

CHAPTER – ONE

1. INTRODUCTION (General Background)

1.1 Concept of Comprehensive Budgeting

There are various organizations and every organization is based on its defined objectives. There are mainly two types of organization. Firstly profit-oriented and secondly service-oriented. Most of the organizations were profit-oriented in past days, but now service oriented organizations are not apart from profit earning. This is because without profit no any organization can run in long run. Service organizations do not directly earn profit. Service organizations like banks, insurance companies are directly selling their services and earning revenues whereas organizations like social clubs are earning their revenues from aid, charities, contributions, donations etc.

Profit is the difference between revenue and expenditures i.e. Profit = revenues – Expenditures. More the positive difference more will be the profit. By the definition of the profit stated above, service oriented organizations are also earning profit because they too have revenues and expenditures. It is the reason that makes them run in the long run. If they had not earned profit, they all would have been collapsed within certain time period. Profit is the measuring tool of success in every organization. In modern day business, except in very small companies, it is impossible for the top managers to have knowledge, experience and competence of the all-relevant factors operating throughout a business.

Before we make an intelligent approach to managerial process of profit planning, it is important that we understand the management concept

of planning and budgets. Planning the process of developing enterprises objectives and selecting future courses of action to accomplish them. In other words, planning is the first essence of management and all other functions are performed with the framework of planning. Planning starts from forecasting and predetermined of future events.

The main objective of planning in business is to increase the chance of making profit. The budget is the primary planning operating document committed to performance. In this sense budget is also called a profit plan.

A budget is a numerical plan of action, which generally covers the areas of revenues and expenditures. The main aim of budgeting is to present the future forecasting numerically expressed in appropriate format so as to have proper control over profits and costs.

Profit Planning mechanism is being widely practiced in manufacturing industries but it is relatively new in non-manufacturing and service industries. However, this concept equally applies to any kind of business concern for the best utilization of the scarce resources and efficiently and effectively achieving its goals. Thus, Profit Planning is a crucial in any organization whether it is manufacturing, non-manufacturing, profit oriented or service oriented.

Comprehensive Budgeting or Profit Planning is one of the more important approach that is developed and used as a process design to facilitate management effectively perform significant phases of the planning and control function. The Profit Planning and Control model involves:

- ✓ Development and application of broad and long range objective
- ✓ Specification of enterprise-goals
- ✓ Development of long range profit planning

- ✓ Development of Tactical short-range profit plan
- ✓ Establishment of a system of periodic performance reports
- ✓ Development of follow-up procedures

According to Lynch Richard M. and Williamson Robert W., “Profit do not just happen, profits are managed.” The concepts and techniques of Profit Planning and Control have wide application in individual business enterprises, governmental units, charitable organization, and virtually all groups’ endeavors. So, definitely it has application in banks too.

The basic concepts of profit planning involves the activities which must be generally carried out to attain maximum usefulness from the mechanism, which starts right form design of budget upto implementations and obtaining feedbacks. As like in the other profit oriented business 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 has also remained as one of the vital parameter for measurement of the efficiency of these banks.

1.2 Nepalese Economy

Nepal is among the poorest and least developed countries in the world with 42% of its population living below the poverty line. Agriculture is the mainstay of the economy, providing a livelihood for over 80% of the population and accounting for 40% of GDP. Industrial activity mainly involves the processing of agricultural produce including jute, sugarcane, tobacco and grain.

The annual population growth rate is 2.24%, which is considered quite high. Only 20% of the people have the habit of savings. Thus, due to low saving there is lower investment. About 38% of people are

living below poverty line and according to World Bank, with the help of Central Bureau of Statistics, has stated that the poverty has declined by 11% during the last eight years, which means that the people living below poverty line currently is 31%.

Nepal has considerable scope for exploiting its potential in hydropower and tourism areas of recent foreign investment interest. Prospects for foreign trade or investment in other sectors will remain poor, however, because of the small size of the economy, its technological backwardness, its remoteness, its landlocked geographic location, its civil strife, and its susceptibility to natural disaster. The international community's role of funding more than 60% of Nepal's development budget and more than 28% of total budgetary expenditures will likely continue as a major ingredient of growth.

1.3 Commercial Banks in Nepal

A bank performs several financial, monetary and economic activities, which are very essential for economic development of any country. Broadly speaking bank collects surplus money from the people who are not using it at present and hoarding for future supplies loan those who are in the position to use it for productive purpose. Commercial banks are one of the vital aspects of this sector, which deals in the process of channelizing the available resources in the needed sectors. It is the intermediary between the deficit and the surplus of financial resources.

As financial intermediary, the commercial banks also play an important role as implementing body for central bank. The monetary structure involves analysis of the behavior of banking system. The variation in the size and composition of bank assets play important role in transmitting the influence of monetary policy to the economy. The composition of bank portfolio, such as, reserve investment and lending lead the money supply to vary.

In the country, the development of banking is relatively recent. The records of banking system in Nepal give detail account of mixture of slow and steady evolution in the financial and global economy of Nepalese life. Involvement of property owners, rich merchants, shopkeepers and other moneylenders has acted as fence to institutional credit in presence of unorganized money market. Though the establishment of banking industry was very recent, some crude bank operations were in practice even in ancient times.

The actual concept of banking system was introduced in Nepal with the establishment of Nepal Bank Limited in 1937 AD. The financial scenario has changed with introduction of joint venture banks in 1984. The domestic banks in Nepal, Nepal Bank limited and Rastriya Banijya Bank could no longer hold monopoly. The number of commercial banks has been increasing so is the investment volume and opportunity in various sectors that extends to agriculture, industry, commercial and social sectors. Some of the commercial banks in Nepal are, NABIL bank, Everest Bank, Bank of Kathmandu, Nepal Investment bank, Standard Chartered bank, Himalayan bank etc.

The Commercial Bank Act, 2031 B.S. of Nepal has stated, “A commercial bank means banks, which deals in exchanging currency, accepting deposits, giving loans and doing commercial transactions.”

Till the end of 2004 A.D., there are 2 commercial banks under government investment, 6 under foreign investment and the rest 9 banks under private sector investment that are operating in various parts of the country. Similarly, from the year 1994 to 2004 A.D. the number of branches has decreased from 441 to 366 with only 10 commercial banks at the end of 1994 A.D.

1.4 Brief Introduction of Nepal Bangladesh Bank

Nepal Bangladesh Bank was established in June 1994 with an authorized capital of Rs. 240 million and Paid-up capital of Rs. 60 million as a Joint venture Bank with IFIC Bank Ltd. of Bangladesh. Its head office is situated at New Baneshwore, Bijuli Bazar, Kathmandu with 16 other branches in and outside Kathmandu Valley.

The prime objective of this bank is to render banking services to the different sectors like industries, traders, businessmen, priority sector, small entrepreneurs and weaker section of the society and every other people who need banking Services. During the period of 10 years of its operation, it has accommodated a large number of clients and has been able to provide excellent services to its client. With a network of 17 branches and a corporate office, the Bank commands the largest network amongst the joint venture commercial banks in Nepal. The bank has introduced its ATM facility in Kathmandu Plaza, Putalisadak branch to give 24 hours 365 days banking services to their valued customers.

NBBL is providing full-fledged Commercial Banking to its clients. Besides accepting deposits in various forms, following facilities and services are made available by the bank: Consortium Finance, Working capital, Term Loan, Demand Loan, Hire Purchase Loan, Education Loan, Housing Loan, Trade finance, Letter of Credit, Bank Guarantee, Bills Purchase, Remittance services all over the world, locker facility, Tele-banking, ATM, ABBS (Any Branch Banking Service) facility, SMS Banking, Bearer Certificate of Deposit, Underwriting of Shares. It has also introduced free Accidental Insurance Scheme upto Rs 5 lacs and Medical Insurance benefits upto Rs.10 thousands to the individual Saving Account Holders.

Top exporters and importers of the country have established banking relationship with the bank with a substantial volume of foreign

business which has enhanced the Bank's popularity in the international Trade front. Bank has developed Agency and Correspondent relationship with more than 200 prominent Foreign Banks in the world. With the support of its customers, NBBL has made all round progress in every sphere of its operation. The bank has mobilized deposits to the extent of Rs. 12118.78 million and advanced to the extent of Rs. 10785.27 million as on Ashad end 2061 (13 Jan, 2005) (Bank's website: www.nbbl.com)

1.4.1 Activities of Nepal Bangladesh Bank

Thought the challenging situation appeared in Nation's Banking sector, the Bank has carried out following tasks during the period to enhance the satisfaction and trust of the customers through the expansion of its services & Facilities to the customer and for the overall development of the Bank.

- ✓ Branch expansion: considering the economic sluggishness of the country, the Bank had postponed the Branch expansion program for some period. But, after reassessment of the situation, the Bank had opened its two branches in Lalitpur and Dharan with full-fledged banking facilities in the current Fiscal Year. Moreover, the Bank has adopted a policy to go on expanding its branch network in future on priority and merit basis.
- ✓ Technology Expansion: The Bank is committed to fulfill demands and requirements of its customers. Considering this the Bank had already launched Automated Teller Machine (ATM) facilities through Putalisadak Branch and Lalitpur Branch. The bank is also planning to provide such facilities to its customers through New Road Branch and Main Branch very soon. For this purpose, the entire necessary infrastructure has been completed. Also, the first phase of ABBS (Any Branch Banking System) facility has already been started through the branches within Kathmandu valley.

- ✓ Consumer Banking: Considering the present competitive environment and to cater increasing customer needs, the Bank has given top priority to customer oriented services by providing prominent Banking Service to its valued client. Hence, the Bank has started consumer financing like 'Hire Purchase Loan', 'Education Loan' and 'Housing Loan' with minimum possible interest rate from the current fiscal year.
- ✓ Remittance Service: Taking into consideration the importance of remittance in the economy of the country, the Bank has established agency relationship with various foreign money transfer agencies like Xpress, EZ remit, ICICI Bank, First Remit & Krishi Premura for bringing inward remittances into the country.

1.5 Statement of the Problem:

Comprehensive Budgeting provides a tool for more effective supervision of individual operation and practical administration of a business as a whole. In our country, the institution is still in its infancy and therefore the concept of profit planning has not been familiarized in most of the business concerns.

No one can exactly say when the banking was started in Nepal. However, it is said that during the tenure of Prime Minister Ranodip Singh (1933-1942) Tejarath Adda was established and the institutional development of banking in Nepal was started thereafter. Modern banking was started in 1994 B.S. in Nepal as Nepal Bank Limited was established. Since then various banks were established, but the banking sector could not develop and could not provide the banking services as expected in these 67 years of long period. The banks are concentrated in big cities only.

Definitely, Nepal Bangladesh Bank has earned the glory of making available the services to almost all the top business houses of the

country and it occupies one of the leading positions among the Joint Venture Banks in Nepal. But still one cannot say NB Bank is using the sound comprehensive budgeting as no any research has been done yet. Success of any business enterprises is measured by surplus generating capacity, which is done thorough Comprehensive budgeting or Profit Planning. Contradiction to Comprehensive budgeting, financial performance of any enterprise in Nepal is quite dismal and is not able to contribute towards surplus generation. So the present study will try to analyze and to examine the practice of budgeting in the bank, which will be tested on the basis of Comprehensive Budgeting principle. Without profit planned no any organization can run in a right way to long run. Therefore every commercial enterprise should have systematic plan for profits in a manner that does not result in a loss. To access the above statements following information would be analyzed:

- ✓ Does NB Bank has appropriate Profit Planning System?
- ✓ Does the Bank mobilize the deposit and other resources at optimum cost?
- ✓ Does the Bank deploy the resources generating satisfactory yield?
- ✓ Is the Bank giving proper attention toward non-funding business activities thereby generating satisfactory amount of other income?
- ✓ What are the overall PPC problem of NB Bank and what suggestions can be recommended for their proper solution?

1.6 Objective of the study:

The objective of the study will be to study and to analyze the existing budgeting system of NBBL and to provide necessary recommendations on the same. Besides the main objectives, following are the other fields where efforts will be made to find out the answers.

- ✓ To highlight the current PP premises adopted and its effectiveness in NB Bank.

- ✓ To observe NB Bank's PP on the Basis of overall Managerial budgets developed by the bank.
- ✓ To analyze the variance of budgeted and actual achievements.
- ✓ To study the growth of the business of the bank over the period.
- ✓ To provide suggestion and recommendation for improvement of the overall profitability of the bank.

1.7 Limitations of the study:

Everything in this world has some limitation. No one can claim 100% perfection. Similarly, every research has some certain limitations and this research cannot be the exception. So it will have following limitation:

- ✓ The study will have resource and time constraints similar to every research that is conducted for the partial fulfillment of Masters OF business Studies. It will cover only seven years activities of the concerned bank (i.e. from 2000/01 to 2006/07), which will represent the whole activities of the bank.
- ✓ Only Profit Planning aspect of the bank has been analyzed, leaving other areas uncovered.
- ✓ The study will be based on secondary data only. The accuracy of this study is based on the data available from the management of NB bank, the various published documents of the bank.

1.8 Significance of the study:

This research study is concerned with the comprehensive budgeting of profit planning in Commercial Banks with the case study of Nepal Bangladesh bank, with the major objective of examining the proper applicability of profit planning system in the Bank.

Accomplishment of objectives in every organization depends upon the application of scarce resources most efficiently and effectively. Also, the financial performance of an organization depends purely on the

use of its resources. Budgeting is the key to productive financial planning. So, all the organizations running under commercial principle have to give regard to their most important single tools while managing their physical and financial targets. If the planning process of an organization is effective and result oriented, the tasks of development naturally steps forward. Comprehensive budgeting significantly contributes to improve the profitability as well as the overall financial performance of an organization by the help of the best utilization of resources.

This research study may be useful for those who want to know about the profit planning or comprehensive budgeting of Nepal Bangladesh Bank. It may also be helpful for future researches as a reference material.

1.9 Chapter Scheme:

The research is divided in five chapters, which are as follows:

The first chapter **Introduction** includes background of the study, general introduction about profit planning or comprehensive budgeting, brief about the Nepalese economy, Profile of Nepal Bangladesh Bank, statement of problems, objective of the study, significance of the study, limitations of the study and chapter scheme.

The second chapter, **Conceptual Framework and Review of Literature** deals with concepts of Comprehensive Budgeting (profit Planning) and banking, review of relevant texts from books, magazines, previous writing (if any) and review of journals, newsletter, website etc.

Research Methodology is the third chapter and it deals with research design, population and sample size, nature and source of data, data collection procedure, analytical tools and research hypothesis (if any).

The main part of the research is **Presentation and Analysis of Data**, which will be shown in fourth chapter. The data and graphs are interpreted in such a way so that the objectives of the study can be achieved.

Lastly, the fifth chapter includes **Summary, Conclusion and Recommendations**, which will show the success or failure of the research done.

Reference Books, Magazines, Newspapers, previous dissertations are shown under Bibliography.

CHAPTER -TWO

2. CONCEPTUAL FRAMEWOK AND REVIEW OF LITERATURE

Conceptual framework and review of literature is supported to review the eminent literatures relating to the study. Review of Literature refers to the analyzing, assessing, reevaluating and reexamining the previously written works. It means reviewing research studies or other relevant propositions in the related area of study so that all the past studies, their conclusions and deficiencies may be known and further research can be conducted. It is an integral and mandatory process in research work. It is a stock taking of available literature in the field of research. Thus, in the preparation of this thesis various books, articles, thesis etc. has been consulted and reviewed which are discussed below. This chapter is further divided into conceptual framework and review of related studies.

2.1 Conceptual Framework

2.1.1 Concept of Commercial Bank:

A bank is a most important financial institution, which accepts deposit from the public and in turn advances loans by creating credit. Therefore it should be differentiated from other financial institutions, as they cannot create credit though they accept deposit. According to US law, any institution offering deposits subject to withdrawal on demand and making loans of a commercial or business nature is a bank (Shakespeare Vaidya, 1999, Pg: 45).

Meaning of 'Bank' in Oxford Dictionary says 'an establishment for keeping money and valuable safely, the money being paid out on the customer's order (by means of cheques).' (Hornby, 1992, Pg: 299)

The Random House Dictionary of the English Language defines the bank as 'an institution for receiving money and, in some cases, issuing notes and transacting other financial business. (Stein & Undang, 1985; Pg 124)

In the opinion of Sayers, Banks are the institutions whose debts usually are referred to as deposit and are commonly acceptable in final settlement of other people's debt (Sayers, 1967, Pg: 67). He has taken the bank deposit as the debt owe by bank and that particular deposits can set off his liability with his creditor by the deposit in the Bank to the extent of his deposit amount.

The commercial banks are those banks that pool together the savings of the community and arrange for their productive use. They supply the financial needs of modern business by various means. They accept deposits from the public on the condition that they are repayable on demand or on short notice. Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short-term needs of trade and industry such as working capital financing. They cannot finance in fixed assets. They grant loans in the form of cash credits and overdrafts. Apart from financing, they also render services like collection of bills and cheques, safe keeping of valuables, financial advising, etc. to their customers.

The Commercial Bank Act 2031, under which commercial banks in Nepal are established and operated, has defined Commercial Bank as a bank which exchanges money, accepts deposit, advances loans, and performs other commercial transactions and which is not specifically established with the objectives of co-operative, agriculture, industrial or any other of such kind of specified purpose. (Commercial Bank Act 2031)

The Act has defined the commercial bank on the basis of its objectives and activities. Referring to the act, a commercial bank:

- ✓ Should not be established with a specified objective of co-operative, agricultural, industrial or any of such kind of specific purpose.
- ✓ Should accept customer deposit
- ✓ Should advance loans and make investments
- ✓ Perform commercial transactions.

The same Act has provided for the modalities of establishing a commercial bank, as per which, a commercial bank can be established under the Company Act as a limited liability company only with the recommendations of Nepal Rastra Bank, the Central Bank of Nepal (Commercial Bank, 2031).

From the various definitions and opinion produced regarding commercial banking, we can conclude that a commercial bank is set up to collect scattered funds and employ them to productive sector of economy.

2.1.2 Evolution of Commercial Bank

The evolution of banking industry had started a long time back, during ancient times. There were references to the activities of moneychangers in the Temple of Jerusalem in New Testament. In ancient Greece, the famous temples of Delphi and Olympia served as the great depositories for peoples' surplus funds and these were the centers of money lending transactions. Indeed, the traces of "rudimentary banking" were found in the Chaldean, Egyptian and Phoenician history. As early as 2000 B.C. Babylonians had developed a system of banks. The development of banking in ancient Rome roughly followed the Greek pattern. The fall of the Roman Empire after the death of Emperor Justinian in 565 A.D. led banking to oblivion and it was not until the revival of the trade and commerce in the

Middle Ages that the lessons of finance were learnt a new from the beginning. Money lending in the Middle Ages was confined to the Jews since the Christians were forbidden by the Canon Law to indulge in the sinful act of lending money to others on interest. However, as the hold of the Church loosened, with the development of trade and commerce around the thirteenth century, even Christians took the lucrative business of money lending, thereby entering into keen competition with the Jews who had hitherto monopolized the business.

As a public enterprise, banking made its first appearance around the middle of the twelfth century in medieval Italy. Bank of Venice, founded in 1157 A.D. was the first bank. The basic reason for the establishment of this bank was to finance the war and to pay the public debts. Similarly, Bank of Barcelona and Bank of Genoa was established in 1401 and 1407 A.D. respectively. The Bank of Venice and the Bank of Genoa continued to operate until the end of eighteenth century. In 1609 and 1694 A.D., Bank of Amsterdam and Bank of England were established. The Bank of England is also known as the “father of commercial banks.” It was in 1770 A.D. in India that the Bank of Hindustan was established by the East India Company. In Nepal, Nepal Bank Limited is the first bank established in 1937A.D.

Therefore, history tells us that it was merchant banker who first evolved the system of banking by trading commodities than money for which they required remittance of money from one place to another for which they issued different documents called draft or hundis in modern days. Another group that had a significant role in the development of banking was the goldsmiths, who performed two functions: accepting deposits and advancing loans. Hence, modern banking has three ancestors: merchant, moneylenders and goldsmiths. Even though, Bank of England was established in 1694 A.D., modern banking is said to have been developed only after the

Banking Act of 1833 A.D. provided freedom for the establishments of joint stock banks.

In Nepal although the monetary history dates back to first century (Lichhavi Dynasty), the Banking history is comparatively very short. The development of organized banking has started in Nepal only from around the starting of 20th century of Bikram Sambat. Nepal Bank Limited, established in B.S. 1994 with an authorized capital of Rs. 1 crore and paid up capital of Rs. 8 lakh 42 thousand is the first organized bank established in Nepal (NRB,2045).

Although during the Prime Minister-ship of Rana minister Ranodip Singh, an office called 'Tejarath Adda' was established for granting loans to government officials and also to the general public against the security of gold, silver and other valuables, it could not be considered as Bank in real sense as it did not collect deposit. Later after establishment of Nepal Bank, the functions of 'Tejarath Adda' were limited upto providing loans to government officials only (NRB, 2045)

Banking development in Nepal found another break through after establishment of Nepal Rastra Bank, the central bank of Nepal in 2013 B.S. (NRB, 2045), this has helped organizing the monetary system in the country before which the dual currency system (Indian and Nepalese currency) were the prevailing in the system. Larger sector of economy was non monetary.

In the course of organized development of banking sector, second commercial bank, Rastriya Banijya Bank was established in 2022 B.S. at the state ownership (NRB,2045)

Later on, in F/Y 2039/040, the policy for allowing establishment of foreign joint venture banks was taken with an aim of having fair competition and skill development in banking sector, which had added

a new dimension in development of banking in Nepal. Accordingly, Nepal Arab Bank Ltd. (presently named as Nabil Bank) has been established as the first joint venture bank in Nepal in 2041 B.S. (NRB, 2045)

Similarly, in the year 2042 second joint venture bank, Nepal Indosuez Bank (currently known as Nepal Investment Bank) and in the year 2043 B.S. third joint venture bank, Nepal Grindlays Bank (currently known as Standard Chartered Bank) were established (NRB, 2045)

Afterward, more and more commercial banks viz. Himalayan Bank, Nepal SBI Bank, Nepal Bangladesh Bank, Everest Bank, Bank of Kathmandu, Kumari Bank, Laxmi Bank, Siddhartha Bank etc. were opened in joint venture and private sectors in Nepal which had contributed a lot to bring the commercial banking at present day position.

2.1.3 Functions of Commercial Banks:

Generally, commercial banks have the two most essential functions i.e. borrowing and lending of money. They borrow money on various kinds of deposits: current, savings and fixed. Under current deposits, the banker incurs the obligations of paying legal tender on demand, while on fixed deposits the banker incurs the obligation of paying legal tender after the expiry of a fixed period or to pay the customer an agreed rate of interest on it in return for the right to demand from him on agreed period of notice for withdrawal.

“The American Institute of Banking has laid down four major functions of commercial banks such as receiving and handling of deposits, handling payments of its clients, making loans and investments and creating money by extension of credit.” (American Institute of Banking, 1971, Pg: 19)

Thus, a commercial bank mobilizes the savings of the society through current or fixed deposit account. It then provides this money to those who are in need of it by granting overdrafts or fixed loans or by discounting bills of exchange or promissory notes. Hence, the primary function of a commercial bank is that of a broker and a dealer in money. Apart from this, it performs a profusion of functions, which is grouped under two distinct categories namely, the agency services and the general utility services.

- **Agency Services:** Commercial banks provide a wide range of investment services. Customers can arrange for dividends to be sent to their bank and paid directly to their bank accounts. The banks' brokers will also purchase or sell stocks on behalf of their customers and provides opinions on securities or list of securities. Similarly, the bank will also send application for allotments of shares and obtain share certificates and other documents.

