

**ANALYSIS ON PROFIT PLANNING OF COMMERCIAL BANK IN
NEPAL**

**(With Reference to Everest Bank Limited, Nabil Bank Limited &
Himalayan Bank Limited)**

By:

BIJU NEPAL

Tribhuvan University

Campus Roll No. 406/061

T.U. Regd. No. 7-1-302-133-98

A Thesis Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

**In the Partial Fulfillment of the Requirement for the Master's
Degree in Business Studies (MBS)**

Kathmandu, Nepal

March, 2012

RECOMMENDATION

This is to certify that the thesis:

Submitted by

Biju Nepal

Entitled

ANALYSIS ON PROFIT PLANNING OF COMMERCIAL BANK IN NEPAL

**(With Reference to Everest Bank Limited, Nabil Bank Limited &
Himalayan Bank Limited)**

has been prepared as appeared by this department in the prescribed format of faculty of
Management. This thesis is forwarded for examination

.....
Lecture Achyut Gyawali
(Thesis Supervisor)

Prof. Dr. Balkrishna Shrestha
(Chairman of Research Committee)

Prof. Dr. Dev Raj Adhikari
(Head of Department)

Date:

VIVA-VOCE SHEET

We have conducted the viva voce examination of the thesis presented by

Biju Nepal

Entitled

ANALYSIS ON PROFIT PLANNING OF COMMERCIAL BANK IN NEPAL

(With Reference to Everest Bank Limited, Nabil Bank Limited &

Himalayan Bank Limited)

and found the thesis to be original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfilment of the requirement for

Master's Degree in Business Studies (M.B.S.)

Viva Voce Committee

Head of the Research Department

Member (Thesis Supervisor):

Member (External Expert):

Date:

DECLARATION

I hereby declare that the work reported in this thesis entitled “**Analysis on Profit Planning of Commercial Bank in Nepal (with reference to Everest Bank Limited, Nabil Bank Limited & Himalayan Bank limited)**” submitted to Tribhuvan University, is my original work done in the form of partial fulfilment of the requirements of the Master's Degree in Business Studies (MBS) under the supervision of my thesis supervisor Lecture. Achyut Gyawali, Central Department of Management, Tribhuvan University, Kathmandu.

Date:

.....

Biju Nepal

Researcher

Central Department of Management,
Tribhuvan University

ACKNOWLEDGEMENTS

The research work “Analysis on Profit Planning of Commercial Bank in Nepal (with reference to Everest Bank Limited, Nabil Bank Limited & Himalayan Bank limited) is a master degree thesis prepared to fulfill the partial requirement of the master of business studies (MBS). The main objective of this study is to evaluate the profit planning policies adopted by EBL, NABIL and HBL. I would take pleasure to extend my sincere gratitude to Prof. Dr. Dev Raj Adhikari head of the department and my thesis supervisor Achyut Gyawali Lecture of Tribhuvan University for his consistent readiness and guidance to go through in-depth vision and analysis of each topic. The ways he induced and motivated me always keep me in best compliance to my academic discipline.

My thanks go to account Officer of Everest Bank Limited, Nabil Bank Limited & Himalayan Bank limited for his assistance in collection of secondary data. Similarly, I express sincere gratitude to Senior Officers of Everest Bank Limited, Nabil Bank Limited & Himalayan Bank limited for their valuable information.

I am thankful to my family for their great support in each and every step of my life. Whose untiring support and inspiration excelled my work to achieve desirable objectives and complete the job in time. I cannot remain silent without thanking Bishal Nepal, Keshab, Dhruva, Shreed, Bishnu, Sarita, all for providing diligent effort to shape this task in the presentable form.

Many theories, statement and analysis are the results of a collection from various sources, such as newspapers, magazines, speakers and writers over the past time. Regardless of the source, I wish to express my gratitude to those who may have contributed to this work, even though anonymously.

