profitable project, the reason behind it is lack of sound investment policy. The main objective of this study is to evaluate the profit planning policies adopted by NABIL&NSBI The study is totally based on secondary sources of data and required data have been collected by using various published and unpublished sources.

Actual history of banking system in Nepal begins with the establishment of NBL in 1994BS. There are 28 commercial banks have been operating in Nepal which are considered to be the population of the study and out of them two commercial banks i.e. NSBI& NABIL has been taken as a sample of the study and the collected data have been analyzed by using various financial tools have been applied.

#### 5.2 Conclusion

As per the objectives and analysis of the study, following conclusion have been drawn:

- i. The major techniques of profit planning are sound forecasting, adequate and planned accounting system, efficient organization with definite lines of responsibility, formation of budgeted committee, clearly defined business

policies, availability of statistical information, support of top management while forming profit planning, good reporting system and motivational approaches for employees. These techniques were strictly followed by both NABIL and NSBI while making profit planning and control.

- ii. Budgeted and actual income of NABIL and NSBI is found similar for maintaining budgeted and actual revenue. Higher budgeted revenue than actual revenue shows the poor performance of both banks at the end of study period. In the remaining four income year, both banks have sound performance in case of revenue collection. Higher revenue collection shows that there is sound performance of NABIL and NSBI than anticipated. In relation to actual and budgeted expenditure, NABIL bank is found able to maintain its budgeted and actual expenditure during the study period except two income year. But, NSBI is found somehow weak for maintaining budgeted expenditure since it has higher actual expenditure than budgeted expenditure. Hence, it can be said that, NABIL is stronger than NSBI regarding maintaining budgeted and actual expenditure.
- iii. With reference to two performing measures profitability position of NABIL seems better than NSBI. Marginal return to equity is satisfactory for NSBI & NABIL quite good. Regarding the operation efficiency measures NABIL has shown its better performance. Turnover of deposits assets and debt is better in NABIL but NSBI is successful in cost management. Both the banks have used higher proportion of debt in their capital structure over all capital structure of NABIL appears more levered than that of NSBI. Liquidity position of both of the banks seems satisfactory. After all this all liquidity position on NABIL is (slightly) stronger than that of NSBI. This shows NABIL is comparatively efficient to meet its immediate liabilities than NSBI.

### **5.3 Recommendations**

On the basis of the findings of the study, following recommendations can be drawn

- Profit should not be the one and only one goal of the commercial bank although it needs to be earned for survival (smooth running) and growth of any organization. The country has expected support and services from the financial sectors for the balanced economic development. So the banks are suggested to diversify their loans in priority and deprived sectors as more as possible by opening more rural branches.

- The banks are able to maintain their budgeted and actual income as well as budgeted and actual expenditure. But, there is lacking in 2015/16. Hence, the banks are suggested to prepare their profit planning as much as they can achieve it.
- About all the profitability ratios examined for study are less in NSBI than NABIL. It signifies the unsatisfactory profitability position of the NSBI than NABIL. So NABIL has a challenge to allocate its resources in income generation sector. It will better for both banks. Especially NABIL to open the branches in other cities and rural area in order to find profitable opportunities.
- Turnover of the fund raised from the outsiders appeared less satisfactory in NABIL. Investment portfolio followed by the banks may also be the reason for its lower profitability. That's why it is suggestive that it would be better to raise its investment portfolio for the better turnover.
- Greater portion of the income has been spent for personnel and office operation in NSBI. Regarding the cost effectiveness aspect it is suggested that the bank can minimize the office operation expenses by diagnosing the loopholes. It can also enhance the efficiency of the staffs through the use of capacity building programmers, seminars, trainings etc.
- The banks have remarkably higher portion of debt in their capital. Therefore they should be aware of the possible risk and impact upon their liquidity and profitability that may arise due to the slackness in the business activities. They should adopt precautions actions to check the risk factor in time.
- Debt serving capacity of NABIL appears poor as revealed by the lower interest coverage ratio than that of NSBI. NSBI has maintained the lesser provision for possible losses against loans and advanced. So, it is better to search for the profitable sectors for investment and utilization of the resources.
- Both the banks maintained NRB balance to deposit ratio considerably higher than the standard set by NRB balance yields no return. Loans and advance, bills purchase and discounted, money at call and short notice.
- Both the banks are suggested to raise their net worth to meet the directive of NRB that all CB must raise their paid up capital to (1000 million) rupees by (F.Y.2066/67). They could not meet the requirement in time by following the

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