The bank also provides services like payments of rent, electricity, telephone charges, subscriptions, collection of cheques, bills, promissory notes etc. It in-fact, acts as a correspondent or representative of its customers, business organization, financial companies and other banks. Most of these banks have an executor and trustee department with which various companies may have affiliation. Thus, they provide a complete range of trustee, executor or advisory services for a small charge.

- **General Utility Services:** Under this, the banker does not act as an agent for his customers; rather they provide services like issue of credit instruments like L.C. and travelers' cheques, acceptance of bills of exchange, safe custody of valuables and documents, transactions of foreign exchange business. It also

acts as a referee as to the respectability and financial standings of customers and provide specialized advisory services to its clients. Some banks even have budget accounts for credit worthy customers. The bank guarantees, for a specific charge, a certain type of annual bills (e.g. Fuel bills, rates etc.) promptly as they become due, whilst repayments are spread over a 12 monthly period from the customer's current account.

- **Overseas Trading Services:** Due to growing trend of international trade, commercial banks have set up branches specializing in the finance of foreign trade in different countries. These banks provide a comprehensive network of services for foreign banking services through its subsidiary. They help in the settlement of debts between traders both at home and abroad for the goods they buy and sell. They also provide credit and enable the company to release the capital, which would otherwise be tied up in the goods exported.
- **Information and Other Services:** In present scenario, information plays a crucial role in the upliftment of the economy. Banks, one of the major sources of information on overseas trade, assists by providing regular bulletin on trade and economic conditions, special reports on commodities and markets, price and interest level fluctuation, rate of poverty and economic growth etc. On request, banks obtain confidential opinions on financial aspects of the firm, companies or individuals for its clients. They also provide legal information for the formation of company, tax requirements, exchange control, insurance and help to establish contact with local banking organization.

For this reason, it is not worthwhile to state that the services rendered by modern commercial banks are of inestimable value. It is the very

essence of advanced economic society. In the word of Walter Leaf, “The banker is the universal arbiter of the world’s economy.”

2.1.4 Concept of Comprehensive Budgeting or Profit

Planning and Control

Comprehensive profit planning and control is viewed as a process designed to help management effectively perform significant phases of the planning and control functions. A systematic approach for attaining effective management performance is profit planning or budgeting. Profit planning or budgeting is an integral part of management.

Comprehensive profit planning and control is defined as a systematic and formalized approach for reforming significant phases of the management planning and control functions. Specifically, it involves:

- (1) the development and application of broad and long term objectives for the enterprise;
- (2) the specification of enterprise goal;
- (3) a long range profit plan developed in broad terms;
- (4) a short range profit plan detailed by assigned responsibilities (divisions, products, projects)
- (5) a system of periodic performance reports detailed by assigned responsibilities; and
- (6) follow-up activities

A budget is a comprehensive and co-ordinated plan, expressed in financial term, for the operations and resources of an enterprise for some specific period of future. (Fregmen, James M, 1973 Pg: 144)

A budget is a plan that outlines an organization’s financial and operational goals. So a budget may be thought as an action plan; planning a budget helps a business allocate resources, evaluate performance and formulate plans.

More specifically, 'a comprehensive profit planning and controlling or budgeting is a systematic and formalized approach for stating and communicating the firms expectations and accomplishing the planning, co-ordination and control responsibilities of management in such a way as to maximize the use of given resources.' (Pande, I.M., 1992, Pg: 241). 'It is a management technique; in fact it is a way of managing. It is the only comprehensive approach to managing so far developed that, if utilized with sophistication and good judgments, fully recognizes the dominant role of the manager and provides a framework for implementing such fundamental aspects of scientific management as management by objectives, effective communication, participative management, dynamic control continues feedback, responsibility accounting, management by exception and managerial flexibility.' (Welsch,G., 1976, Pg:3)

2.1.5 Components of Comprehensive Profit Planning and Control:

Profit:

There are several interpretations of profit. Different people have different perception for the concept of Profit. However, profit is the ultimate goal of every business house. Using the accountant's measuring stick, management thinks of profit as:

- (a) A tangible expression of the goals it has set for the firm;
- (b) A measure of the performance toward the achievement of its goals;
- (c) A means of maintaining the health, growth, and community of the company.

(Lynch, R.M.; Williamson, R.W., 1984, Pg. 100)

Usually, profits do not just happen. It should be managed well with better managerial skills. So profit is the planned and controlled output

of management. By element, profit is the difference of revenue and cost. The amount of the excess of total sales revenue over the total costs of production of the good(s) and service(s) produced by a business firm is profit.

Two types of profit are broadly used in Comprehensive Budgeting, viz. Long-range profit and short-range profit also called strategic and tactical profit respectively. The strategic profit plan is broad and it usually encompasses three or more years in the future. The tactical profit plan is detailed and encompasses on one-year time horizon the upcoming year. The development of strategic and tactical profit plans each year is a process that involves managerial decisions and ideally a high level of management participation.

Planning:

The process of setting goals, developing strategies and outlining tasks and schedules to accomplish goals is planning. Planning is essential to accomplish goals. It reduces uncertainty and provides direction to the employees by determining the course of action in advance. Budgeting compels management to plan in a comprehensive and coherent way. It is essentially a formalized planning of management's intended action and desired result. Formalized planning indicates the responsibility of management and provides an alternative to groping without direction. It should be realized that budgeting is not merely forecasting, although forecasts form the basis of budgeting. Forecasting is the estimate of the future environment within which the company will operate. Budgeting or planning, on the other hand, involves the determination of what should be done, how the goals may be reached, and what individuals or units are to assume responsibility and be held accountable. (Grace, C.E., 1964, Pg: 102) Budgets provide an orderly way to proceed to attain goals and also provided a time schedule for future actions to produce measurable results.

'Planning is the process of determining the basic objectives of an organization and deciding the strategic and policies to achieve these objectives. It is the formulation of future direction aimed at relation the strategic advantage of a company to cope up with its environment. It is concern with appraising the environment in relation to the company, identifying the strategic to obtain sanction for one of the alternatives. Therefore it is the framework within which future activities of the organization are expected to be carried out.' (Dhurba Kumar Gautam, 2004, Pg:13)

Management planning and control begins with the establishment of the fundamental objectives of the organization and continues as the process by which necessary resources are provided and employed effectively and efficiently towards the achievement of goals. Planning is essential to accomplish goals. It reduces uncertainty and provides direction to the employees by determining the course of action in advance.

Planning is a continuous process. Business conditions do not remain static; they change rapidly and, therefore, plans should be revised and reformulated to adapt to the changed conditions. Planning may be formal or informal. A reasonable balance should be struck between formal and informal planning. The planning process involves the following four fundamental steps:

1. Establishing objectives
2. Determining short-range objectives or operational goals
3. Developing strategies, and
4. Formulating budgets or profit plans.

(I.M. Pandey, 1992, Pg: 7-8)

'All Effective planning involve the same basic elements, which may be summarized as follows:

1. A clear definition of the objectives.
2. An analysis of the steps required for attaining the objectives.
3. Examination of risks involved and an assent of the allowances necessary to cover uncertainties.
4. Calculation of the total time and cost involved.
5. Consideration of the alternative method of reaching the objectives.
6. Decision on the method to be implemented.
7. Establishment of time schedule for individual part of the agreed plan, i.e. relative to calendar time scale.'

So we can conclude, planning is a statement of what should be done, how it should be done and when it should be done. (I.M. Pandey, 1992, Pg. 7)

Control:

'Control is the fifth and last function in the management process. As with planning, controlling is performed continuously. Therefore, there are control processes that should always be operating in an enterprise. Controlling can be defined as a process of measuring and evaluating actual performance of each organizational component of an enterprise, and initiating corrective action when necessary to ensure efficient accomplishment of enterprise objectives, goals, policies and standards. Planning establishes the objectives, goals, policies and standards of an enterprise.' (G.A. Welsch, R.W. Hilton, P.N. Gordon, 2000, Pg: 15)

Control follows planning. It is the process to ensure that plans are being attained. It is a feedback system. It tells how effectively and efficiently objectives, goals and plans can are accomplished, what

went wrong and what can be done to assure adherence to planned activities in future. Control implies measurement and evaluation of performance. The principle steps involved in the control functions are: (a) comparison of actual performance against predetermined budget and standards; (b) an analysis of the variances from budgets and standards in order to determine the underlying causes; (c) initiation of an action that may correct the deficiencies indicated; (iv) follow-up to appraise the effectiveness of the corrective action and (v) the feedback of the information to the planning process to improve future planning and control activities. (I.M. Pandey, 1992, Pg: 9)

Joseph L. Massie has defined, “Control is the process that measures current performance and guide it towards some predetermined goals.”

Likewise, Prof. Theo Haimann, “Control is the process of checking to determine whether or not plans are being adhered to, whether or not proper progress is being made towards the objectives and goals and acting, if necessary, to correct deviation.”

Similarly, Stephen P. Robbins defined, “Control can be defined as the process of monitoring activities to determine whether individual units and the organization itself are obtaining and utilizing their resources effectively and efficiently so as to accomplish their objectives and where they are not being achieved, implementing corrective action.”

Thus, Control is the process, measure and evaluated the work performance according to the plan.

2.1.6 Budgetary Control

2.1.6.1 Meaning of Budgeting and Budget

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

the business. 'A budget is a comprehensive, formal plan that estimates the probable expenditures and income for an organization over a specific period. Budgeting describes the overall process of preparing and using a budget. Since budgets are such valuable tools for planning and control of finances, budgeting affects nearly every type of organization—from governments and large corporations to small businesses—as well as families and individuals. A small business generally engages in budgeting to determine the most efficient and effective strategies for making money and expanding its asset base. Budgeting can help a company use its limited financial and human resources in a manner, which best exploit existing business opportunities.

'A budget is a comprehensive and coordinated plan, expressed in financial terms, for the operations and resources of an enterprise for some specific period in future' (I.M. Pandey, 1992, Pg. 240)

A budget is a forecast, in detail, of the results of and officially reorganized programmed of operations based on the highest reasonable expected operating efficiency. The major purposes of budgets or budgeting are:

- ✓ To state the firm's expectations (goals) in clear, formal terms to avoid confusion and to facilitate their attainability.
- ✓ To communicate expectations to all concerned with the management of the firm so that they are understood, supported and implemented.
- ✓ To provide a detailed 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 a way that the use of resources is maximized.

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

2.1.6.2 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. G.A. Welsch in his book “Budgeting Profit Planning and Control has rightly pointed out budgeting as a principle tool of planning and control offered to management by accounting functions. John G. Clover and Coleman L. Maze have expressed a similar view. In their opinion, the prime objective of budgeting is to assist in systematic planning and in controlling the operations of the enterprise. In fact, budgeting is best sources of communication and an important tool in the hands of 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 goal and support them to coordinate their efforts to attain them.

Budgeting is device of planning and control that serves as a guide to conduct operations 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 conditioned. Company controls operations through its budgeting and responsibility reporting system. Top executive are able to control every area of the organization through a system of budgetary planning and control reporting by responsibility area.

Budgets are important tool of profit planning. The main objectives of budgeting are:

- ✓ Explicit statement of expectations
- ✓ Communication

- ✓ Coordination
- ✓ Expectation as a framework for judging performance

2.1.6.3 Essentials of budgeting

An effective budgeting system should have some essential feature to ensure best results. The following are the main characteristics or essentials of an effective budgeting:

- ✓ **Top management support:** The support for top management for the budgeting system implies that it is confident about its capability to plan the future course of action and run the enterprise successfully. Top management should not only have a positive attitude towards budgeting but should also devote necessary time and resources to the preparation and implementation of budgets.
- ✓ **Clear and realistic goals:** Budgeting is a means to achieve goals and objectives. All planning presupposes that objectives and goals have been clearly and unambiguously established. Budgeting will not succeed if the goals to be achieved are not clear; budget implementation will not be successful.
- ✓ **Assignment of authority and responsibility:** A sound organizational structure is essential for the success of the budgetary system. Authorities and responsibilities of each manager should clearly be identified and established. A sound organizational structure and a clear-cut assignment of authorities and responsibilities provide an effective means to achieve the enterprise objectives and budget goals in a coordinated and efficient manner.
- ✓ **Creation of responsibility centers:** The sub-units of an enterprise for the purpose of control are called responsibility centers or decision centers. A responsibility center is a sub-unit of an organization under the control of a manager who has the responsibility for the activities of that responsibility center. For planning and control process, responsibility centers are usually

classified into three classes: cost centers, profit centers and investment centers.

A cost center is a responsibility center where the manager is responsible only for costs/expenses incurred in the sub-unit. A profit center also known as a contribution margin center, is a responsibility center where manager is responsible for both costs and revenues and thus, for profit (or contribution margin). A profit center provides more effective assessment of performance as both costs and revenues are measured in financial terms. A profit center is more relevant for profit planning and control as it allows the measurement of both output and input units of the center. An investment center, on the other hand, is a responsibility center where the manager is responsible for costs and revenues as well as for the investment in assets used by the center.

The creation of responsibility center- cost, profit and investment- is essential for successfully implementing plans (budgets), attaining objectives and accomplishing control. A budgetary system should be tailored to the organizational subunits- the responsibility centers.

- ✓ **Adaptation of the accounting system:** The accounting system catering only to the needs of external use is not adequate for the purpose of profit planning and control and internal management. Budgeting is based on the data generated by the accounting system. Control of performance involves the comparison of actual performance with the planned performance. Therefore, the accounting system should be suitably adapted to facilitate the planning and control process; it should be structured around the areas of responsibility.
- ✓ **Full participation:** full participation of managers and their subordinates at all levels should be sought in developing the

budgeting system. The participation should be meaningful and real. If employees have effectively participated in developing the budget goals and targets, they will make special efforts to see that the budgeting process succeeds. A meaningful participation creates a positive motivation.

- ✓ **Effective communication:** a sound budgeting system requires effective communication of enterprise objectives and budget goals and means of implementing budgets through the organization so that a unified effort may be directed to accomplish those objectives and goals. Budgeting is a formal way of communicating plans, objectives and budget goals to various responsibility centers. It brings the harmony of understanding between managers and their subordinates.
- ✓ **Budget education:** all levels of management should be convinced about the usefulness of budgets, understand the nature and characteristics of budgets, and know the role which they have to play in profit planning and control. In fact, for the success of budgeting, everyone in the enterprise should have confidence in the budgeting system and should be involved and committed to it. Whatever be the methodology, the basic point to be emphasized is that there should be proper system of educating employees about various facets of budgeting to have a better involvement, commitment and participation.
- ✓ **Flexibility:** The budgeting system should be flexible enough to take advantage of all opportunities that arise from time to time and are not covered by the budget. Inflexibility impairs the initiative and freedom of managers and subordinates in making decisions. A flexible and comprehensive budgeting permits management to readjust plans when a new situation arises.

2.1.6.4 Advantages of Budgeting:

Budgeting is a management tool. It is a way of managing. Many benefits are derived from budgeting, although it is a means not an end

in itself. Budgeting is a feed-forward process; it makes an evaluation of the variables likely to affect future operations of the enterprise. It predicts future with reasonable precision and removes uncertainty to a greater extent. The following are some of the more significant advantages of budgeting:

- ✓ Budgeting compels management to plan for future. The budgeting process forces management to look ahead and become more effective and efficient in administering the business operations. It instills into managers the habit of evaluating carefully their problems and related variables before making any decisions.
- ✓ Budgeting helps to coordinate, integrate and balance the efforts of various departments in the light of the overall objectives of the enterprise. This results in goal congruency and harmony among the departments.
- ✓ Budgeting facilitates control by providing definite expectations in the planning phase that can be used as a frame of reference for judging the subsequent performances. Undoubtedly, budgeted performance is a more relevant standard for comparison than past performance, since past performance is based on historical factors, which are constantly changing.
- ✓ Budgeting improves the quality of communication. The enterprise objectives, budget goals, plans, authority and responsibility and procedures to implement plans are clearly written and communicated through budgets to all individuals in the enterprise. This results in better understanding and harmonious relations among managers and subordinates
- ✓ Budgeting helps to optimize the use of the firm's resources-capital and human; it aids in directing the total efforts of the firm into the most profitable channels.
- ✓ Budgeting increases the morale and thus, the productivity of the employees by seeking their meaningful participation in the formulation of plans and policies, bringing a harmony between

individual goals and the enterprise objectives and by providing incentives to perform more effectively.

- ✓ Budgeting develops an atmosphere of profit-mindedness and cost-consciousness.
- ✓ Budgeting permits to focus management attention on significant matters through budgetary reports; thus, it facilitates management by exception and thereby saves management time and energy considerably.
- ✓ Budgeting measures efficiency, permits management self-evaluation and indicates the progress in attaining the enterprise objectives.

2.1.6.5 Problems and Dangers of budgeting

Budgeting is a systematic approach to the solution of problems. But it is not fool proof; it suffers from certain problems and limitations. The major problems in developing a budgeting system are:

- ✓ Seeking the support and involvement of all levels of management.
- ✓ Developing meaningful forecasts and plans, especially the sales plan.
- ✓ Educating all individuals to be involved in the budgeting process and gaining their full participation.
- ✓ Establishing realistic objectives, policies, procedures and standards of desired performance
- ✓ Applying the budgeting system in a flexible manner.
- ✓ Maintaining effective follow-up procedures and adapting the budgeting system whenever the circumstances change.

Management must consider the following limitations are using the budgeting system as a device to solve managerial problems:

- ✓ Budgeting is not an exact science; its success hinges upon the precision of estimates. Estimates are based on facts and managerial judgment. Managerial judgment can suffer from

subjectivism and personal biases. The adequacy of budgeting, thus, depends upon the adequacy of managerial judgment.

- ✓ The installation of a perfect system of budgeting is not possible in a short period. Business conditions change rapidly; therefore, budgeting program should be continuously adapted. Budgeting has to be a continuous exercise; it is a dynamic processes. Management should not lose patience; they should go on trying various techniques and procedures in developing and using the budgeting system. Ultimately, they will achieve the success and reap the benefits of budgeting.
- ✓ A skillfully prepared budgetary program will not itself improve the management of an enterprise unless it is properly implemented. For the success of the budgetary program, it is essential that all, and that the managers understand it and subordinates put concerted effort for accomplishing the budget goals. Everyone in the enterprise must have full involvement in the preparation and execution of budgets, otherwise budgeting will not be effective.
- ✓ Budgeting is a management tool-a way of managing; not the management. To get the best results of managing, management should use budgeting with intelligence and foresight, along with other managerial techniques. Budgeting assists management; it cannot replace management.
- ✓ Budgeting will be ineffective and expensive if it is unnecessarily detailed and complicated. A budget should be precise in format and simple to understand; it should be flexible, not rigid in application.
- ✓ The purpose of budgeting will be defeated if carelessly set budget goals conflict with enterprise objectives. This confuses means with the end results. Budget goals are the definite targets to achieve the overall enterprise objectives. They must be in harmony with enterprise aims.

- ✓ Budgeting will hide inefficiencies instead of revealing them if a proper evaluation system lacks. There should be continuous evaluation of the actual performances. Standards also should be re-examined regularly.
- ✓ Budgeting will lower morale and productivity if unrealistic targets are set and if it is used as a pressure tactic. To some extent budgeting may be used as a pressure device, but its extent must be carefully determined.

2.1.7 The Fundamentals of Financial Planning and Control

The fundamental concepts of financial planning and control include the underlying activities or tasks that that must be generally be carried out to attain maximum usefulness from FPC. These fundamentals have never been fully codified. 'Basically, comprehensive profit planning and control offers a systematic, practical and proven approach to the management process properly view, profit planning and control is a comprehensive system to coordinate all aspects of the management process, Carefully knitting together the loose end of management and operations. This all inclusive concept of profit planning and control process is frequently minimized or completely overlooked in much of the literature and discussion the subject.' (Glean A. Welsch, 1986, Pg: 29)

'Some of the important fundamentals of Financial Planning and control are described as follows:

2.1.7.1 Managerial Involvement and Commitment

Managerial support, confidence, participation and performance orientation includes managerial involvement. All level of management especially top-level management should engage itself to comprehensive profit planning and control.

Involvement in profit planning and control means to understand to select, to devote our self, to support by all its departments and to evaluate the performance of the profit planning and control. For profit planning and control the direction should come from top and the implementation level should follow it in too. The most difficult task for the financial executive is not only to prepare budget but also to sell it to the chief executive who himself initiates, prepares and implement the comprehensive profit planning program.

Managerial involvement on comprehensive profit planning and control program is directly related to the confidence of management and its known ability to influence the future program and convincement with the idea of setting goal in advance. Managerial involvement also deals with the idea of direct participation of the lower staff on the program. But one should not forget the fact that the ultimate decision should come from the top management and the idea of “protect own self” should be totally controlled.

Modern concept of comprehensive profit planning and control program or budgeting believes on “performance expectation” rather than on “fiscal expectation”. Because modern business believes on the principle of attaining set objectives or goals rather than earning short run more profit.

2.7.1.2 Organizational Adaptation

A success of the profit planning and control program is based upon the organizational structure and also on a clear-cut designation of the lines of authority and responsibilities of all the department of enterprise. The responsibility of or the obligation of each departmental manager should be well clarified. Sometimes indirect relationship of responsibility also plays great role in an organization. So, it is

advisable to clarify well co-ordinate all round responsibility and authority of and between the departments.

For easy and effective control some time the organizational structure are divided into different functional sub-units, and sub-unit are known as decision centers or responsibility centers. Sometimes these responsibility centers are use to be in form of a division or department or a sales district. But in most of the cases these centers are use to be a functional; are like: a) cost centre which is only responsible for controllable costs investment, b) profit center: which is the responsibility centre responsible for cost and revenue, profit and amount of investment invested an assets (return on investment).

Apart from functional sub-division, organizational structure sometimes refers to assignment of management authority and responsibility also. What ever may be the nature or sense of that, no organizational structure can be taken as an ends in itself but it should always be treated as means or tools to attain the goal. So, to attain the set goal or objective of comprehensive profit plan and control and control program organizational set up must be favorable in nature and all the functional sub-units have to participate actively.

Based upon the set organizational structure the annual plans and program are prepared. To prepare the plan or set objectives: i) Top management should furnish the information about the objectives, planning assumption to the managers of all functional sub-units. ii) Based upon the information furnished to them each sub-unit prepares the annual plan followed by sales and submitted by the sub-units, higher management prepares master plan for the enterprise as a whole which will know as profit plan or master plan.

In conclusion organizational involvement includes:-

- a) Delegation of authority and responsibility to each functional sub-unit.
- b) Sub divides the whole organization into different functional sub-units.
- c) Each sub-unit should prepare its own annual or periodic plan.
- d) Based upon plan prepared by sub-units a master plan is to be prepared by higher management.

2.7.1.3 Responsibility Accounting

Planning is done with the help of the historical data supplied by accounting section and comparing actual data with projected or planned data does control. So, for this reason accounting system of any enterprise should be around the responsibility structure of organization or around functional sub-unites. This is called responsibility accounting.

For responsibility accounting system one should have to define responsibilities of the various divisions, then the relevant parameters of the cost, revenue and other financial data should be utilized for preparing plan.

At its origin, cost accounting was giving emphasis only on costing of goods produced. But nowadays situation has changed and it is given more emphasis on cost planning them only to costing. This changed in priority is based upon the responsibility accounting principle and principle of product cost has been given secondary importance. At first cost data generated from historical cost accounting are used for cost planning and control purpose then same cost data are used for costing purpose.

If the parameter of cost revenue used for planning purpose are not used in accounting system or are not used for costing purpose, valuation of the result by comparing it with planned goal will not be effective. So, for evaluation purpose each of the responsibility centers has to prepare chart accounting parameters to be used for planning purpose and have to supply it with full instruction to respective unit. Then only the main objectives of the responsibility accounting can be fulfilled.

2.7.1.4 Full Communication

Communication can be defined as “an interchange of thought or information to bring about a mutual understanding between two or more parties” (Glenn A. Welsche, 1976, Pg: 75).