Biju Nepal
Researcher

TABLE OF CONTENTS

| | |
|--|-------------|
| Recommendations | i |
| Viva Voce Sheet | ii |
| Declaration | iii |
| Acknowledgements | iv |
| Table of Contents | v |
| List of Tables | viii |
| List of Figure | ix |
| List of Abbreviations | x |
| CHAPTER 1: INTRODUCTION | 1-7 |
| 1.1 General Background | 1 |
| 1.2 Profile of sample banks. | 4 |
| 1.3 Statement of Problem | 4 |
| 1.4 Objectives of the Study | 5 |
| 1.5 Significances of the Study | 6 |
| 1.6 Limitation of the Study | 6 |
| 1.7 Organization of the Study | 6 |
| CHAPTER 2 REVIEW OF LITERATURE | 8-44 |
| 2.1 Conceptual Framework | 8 |
| 2.1.1 Concept of Profit Planning | 8 |
| 2.1.2 Concept of Profit | 9 |
| 2.1.3 Concept of Planning | 10 |
| 2.1.4 Types of Planning | 11 |
| 2.1.5 Rule of Forecasting in planning | 13 |
| 2.1.6 Planning Vs foresting | 13 |
| 2.1.7 Purpose of Profit Planning | 14 |
| 2.1.8 Long Range and Short Range Profit Plan | 14 |
| 2.1.9 Budgeting and Budget | 16 |
| 2.1.10 Budgeting; As a device of Profit plan | 16 |
| 2.1.11 Essential of an Effective Budgeting | 17 |
| 2.1.12 Fundamental of PPC | 19 |

| | | |
|---|--|--------------|
| 2.1.13 | Profit Planning and Control Process | 20 |
| 2.1.14 | Basic Assumptions and Limitations of Profit Plan | 24 |
| 2.1.15 | Development of Profit Plan | 24 |
| 2.1.16 | Resources Mobilization Plan or Budget | 25 |
| 2.1.17 | Resources Development Plan or Budget | 26 |
| 2.1.18 | Planning for Non-Funded Business Activities | 27 |
| 2.1.19 | Implementation of the Profit Plan | 29 |
| 2.1.20 | Performance Reports | 30 |
| 2.1.21 | Concepts of Commercial Banks | 32 |
| 2.1.22 | Evolution of Commercial Banks | 33 |
| 2.1.23 | Role of Commercial Banks in the Development of Economy | 36 |
| 2.2 | Review of Previous Studies | 36 |
| 2.3 | Research Gap | 43 |
| CHAPTER 3: RESEARCH METHODOLOGY | | 44-47 |
| 3.1 | Research Design | 44 |
| 3.2 | Population and Sample | 44 |
| 3.3 | Data Collection Procedures and Sources of Data | 44 |
| 3.4 | Research Variables | 45 |
| 3.5 | Analysis of Data | 45 |
| 3.6 | Financial Tools | 45 |
| 3.7 | Statistical Tools | 45 |
| 3.7.1 | Arithmetic Mean Average | 45 |
| 3.7.2 | Multiple Bar -Diagram and Graphs | 46 |
| 3.7.3 | Percentage | 46 |
| 3.7.4 | Co-efficient of Correlation (r) | 46 |
| 3.7.5 | Regression Analysis | 46 |
| 3.7.6 | Standard Deviation | 47 |
| 3.7.7 | Coefficient of Variation | 47 |
| CHAPTER 4: PRESENTATION AND ANALYSIS OF DATA | | 48-90 |
| 4.1 | Financial Analysis of Commercial Bank | 48 |
| 4.1.1 | Liquidity Ratio | 48 |
| 4.1.2 | Asset Management Ratio | 53 |

| | | |
|--|--------------------------------------|--------------|
| 4.1.3 | Profitability Ratio | 58 |
| 4.1.4 | Growth Ratio | 60 |
| 4.2 | Statistical tools | 64 |
| 4.2.1 | Trend Analysis | 64 |
| 4.2.2 | Co-efficient of Correlation Analysis | 70 |
| 4.2.3 | Test of Hypothesis | 75 |
| 4.2.4 | Regression Analysis | 84 |
| 4.3 | Major Findings of the Study | 86 |
| CHAPTER -V: SUMMARY, CONCLUSION AND RECOMMENDATIONS | | 91-94 |
| 5.1 | Summary | 91 |
| 5.2 | Conclusions | 92 |
| 5.3 | Recommendations | 93 |
| Bibliography | | 94-96 |
| <i>Appendix</i> | | |