Communication can be either of dialogue, message or understanding from working together, although, most of the management gives least importance to communication, but it is most important thing for any organizational observation and control. Most of the organization faces lot of problem due to bad communication system.

Communication is needed for both the feed forward and feed back process, which are most important for operation of any organization. Role of communication can be justified in all aspect of management. It is needed either for decision-making or for supervision or for evaluation. Flows of information must be adequate in all side (downward, upward and late-rally).

To quote KNOOTZ and O'DONNEL following are the barriers to effective communication.

- a) Badly expressed messages

- b) Faulty translation
- c) Loss by transmission and poor retention
- d) Inattention
- e) Non-clarified assumption
- f) In sufficient adjustment period
- g) Distrust of the communicator
- h) Premature evaluation
- i) Fear and
- j) Failure to communicate

Judging effective communications means development of well-defined objective, specification of goals, development of profit plans and reporting and follows up activities related to performance evaluation for each responsibility center.

To have effective communication for CPPC both the parties related with the planning activities must have some understanding responsibilities and goals, full participation in all matter, well defined downward flow of information and well defined reporting system is needed.

2.7.1.5 Realistic Expectation

Profit planning control must be based upon realistic approach or estimation. Management must use realistic assumption and must take either irrational optimism or unnecessary conservatism.

Perfection on setting goal or objectives of the future sales, production levels, costs, capital expenditure, and cash flow and so on determines the success of profit planning and control program. So, for profit

planning and control purpose, a realistic approach reared with time dimension and external and internal environment that will prevail during the time span should be considered. This is called realistic expectation.

Before preparing comprehensive profit planning and control program management have to take good care that the goal or objective which is going to be determined neither should be too low nor should be too high but should be attainable with high level of efficiency, because goals set very low will destroy motivation as it does not require efforts and goal set high will discourage the implementers as it would not be attained with existing capacity of the units, but the goal which will be of challenging nature will be of real value and will keep the organization alert which is the main objective of the realistic expectation.

For budgeting purpose also realistic expectation is needed because both over and under understanding of the budget in one unit use to have negative effect on other units which ultimately destroy whole planning of the enterprises.

2.7.1.6 Timeliness

Whether an individual or an entity remains idle or busy, time passes at the same rate. The problem of the manager in one hand is to accomplish the planned activities in a given time and on the other hand is to prepare the plan itself. Phasing of the planning are of two types: - i) Timing of planning horizons and ii) Timing of planning activities.

Planning horizons is the time for which the planning is done or we can call it life span of the plan. For any enterprise there use to be many planning horizons to maintain the continuity of planning activities. The decision made by the manager for future activities reflects the managerial planning. In the other word, managerial decision, which reflects planning activities, always uses to have effects on future activities only. It does not use to have any effects on present or past. Major division should be made on the basis of adequate supporting study, analysis, evaluation and consolation.

For effective implementation of planning, management of an enterprise must establish a definite time dimension for certain types of activities. In other word for each activities related with planning would be given definite time for implementation, followed by other activities. This is called the planning activities.

From the viewpoint of time dimension a manager should maintain clear-cut distinction between Historical and Futuristic Consideration because the result derived from historical activated should be considered as platform for deciding future plan.

For futuristic activities also plan can be of two types:- periodic and object plan. Classifying managerial planning into their two categories focuses on the characteristics of managerial planning and differing related needs. Project planning meets the specific requirement for an enterprise within certain time limits. For example, installation of plant and machinery, construction of plant building, forecasting of sales are the project plan witch completes with the accomplishment of said activities. But on the other hand the periodic plan denotes the plan for the activities to be accomplished within a certain given time. Sometimes periodic plans include many project plans and vice versa.

Evaluation of the project plan is done on the basis of degree of activities, where as the periodic plan needs evaluation on the basis of calendar year, month and days. For periodic plans, periodic reports are prepared and on the basis of the same necessary amendments on planned activities will be done if needed.

Periodic planning directly represents a cross sectional focus by time on income determination and periodic performance. Periodic plans are of two categories: - tactical or short range and strategic or long range. For the concept of comprehensive profit planning and control, a systematic approach should be applied to integrate tactical plan with strategic plan.

In conclusion we can say that for CPPC purpose planning activities and implement must be carefully accomplish the activities in time.

2.1.7.7 Flexible Application

Profit planning and control program or any other management technique should not dominate management slowly. Any of such techniques of management must be flexible, not rigid because these are the techniques or means only not the end of the management itself. Because the main end or aim of the management is to utilize the resources in the most effective way and earn high return on investment and for this purpose CPPC or other techniques are used as means only.

Unlike budget, which imposes rigidity on any activity and puts constraint on the decision-making freedom to all managers, this is possible in profit planning because in the course of preparation profit planning and control program all level of managers are involved and

hence the top level management will privilege to make necessary decision and delegate more responsibilities to the managers, this position give more power to unit managers, the soundness of contemplated decision. Profit planning and control approach also use to have place for such unanticipated events and adjustment for the same.

To cost control also, the principle of flexibility is especially important. Expenses and cost budgets must not be rigid in nature. Budget should not prevent any of the units to make rational division and to take opportunity benefits merely on the ground that such expenses are not anticipated. Sometimes for one or the other reason variable costs have to be spent much for the benefits of the organization. This benefit necessarily needs not to be in form of monetary benefit. Sometimes additional variable cost has to incur just to have more goodwill or to secure more market for their products. Any rigidity on such opportunity cost may sometimes hamper the goodwill of the enterprise.

Finally, it can be said that for profit planning and control purpose budget should not be regarded as “straight jacket” and for management purpose the profit planning and control approach should not be regarded as the constraint for the management to seize the opportunities which is going to be most beneficial for the enterprises in long run.

2.1.7.8. Individual and Group Recognition

Behavioral aspects of human being are of the field of study of the psychologist, educators and businessmen, and finding was that there could be so many unknown misconceptions and speculations, which has to be considered for an efficient management. A good and dynamic leadership can resolve these problems by integrating all the

groups' efforts for betterment of the organization. This fact also has been well considered under CPPC approach and focuses have given to resolve the behavioral problems.

Goal orientation is the characteristics of ambitious and competent individuals that normally involved in management process. Goal, which has been identified for an individual, can enhance such person to intensify their performance. To motivate men there should be a good harmony between their personal interest and organizational interest and goal have to be identified accordingly. More than monetary benefits personal satisfaction from the works counts a lot for the competent people. So, it will be much more fruitful for an enterprise to pursue all the people to formulate the plan and to set goals and policies before asking them to implement it. Because, a realistic goals, established through meaningful participation, tends to raise aspiration level of the entire management of a firm. The PPC concept provides a means to resolve largely the goal orientation problems in enterprises, since effective participation by all levels of management is repaired in the development of those goals, the related policies, and their modes of implementation.

Finding of relevant study conducted by industrial psychologist has described about the effects of pressure on human behavioral. Pressure unto moderate limit is needed to pursue the working staff to work but excess pressure will have negative effects. The CPPC approach has been developed on this principle. In some of the traditional enterprise budget and personnel management techniques were applied as a means of pressure and were found very negative in result. Till now some of the manager uses to put pressure on the working group and use to have rights to suggest. But this is negative approach of management, which will do more harms than benefits to an organization. So, modern concept of CPPC has given importance

realistic participation on decision making rather than of thought principal.

Another aspect of behavioral recognition is that the individual recognition of the work should be carefully done. The system of recognizing the efficient work of an individual manager and identification of an efficient manager should be done and efficient one should be rewarded, because the dignity of an individual is important in the management process. Realizing the truth, profit planning and control entails placing a high degree of responsibility on the individual manager. It entails a procedure for careful evaluation of the planning capabilities of the manager and with the help of the performance report and other observation a careful study of his work should be done. Thus the profit planning and control approach establishes a basis for some precision in measuring the performance of an individual manager, in stir process it is likely that those with low competence will be identified.

Due to lack of understanding, between the working group, of the program and its operation, effects of program on them, and expectation of over pressure, and disagreement with planning and control approach (which is mainly based upon the recognition of group and individual importance on management). But a careful management has to tackle this problem very carefully and have to divert the attention of the workers in positive way.’ (Ratna Man Dangol, “Unpublished hands-out of Profit Planning and Control”)

2.1.7.9. Fundamental Distinction

- **The mechanics of Profit Planning and Control:** Mechanics are such matter as design of budget schedules, clerical methods of completing such schedules, and routine computations.

- **The techniques of Profit Planning ND Control:** Techniques are special approaches and methods of developing information for managerial use in the decision making process. The techniques are many varying from the simple to the sophisticated.
- **The fundamentals of Profit Planning and Control:** the fundamentals concern effective implementation of the management process in reasonable complex endeavors. The fundamentals represent desirable management orientations. Activities, and approaches necessary for proficient and sophisticated application of comprehensive Profit Planning Control.' (Glenn A. Welsch, Ronald W. Hilton & Paul N. Gordon 1990, Pg: 30)

2.1.7.10. Management Control using FPC

'The primary purpose of control is to ensure attainment of the objects, goals and standards of the enterprise. Control has many facets. Such as: direct observation, oral expression, narrative memoranda, policies and procedure, reports of actual results and performance reports. Comprehensive profit planning and control focuses on performance reporting and evaluation of performance to determine the causes of both high and low performance.

The essential characteristics of a profit planning and control performance report are as follows:

- Performance is classified by assigned responsibilities.
- Controllable and non controllable items are designated.
- Timely reports are issued.

Emphasis is given to a comparison of actual results and planned results; the performance report should designate the responsible manager and show actual results.' (Ibid: 40)

2.1.7. 11. Follow-Up

The importance of follow up action on CPPC approach is much more. Follow up action after a careful study is needed to:

- a) Correct the action of substandard performance in a constructive manner.
- b) To recognize and transfer the knowledge of outstanding performance to others and
- c) On the basis of the study and evaluation to provide a sound basis for further PPC program.' (Ratna Man Dangol, 'Unpublished hands-out of Profit Planning and Control')

2.1.8 Profit Planning and Control Process:

“ A PPC program includes more than the traditional idea of a periodic or master budget, rather it encompasses the application of a number of related management concept through a variety of approaches, techniques and sequential steps” (G.A. Welsch, R.W. Hilton, P.N. Gordon, 2000, Pg 72). These steps are lined in this study in the following manner:

1. **Identification and evaluation of External variables:** The variable identification phase of the PPC process focuses on (i) identifying and (ii) evaluating the effects of the external variables. Management planning must focus on how to manipulate the controllable variables and how to with the existing situation of non-controllable variables. Variables, which have a direct and significant impact on the enterprises, are called relevant variables. Variables may have their different relevancy according to the market nature. For the enterprises purpose the external relevant variables are: population, G.N.P. competitive activities product line, and industry sales. And so far internal variables are concerned employees, capital, research

productivity, pricing, operating costs, advertisements etc. A particularly significant phase of this analysis includes an evaluation of the present strength and weakness of the enterprises. The comprehensive PPC approach is based on the expectation that these significant aspects of operations will be critically analyzed and evaluated periodically and in an orderly manner. (Ibid 74)

2. Development of the broad objectives of the enterprise:

Development of the broad objectives of the enterprises is a responsibility of executive management. Based on a realistic evaluation of the relevant variables and an assessment of the strength and weakness of the organization, executive management, can specify or restate this phase of the PPC process. The statement of broad objectives should express the mission, vision and ethical character of the enterprise. Its purpose is to provide enterprise identify, continuity of purpose and definition. One research study listed the purpose of the statement essentially as follows:

- ✓ To define the purpose of the company
- ✓ To clarify the philosophy-character of the company
- ✓ To create particular climate with in the business.
- ✓ To set down a guide for managers so that the decisions they make will reflect the best interest of the business with fairness and justice to those concerned. (Ibid: 76)

3. Development of Specific Goals for the Enterprises:

This purpose of the “goals phase” of the PPC process is to bring the statement of broad objectives into sharper focus and to move from the realm of general information. It provides both narrative and quantitative goals that re definite and measurable. These specific goals that relate to the enterprises as a whole and to the major responsibility centers. These goals should be developed by

executive management as the second component of the substantive plan for the upcoming budget year. Executive management should exercise leadership in this planning phase so that there will be a realistic clearly articulated framework within which operations will be conducted toward common goals. (Ibid: 77)

4. **Development and Evaluation of Company Strategy:**

Company strategies are the basic thrusts ways and tactics that will be used to attain planned objectives and goals. Some examples of basic strategies:

- ✓ Increase long-term market penetration by using technology to develop new products and improve current products.
- ✓ Emphasize product quality and price for the “top” of the market.
- ✓ Expand market the company will not enter foreign markets in the foreseeable future.
- ✓ Market with low price to expand value.
- ✓ Use both institutional and local advertisement program to build market share.
- ✓ Improve employee morale and productivity by initiating a behavior management program

Among probable alternatives, the best should be chosen which would tackle to the objectives and goals of the organization. Strategies focus on “how” so they outline a plan of action for the enterprise. (Ibid: 78)

5. **Executive Management Planning Instruction:** Periodic plans and project plans are different in feature and functions. Project plans encompasses different time horizons because each project has a unique time dimension, they encompasses such items as

plans for improvements of presents, products, view and expanded physical facilities, entrance in to new industries unit from products and industries and new technology and other major activities that can be separately identified for planning purpose. The nature of projects is such that they must be planned as separate units. Consistent with this approach during the formal planning cycle, management must evaluate and decide up on the plan status of each project in process and select any new projects to be initiated during time dimension covered by the upcoming strategies and tactical profit plans. (Ibid: 79)

6. **Preparation and valuation of project plans:** Periodic plans and project plans are different in feature and functions. Project plans encompasses different time horizons because each project has a unique time dimensions, they encompasses such items as plans for improvements of presents, products, view and expanded physical facilities, entrance in to new industries unit from products and new technology and other major activities that can be separately identified for planning purpose. The nature of projects is such that they must be planned as separate units. Consistent with this approach during the formal planning cycle, management must evaluate and decide up on the plan status of each project in process and select any new projects to be initiated during dimension covered by the upcoming strategies and tactical profit plans. (Ibid: 79)
7. **Development of Strategies and Tactical Profit Plan:** When the managers of the various responsibility centers in the enterprise receive the executive management planning instruction and the project plans, they can begin intensive activities to develop their respective strategic or tactical profit plans. The strategic and tactical profit plans are usually developed concurrently. Certain format and procedural

instructions should be provided by a centralized source, normally the financial functions, to establish the general format, amount of detail and other relevant procedural and format requirement essential for aggregation of the plans of the responsibility centers, into the overall profit plans. All of this activity must be coordinated among the centers in conformity with the organization structure. When the two profit plans for the overall enterprises are completed, executive management should subject the entire planning package to a careful analysis and evaluation to determine whether overall plans are the most realistic set that can be developed under the circumstances. When this point is reached, the two profit plans should be formally approved by the top executive and distributed the appropriate managers. (Ibid: 80)

8. **Implementation of profit plans:** The profit plan strategies should be implemented by every level of management is an accepted norm. Implementation of management plans that have been developed and approved in the planning process, involves the management functions of leading subordinates in attaining enterprises objectives and goals. Thus, effective management at all levels requires that enterprises objectives, goals, strategies and policy to be communicated and understood by subordinates. There are many facts involved in management leadership. However, a comprehensive PPC program may aid substantially in performing this function. Plans, strategies and policies developed through significant participation establish the foundation for effective communication. The plans should have been developed with the managerial conviction that they are going to be met or exceed in all major respects. If these principles are effective in the development process, the various executives and supervisors will have a clear understanding of their responsibilities and the expected level of performance. (Ibid: 84)

9. **Use of periodic performance reports:** Only implementing the strategy will be of no meaning when the implementation is not checked. So, Periodic performance reports are needed. The accounting department on a regular basis prepares the performance reports. These performance reports (a) compare actual performance with planned performance and (b) show each difference as a favorable or unfavorable performance variation. (Ibid: 85)
10. **Follow Up:** it is an important part of effective control. Because performance reports are based on assigned responsibilities, they are the basis for effective follow-up action. Finally there should be a special follow up of the prior follow up actions. This step should be designed to (a) determine the effectiveness of prior corrective actions and (b) provide a basis for improving future planning and control procedures. (Ibid: 88)

2.1.9 Advantages and Disadvantages of PPC

The usefulness of comprehensive PPC may offer more benefits, which may be summarized as below:

- ✓ It forces early consideration of basic policies
- ✓ It requires adequate and sound organization structure; that is there must be a definite assignment of responsibility of each function of the enterprise.
- ✓ It compels all members of management, from the top down, to participate in the establishment of goals and plans.
- ✓ It compels departmental managers to make plans in harmony with the plans of other departments and of the entire enterprise.
- ✓ It requires that management put down in figures what is necessary for satisfactory performance.
- ✓ It requires adequate and appropriate historical accounting data
- ✓ It compels management to plan for the most economical use of labor, material and capital

- ✓ It instills at all levels of management the habit of timely, careful and adequate consideration of the relevant factors before reaching important decisions.
- ✓ It reduces cost by increasing the span of control because fewer supervisors are needed
- ✓ It frees executives from many day-to-day internal problems through predetermined policies and clear-cut authority relationships. It hereby provides more executive time for planning and creative thinking.
- ✓ It tends to remove the cloud of uncertainty that exists in many organizations, especially among lower levels of management, relative to basic policies and enterprise objectives.
- ✓ It pinpoints efficiency and inefficiency
- ✓ It promotes understanding among members of management of their co-workers problems.
- ✓ It forces management to give adequate attention to the effect of general business conditions.
- ✓ It forces a periodic self-analysis of the company.
- ✓ It aids in obtaining bank credit; banks commonly require a projection of future operations and cash flows to support large loans.
- ✓ It checks progress or lack of progress toward the objectives of the enterprise
- ✓ It forces recognition and corrective action (including rewards).
- ✓ It rewards high performance and seeks to correct unfavorable performance.
- ✓ It forces management to consider expected future trends and conditions.

PPC model should not be assumed that the concept is full proof or that it is free of problem. The following main arguments are usually given against PPC:

- ✓ It is difficult, if not impossible, to estimate revenues and expenses in our company realistically.
- ✓ Our management has no interest in all the estimates and schedules. Our strictly informal system is better and works well.
- ✓ It is not realistic to write out and distribute our goals, policies and guidelines to all the supervisors.
- ✓ Budgeting places too great a demand on management time, especially to revise budgets constantly. Too much paper work is required.
- ✓ It takes away management flexibility.
- ✓ It creates all kinds of behavioral problems.
- ✓ It places the management in a straitjacket
- ✓ It adds a level of complexity that is not needed
- ✓ It is too costly, aside from management time.
- ✓ The managers, supervisors and other employees hate budgets.

2.1.10 Limitations of Profit Planning:

Profit Planning and Control is an important tool for management. However, each tool suffers some limitations and its use is fruitful within these limits. Profit planning and control is also not a limitless tool, so it is essential that the user of profit planning and control must be having a full knowledge of its limitations. The limitations of budgeting are as under:

1. **Based on estimates:** Profit panning is not an exact science. Its sources depend upon precision of estimates. The success of profit planning and control depends to a large degree on the accuracy with which the basic estimate will be made. Therefore, estimates should be made on the basis if of all the facts available. Using correct and modified statistical techniques and management can make the accurate estimates.
2. **Danger of rigidity:** PPC is an estimation and quantitative expression of all relevant data. So, there can be the tendency to attach some sort of rigidity or finally to them. However,

rigidness makes PPC useless. For usefulness, the PPC must be flexible. Various techniques must be tried, improved or discarded and replaced with others. In other words, a PPC program must be dynamic in every sense of the word.

3. **Application for long period:** the installation of a complete PPC is not possible in short period. It should be continuously used in the business, and should be revised and modified with the changed situation in the business.
4. **Execution of not automatic:** A skillfully prepared PPC will not itself improve that management of an enterprise, unless it is properly implemented. For the success of PPC, it is essential that all the related persons inside the enterprise should understand it. It is mostly required that each executive must feel the responsibility and should make efforts to attain the budgeted goals. Departmental leader should seriously think that it is their individual responsibility to fulfill the target set up in their departmental budget. The success of a budgeting system totally depends upon the efficient management and administration.
5. **Not a substitute for management:** PPC is a management tool. It is not a substitute for the management. It is totally wrong to think that the introduction of PPC is alone sufficient to ensure success and to guarantee future profits. It is only for achieving the end.
6. **Costly affair:** The installation of a PPC system is an elaborated process involving too much time and costs. Normally, it is so costly that small companies can't afford it. Even for big concerns, it is suggested that there should be some correlation between the cost of operating a budgeting system and benefits derived from it. The system should be adapted only when benefit exceeds the cost.
7. **Proper evaluation:** For finding out the inefficiencies, proper evaluation should be made. On the absence of proper evaluation

budgeting will hide inefficiencies. So there should be continuous evaluation of the actual performances, standards also should be re-examined regularly.

8. **Lower morale and productivity:** Unrealistic targets should not be set and used as a pressure tactic. By doing it, PPC will lower morale and productivity. To some extent, PPC may be used as pressure device but its extent must be carefully determined.

2.1.11 Development of Profit Plan:

Development of profit plan in commercial bank begins with the preparation of various functional budgets. Those functional budgets are in fact the picture of various activities of the bank to be performed during a particular period of time. Therefore, the functional budgets of a bank are activity based such as budget for deposit collection, budget for lending and investments, budget for non-fund business, budgets for expenditures and revenues. The development of profit plans process that involves managerial decisions and ideally a high level of management participation. The following are the budgets, which are developed in a bank while making a profit plan.

1. **Resources Mobilization Plan or budget:** The planning for resources mobilization is the foundation for planning in a bank. All other planning is based on it. The major and the sustainable resource of a Bank is the customer deposit. Therefore, the plan for resources mobilization has a primary focus on the customer deposit mobilization. The lending and investment or collection plan is the starting point in preparing the other different plan.

Deposit mobilization is the primary function of a bank, which has major contributions in the total resources of the bank. In terms of cost for the bank, customers' deposits are of two kinds, viz. (i) Interest Free deposits i.e. current deposits, margin deposits etc. and (ii) Interest bearing deposit i.e. saving deposit, fixed deposits of various tenure, call deposits etc. The interest

free deposits are cost free but are generally volatile in nature. Those can be withdrawn without restriction from the bank, thus cannot be invested into higher income yielding assets.

Further, interest bearing deposits involve cost of deposit but their retention ratio with the bank are much better so they can be put to high income yielding assets having longer tenure. Therefore, a proper mix of cost free and costly deposits corresponding to short term and longer term deposits are to be maintained by the bank in its deposit mix in order to minimize its average cost of deposit at the same time having comfortable mix of income yielding assets. The cost of deposit of banks is also affected by the prevailing deposit interest rate of other banks in the market.

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

Banks resources other than customer deposits are the borrowing from other banks and the capital fund. Generally banks borrows from other banks to meet temporary requirement of liquidity which may occur sometimes during the course of banking operating caused due to unexpected withdrawals of deposit or deferment in loan repayments by the borrower by some reason or other. Such activities are managed from the Head Office with the least possible cost.

Among the capital fund, the equity capital is formed generally one time during opening of the bank. The Central Bank (NRB) may from time to time instruct the bank to enhance the paid up capital to improve the capital adequacy of the bank.

General reserve, the other item of capital fund, has to be raised every year by at least 20% of the net profit earned by the bank until the amount gets double the paid up capital. This is the mandatory provision made by Commercial Banking Act 2031.

Further, the bankers may choose by themselves whether or not to increase the owner's capital by raising the other item included in capital funds besides paid up capital and general reserves. It is always better to have a higher capital fund base of a bank because, creation of bank's assets, and the size of lending to any particular borrower are tied up with the capital adequacy requirement by the central bank. As per NRPB directives, banks shall have to build their capital base at least of 12% by the end of FY. And a bank can take the size of exposure per borrower equivalent to maximum of 25% of its core capital in fund based, and 50% of that in no-fund based exposure. (NRB Directives)

2. **Resources Deployment Plan or Budget:** The planning for deployment of resources starts from assessment of nature of resources to be mobilized. That is the assets are allocated on the basis of the nature of resources. This approach of deployment of resources is called asset allocation approach. As M.C. Vaish write in his book 'Money Banking Trade and Public Finance', "the fundamental criterion which must be followed in allocating funds for acquiring different types of assets is that the velocity turnover rate of different sources of supply of fund determines the appropriate maturity of the assets acquired through fund utilization, for instance while relatively stable fund, like saving deposits, fixed deposits and paid up capital should be used to buy long dated high yielding securities, demand deposit which are more volatile, could be used to acquire relatively liquid assets like cash or money at call and short notice on which little or no return is made by the bank."

Therefore, the budgeted deposit mix is the major determining factor of the planning of assets portfolio. A bank should make the planning for deployment of its resources in such a way that it ensures required liquidity as well optimize the yield on the fund of bank. Therefore banks resources deployment process involves following:

- ✓ Deployment in liquid assets
- ✓ Deployment in lower income yielding assets.
- ✓ Deployment in higher income yielding assets.

Funds kept as cash in vault and as balance with BRB and other banks in current account are the most liquid assets of the bank. Normally, banks have to maintain certain fixed percentage of their deposit liability in this form as directed by the Central Bank from time to time. There is no yield in the fund deployed as liquid assets.

Deployment from lower income yielding assets are generally placing the funds in short term securities, treasury bills etc. which provides reasonable liquidity to the bank as well as yield some return although they are at very low rate.

Major portion of the income of the Bank comes as interest from the resources deployed to loans advances and Bills discounting (LDO). A the most part of the resources are for LDO, banks make its leading budgets in advance as per their lending policies. Lending targets are fixed at various sector of economy for various kinds of trades and commercial activities and to various borrowers ensuring well diversification of the assets. The targets are allocated to the branches, which are generally operated as separate profit centers.

3. **Planning for non funded Business activities:** The other activities of commercial banks where it does not have to involve its fund yet it can generate other income are called non-funded business activities of the Bank. They are usually letter of credit and bank guarantee issuance business of the bank where the bank undertakes payment liabilities, which are contingent in nature and the bank charges certain percentage of commission on such transaction to their client who are availing these facilities from the bank. The bank fixes annual target for such business and those are allocated to the branches of the bank.
4. **Expenditure planning:** The expenses planning and controlling are very necessary for supporting the objectives and planned programs of the firm. An expense is related with profit. It is a real fact, that the minimization of cost is maximization profit. So the expense must be planned carefully for developing a profit plan. In a bank there are generally following types of expenses:
- ✓ Interest expenses
 - ✓ Personnel expenses
 - ✓ Office operating expenses
 - ✓ Expenses meeting the loss in exchange fluctuation
 - ✓ Non-operative expenses
 - ✓ Expenses for provision for loan loss
 - ✓ Expenses for provision of staff bonus
 - ✓ Expenses for provision of income tax

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

expenses and other expenses while the later includes other expenses as mentioned above except the interest expense.

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

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

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

- ✓ Interest income

- ✓ Commissions and Discounts
- ✓ Dividend
- ✓ Other income
- ✓ Foreign exchange income
- ✓ Non-operating income

Generally, the interest income of a commercial bank holds a major portion in total revenue of the Bank and it provides the major source of earning of a bank. Therefore total income of bank is categorized in two types: viz. interest income and other income, while the later including other income items are listed above except the interest income.

The interest income is earned by charging interest on the fund deployed in interest earning assets such as loan and advances, overdrafts, investment in government securities, debentures etc. For this study, the income from bills discounting has also been treated as interest income, as we consider Loans overdraft and bills discounting together as a single asset portfolio as LDO.

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

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

2.1.12 Implementation of Profit Plan:

1. **Completion of the Annual Profit Plan:** “The 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 summarize 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 generally 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 date 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”.

2. Implementing the Profit Plan:

“The final test of whether the efforts and cost on 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 pal 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 toll for his or her use. Conference should be held so as to convey the profit plan to each level of management.

The manager of each responsibility center obtains an approved profit plan for his center and it becomes the basis for current operations and 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 undesirable effects, short term performance 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 to day 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 battering the objectives.”

3. **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 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 & standards are being attained." Performance reports are one of the vital tools of management to exercise its control function effectively.

Special external reports, reports to owner & 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 pin point both efficient & inefficient performance.

- ✓ **Features of performance reports:** In comprehensive PPC performance report is very important. The main objectives of performance reports are 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: (i) tailored to the organizational structure and focus of controllability (that is by responsibility centers); (ii) Designed to implement the management by exception principle; (iii) Repetitive and related t short term period; (iv) Adapted to the requirements of the primary users; (v) Simple understandable & reports only essential distinctions; (vi) Accurate and designed to pinpoint significant distinctions;

(vii) Prepared and presently promptly; (viii) Constructive in tone.

- ✓ **Aspects of performance reports:** To extent to which the various managers use their performance reports depends on many factors, some behavioral and some technical. One important factor is the extent to which 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. 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.

2.1.13 Application of PPC or Comprehensive Budgeting to Various Types of Organizations:

Some people say that comprehensive profit planning and control is applicable only to large and complex organizations. Some specific industries, non-manufacturing: service companies, financial institutions, hospitals, certain retail business, construction companies' etc. view as profit planning and control are not made from their industries. To the contrary, profit planning and control can be adapted to any organization (profit or non profit, service or manufacturing) regardless of size, special circumstances or conditions. The fact that a company has peculiar circumstances or critical problems is frequently a good reason for the adoption of certain profit planning and control procedures. In respect to size,

when operations are extensive enough to require more than one or two supervisory personnel, there may be a need for profit planning and control applications. The smallest company certainly has different needs in this respect than a large one. As with accounting, a single profit planning and control system must be tailored to fit the particular enterprise, and it must be continually adapted as the enterprise and its environment change.

2.2 Review of previous Research Work

Comprehensive Budgeting in the context of particularly Commercial Banks seems to be very few. Previous research work under Profit planning has mainly focused on manufacturing and trading organizations. Profit planning under service sector can rarely be found. So far this researcher could find few studies that has made in this topic.

One of the researches that has been made in this topic is by Abha Subedi (March 2001) for the purpose of partial fulfillment of the requirement for Masters Degree in Business Administration. She has studied the profit planning in Commercial Bank with a case study of Rastriya Banijya Bank. She has studied the profit planning aspect of Rastriya Banijya Bank. Her major findings are:

- The rate of expansion of branches of RBB was increased after introduction of Priority Sector program in 2031 but the growth could not be as desired. Concentration of the branches is more in urban areas than in rural areas.
- Most of the investments made against the security of land, gold and silver.
- Banking costs are relatively higher.
- No specific and clear investment policy and functioning without any definite direction.
- Deposit mobilized is not properly utilized.

- The rate of change in interest has no effect in business growth in deposit side or in investment side.
- Social objectives are met but commercial spirit is lacking in RBB.
- RBB tried to manage in true professional way but the political environment in bureaucratic approach has compromised the commercial environment.
- RBB has not been publishing its annual reports, balance sheets and profit and loss accounts and related schedule along with the audited report.

Ms. Abha has recommended following major points in her study for the consideration to improve the existing situations.

- Performance of every branch is needed to be evaluated and those having performance below satisfactory level should be closed down.
- Reduce interest rate in deposit so as to reduce the same in lending.
- Banking business should be free from undesirable interference from politicians and high-ranking officials.
- Adequate training should be given to the personnel and make the operation computer system based to make the service prompt.
- The investment policy of RBB should be in accordance with the goal of economic upliftment of the nation and it should also accommodate long and medium term credit demands besides the short-term loans.
- Bank may generate profit only when maximum part of deposit is invested in good parties thereby minimizing bad debts, therefore a clear-cut policy

Uma Deevi Karki has conducted a research in the topic “A comparative study on Profit Planning of Rastriya Banijya Bank Ltd. (RBB) and Himalayan Bank Ltd. (HBL)”. This research of Ms. Karki was mainly concerned with examining system of profit planning applied in RBB and HBBL.

The time period covered by this thesis was five years i.e. FY 1993/94 to FY 1998/99. The data and other necessary information were collected by using secondary as well as primary sources. In the research she has come across certain findings and recommendations. The following are important findings and recommendations:

- Total revenue & total cost of RBB is higher than HBL but its profits are lower.
- Volume of loans and advances is increasing every year in both the banks and the provision for bad debts is higher in RBB than in HBL.
- Ratio of interest income to total income is almost more than 86% in RBB and more than 80% in HBL. It shows that RBB is more dependent in interest income than HBL.
- Return on paid up capital is always negative in RBB. Net profit is also negative in RBB.
- Ratio of loan and advances to customers deposit shows that more than 60% of customers deposit is utilized where as in HBL it is around 50%.
- Interest spread is higher in RBB than in HBL.
- Regression analysis showed that volume of profit is directly related with the size of loans and advances. There is only 0.5% profit in every loan of NPR 100 in RBB and 3.7% in HBL.
- Interest coverage ratio of both banks is more than one except in the FY 1995-96 of RBB. It shows that interest paying capacity of both the banks is sound but the ratio of HBL is higher than the ratio of RBB. It means HBL is stronger to pay interest liability.

- No proper planning strategy seems to be developed although HBL is operating at profit but RBB is running with heavy cumulative loss.
- As the accounting system of RBB is careless that it has not been audited from the FY 1993-94 and it is difficult to take decision about data analysis.
- In case of RBB, its deposit, total revenue, loan and advances are increasing every year whereas the profits are negative or highly fluctuating, which is mainly due to high fluctuation in cost.

Analysis of profit planning and control is basically an internal affair. It needs to analyze the insight position. As insight is not flashed out due to the cause of secrecy, attempt is made to analyze on the basis of data published.

Government seems less conscious in the present situation of RBB.

Ms. Karki in her detail analysis of RBBL and HBL points out the following recommendations to improve the formulation and implementation of profit plans:

- RBB is running with heavy loss but it has more chance to improve present situation as it has higher market share, so the government has to be conscious about the present situation.
- As banks are playing with public's money, it is recommended for these banks to check out target rate of return every year and on the basis of which, the bank should plan of profit by linking its activities with income generating program.
- Accounting system should be systematic so that proper strategy can be applied specially in the case of RBB and auditing of accounts should be done in time.
- The management of the bank should have more interaction with the shareholders.
- HBL should try to control the fluctuation in revenue, cost and net profit in order to lessen the chance of uncertainty.

- For the survival of the bank and to maintain the present market share, RBB should increase their commercial activities and also it should not forget the public responsibilities being government owned bank. Similarly HBL should adapt to innovation to increase the present market share.
- HBL is advised to increase the investment of deposit. It is investing almost 50% of its deposit on loans and advances.
- RBB should focus on constant return because it has always negative earning on capital.
- Local experts should be involved more in top level of management of RBB so that they can run the bank easily in future. Both banks should try for proper image building from international perspective.
- Proper profit planning are the major means to achieve the desired objectives and constant growth from its focused activities, so the banks are advised to prepare better plans. As a result, there would not be highly fluctuating increments.

CHAPTER THREE

3. RESEARCH METHODOLOGY

Research as the name implies means to search or study about a phenomenon. It is a repeated action to find or investigate something in a scientific manner. It seeks to find out facts and relationships by defining and redefining problems, formulating hypothesis, collecting, organizing and evaluating data, making deductions and conclusions to determine whether they fit the formulated hypothesis. Thus, research refers to a critical, careful and exhaustive investigation, inquiry and experimentation with the aim of the revision of accepted conclusions in the light of newly discovered facts.

In the words of John W. Best, “Research may be defined as the systematic and objective analysis and recording of controlled observations that may lead to the development of generalizations of principles or theories, resulting in prediction and possibly ultimate control of events”.

Similarly, the Advanced Learner’s Dictionary of current English defines research as, “A careful investigation or inquiry especially through search for new facts in any branch of knowledge”.

In the words of C.R. Kothari (1989), “Research Methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view”. In other words, research methodology describes the methods and processes applied in the entire aspect of the study. It is a way to solve the research problem systematically and scientifically. In fact research methodology is much vague than research methods i.e. research method is just a part of research methodology. It considers the logic behind the use of the methods in the context of research study and explains why a

particular method or technique is used. Thus, research methodology is concerned not only about the different types of methods used but also about various other facts like what data have been collected, what are the purpose and problem of research, why hypothesis has been formulated etc. So to sum up, the research methodology that has been adopted for the study is mentioned in this chapter which deals with research design, sources of data, data collection, population and sample, processing and tabulating procedures.

3.1 Research Design:

“Research Design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure”. It is simply a plan or a scaffold for the study that guides the collection and analysis of data. It is a guide that enables a researcher to progress in the right direction to achieve the desired objectives. It is the scheme, outline or the paradigm of the operation of the variables. A true research design is concerned with various steps to collect the data for analysis and draw conclusions. Hence, both analytical and descriptive methods have been used to attain the overall objectives. Thus, research design is a plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance. This study is an examination and evaluation of budget process in profit planning program of NB Bank. Various functional budgets and other related accounting information's and statement of the Bank are the materials to analyze and evaluate the profit planning system of the Bank. Descriptive as well as analytical research designs have been adopted in this research. This is a case study research.

3.2 Sources of data:

After the purpose of research investigation and designed has been defined, the next step is to collect the necessary data and information

relevant for the analysis of the study. Generally, there are two sources of data: primary and secondary. Primary data are those data that are collected by the researcher for the first time from related fields and possess originality and authenticity. They are also called field source. While secondary data are those collected by someone else or used already and made available to others in the form of published statistics. Once a primary data is used, it loses its originality and becomes secondary. The difference between primary and secondary data is a matter of relativity. The study is mainly concerned with the use of secondary data i.e. the annual reports of the concerned bank. However, besides the annual reports various other sources of data have also been used for the purpose of the study such as plan documents, newspapers, magazines, economic journals, NRB reports and bulletins etc.

3.3 Population and Sample

Population or universe refers to the industries of the same nature and its services and product in general. It is the collection or the aggregate of objects or the set of results of an operation. The object of population may be finite or infinite in number and hypothetical or existence in character. Sample, on the other hand is the representative part of population selected from it with the objective of investigating its properties. If some elements are selected with the intention of finding out something about the population from which they are taken then that group of element is called a sample. Thus, a sample is just a portion of the universe selected with a view to draw conclusions about the universe under study. Hence, it is a representative selection of a population that is examined to gain statistical information about the whole. At present there are seventeen commercial banks operating in Nepal, which is the population or universe of our study. As this report aims at studying the comprehensive budgeting/profit planning aspect of Nepal Bangladesh Bank, the data have been analyzed for five years of its operation.

3.4 Research Variables:

Loans/Advances, Overdrafts and Bills Discounted (LDO), Customer deposits, total resources, total deployment, outstanding balance of Letter of Credit and Bank Guaranteed, Interest Expense, Other expenses, Interest Income, Other Income etc. of NB Bank are the research variables of this study.

3.5 Data analysis Tools

Data analysis involves breaking down the existing complex factors into simpler parts and putting them together in new arrangements for interpretation. It is the study of tabulated material in order to determine the inherent facts or meanings. Presentation and analysis of data is the core of the research work. This study is confined to examine the Comprehensive budgeting. Profit Planning of NB Bank, therefore, the data have been collected accordingly and managed, analyzed and presented in suitable tables, formats, diagrams, graphs and charts. Such presentations have been interpreted and explained wherever necessary. Financial, mathematical and statistical tools are used to analyze the presented data, which includes ratio analysis, percentage, regression analysis, test of goodness of fit of the regression estimates (r^2), correlation, mean, standard deviation, coefficient of variance etc.

3.5.1 Financial Tools

Financial tools help to analyze the financial strength and weakness of a firm. Following financial tools have been used to analyze the data in this study:

- ✓ Ratio analysis: by ratio analysis, we study the arithmetical relationship of two data. In this study, we have applied Liquidity Ratio, Capital Structure Ratio, Activity Ratio and Profitability Ratio of the Bank.

- ✓ Cost Volume Profit Analysis: we study the relationship among cost, volumes, price and profit of the Bank.

3.5.2 Statistical and Mathematical Tools:

We have analyzed the data presented in this study by applying following statistical and mathematical tools.

- ✓ Percentile Increment
- ✓ Mean
- ✓ Standard Deviation
- ✓ Coefficient of Variance
- ✓ Regression of analysis
- ✓ Test of Goodness of Fit of the regression Estimate
- ✓ Correlation of coefficient
- ✓ Probable Error
- ✓ Coefficient of Determination

The research methodology adopted for this study is shown above, the forthcoming chapter includes the data presentation and analysis.

CHAPTER-FOUR

4. PRESENTATION AND ANALYSIS OF DATA

4.1. INTRODUCTION:

In this chapter, we analyze the corporate planning system and budgeting procedure in a commercial bank with the specific context of NB Bank Limited. To accomplish these objectives, the various functional budgets analyze and related data are presented in systematic way in tabular forms and graph charts. And data are analyzed using statistical tools such as mean, standard deviation coefficient of variance correlation of variance, correlation of co-efficient and regression methods and budgetary tools such as ratio analysis, cost volume profit analysis.

4.2 Strategic Profit Plan of NB Bank

The strategic profit plan of NB Bank is reflected in its business budget. The business budget is a realm able estimation of business actives to be achieved by the bank within a particular fiscal year for which the budget is prepared. The business in terms of resources mobilization and deployments the branch offices are considered as a separate profit centers and the business targets are allocated to them. The resources mobilization activities are generally the cost bearing activities and the revenues are expenditure involved is the net income. Therefore, the strategic profit plan of NB Bank consists of the following plans:

1. Plan for resources mobilization
2. Plan for deployment of the resources
3. Plan for non-funded business activities
4. Revenue plan
5. Expenditure plan

4.2.1 Resources Mobilization Plan of NB Bank

Here, the term resources, has been used for the fund required by the bank for its actives. Banks mobilizes its resources from the following sources:

1. Deposit Accounts
2. Loans and Borrowing
3. Share capital

Among the above three sources the Deposit accounts/collection is the major source of resources mobilization, which is in fact, one of the most important activities of a commercial bank. Loans and borrowing are obtained from local banks, foreign banks, central banks and other financial institutions, generally for a short period of time.

The capital fund is raised from shareholder's equity. This is the net-worth of the bank commercial banks. Commercial bank's capital fund has been dividend into two categories viz. core capital and supplementary capital.

Following table shows the resources mobilization by the bank is the period by study.

Table 1: Status of Resource Mobilization of NB Bank
("000")

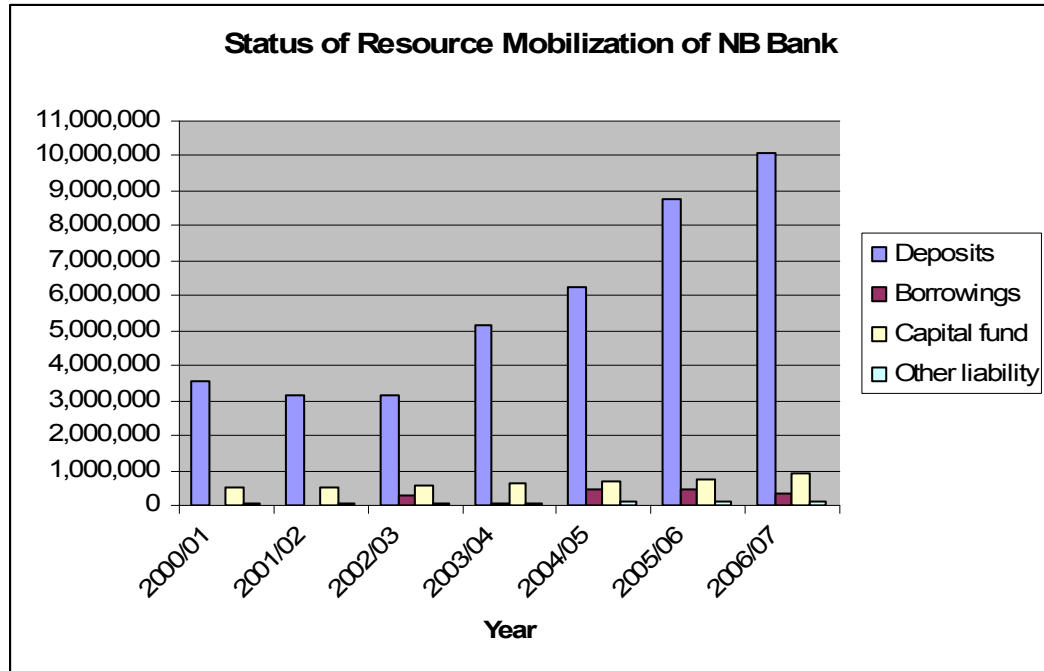
Fiscal Year	Deposits		Borrowings		Capital fund		Other liability		Total
	Amount	%	Amount	%	Amount	%	Amount	%	
2000/01	3,572,362	85.8	-	-	519,114	12.5	71,264	1.7	4,162,740
2001/02	3,165,312	84.8	-	-	526,096	14.1	39,889	1.1	3,731,297
2002/03	3,144,312	78.4	274,750	6.8	552,101	13.8	41,994	1.0	4,013,157
2003/04	5,146,483	87.3	60,018	1.0	620,398	10.5	70,248	1.2	5,897,147
2004/05	6,241,378	83.4	450,371	6.0	684,194	9.1	103,795	1.4	7,479,738
2005/06	8,765,951	87.0	457,705	4.5	766,462	7.6	86,390	0.9	10,076,508
2006/07	10,068,231	88.0	352,129	3.1	917,990	8.0	97,008	0.8	11,435,358

(Source: NB Annual Reports)

Above table indicates that major portion of resource mobilization of NB bank occupied by deposits. The average portion of deposits,

borrowings, capital fund and other liability to total resource mobilization for the seven years is 84.96%, 3.07%, 10.8% and 1.16% respectively. The status of resources mobilization can also be presented in bar diagram as under:

Diagram No 1: Diagram showing Status of Resource Mobilization of NB Bank



4.2.1.1 Deposit Collection:

Customer Deposit is the most important source of resources mobilization of the bank. As per the data of F/Y 2006/07 the total deposit is 100,68 Million. Deposit is collected from various sectors such as the general public business entities, NGO's schools, Trust and other individuals and institutions, which quality to open an account in the bank.

Deposit is collected on customer's account, which is opened as per the bank policy. The customer's deposits are of two types.

1. Interest free deposit accounts.

- a) Current Deposit A/C

- b) Margin Deposit A/C
- c) Other Deposit A/C

The status of interest free deposits of NB bank can be shown in following table.

Table No: 2 Status of Interest Free Deposits of NB Bank

(in'000')

Fiscal Year	Current Deposits		Margin Deposits		Other Deposits		Total non interest Bearing Deposits
	Amount	%	Amount	%	Amount	%	
2000/01	247,984	80.6	59,695	19.4	-	-	307,679
2001/02	257,249	86.0	41,908	14.0	-	-	299,157
2002/03	235,837	78.3	65,297	21.7	-	-	301,134
2003/04	278,487	75.9	88,223	24.1	-	-	366,710
2004/05	233,161	78.6	63,430	21.4	-	-	296,591
2005/06	391,872	88.1	52,942	11.9	-	-	444,814
2006/07	510,201	86.2	81,608	13.8	-	-	591,809

(Source: NB Bank's Annual Reports)

From above table the significant portion of interest free deposits is occupied by current deposits at the average of 83% for the 7 years and remaining portion is occupied by margin deposits at the average of 17% for the 7 years.