LIST OF TABLES

| Table No. | Title | Page No. |
|------------------|--|-----------------|
| 4.1 : | Current Ratio | 48 |
| 4.2 : | Cash and Bank Balance to Deposit Ratio | 50 |
| 4.3 : | Cash and Bank Balance to Current Assets Ratio | 51 |
| 4.4 : | Loans and Advances to Current Assets Ratio | 52 |
| 4.5 : | Loans and Advances to Total Deposit Ratio | 53 |
| 4.6 : | Correlation between Deposits and Loan Advances | 54 |
| 4.7 : | Total Investment and Total Deposit Ratio | 55 |
| 4.8 : | Coefficient of Correlation between Deposit and Total Investment | 56 |
| 4.9 : | Return on Loan & Advances Ratio | 58 |
| 4.10 : | Return on Total Working Fund Ratio | 58 |
| 4.11 : | Growth Ratio of Total Deposit | 59 |
| 4.12 : | Growth Ratio of Loan and Advances | 60 |
| 4.13 : | Growth Ratio of Total Investment | 61 |
| 4.14 : | Growth Ratio of Total Net Profit | 62 |
| 4.15 : | Trend Value of Total Deposit | 64 |
| 4.16 : | Trend Values of Loan and Advances | 65 |
| 4.17 : | Trend Value of Total Investment | 67 |
| 4.18 : | Trend Value of Net Profit | 68 |
| 4.19 : | Coefficient of Correlation between Total Deposit and Loan and Advance | 69 |
| 4.20 : | Coefficient of Correlation between Deposit and Net Profit | 70 |
| 4.21 : | Coefficient of Correlation between Deposit & Interest earned | 71 |
| 4.22 : | Coefficient of Correlation between Loans and Advances & Interest Paid | 72 |
| 4.23 : | Coefficient of Correlation between Total working Fund & Net profit | 73 |
| 4.24 : | Hypothesis Test on Loans & Advances to Total Deposit Ratio | 74 |
| 4.25 : | Hypothesis Test on Total Investment to Total Deposit Ratio | 76 |
| 4.26 : | Hypothesis Test of Investment of Government Securities to Current Assets Ratio | 79 |
| 4.27 : | Hypothesis Test of Return on Loans & Advances Ratio to CA Ratio | 81 |
| 4.28 : | Simple Regression Analysis of Net Profit and Total working Fund Ratio | 84 |
| 4.29 : | Simple Regression Analysis of Net Profit & Total Deposit | 85 |

LIST OF FIGURES

| Figure No. | Title | Page No. |
|-------------------|--|-----------------|
| 4.1 | Loans & Advances to current assets ratio of EBL, NABIL & HBL | 52 |
| 4.2 | Total investment to total deposit ratio of EBL, NABIL & HBL | 56 |
| 4.3 | Growth ratio of total deposit | 60 |
| 4.4 | Growth ratio of loan & advances of EBL, NABIL & HBL | 61 |
| 4.5 | Growth ratio of total investment of EBL, NABIL & HBL | 62 |
| 4.6 | Growth ratio of total net profit of EBL, NABIL & HBL | 63 |
| 4.7 | Trend value of total deposit of EBL, NABIL & HBL | 65 |
| 4.8 | Trend value of loans & advances of EBL, NABIL & HBL | 66 |
| 4.9 | Trend value of total investment of EBL, NABIL & HBL | 67 |
| 4.10 | Trend value of net profit of EBL, NABIL & HBL | 69 |

LIST OF ABBREVIATION

| | |
|-------|----------------------------|
| CB | = Commercial Bank |
| CV | = Coefficient of Variation |
| EBL | = Everest Bank Limited |
| FY | = Fiscal Year |
| HBL | = Himalayan Bank Limited |
| JVBs | = Joint Venture Banks |
| NABIL | = Nabil Bank Limited |
| NO. | = Number |
| NRB | = Nepal Rastra Bank |
| OBS | = Off- Balance Sheet |
| PE | = Profitable Error |
| RBB | = Rastriya Banijya Bank |
| ROA | = Return on Asstes |
| Rs | = Rupees |
| S.D. | = Standard Deviation |
| T.U. | = Tribhuvan University |