2. Interest bearing deposit accounts.

- a) Saving Deposit A/C
- b) Call Deposit A/C
- c) Fixed Deposit A/C

The status of interest bearing deposits of NB bank can be shown in following table:

Table No: 3 Status of Interest Bearing Deposits of NB Bank

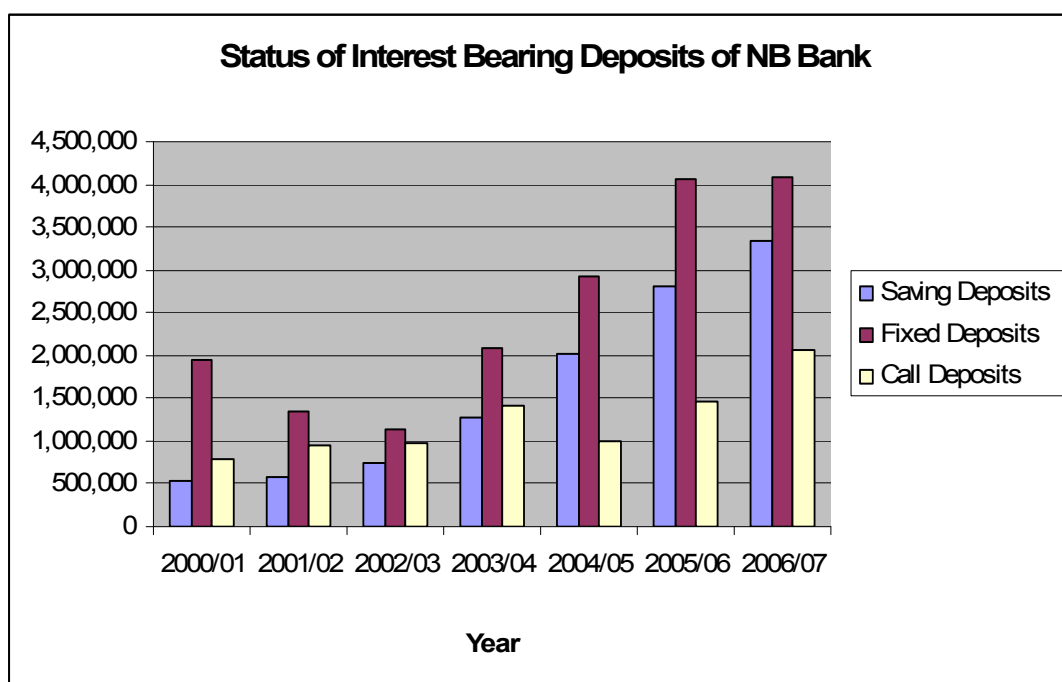
(in'000')

Fiscal Year	Saving Deposits		Fixed Deposits		Call Deposits		Total Interest Bearing Deposits
	Amount	%	Amount	%	Amount	%	
2000/01	522,499	16.0	1,945,060	59.6	797,124	24.4	3,264,683
2001/02	576,192	20.1	1,347,087	47.0	942,876	32.9	2,866,155
2002/03	734,086	25.8	1,143,043	40.2	966,049	34.0	2,843,178
2003/04	1,280,476	26.8	2,086,057	43.6	1,413,240	29.6	4,779,773
2004/05	2,024,259	34.1	2,930,621	49.3	989,907	16.7	5,944,787
2005/06	2,797,421	33.6	4,064,501	48.8	1,459,215	17.5	8,321,137
2006/07	3,335,671	35.2	4,074,563	43.0	2,066,188	21.8	9,476,422

(Source: NB Bank's Annual Reports)

Above table shows that major portion of the interest bearing deposits is occupied by fixed deposits. Deposits are at the average of 46.91% for the last seven years and then saving deposits by 30.06% and call deposits by 23.03% at the average for the last seven years. The status of deposits can be shown in diagram form as under:

Diagram no 2: Diagram showing Status of Interest Bearing Deposits of NB Bank



Following table shows the budgets amount of deposit collection and to the same achieved actually. Since budgeted figure for deposit collection from F/Y 2000/01 to F/Y 2003/04 could not be available, this study has assumed the actual as the budgeted amount.

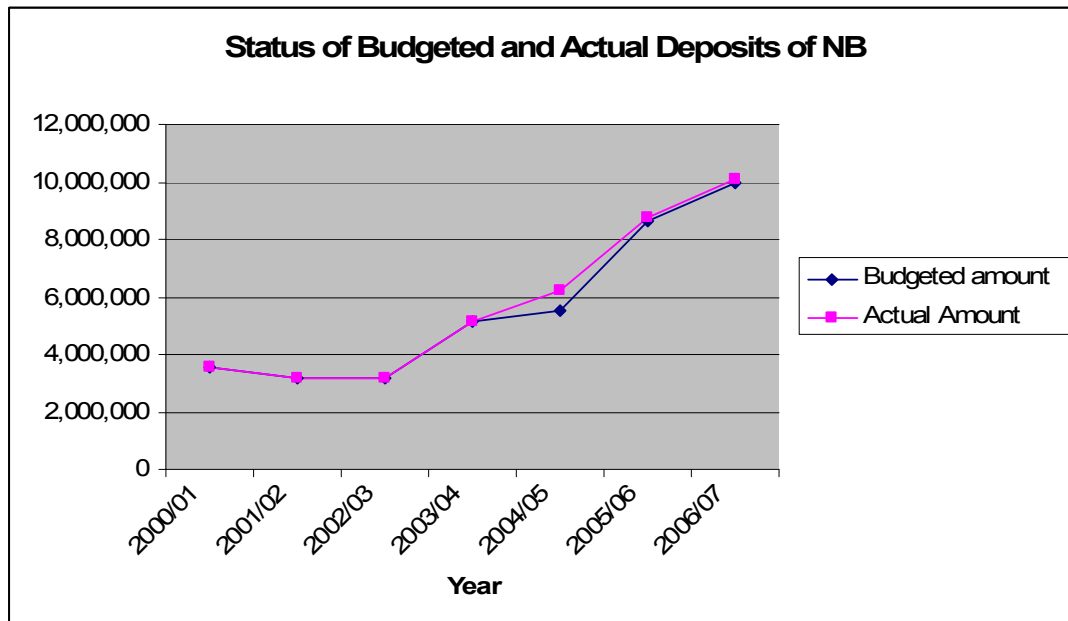
Table No: 4 Status of Budgeted and Actual Deposits of NB
(In"000")

Fiscal Year	Budgeted amount	Actual Amount	Achievement
2000/01	3,572,362	3,572,362	100
2001/02	3,165,312	3,165,312	100
2002/03	3,144,312	3,144,312	100
2003/04	5,146,483	5,146,483	100
2004/05	5,539,498	6,241,378	112.67
2005/06	8,656,392	8,765,951	101.27
2006/07	9,985,762	10,068,231	100.83
2007/08	10,000,000		

(Source: NB Budget Statements and Annual Reports)

The yearly comparative status of budgeted deposit and actual achievements are shown in the Scattered and Bar Diagram as below:

Diagram No 3: Diagram showing Budgeted & Actual Deposits Collection



Above table and diagram show that the deposit collection target has been met for 100% or more than the budget amount for the some. This gives the picture of high level of achievement made by the bank towards deposit collection sector. The bar diagram shows the achievement level higher than the budgeted level. Similarly, in the scatter diagram, the actual line is running higher than the budgeted line. The above picture gives the high level of performance of the bank in deposit collection sector. We can find the relationship between the budgeted deposit collection with that of actual for different year by the help of statistical tools that is arithmetic mean, NB Bank deviation and coefficient of variation. The detail calculation of these statistical tools is shown in appendix 1. Now we are going to present summary of the results from appendix 1. we have:

Table No: 5 Summary of Budgeted & Actual Deposits and Achievements

Statistical tool's name	Budgeted deposits in Rs (X) in millions	Actual deposits in Rs (Y) in millions
Mean	5601.14	5729.15
Standard Deviation	2531.36	2579.07
C.V	45.19%	45.02%

The above table shows that actual deposits are little more variable than budgeted deposit, the coefficient of variations of deposits are of more variable nature. On the other hand, budgeted deposits are more heterogeneous than actual deposits. A greater coefficient of variation is said to be more heterogeneous. Here NB bank budgeted deposit is the nature of more variability than Actual deposits.

We can use another statistical tool correlation co-efficient to analyze the relationship between budgeted deposit and actual deposits. There should be positive correlation between budgeted deposited and actual deposits. We can take the help of Karl Person's Coefficient of

correlation between actual deposits and budgeted deposit. Karl Person's Coefficient of correlation is denoted (r). By calculation (r) we can examine whether there is positive correlation between budgeted deposit and actual deposits or not. The actual deposits will change in the same direction as the budgeted deposits. For this purpose budgeted deposits is denoted by 'X' and assumed to be budgeted deposits and actual deposit is denoted by 'Y' is assumed to be dependent variable upon budgeted deposits. so that increase in budgeted is support to increase in actual achievement or vice versa, which meant means that that there should be positive correlation between, budgeted figure and achievement figures. Significance of correlation of (r) in tested with probable error PE. We have probable error $PE = 0.02$

The detail calculation of 'r' and probable error PE is presented in appendix 1. From that appendix

We have calculated the value of 'r' is 0.996. The figure of 'r' shows that is positively perfect correlation between budgeted deposits and actual deposits.

From the calculation show in appendix 1, We have obtained Karl Person's coefficient of correlation (r) between the budgeted deposit (x) and actual deposit (y) i.e. $r(x, y)$ being 0.996

Now the coefficient of determination, which explains the change in y variable i.e. actual deposit by x variable i.e., budgeted deposit can be calculated as r^2 therefore, the co-efficient of determination $(r)^2 = 0.992$

Since r is greater than six times of probable error ($0.966 > 6 \times 0.02$), the value of 'r' is more significant so it is no doubtful that actual deposit will go no same direction that at budgeted.

Another statistical tool, regression line can also be fitted to show the degree of relationship between budgeted deposits and actual deposits and to forecast the achievement with given target.

For this purpose, achievement figures have been supposed to dependent upon independent target. So that regression line of achievement 'Y' on target 'x' or 'y' on 'X' is as follows:

Status of Actual (y) and Budgeted Deposits Regression Line:

$$Y \text{ on } x = (y - \bar{y}) = r \frac{\sigma_y}{\sigma_x} \times (x - \bar{x})$$

where,

$$\bar{y} = 5728.86$$

$$\bar{x} = 5601.14$$

$$\sigma_y = 2579.07$$

$$\sigma_x = 2531.51$$

$$r = 0.996$$

Regression Equation:

$$(y - 5728.86) = 0.996 \times \frac{2579.07}{2531.51} (x - 5601.14)$$

$$\text{or, } (y - 5728.86) = 1.015(x - 5601.14)$$

$$\text{or, } (y - 5728.86) = 1.015x - 5685.16$$

$$\text{or, } y = 1.015x - 5685.16 + 5728.86$$

$$\text{or, } y = 1.015x + 43.7$$

From the above equation, it is clear that actual deposits are in increasing trend by the help of this regression line equation. We ascertain the expected deposit achievement with given value of target deposit say (x) ascertain the expected deposits achievement for fiscal year 2007/08.

When X=10,000(million)

The expected deposits achievement

$$\text{or, } y = 1.015x + 43.7 = 10193.7(\text{million})$$

If the relationship between deposits and actual deposits remains same as previous year than the actual deposits for the fiscal year 2007/08 will be Rs 10,193.7(million) as stated by the above regression line equation.

Following table shows the data of actual deposit mobilized by the bank as of the end of each fiscal year.

Table No: 6 Growth of deposits of NB Bank

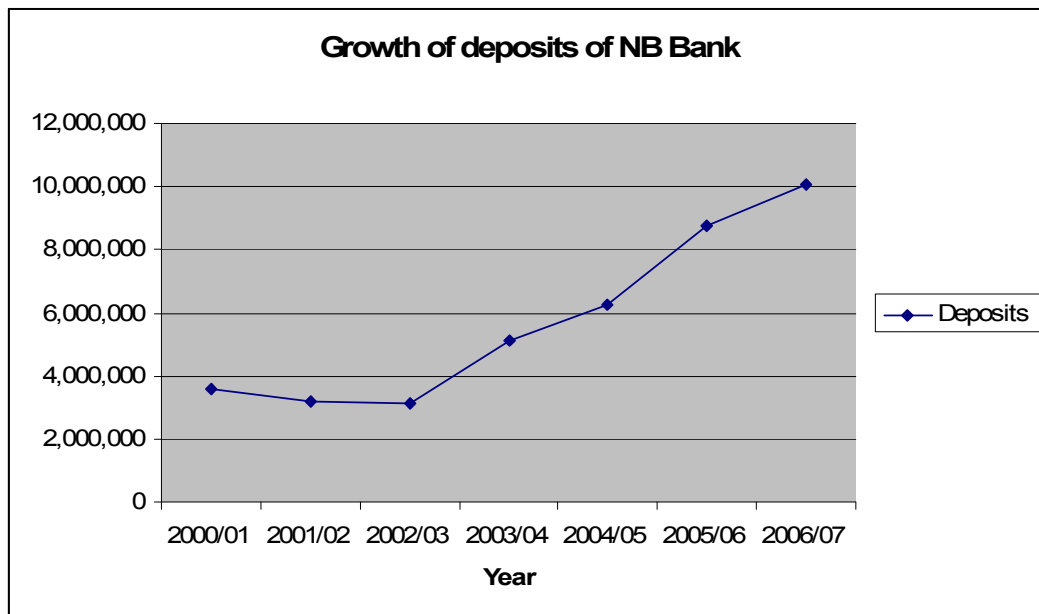
(In '000')

Fiscal Year	Deposits	Growth in amount	Growth %
2000/01	3,572,362		
2001/02	3,165,312	(407,050)	-11.39
2002/03	3,144,312	(21,000)	-0.66
2003/04	5,146,483	2,002,171	63.68
2004/05	6,241,378	1,094,895	21.27
2005/06	8,765,951	2,524,573	40.45
2006/07	10,068,231	1,302,280	14.86

(Source: NB Annual Reports)

From the above table we can see that the deposits are increasing every year except in the year 2001/02 and 2002/03. NB bank has highest growth of deposits in the year on 2003/04, in which the deposits is increased by 63.68%. The growth of deposits in NB Bank can be shown in diagram as under:

Diagram no: 4 Diagram showing Growth of deposits of NB Bank



4.2.2 Resources Deployment Plan:

Development of the resources refers to the reasonable allocation of the resources, making comfortable liquidity as well as investing in income generating activities. Besides these, some investments have to be made in fixed assets and other operating assets for the bank. The deployment of available resources can be objectively categorized as below:

1. Deployment for liquidity.
2. Deployment for income generating activities
3. Deployment for other asset

i. Deployment for liquidity:

This is made for meeting expected withdrawal and other kind of payments obligations of the bank. The resources for this purpose are kept in liquid form such as cash in vault, cash at bank etc. Generally there is no yield on this type of deployment excepting in the cash money placed in interest bearing account. The central bank of Nepal NRB at has instructed commercial bank to mandatory maintain approximately 5% of their total customer deposit liability as liquid form (cash in vault and at NRB) for this study, cash and bank balance is grouped in one dependent portfolio.

ii) Deployment for income generating activities:

Banks deploys the major portion of the resources is deployed for income generating activities popularly called as fund based exposure. Fund based exposure are taken by the bank in following two portfolio.

- a) Loan Advances and Bills purchased (LABP)
- b) Other investment.

LABP includes all loans, advances, overdrafts, bills purchased/discounted, provisioning and other types of loans available to the borrowers of the bank in return of which the bank earns interest

income. Others investments include investment in shares, Treasury bill (TB), placement of fund on call make etc.

iii) Deployment for the assets:

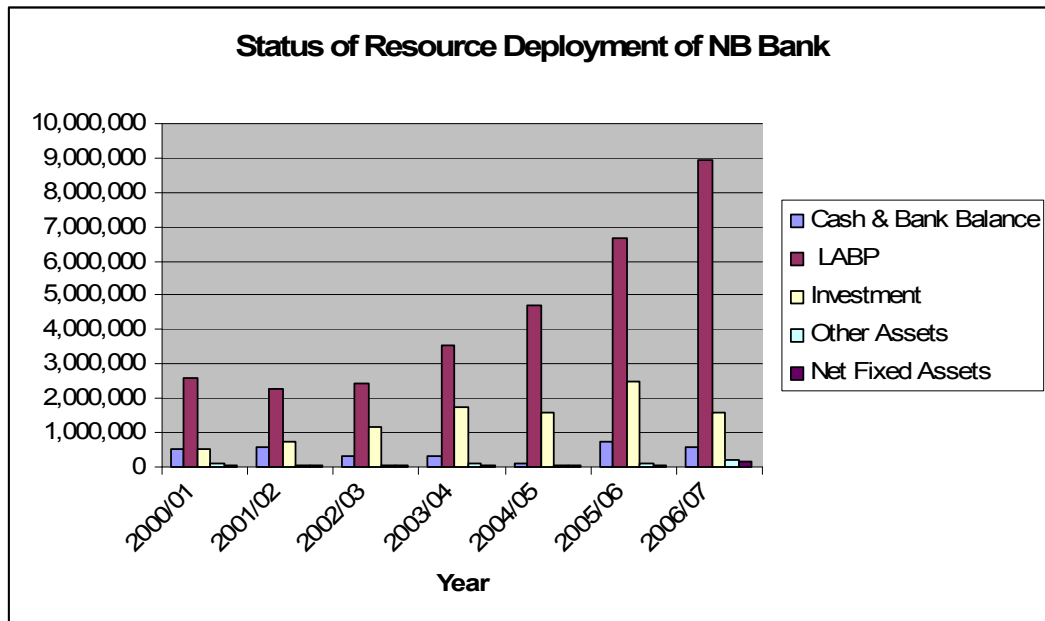
This includes the deployment of the resources towards the non yielding assets such as fixed assets, other capital expenditure. Subject to write off in future course of time, income receivables, advance payments, sundry debtors etc. following tables shows the status of resources debtors by the bank over the period of study.

Table No 7 : Status of Resource Deployment of NB Bank
(in"000")

Fiscal Year	Cash & Bank Balance	LABP	Investment	Other Assets	Net Fixed Assets	Total
2000/01	539,451	2,585,419	537,078	88,267	62,002	3,812,217
2001/02	559,530	2,278,994	753,812	74,748	54,785	3,721,869
2002/03	318,058	2,419,523	1,153,262	66,562	50,214	4,007,619
2003/04	319,306	3,561,139	1,760,724	115,951	43,286	5,800,406
2004/05	100,550	4,711,712	1,572,902	68,527	59,496	6,513,187
2005/06	749,139	6,655,964	2,479,912	102,562	39,864	10,027,441
2006/07	599,759	8,941,398	1,599,481	220,345	153,679	11,514,662

(Source: NB Annual Reports)

Diagram No 5 : Diagram showing Status of Resource Deployment of NB Bank



Above table and diagram shows the deployment of the bank available resources at various portfolio among which the LABP, hold the biggest outlet of resources deployment. Therefore, in this study we have segregated the deployment into following two categories

- a) Deployment in LABP
- b) Deployment in other than LABP (NLABP)

4.2.2.1. LABP budget of NB Bank

Following table shows the budgeted amount of LABP and the same achieved actually. Since budgeted figure for LABP form F/Y 2000/01 to 2002/03 couldn't be available, this study has assumed the actual figure as the budgeted amount also.

Table No:8 Status of Budgeted & Actual LABP

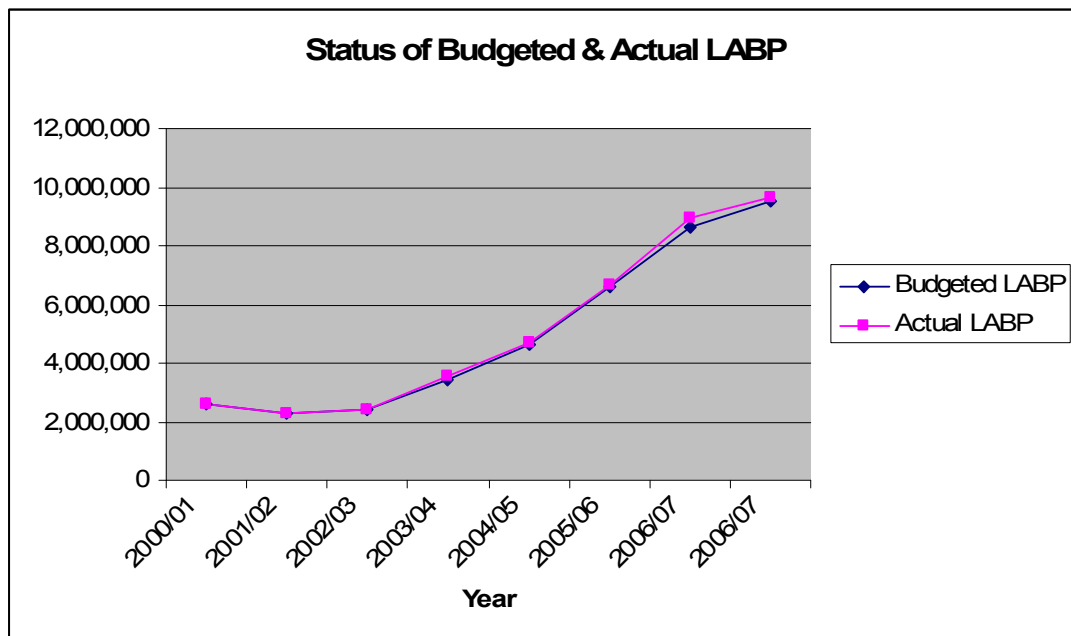
(In "000")

Fiscal Year	Budgeted LABP	Actual LABP	Achievement (%)
2000/01	2,585,419	2,585,419	100
2001/02	2,278,994	2,278,994	100
2002/03	2,419,523	2,419,523	100
2003/04	3,459,621	3,561,139	102.93
2004/05	4,652,312	4,711,712	101.28
2005/06	6,598,756	6,655,964	100.87
2006/07	8,659,234	8,941,398	103.26
2006/07	9,500,000	9,652,170	101.60

(Source: NB Bank's Budgeted and Annual Reports)

The status of budgeted and actual deployment in LABP on the various years of study, are presented in scatter diagram as below.

Diagram No 6: Diagram showing budgeted and Actual LABP



Above table and diagram show that the Actual LABP has been meet for 100% or more than the budget amount for the some. This gives the picture of high level of achievement made by the bank toward LABP.

The bar diagram shows the achievement level higher than the budgeted level. Similarly, in the scatter diagram, the actual line is running higher than the budgeted line. We can find the relationship between the budgeted LABP with that of actual for different year by the help of statistical tools that is arithmetic mean, NB Bank deviation and coefficient of variation. The detailed calculations of the detailed calculation of the statistical tools are shown appendix 2. Now we are going to present summering the results from appendix 2. We have

Table No 9: Summary showing Budgeted & Actual LABP

Statistical tool's name	Budgeted LABP in Rs (X) in millions	Actual LABP in Rs (Y) in millions
Mean \bar{X}	4379.14	4450.57
Standard Deviation σ	2256.166	2336.26
C.V	51.52%	52.49%

The above table shows that actual LABP are more variable than targeted LABP. Since the coefficient of variations of actual LAPB is greater than the targeted LABP. Actual LABP are of more variable nature. On the other hand, budgeted LABP are more consistent and more homogeneous than actual LABP. A greater coefficient of variation is said to be more heterogeneous. Here NB Bank's actual LABP is the nature of more variability the budgeted LABP.

We can use another statistical tool correlation coefficient to analyze the relationship between budgeted LABP and actual LABP. There should be positive co-relationship between to financial correlation actual LABP and budgeted LABP. Karl Person's coefficient of correlation is denoted by (r). By calculating (r), we can examine whether is positive correlation between budgeted LABP and actual LABP or not. The actual LABP will change in the same direction and the budgeted LABP. For this purpose budgeted LABP is denoted by 'X' and assumed to be independent variable and actual 'Y' denotes LABP is assumed to be dependent variable upon budgeted LABP.

So that increase in budget supports to increase in actual achievement or vice versa, which meant that, should be positive correlation between budgeted figure and achievement figure Signification of correlation of (r) is tested with probable error (PE) we have probable error (PE) = 0.05
 The detail calculation of 'r' and probable error (PE) is presented in appendix 2, that appendix we have calculated the value of r is 0.999, this figure of 'r' shows that is positively perfect correlation between LABP and actual LABP. We have:

$$r = 0.999 \text{ and } PE = 0.05$$

Since 'r' is higher than six times of the probable error ($0.999 > 6 \times 0.05$),
 The value of r is significant.

From the calculation in appendix 2, we have obtained the value of 'r' being 0.999

Now the coefficient of determination, which explains the change in Y variable i.e. budgeted LABP can be calculated as the square of 'r'

$$\text{Therefore, coefficient of determination} = (r)^2 = (0.999)^2 = 0.998$$

Another statistical tool, regression line can also be fitted to show the degree of relationship between budgeted LABP and actual LABP and to forecast the achievement with given target. For this purpose achievement figure have been supposed to be dependent 'Y' on target (x) or 'Y' on (x) is as follows:

$$Y \text{ on } x = (y - \bar{y}) = r \frac{\sigma_y}{\sigma_x} \times (x - \bar{x})$$

We have,

$$\bar{y} = 4450.57$$

$$\bar{x} = 4379.14$$

$$\sigma_y = 2336.26$$

$$\sigma_x = 2256.166$$

$$r = 0.9998$$

Regression Line Y on X

$$(y - 4450.57) = 0.9998 \times \frac{2336.26}{2256.166} (x - 4379.14)$$

$$\text{or, } (y - 4450.57) = 1.035(x - 4379.14)$$

$$\text{or, } (y - 4450.57) = 1.035x - 4532.41$$

$$\text{or, } (y) = 1.035x - 4532.41 + 4450.57$$

$$\text{or, } y = 1.035x - 81.84$$

From the above equation, it is clear that the actual LABP are in increasing trend by the help of this regression equation. We ascertain the expected LABP's achievement with given value of target LABP say (x) for fiscal year 2007/2008.

When x = 9500 million Then expected LABP achievement

$$y = 1.035x - 81.84$$

$$= \text{RS. } 9750.66$$

Following table shows the data of actual LABP deployment as of end of each fiscal year.

Table No 10: Growth of LABP

(in "000")

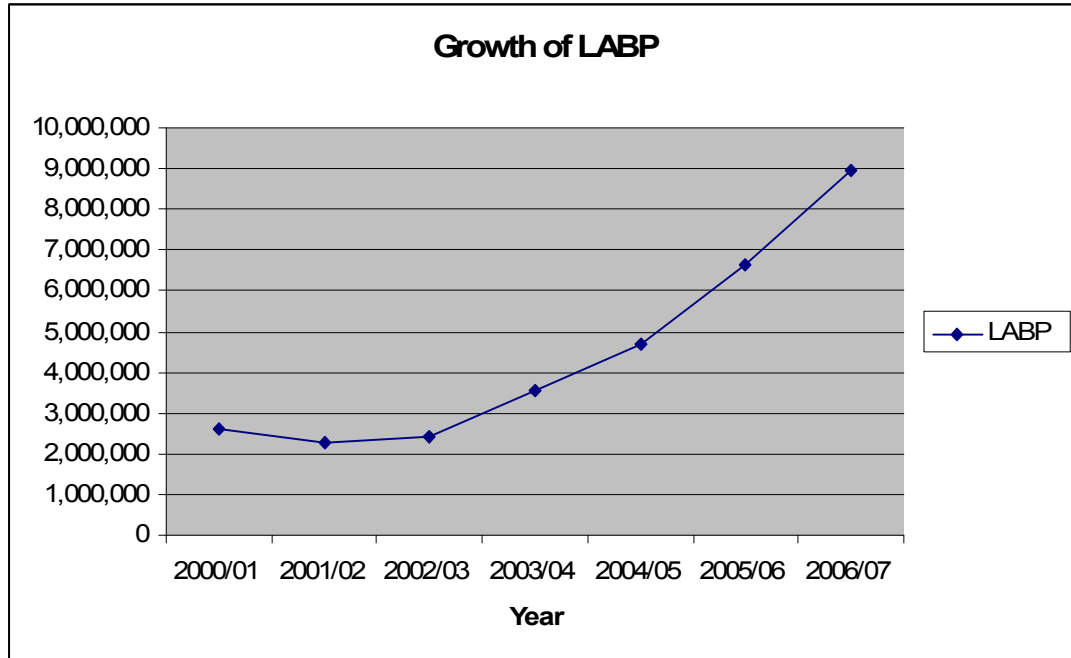
Fiscal Year	LABP	Growth in Amount	Growth in%
2000/01	2,585,419	-	-
2001/02	2,278,994	(306,425)	-11.85
2002/03	2,419,523	140,529	6.17
2003/04	3,561,139	1,141,616	47.18
2004/05	4,711,712	1,150,573	32.31
2005/06	6,655,964	1,944,252	41.26
2006/07	8,941,398	2,285,434	34.34

(Source: NB Bank annual Reports)

Above table shows that the LABP of NB bank is in increasing trend except on the year 2001/02, in which the bank has negative growth by 11.85% than the previous year. The bank has the highest growth of

47.18% and 41.26% of LABP in the year 2003/04 and 2005/06 respectively. The same growth can be shown in the diagram form as under:

Diagram No 7: Diagram showing Growth of LABP



4.2.2.2. Resources deployment in other portfolio than LABP (NLABP):

Deployment in other portfolio than LABP includes cash & bank, investment in fixed assets and other assets.

Following table shows the budgeted and actual figures of the resources deployed under this group over the period of study. For the initial few years of which the budgeted figures couldn't be available, the actual position has assumed to be budgeted figure also for the purpose of this study.

The comparative status of the resources deployment of other portfolio than LABP is shown by the scattered and bar diagram as below:

Table No 11: Status of Budgeted & Actual NLABP

(in"000")

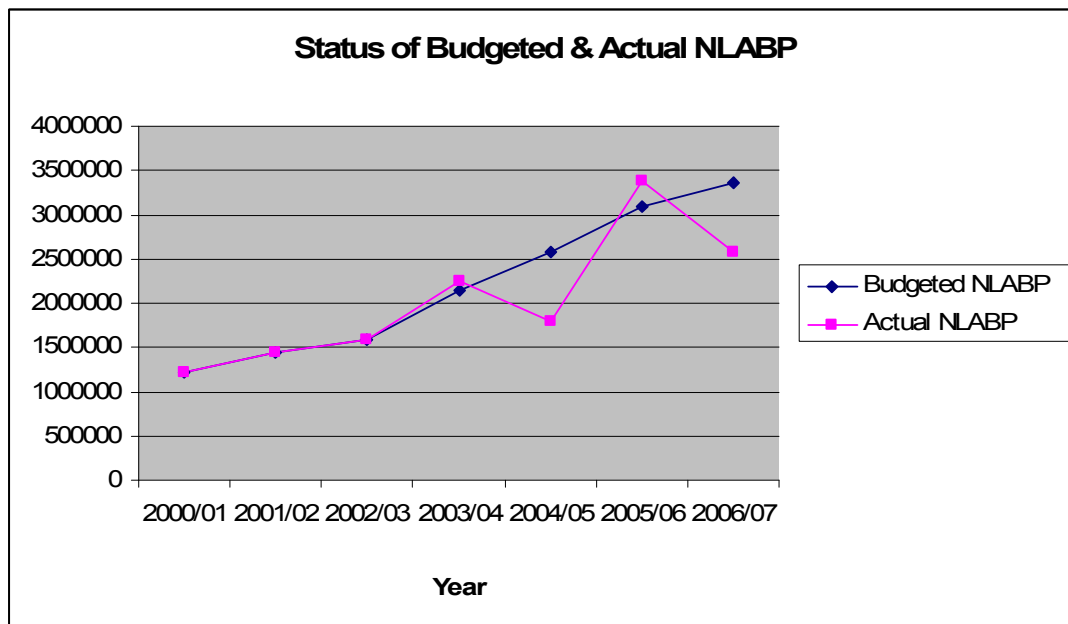
Fiscal Year	Budgeted NLABP	Actual NLABP	Achievement (%)
2000/01	1226798	1,226,798	100
2001/02	1442875	1,442,875	100
2002/03	1588096	1,588,096	100
2003/04	2136892	2,239,267	104.79
2004/05	2569845	1,801,475	70.10
2005/06	3089562	3,371,477	109.12
2006/07	3356245	2,573,264	76.67

(Source: NB Bank's budgeted and Annual Reports)

Above table shows the 100% or more achievement of target in deployment of the resources to other LABP for the study period. Except for F/Y 2004/05 & 2006/07 where the achievement is up to 70.10% and 76.67% respectively of the budgeted amount.

The bar and scatter diagram shows the picture of unsatisfactory achievement in the deployment in NLABP portfolio.

Diagram No 8: Diagram Showing Budgeted & Actual NLABP



4.2.3. Actual deposit collected vs. actual LABP status of NB Bank.

As it is understood that the major sources of resources mobilization of NB BANK is the customer deposit and similarly the major outlet for deployment is for loan and bills purchased (LABP), it is desirable to analyze the comparative status of the same for the study period.

Following tables shows the actual balance of customer deposit mobilization by the bank and actual position of deployment towards LABP and the ratio of LABP to deposit (CD Ratio) as of the year and of corresponding fiscal year.

Table No12: Showing Deposits & Outstanding LABP

(in'000')

Fiscal Year	Deposits	Actual Outstanding LABP	CD Ratio (%)
2000/01	3,572,362	2,585,419	72.37
2001/02	3,165,312	2,278,994	72
2002/03	3,144,312	2,419,523	76.95
2003/04	5,146,483	3,561,139	69.20
2004/05	6,241,378	4,711,712	75.49
2005/06	8,765,951	6,655,964	75.93
2006/07	10,068,2 31	8 ,941,398	88.81

(Source: NB annual Reports)

From above table it can be found that deposit and LABP is increasing. The average CD Ratio over the period of last 7 years is 75.82%.

It is significant to analyze the relationship between deposits and outstanding LABP. In order to find out the variability of actual deposit and actual outstanding LABP of different years, we have to calculate arithmetic mean, NB Bank deviation, and coefficient of variation techniques and correlation of coefficient.

The detail calculations of these statistical tools are presented in appendix no.3. Now, summarizing the results from appendix.3, we have:

Table13: Summary showing Deposits & Actual LABP

Statistical tool's name	Deposits in Rs (X) in Millions	Actual LABP in Rs (Y) in millions
Mean \bar{X}	5728.86	4450.57
Standard Deviation σ	2579.07	2336.26
C.V	45.02%	52.49%

The above results show that actual deposits are more variable than actual outstanding LABP. Hence the coefficient of variation of actual deposits is higher than that of actual outstanding LABP.

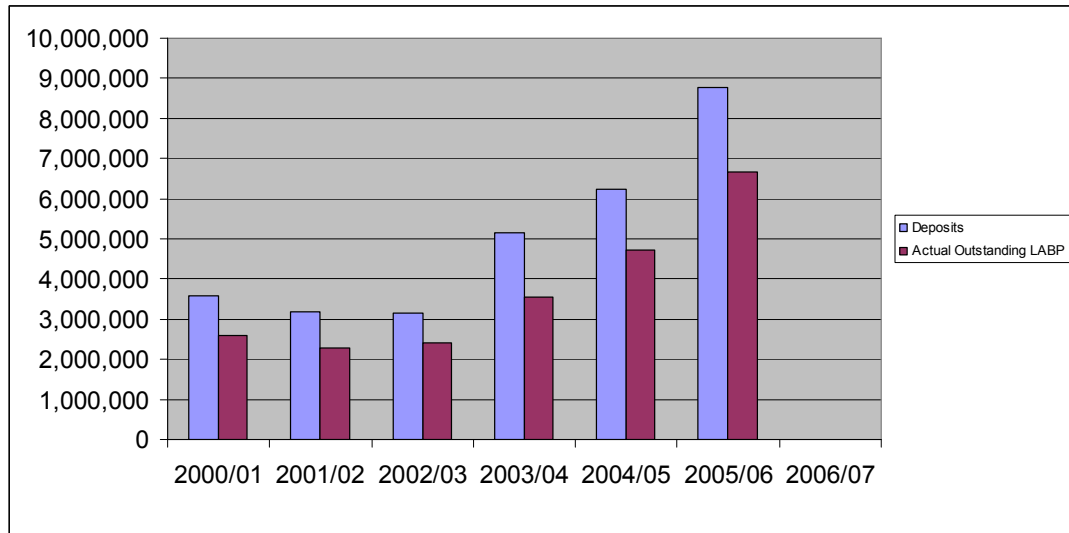
Another statistical tool, correlation of coefficient can be used to analyze the relationship between, actual outstanding deposits and actual outstanding LABP. There should be positive correlation between actual outstanding deposits and actual outstanding LABP. In other words the actual deposits increase as the actual LABP increase or vice versa.

To find out correlation between actual deposits and actual outstanding LABP, we can take the help of Karl person's coefficient of correlation and it is denoted by 'r' we can examine whether there is positive correlation between actual deposits outstanding and actual LABP outstanding or not. For this purpose, actual deposit (x) is assumed to be independent variable and actual LABP (Y) is assumed to be dependent variable. So that increases in actual deposits will support to increase in LABP and vice versa.

After this significance of 'r' is tested with probable error of 'r' the detail calculation of 'r' and probable of 'r' is presented in appendix 3. From this appendix, we have to calculate value of 'r' and P.E. Respectively, 0.988 & 0.066. Since $r > 6 \text{ P.E.}$ ($0.988 > 6 \times 0.066$), the value 'r' is significant; there is perfect correlation between actual deposits and actual LABP.

The data of actual deposits and actual LABP outstanding can also be presented in graphical form as below. The graph below shows that both the actual deposits & actual outstanding LABP are in increasing trend.

Diagram No 9: Diagram Showing Deposits & Outstanding LABP



4.2.4. Plan for non-funded business activities of NB Bank.

Apart from the activities like advancing loans, overdraft, bills discounting and investments, where funds are involved for income generating, there are other business activities too preferred by the bank which do not involve fund yet are income generative. Such transactions are called non-funded business of the bank. In such transactions, the bank has to take contingents liabilities on behalf of their customers for a fee and/or commission, which are the income of bank other than the interest income. Such income greatly contributes in reducing the expense burden of the bank. Generally income generating non-funded business of the bank is of following two types.

- (a) Letter of Credit Business
- (b) Bank Guarantee Business

Since, these are the contingent liabilities; it appears down in the line of balance sheet of the bank.

4.2.4.1. Letter of Credit:

Letter of credit is a kind of faculty provided by the bank of their customers, by way of which the customers can import the goods from foreign buyer for which the bank undertake the guarantee for payment provided the terms and condition of the L/C is complied with.

Following table shows the letter of credit business status of the bank as of the closing of the respective fiscal year and its growth over the period of this study.

Table No 14: Growth of L/C Business

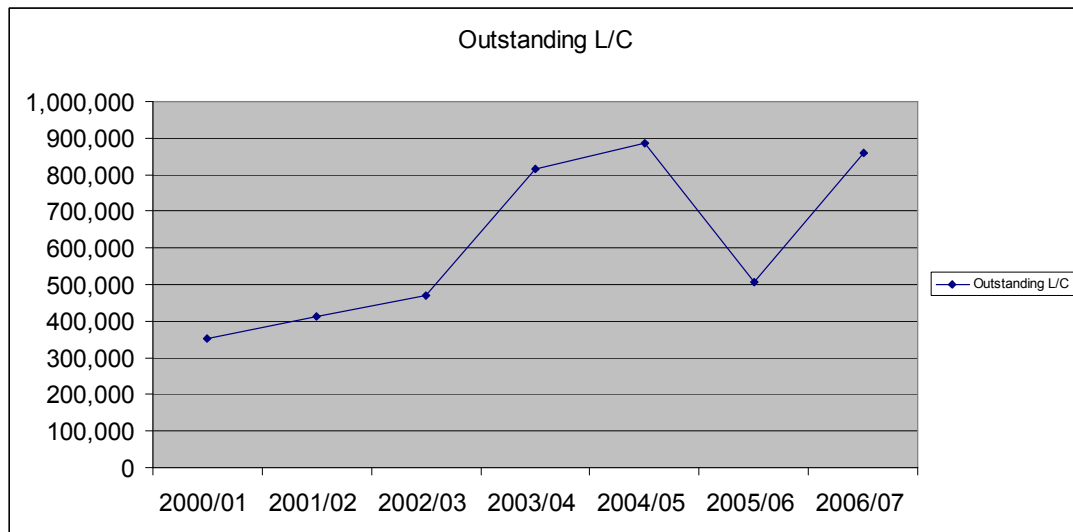
(in "000")

Fiscal Year	Outstanding L/C	Increase (Decrease)	Growth%
2000/01	353,889	-	
2001/02	412,451	58,562	16.55
2002/03	468,329	55,878	13.55
2003/04	815,340	347,011	74.10
2004/05	884,458	69,118	8.48
2005/06	507,319	(377,139)	-42.64
2006/07	859,541	352,222	69.43

(Source: NB Bank Annual Reports)

Above table shows that the letter of credit is increasing each year except in the year 2005/06. It had a record growth of 74.10% in the year 2003/04 and decreasing growth rate 42.64% in the year 2005/06. The growth in L/C business of the bank year has been presented in the scatter diagram as below:

Diagram No 10: Diagram showing Letter of Credit



4.2.4.2. Bank Guarantees:

Bank issue the bank guarantee of behalf of their customers for bidding and or performing any activities by the letter in favor of the employer of the activities. It is a guarantee letter by the bank agreeing to pay a certain sum of money in case of any default done by the party while performing the activity.

Following table shows the outstanding bank guarantee liability as of the end of fiscal year of our study and change in subsequent year.

Table No 15: Status of Bank Guarantee

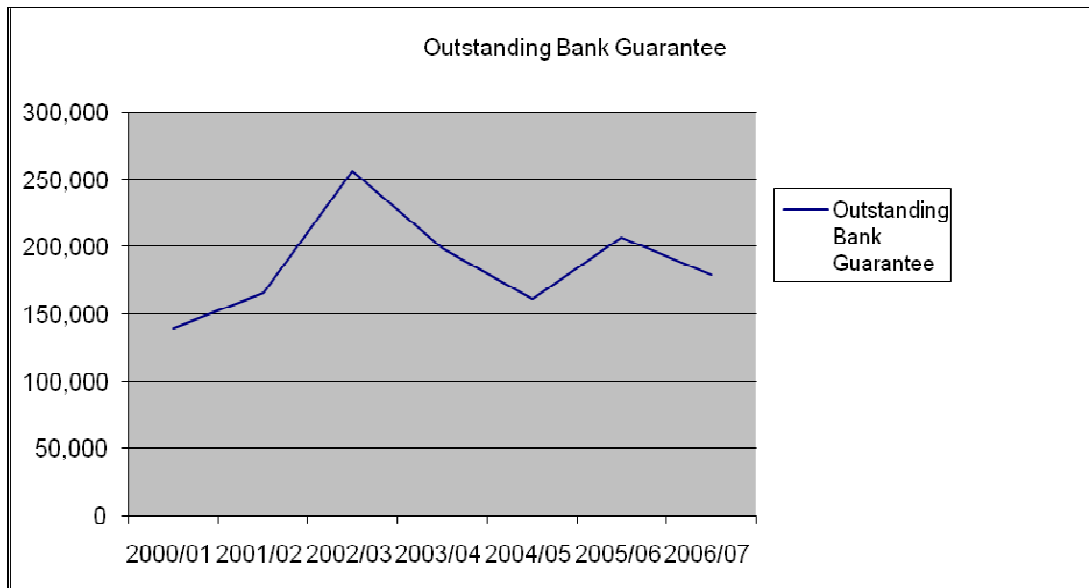
(in"000")

Fiscal Year	Outstanding Bank Guarantee	Increase (Decrease)	Growth%
2000/01	139,934	-	
2001/02	165,960	26,026	18.60
2002/03	256,108	90,148	54.32
2003/04	199,309	(56,799)	-22.18
2004/05	161,769	(37,540)	-18.84
2005/06	207,272	45,503	28.13
2006/07	179,619	(27,653)	-13.34

(Source: NB Annual Report)

Above table shows that, the bank guarantee outstanding liability is increasing or decreasing cash year. It had a maximum growth rate of 54.32% in the year 2002/03 and a negative growth rate of 22.18% and 13.34 in the year 2003/2004 and 2006/07 respectively. The growth in L/C business of the bank year has been presented in the scatter diagram as below:

Diagram No 11: Diagram showing Status of Bank Guarantee



4.2.5 Expenditure planning of NB Bank

Planning for expenses is most essential to maintain reasonable levels to support the objectives & planned programs of the bank. Expenses planning focus on the relationship between expenditure & the benefits derived from these expenditures. NB Bank has started preparing Expenditure and Revenue budget.

The following table shows the status of expenditure incurred by the bank for the study period.

Table No 16: Yearly Cost Structure**(in"000)**

Yearly Cost Structure	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Interest Income	294,219	297,764	291,143	363,637	457,610	579,979	725,819
Exchange Earning	23,669	18,831	12,182	20,832	24,606	25,388	44,277
Commission & Discount	22,377	18,563	21,978	27,236	27,102	29,447	63,017
Other Operating income	3,923	2,096	2,463	5,561	11,180	20,242	26,175
Other non operating income	-	-	-	40	4,285	59	409
Total	344,188	337,254	327,766	417,306	524,783	655,115	859,697

(Source: NB Annual Report)

The above table shows that the each type of expenses each year is in increasing or decreasing trend. As the expense for interest payment is the highest portion total cost for each year, we have segregated total expenses into interest expenses and expenses other than interest (other expenses) for our study.

4.2.5.1 Interest Expenses

Interest expenses are the expenditure incurred for making payment of interest to the deposit mobilized by the bank. As the customer deposit holds a major share on total resources of the bank, interest expenses is also highest among other in total expenses of the bank.

Now we analyze the interest expenses to total deposit mobilization by the bank in following table.

Table No 17: Yearly interest expenses to Total Deposits
(in"000")

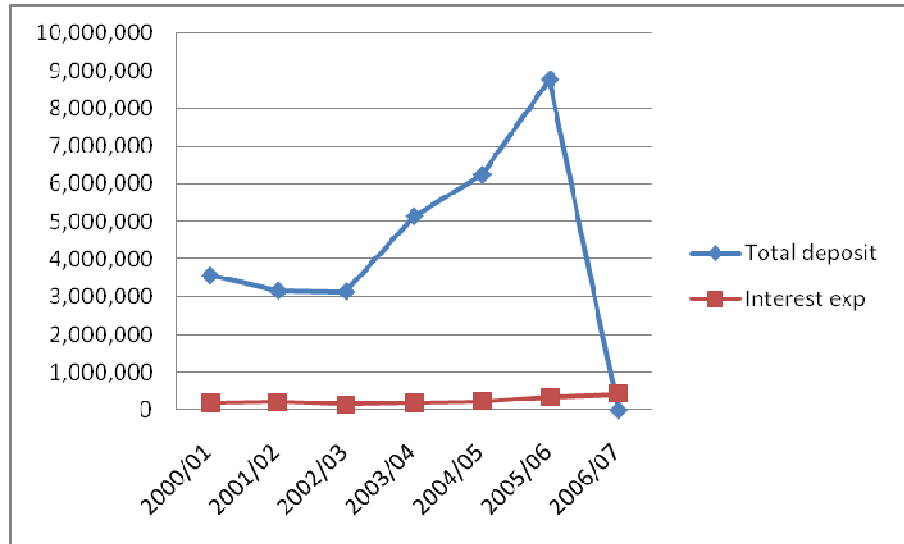
Fiscal Year	Total deposit	Interest exp	Cost of deposit in%
2000/01	3,572,362	180,459	5.05
2001/02	3,165,312	197,094	6.23
2002/03	3,144,312	142,606	4.54
2003/04	5,146,483	183,582	3.57
2004/05	6,241,378	225,992	3.62
2005/06	8,765,951	340,221	3.88
2006/07	1 0,068,231	421,375	4.19

(Source: NB Annual Report)

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

From above total we can see that the yearly COD of NB Bank ranges from 3.57 to 6.23% in various years. The average COD for the period of this study is 4.44%. The status of total deposit and the COD is shown tin the bar diagram as below.

Diagram No 12: Diagram Showing Interest Expenses to Total Deposits



It is significant to analyze the relationship between deposits and interest expenses. The figure of actual deposit amount and interest amount can be presented in tabular form. In order to find out the variability of actual deposits and actual interest expenses of different years, we have to calculate arithmetic mean, NB Bank deviation, coefficient of variation technique and correlation of coefficient the detail calculations of these statistical tools are presented in appendix no 4. Now summarizing the results form appendix we have.

Table No 18: Summary showing Interest Exp & Total Deposits

Statistical tool's name	Total Deposits in Rs (X) in millions	Interest Expenses in Rs (Y) in millions
Mean \bar{X}	5728.86	241.43
Standard Deviation σ	2579.07	93.45
C.V	45.02%	38.71%

The above result shows that actual outstanding deposit is more variable than actual interest expenses incurred. Hence, the coefficient of variation of actual outstanding deposit is higher than of actual interest expenses.

Another statistical tool, correlation of coefficient can be used to analyze the relationship between actual outstanding deposit and actual interest expenses. There should be positive correlation between actual outstanding deposit and interest expenses. In other words the actual deposits increases as the actual interest expenses increase or vice versa. To find out correlation between actual deposits and actual interest expenses.

We can take the help of Karl person's coefficient of correlation and it is denoted by 'r'. We can examine whether there is positive correlation between actual deposits outstanding and actual interest expenses or not. For this purpose, actual deposit (x) is assumed to be independent variable and actual interest expenses (y) is assumed to be dependent variable. So that increase in actual deposits will support to increase in interest expenses and vice versa.

After the significance of 'r' is tested with probable error of 'r' the detail calculation of 'r' and probable of 'r' is represented in appendix 4. From this appendix we have calculated value of 'r' and P.E. is respectively 0.953 & 0.025. Since $r > 6 \times P.E.$ ($0.953 > 6 \times 0.025$). The value of 'r' is significant, there is perfect correlation between actual deposits and actual interest expenses incurred.

From the calculation shown in appendix 4, we have obtained the value of 'r' being 0.953 Now the coefficient of determination, which explains by x variable i.e. deposit can be calculated as the square of 'r'.

Therefore, the coefficient of determination $(r)^2 = (0.953)^2 = 0.908$

4.2.5.2 Expenses other than interest expenses.

The operating expenses incurred by the bank for other than interest payments are incurred in other expenses for this study. Such expenses included:

- i. Expenses for employees,
- ii. Operational expenses,
- iii. Non-operating expenses,

- iv. Loan loss provision,
- v. Office operational exposes.

4.2.6 Revenue planning of NB Bank

NB Bank generates its revenue from its revenue from its income earning activities. Such activities are mostly fund based that is generated out of the deployment of fund, and some portion form non-fund based business activities. Income of NB bank can be broadly categorized in to two types viz. Interest income earned from the loan advances and overdrafts provided to the borrowers, investment in HMG bonds etc. Interest income holds major share in total income portfolio of the bank. Other income consist the income other than interest income, which are as follows:

- (i) Income from commission & Discounts
- (ii) Income from interest earnings
- (iii) Income from exchange

Table No 19: Yearly Income Structure

(in"000")

Yearly Cost Structure	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Interest Income	294,219	297,764	291,143	363,637	457,610	579,979	725,819
Exchange Earning	23,669	18,831	12,182	20,832	24,606	25,388	44,277
Commissi on & Discount	22,377	18,563	21,978	27,236	27,102	29,447	63,017
Other Operating income	3,923	2,096	2 ,463	5,561	11,180	20,242	26,175
Other non operating income	-	-	-	40	4,285	59	409
Total	344,188	337,254	327,766	417,306	524,783	655,115	859,697

(Source: NB Bank Annual Reports)

The above table shows that the revenues are increasing each year. Income from interest is the highest among the others in total revenues for each year.

4.2.6.1 Interest Income:

An interest income contributes the major portion to total revenue mix, this study attempts to analyze the interest income amount with other relevant data. Interest income is generated out of the loan and advances made by the bank. Therefore, this is popularly called yield on fund (YOF). Bills discounting is also one form of advances therefore, of this study purpose we have grouped the outstanding loan, advances, overdraft and the bills discounted together call LABP and have included the bills discounting commission too in to the interest income amount (YOF). Now we shall analyze the comparative status of total YOF with the total LABP with the help of following table and bar scatter diagram.

Table No20: Status of interest income to Total LABP

(In "000")

Fiscal Year	LABP	Interest Income (Y)	Average Yields on LABP%
2000/01	2,585,419	294	11.38
2001/02	2,278,994	298	13.07
2002/03	2,419,523	291	12.03
2003/04	3,561,139	364	10.21
2004/05	4,711,712	458	9.71
2005/06	6,655,964	580	8.71
2006/07	8,941,398	726	8.12

(Source: NB Bank Annual Reports)

From above table we can see that yearly YOF of NB bank ranges 8.12% to 13.07% in various years. The average YOF for the period of study is 10.46%. It is significant to analyze the relationship between outstanding LABP and interest income (YOF). The figures of LABP amount and interest income amount have been presented in tabular

form above. In order find out the virility of actual LABP and actual interest income of different years we have to calculate arithmetic mean, NB Bank deviation, coefficient of variation technique and correlation of coefficient. The detail calculation of these statistical tools is presented in appendix no.5. Now summarizing the results from appendix 5, we have.

Table No 21: Summary showing LABP & Interest Income

Statistical tool's name	LABP in Rs(X) in millions	Interest Income in Rs (Y) in millions
Mean \bar{X}	4450.57	430.14
Standard Deviations σ	2336.26	156.06
C.V	52.49%	36.28%

The above results show that actual outstanding LABP are more variable than interest income. Hence the coefficient of variation of actual outstanding LABP is higher than of interest income.

Another statistical tool correlation of coefficient can be used to analyze the relationship between actual outstanding LABP and interest income. There should be positive correlation between actual outstanding LABP and interest income. In other words the actual LABP increase interest income and actual outstanding LABP, we can take the help of Karl persons coefficient correlation and it is denoted by 'r' we can examine whether is positive correlation between interest income and actual LABP outstanding or not. For this purpose actual LABP (X) is assumed to be independent variable and interest income is assumed to be dependent variable. So that, increase in LABP will support to increase interest income and vice visa.

After this significance of 'r' is tested with probable error of 'r' detail calculation of 'r' and probable error of 'r' is presented in appendix 5. From this appendix we have calculated value of 'r' and P.E. 0.973 and 01 responsively. Since, $r > 6P.E.$ ($0.973 > 6 \times 01$) the value of 'r' is

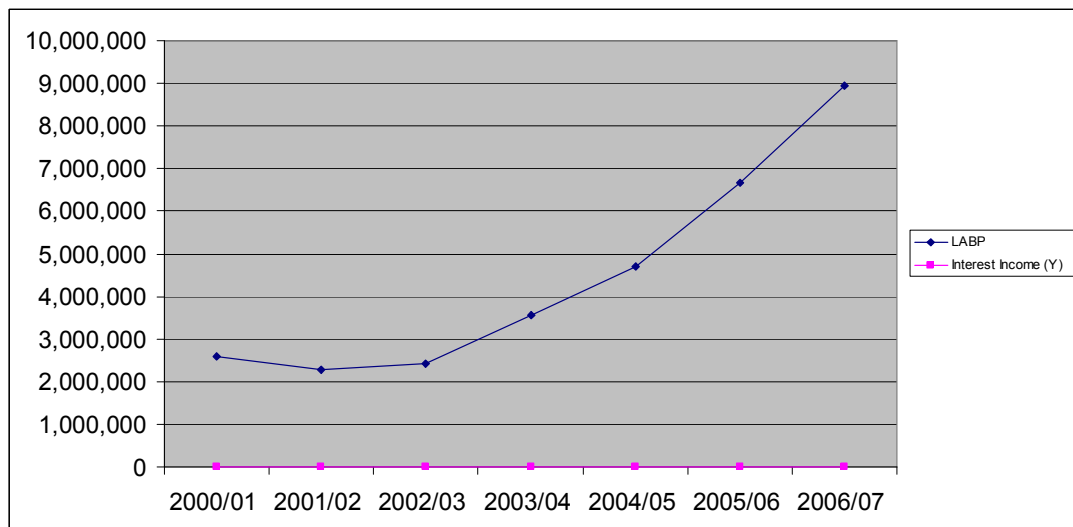
significant there is perfect correlation between actual LABP and actual interest income.

From the calculation show in appendix 5, we have obtained the value of 'r' being. Now coefficient of determination, which explains the change in y variable i.e. interest income variable i.e. LABP can be calculation as the square of (r).

$$(r)^2 = (0.973)^2 = 0.947$$

The data of actual LABP and interest income incurred can also be presented in diagram below.

Diagram No 13: Diagram Showing Interest Income & LABP



From above bar and scatter diagram we can conclude the LABP and interest income is in increasing trend.

4.2.7 Income other than interest income

Income by the bank other than interest income is called other income. Most part of such income are earned from non fund based activities in the form of commissions, fees, charges profit foreign exchange sale, revaluation gain, commitment charge, remittance fees, service charges etc.

4.2.7.1 Interest spread

Interest spread is the difference amount obtained by subtracting total interest expenses amount from the total interest earn. In other words, it is the margin of interest or net interest income of the bank.

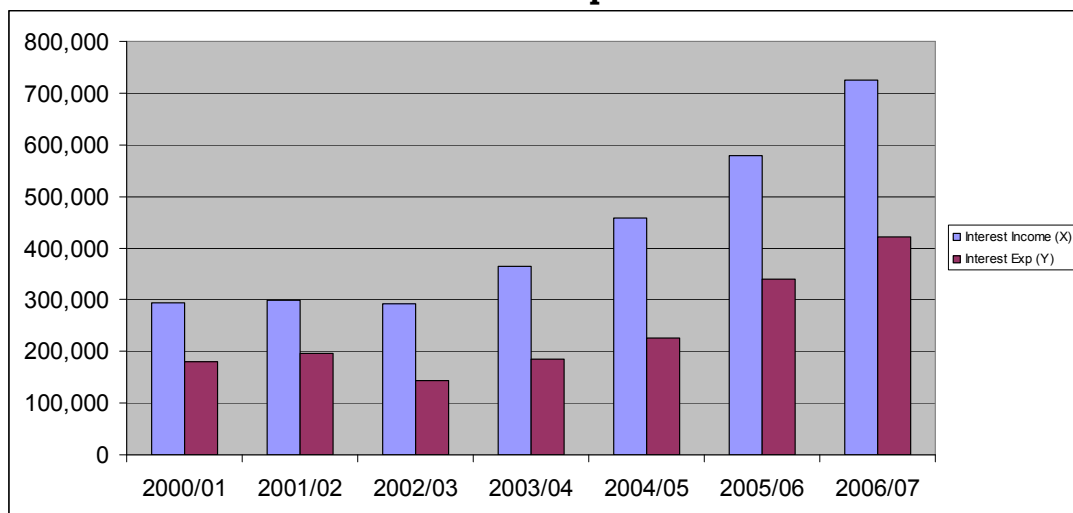
Following table gives the status of interest income expenditure and speed of the bank for the study period

Table No 22: Status showing Interest Income & Interest Expenses
(in"000')

Fiscal Year	Interest Income (X)	Interest Exp (Y)	Interest Spread
2000/01	294,219	180,459	113,760
2001/02	297,764	197,094	100,670
2002/03	291,143	142,606	148,537
2003/04	363,637	183,582	180,055
2004/05	457,610	225,992	231,618
2005/06	579,979	340,221	239,758
2006/07	725,819	421,375	304,444

(Source: NB Bank Annual Reports)

Diagram No 14: Diagram Showing Interest income, Interest Exp and interest spread



From the above table and diagrams we can see that the trend of increasing the interest income is much more higher than the increment of interest expenses due to which interest spread in increasing trend every year.

4.2.7.2 Burden

Burden is the overall expenses of the bank excepting interest expenses incurred for the payment at deposit interest. That is, the operating cost of the bank excepting cost of the interest. Accepting interest cost is called net burden. The net burden is net amount of burden cost obtained which is difference between other expenses and other income.

The nature of this cost is semi fixed where as interest cost is variable cost the following table shows the status of net burden in the bank the period of the study.

Table No23: Showing the Net Burden of NB Bank

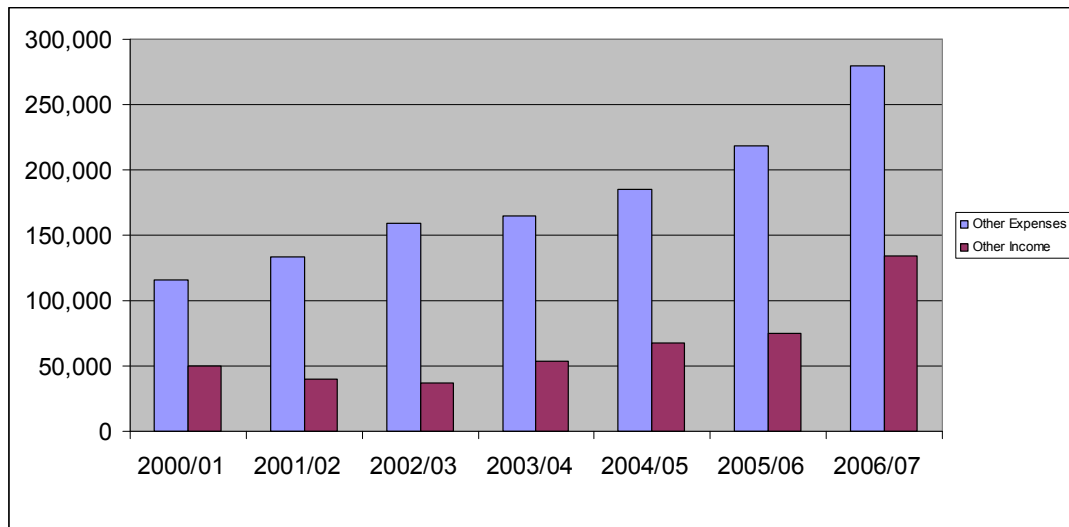
(In"000)

Fiscal Year	Other Expenses	Other Income	Net Burden
2000/01	115,453	49,969	65,484
2001/02	133,341	39,490	93,851
2002/03	159,215	36,623	122,592
2003/04	164,864	53,669	111,195
2004/05	185,035	67,173	117,862
2005/06	218,306	75,136	143,170
2006/07	279,847	133,878	145,969

(Source: NB Bank Annual Reports)

The above table shows that Bank's other expenses in much more higher than other income. And increment other expenses is very higher than increment of other income due to which Net burden of the Bank is increasing every year.

Diagram No 15: Diagram showing other expenses and other income



The above diagrams indicate that bank's other expenses much more higher than the other income due to which net burden for the bank is increasing every year which is also adversely affecting the net profit of the bank.

4.2.8 Net Profit

Profit is excess of income over expenses and loss is excess over the income. In this context, this study has calculated the net profit being the excess spread over the burden. Spread is the net interest income (excess interest income over the interest expenses), and the net burden is the difference amount from other expenses and other income. Following table and graph shows the status of spread burden and Net profit of various year of the study.

Table No 24: Showing Net Profit of NB Bank

(in"000")

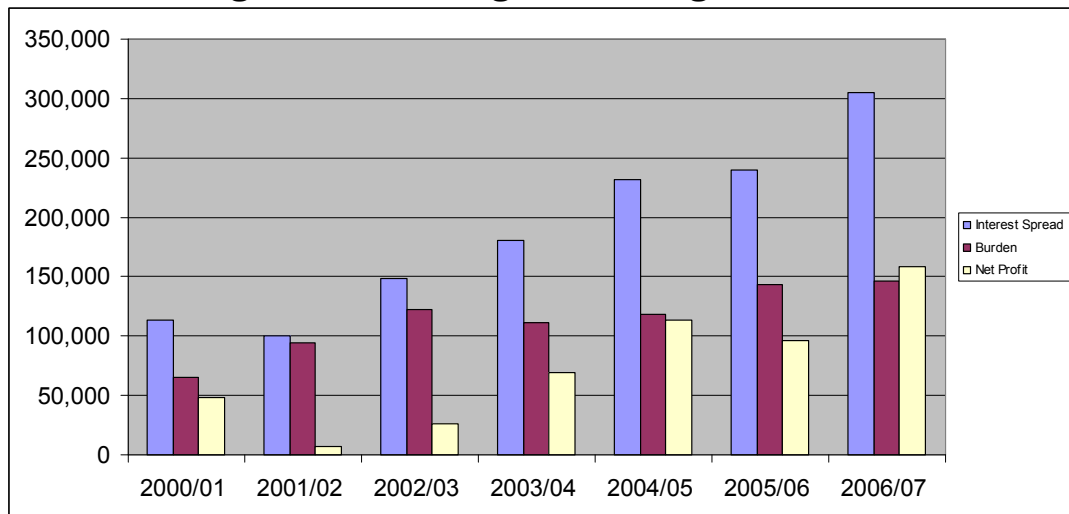
Fiscal Year	Interest Spread	Burden	Net Profit
2000/01	113,760	65,484	48,276
2001/02	100,670	93,851	6,819
2002/03	148,537	122,592	25,945
2003/04	180,055	111,195	68,860
2004/05	231,618	117,862	113,756
2005/06	239,758	143,170	96,588
2006/07	304,444	145,969	158,475

(Source: NB Bank Annual Reports)

Above table shows that the interest spread of the bank is increasing every year in comparison to net burden of the bank. The bank has the highest net profit of NPR 158 Million in the year 2006/07 and the lowest net profit of 6.8 million in the year 2001/02

The increasing trend of net profit is also can be shown by following diagrams.

Diagram No 16: Diagram showing Net Profit



4.3 Performance Evaluation of NB bank

"Performance evaluation for internal management use in important part of a comprehensive planning and control system". (Welsh, 1998, Pg: 78). All companies regardless of their size have reporting requirements to show their overall performance. Performance reporting is an important phase of control process. We can use various techniques and criteria to evaluate performance of NB Bank, which are as follows.

- 1) Ratio analysis
- 2) Cost volume profit analysis

4.3.1 Ratio Analysis

An arithmetical relationship between two figures is known as a ratio. Ratio analysis is a financial device to measure the financial position, major strengths and weakness of firm. To evaluate the performance of an organization by creating the ratios from the figures of different accounts consisting in balance sheet and income statement is known as a ratio analysis. Ratio can be classified for the purpose of exposition into four broad groups.

- 1) Liquidity ratio
- 2) Activity ratio
- 3) Capital structure ratio
- 4) Profitability.

4.3.1.1 Liquidity Ratio

The ability of a firm to meet its obligation in the short term is known as liquidity. It reflects the short-term financial strength of the firm. Now we use current ratio to measure relationship of current assets and current liabilities of NB Bank.

The current ratio, one of the most commonly cited financial ratios, measures the firm's ability to meet its short-term obligations. Current ratio is the ratio of current assets to current liabilities. Current assets

are cash and other "nearness to cash" which can be converted into cash within one accounting period. Whereas the current liabilities are those short term obligations, which can be pay within a year. Current assets represents cash and bank balance investment in treasury bills, money at call, loans and advances, bills purchased and discount inter branch account, other short term loans, receivables and repaid expenses. Current liabilities refer to the short-term maturity objection, which includes all deposit liabilities, intra-bank reconciliation account, bills payable, tax provision, staff bonus, dividend payable, bank overdrafts, provisions, accrued and accrued expenses. The current ratio is expressed as follows:

$$\text{Current Ratio} = \frac{\text{current-assets}}{\text{current-liabilities}}$$

Table No 25: Calculation of Liquidity Ratio

(in "000")

Year	Current Assets	Current Liabilities	Ratio
2000/01	979,747	580,324	1.69
2001/02	681,088	578,070	1.18
2002/03	414,521	302,185	1.37
2003/04	564,920	381,647	1.48
2004/05	1,163,956	1,073,775	1.08
2005/06	1,205,216	1,057,112	1.14
2006/07	983,113	972,136	1.01

(Source: NB Bank Annual Reports)

The above table shows that the current assets of NB Bank have always exceeded the current liabilities for the study period 2000/01 to 2006/07. The bank has the highest current ratio of 1.69 in 2000/01 and the lowest current ratio of 1.01 in 2006/07 with an average ratio 1.28 during the study period. In general, the bank is able to meet its short-term obligations. Therefore the above current ratio analysis of

the bank over the 8 years period indicates that the bank has sound liquidity ratio.

4.3.1.2 Activity ratio (Employee Productivity Ratio)

The relationship between various activities and the number of employees are indicated by employee productivity (activity ratio). These ratios reflect how efficiently the organization is utilizing its manpower. These are expressed as LABP per employee, deposit per employee and non-funded activities per employee.

Table No 26: Calculation of Employee Productivity

(in "000")

Fiscal Year	Deposit collected	LABP	Net Profit	No of Employee	Deposit per Employee	LABP per Employee	Net profit per
2000/01	3 ,572,362	2,585,419	48,276	127	28,128.83	20,357.63	380.13
2001/02	3 ,165,312	2,278,994	6,819	127	24,923.72	17,944.83	53.69
2002/03	3 ,144,312	2,419,523	25,945	128	24,564.94	18,902.52	202.70
2003/04	5 ,146,483	3,561,139	68,860	140	36,760.59	25,436.71	491.86
2004/05	6 ,241,378	4,711,712	113,756	157	39,754	30,010.90	724.56
2005/06	8 ,765,951	6,655,964	96,588	166	52,806.93	40,096.17	581.86
2006/07	10,068,231	8,941,398	158,475	189	53,271.06	47,308.98	838.49

(Source: NB Bank Annual Reports)

Above table shows that deposit per employee is an increasing trend and LABP and Net profit per employee in increasing and decreasing trend.

4.3.1.3 Capital structure ratios (Leverage Ratio):

Capital structure ratios of leverage ratios measure the proportion of outsider's capital in the financial firm's assets and are calculated by establishing relationship between borrowed capital and equity capital. A firm should have a strong short-term liquidity as well as long-term financial position. Higher leverage ratio indicates larger amount of borrowed funds used by the firm to finance its assets and it also

indicates increasing obligations and is known as risky firm. A firm must have sufficient margin of equity to pay the fixed charges and refund the borrowed funds in maturing date. The following ratios are used to measure the long-term solvency position NB Bank with the help of past 8 years' financial data of the bank.

- 1) Total debt to shareholders equity ratio,
- 2) Total debt to total Assets ratio.
- 3) Total debt to shareholder equity

The debt equity ratio indicates the relationship between the long-term funds provided creditors and those provided by the firm's owner. The total debt refers to the total current liabilities plus the borrowing from the other banks. It is commonly used to measure the debt of financial leverage of the firm and is calculated as follows:

$$\text{Total debt to shareholder's equity ratio} = \frac{\text{total-debt}}{\text{shareholder's-equity}}$$

Table No 27: Total Debt to Shareholder's Equity

(in "000)

Fiscal Year	Total Debt	Shareholder's equity	Ratio
2000/01	3,678,132	519,114	7.085
2001/02	3,242,557	526,096	6.163
2002/03	3,485,418	552,101	6.313
2003/04	5,309,669	620,398	8.558
2004/05	6,823,874	684,194	9.974
2005/06	9,617,140	766,462	12.547
2006/07	10,760,844	917,990	11.722

(Source: NB Bank's annual Report)

The above table shows that debt to equity ratio of the bank varies from maximum of 12.55 times in a year 2005/06 to the minimum of 6.16 times in a year 2004/02 with an average of 8.91 times during the study period. The analysis indicates that the bank has the wish debt

equity ratio, which means the creditors have invested more in the bank than the owner.

2) Total debt to total assets ratio

The ratio exhibits the relationship between creditors funds and owners capital. The ratio shows the proportion of outsider fund used in financing total asset. The ratio is calculated by dividing the total debt of the bank by its total assets, which is presented below.

$$\text{Total debt to total asset} = \frac{\text{total-debt}}{\text{total-assets}}$$

Table No 28: Total Debt to Total Assets

(in'000')

Year	Total Debt	Total Assets	Ratio
2000/01	3,678,132	4,197,246	87.63
2001/02	3,242,557	3,768,653	86.04
2002/03	3,485,418	4,037,519	86.33
2003/04	5,309,669	5,930,067	89.54
2004/05	6,823,874	7,508,068	90.89
2005/06	9,617,140	10,383,602	92.62
2006/07	10,760,844	11,678,834	92.14

(Source: NB Bank Annual Reports)

The above table shows that the debt to total assets of the bank varies from maximum of 92.62 in year 2005/2006 to the minimum 86.04% in year 2001/02 with an average of 89.31 during the study period. The analysis indicates that the bank has the wish debt equity ratio, which means the creditors have invested more in the bank than the owners

4.3.1.4 Profitability Ratio:

There are many measures of profitability. Each relate the returns of the firm to its assets and equity or share value. As a group, these measures allow the analysis to evaluate firm's earnings with respect to a given level of sales, a certain level of assets, the owner's investment of share value.

Profit is different between total revenues and total expenses over a period of time. Profit is the ultimate put of a commercial bank and it will have no future if it fails to make sufficient profits. Therefore, the financial manager continuously evaluates the efficiency of the bank in terms of profits. The profitability ratios in the study are calculated to measure the operating efficiency and performance of NB Bank

Table No29: Showing Return on Assets and Return on Equity
(in"000)

Year	Net profit	Total Assets	Shareholders' Equity	Return on Assets	Return on Equity
2000/01	48,276	4,197,246	519,114	1.15	9.30
2001/02	6,819	3,768,653	526,096	0.18	1.30
2002/03	25,945	4,037,519	552,101	0.64	4.70
2003/04	68,860	5,930,067	620,398	1.16	11.10
2004/05	113,756	7,508,068	684,194	1.52	16.63
2005/06	96,588	10,383,602	766,462	0.93	12.60
2006/07	158,475	11,678,834	917,990	1.36	17.26

(Source: NB Bank Annual Reports)

Table No 29. shows the results of return on assets, total deposit and Net worth of NB bank, which is remarkable. It indicates that the net profit of NB bank is on increasing trend. The profitability ratio of NB bank is sound and strong. Its profit ratio indicates higher overall efficiency of the NB Bank and better utilization of total resources available.

4.3.2 Cost Volume Profit Analysis:

The relationship between cost volume and profit is known as cost volume profit analysis. It is an analytical tool for studying the relationship between volume, cost and profit. It is also an important tool used for the planning in the business there are three factors of costs volume of profit analysis which are interconnected and dependent on one another for example profit depends up on sales,

$$= \frac{145969 \times 100}{304444}$$

$$= 47.95\%$$

$$\text{BEP In Rs} = \text{Interest Income} \times \text{BEP\%}$$

$$= 725819 \times 47.95\%$$

$$= 348,001.84$$

We find NB Bank's break-even interest income level is Rs 348,001.84

ii) Margin of safety for the year 2006/07, can be calculated as below

$$\text{Margin of safety} = \text{Total Interest Income} - \text{BEP income}$$

$$= 725819 - 348,001.84$$

$$= 377817.16$$

Margin of safety ratio for 2006/07,
 377817.16×100

$$\text{Margin of safety ratio} = \frac{377817.16 \times 100}{725819}$$

$$= 52.05\%$$

iv) BEP in terms of Volume of LABP can be calculated as below:

$$\text{BEP LABP} = \frac{\text{BEP-interest-income}}{\text{averageYOF}}$$

$$= \frac{377817.16}{0.1046}$$

$$= 3,612,018.71$$

v) BEP in terms of Volume of deposits can be calculated as below:

$$\text{BEP Deposit} = \frac{\text{BEP-LABP}}{\text{average-CDratio}}$$

$$= \frac{3612018.74}{0.7582}$$

$$= 4,763,939.25$$

4.4 Cash Flow Analysis

Following table presents cash flow statement of the bank for last 2 years, which gives the satisfactory picture of cash inflow to meet the required cash out flow within the bank for period.

Table No 30: Cash Flow Analysis

(in"000")

Pervious Year	Particulars	Current Year
196,053,982	A. Cash Flow From Operations	218,944,447
657,963,309	1. Cash Receipts	822,497,760
579,979,428	1.1 Interest Income	725,819,040
29,447,261	1.2 Commission & Discount Income	36,017,034
28,242,472	1.3 Exchange Gain	34,105,111
-	1.4 Recovery of Write off Loan	-
20,294,148	1.5 Other Income	26,556,575
461,909,327	2. Cash Payments	603,553,313
340,221,921	Interest expenses	421,374,951
45,494,167	Staff Expenses	54,870,384
42,193,239	Office Overhead Expenses	49,960,610
34,000,000	Payment of Income Tax	70,400,000
-	Other Expensed	6,947,368
(645,227,309)	Cash Flow Before Working Capital Activities	(232,868,310)
(3,214,665,743)	Decrease/(Increase) in Current Assets from Operating Activities	(1,349,412,459)
(263,634,142)	Decrease/(Increase) in Money at call & Short Notice	190,506,059
(906,678,489)	Decrease/(Increase) in Other Short term Investments	895,186,474

(2,003,127,946)	Decrease/(Increase) in Loans, Advances, and Bills Purchased	(2,320,982,492)
(41,225,166)	Decrease/(Increase) in Other Assets	(114,122,500)
2,569,438,434	Decrease/(Increase) in Current Liabilities from operating Activities	1,116,544,149
2,524,572,478	Increase/(Decrease) in Deposit/Liabilities	1,302,280,231
-	Increase/(Decrease) in Certificate of Deposits	-
7,334,014	Increase/(Decrease) in short term Borrowings	(105,576,346)
37,531,942	Increase/(Decrease) in Other Liabilities	(80,159,736)
(6,061,734)	B. Cash Flow from Investing Activities	(145,628,362)
(332,000)	Decrease/(Increase) in Long Term Investments	(14,755,000)
(5,737,334)	Decrease/(Increase) in Fixed Assets	(126,499,903)
-	Interest Income from Long Term Investments	-
7,600	Dividend Income	27,151
-	Others (Capital Construction Items)	(4,400,610)
196,842,106	C. Cash Flow From Financial Sources	-
200,000,000	Increase/(Decrease) in Long Term Borrowings (Bond, Debenture etc)	-
-	Increase/(Decrease) in Paid in Capital	-
(3,157,894)	Increase/(Decrease) in Other Liabilities	-
-	Increase/(Decrease) in Refinance/Facilities	-

	from NRB	
(2,854,531)	D. Income/Loss from change in Exchange rate of Cash & Bank Balance	10,171,778
(261,247,486)	E. Net Cash Flow of the Year	(149,380,447)
1,010,386,565	F. Opening Cash and Bank Balance	749,139,079
749,139,079	G. Closing Cash and Bank Balance	599,758,632

The data presentation, analysis and major findings for this study is shown above. The forthcoming chapter includes the Summary, Conclusion and Recommendation.

CHAPTER -FIVE

5. SUMMARY, MAJOR FINDINGS AND RECOMMENDATION

5.1 Summary

The prosperity of every developing country can only be ensured by its economic growth. The role of Commercial Banks in the economic growth of the nation can be fairly estimated to be very prominent. By mobilizing the scattered idle resources from the savers, commercial banks tool the fund in a sizable volume in order to feed to the fund requirement of productive sector of the economy. Such investments in the productive sector, promote trade and industrialization in the county, thereby, raising the employment opportunities and earning to the laborers and materials and service providers to such industries and trades, which as a chain effect, promotes saving into the banks and more saving means more funds available in the Bank for further investment. In this way, as the chain moves rolling on, the economy of the nation also grows.

To remain as the major contributing factor to the growth of the nation's economy, the banks also have to have sustainable existence and growth of themselves. For the sustainable existence and growth of a bank,, it must ensure reasonable profitability. As the banks are formed as joint stock companies promoted by shareholders investment, it must give reasonable return on the fund of the shareholders. Further by the profit made by the bank, it may choose to increase its capital base to make it stronger and more sustainable for facing any future threat that may come up. A profit earning organization can better feed to their employees, thereby enhancing the morale of the employees and motivate them for better performances.

Therefore, profit for commercial organizations has been defined as the life-blood for them. A commercial bank also, being a commercial institution, has to plan for the reasonable profit earnings. Profit planning, in short, is the planning of activities in such a way that it helps in increasing the income at a minimum possible cost or at optimum cost. This study aims at examining the applications of profit planning in a commercial bank, with a specific case study of NB Bank Limited.

Nepal Bangladesh Bank is one of the well-run commercial bank in Nepal established in the year 1993 from the Nepalese promoters. As the bank has just completed fifteen years of its operation, it has achieved so many successes in the way of its operation.

This study has tried to cover the various aspects of Budgeting and Profit Planning in the bank from the time of its inception of the end of fiscal year 2006/07. In the first introductory chapter, this study report has tried to give brief introduction of banking and its relation to the economy, brief profile of the concerned bank, general concepts to the profit and profit planning, the problem statement, objective of the study and its scope, limitations and significance.

During the research works, an extensive review of various literatures, books, past thesis, journals have been made and Internet materials from relevant web sites were also consulted. The works were compiled into the chapter two titled as 'Review of Literature' of this study report.

Research methodologies followed for this research works are mentioned in the Chapter three titled as 'Research Methodology'.

Data relating to various activities of the Bank has been collected, presented in tabular and various diagram form and are tried to be interpreted in the study report in logical ways. Data are then analyzed applying various financial, mathematical and statistical tools have been listed in a systematic manner. All these words are compiled in the forth chapter titled as 'Data Presentation and Analysis' of this study.

Finally, the summary, major findings and the recommendation made by the research by this study are hereby being presented in this current chapter, chapter five titled as 'Summary, Major Findings and Recommendations.'

5.2 Major Finding

The major findings of this research study on profit planning in commercial bank, a case study of NB Bank are as follows:

1. Management and Personnel

- a. It is observed that the bank is adopting a policy to keep minimum but deserved and qualified number of employees as possible. But it has unnecessary long ladder at various levels with out specific job description comparison to other banks.
- b. The strategic planning and managerial decisions making process is highly centralized, however, top management takes the feed forwards for annual planning and strategy building through manager conferences and strategic meeting organized ones in every year.
- c. NB Bank lacks active and organized planning department to undertake innovative products research and development works.
- d. Advanced and practical oriented training for career development to the employees is lacking.

- e. Bank has the policy to employ academically highly qualified (first class MBA) fresh candidates at Management trainee, which may be considered as good aspect for future manpower building, but the bank neglects the product of Tribhuwan University who have passed MBS.

2. Branch Office:

- a. NB Bank is currently operating with its 16 branch offices making its presence at almost all of the cities of the country.
- b. Controlling functions of the branches are so far being carried out directly by Head Office, which may be difficult in the days to come because of its wide geographical stretch. However, the effective management team of NB bank is good enough to regulate the entire branches from the head office.

3. Objectives of the Banks:

- a. To provide complete financial solutions to the customers.
- b. To become top commercial bank among 23 commercial banks (including Agriculture Development Bank) of Nepal.

4. Resources Mobilizations

- a. Major concentration of resources mobilization of NB Bank is at deposit mobilization. In this respect they are incurring higher cost toward deposit mobilizations.
- b. Deposit mobilized by the bank is found to be considerable growing every year with an average growth over the period of last seven years being as high as 14.86% in current fiscal year 2006/07.

- c. The targets set for deposit mobilization by the bank has been well met every year.
- d. From regression analysis of the budget and actual achievements, by coefficient of variance, it is found that, the actual deposits are more variable than the budgeted one.
- e. From regression analysis of the budgeted and actual deposits, remaining the trend same for the coming year too, the deposit to be mobilized by the bank by the end of F/Y 2007/08 shall reach up to 10,193.7 millions.

5. Resources Development

- a. Bank's resources deployment for non-yielding liquid assets (cash and bank balance) is decreasing trend every year, which is detrimental to profitability objectives, however it is not supportive to meeting liquidity requirements of the banks.
- b. Major portion of the resources have been deployed in LABP.
- c. The targets for deployment to be considerable increasing every year
- d. LABP of the bank has found to be considerably increasing every year, with an average growth over the period of last seven years is as high as 21.34%
- e. From the analysis of Budgeted and Actual LABP with the help of co-efficient of variance, it is found that, the actual LABP is more variable than the budgeted one.
- f. From the regression analysis of budgeted and actual deposit, remaining the trend same as before, the estimated LABP by the end of F/Y 2007/08 shall be of Rs. 10,193.7 million.

- g. CD Ratio (Credit to Deposit Ratio, Ratio of LABP on total Deposit expressed in percent term) of the bank is high. The average CD ratio of the bank for the period of last seven years is as high as 75.82%.
- h. The data analysis of LABP and deposit, with the help of Karl Person's co-efficient of correlation shows that, the deposit and the LABP are perfectly correlated.
- i. The data analysis of Deposit and LABP with the help of coefficient of variation shows that LABP is more variable than the Deposit.

6. Non-Funded business activities

- a. Outstanding letter of Credit liability of the bank is increasing every year except in the fiscal year 2005/06 which is decreased by 42.64%.
- b. Outstanding guarantee liability of the bank is not consistent.

7. Expenditure

- a. Interest expenses amount is the highest among total expenses items of the bank every year.
- b. The interest expense of the bank is found increasing each year corresponding to the increase in deposit. The interest expenses are perfectly and positively correlated with deposit.
- c. Average cost of deposit (calculated as the ratio of total interest expenses during a year on the outstanding deposit as of the year and expressed in percent term) of the bank is found to increase during the year 2001/02 & 2006/07 comparison to its preceding years respectively but it has reduced gradually from F/Y 2001/02. The average COD over the period has been found to be at 4.44%.

- d. Other expenses of the bank are also in increasing term every year.

8. Revenue

- a. Interest income amount of the bank is the highest among other income items in the total revenue.
- b. The amount of interest income is increasing every year corresponding to increase in LABP. There is a perfect and positive correlation between interest income and LABP.
- c. Average yield on LABP (ratio of interest income on total LABP expressed in percent term) was at the highest level of 13% in the fiscal year 2001/02, which decreased afterwards and reached up to 8.12% during F/Y 2006/07. The average yield on LABP for the last seven years has remained at 10.46%.
- d. The other income of bank is also in increasing trend.
- e. The interest spread or the amount of interest margin is found to be increasing every year. From the study it is found that during the period of last seven years, average 56.16% of interest income is spent over paying interest to depositors leaving the interest margin or spread on average of 43.84% of interest income amount.
- f. Net burden of the bank is increasing every year, but as the average rate of growth of other income is higher than that of other expenses, it can be expected that it would not hamper much to the profitability if the same trend is continued.
- g. The bank has lowest profit of Rs. 6.82 million during Fiscal year 2001/02 of its operation. It is in constantly increasing trend afterward. As the rate of growth of spread

is higher than that of burden, the profitability of the bank is increasing.

9. Ratio Analysis

- a. The average current ratio of the bank has found to be always lower than standard ratio of 2:1, which shows unsatisfactory liquidity position of the bank.
- b. Generally the debt equity ratio of the banks are higher because they mobilize fixed deposit much more times of their capital fund. NB bank is also not exception to it. The average debt equity ratio of the bank is approximately 8.9:1
- c. From the study of total number of manpower and total volume of overall activities of the bank, it is found that the volume of business per employee is increasing every year, which suggests increasing productivity of manpower.
- d. From the profitability ratio, it is found that, the ROC (Return On Capital) is lowest for the fiscal year 2001/02, afterward it is increasing gradually except in F/Y 2005/06 where it has slightly decreased. This may be due to higher rate of increase in capital fund than that of net profit.
- e. From the cost volume profit analysis, the break even income level of the bank is found to be Rs. 348,001.84(thousands) and BEP LABP and BEP Deposit to be 3,612,018.71(thousands) and 3763939.25(thousands) respectively.

5.3 Recommendations

On the basis of the study on profit planning of NB Bank, the following suggestions are recommended to improve the profit planning system of the bank.

A. In the internal management and personnel part:

1. Human Resource Department should be restructured for the development of human resources to align with the strategic goal of the bank. Separate Performance Management System should be introduced, which will effectively measure and rewards employee performance and identifies potential.
2. Level wise specific job description and responsibility assignment should be mentioned clearly.
3. Profit planning & control technique should be used for making long term banking strategies and managerial decisions.
4. Bank management should adopt the policy of appropriate authority delegation at all level of management in order to save the valued time of the chief executive officer for the productive use.
5. Employee training & career planning at advance level should be given more focus in order to keep the men power updated with the changing practices and the technologies.
6. It is suggested to the bank to form a specific strategic planning and research department, which shall be responsible for developing new innovative products, further development and up-gradation of existing products, which in turn ensure better profitable business for the ban.

7. Branch monitoring and controlling mechanism should be made at the regional level also in order to ensure the better functioning of the branch offices located at such locations, which are far from the Head Office.
8. Since objectives of the bank are much more specific and highly optimistic the management should launch the new innovative products, which will give quality service to the customers and yield better profit.

B. In the Business Part

1. The bank should make the strategic planning to select risk assets growth by maintaining the quality of assets, increasing its market share in retail & Small/Medium Enterprises lending and international trade with a higher focus on treasury operations, risk assets portfolio diversification and better productivity through improvements in internal efficiencies, diversification of the deposits portfolio with bias towards saving deposits with a view to further reduce dependency on large institutional deposits and reduce funding cost.
2. The average cost of deposit of the bank is high, therefore bank should try to lower it by mobilizing more and more low cost or cost free deposits thereby reducing the interest cost because due to the high cost of deposit, bank is forced to invest its fund more on high yielding assets, which are generally not liquid and obviously risky for the bank.
3. Banks CD ratio is high, which is rather a compulsion for the bank to meet the cost of high cost deposits. Higher CD ratio although gives better return in short term, it hampers the liquidity and is more risky for the bank and calls for more provision for loan loss. In this way the

profitability of the bank also get hampered on the long run. Therefore the bank should improve its position from lowering the deposit cost and increase the investments in liquid assets although they are of low yield.

4. LABP of the bank has increasing significantly but the part of proper loan assessment and monitoring aspects are not well developed and the infrastructures required (such as trained men power, logistics etc) are not adequate. Therefore with such poor infrastructures, it is not advisable to go aggressively in LABP. The bank should keep adequate required infrastructure to support its objectives.
5. The Nepal Rastra bank has put the restriction the difference of average rate of interest income and average rate of interest expenses of the Bank (i.e spread) not to exceed 5%. Therefore the bank has to put more focus on the other kind of non-funded activities by which it shall increasing income from other sources than interest to increase its profitability.
6. Expenses cannot be avoided and always are growing with increasing activities, but it should be optimize and should be related with the income generating activities. Bank should minimize those expenses, which are not related to income earning. Other expenses than interest form a burden to the gross profit margin (interest margin) of the bank; therefore lowering the other expenses the bank shall enhance its profit.
7. Net profit of the bank is the amount, which is obtained by subtracting the amount of net burden from the amount of gross interest margin. Therefore, NB Bank shall attempt to lower the burden cost, by increasing the other income and decreasing the other expenses, At the same time it should

take a policy to make the interest margin at the maximum extent as allowed by the central bank's norm.

8. The bank has opened its branches at only major cities of the country. Hence, the bank should take initiation to open its branches at urban areas to grab the market and provide better banking services to people.
9. The Bank shall make broad based credit policy and deposit products in coming years to yield maximum profit.

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APPENDIX 1

Budgeted & Actual Deposits and Achievements

(In Million)

Fiscal Year	Budgeted Amount (X)	Actual Amount (Y)	x=(X- \bar{X})	y=(Y- \bar{Y})	x²	y²	xy
2000/01	3,572.36	3,572.36	(2,029.08)	(2,156.79)	4,117,181.30	4,651,721.54	4,376,297.63
2001/02	3,165.31	3,165.31	(2,436.13)	(2,563.84)	5,934,748.17	6,573,249.91	6,245,845.25
2002/03	3,144.31	3,144.31	(2,457.13)	(2,584.84)	6,037,506.79	6,681,371.98	6,351,285.59
2003/04	5,146.48	5,146.48	(454.96)	(582.66)	206,991.20	339,497.34	265,090.48
2004/05	5,539.50	6,241.38	(61.95)	512.23	3,837.54	262,380.60	(31,731.61)
2005/06	8,656.39	8,765.95	3,054.95	3,036.80	9,332,695.94	9,222,178.53	9,277,272.67
2006/07	9,985.76	10,068.23	4,384.32	4,339.08	19,222,228.04	18,827,649.96	19,023,916.03
Total	$\Sigma X =$ 39210.12	$\Sigma Y =$ 40104.03	-	-	$\Sigma x^2 =$ 44855188.98	$\Sigma y^2 =$ 46558049.85	$\Sigma xy =$ 45507976.03

$$\text{Mean of budgeted LABP } (\bar{X}) = \frac{\Sigma X}{\text{No. of Years}}$$

$$= \frac{39210.12}{7}$$

$$= 5601.14$$

$$\text{Mean of Actual LABP } (\bar{Y}) = \frac{\Sigma Y}{\text{No. of Years}}$$

$$= \frac{40104.03}{7}$$

$$= 5729.15$$

Standard deviation of Actual and Budget LABP

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

$$\sigma \text{ of Budgeted amount (x)} = \sqrt{\frac{44855188.98}{7}}$$

$$= \sqrt{6407884.14}$$

$$= 2531.36$$

$$\sigma \text{ of Actual amount (Y)} = \sqrt{\frac{46558049.85}{7}}$$

$$= \sqrt{6651149.98}$$

$$= 2578.98$$

$$\text{C.V. of (X)} = \frac{\sigma \text{ of } x}{x} \times 100$$

$$= \frac{2531.36}{56014.45} \times 100$$

$$= 45.19\%$$

$$\text{C.V. of (Y)} = \frac{\sigma \text{ of } y}{y} \times 100$$

$$= \frac{2578.98}{5729.15} \times 100$$

$$= 45.02\%$$

$$\text{Correlation (r)} = \frac{\sum xy}{n \sigma_x \sigma_y}$$

$$= \frac{45507976.03}{7 \times 2531.36 \times 2578.98}$$

$$= \frac{45507976.03}{45698287.69}$$

$$= 0.996$$

APPENDIX 2

Budgeted & Actual LABP

(In Million)

Fiscal Year	Budgeted Amount (X)	Actual Amount (Y)	$x=(X-\bar{X})$	$y=(Y-\bar{Y})$	x^2	y^2	xy
2000/01	2,585	2,585	(1,794.14)	(1,865.57)	3,218,948.59	3,480,356.76	3347
2001/02	2,279	2,279	(2,100.14)	(2,171.57)	4,410,600.02	4,715,722.47	4560
2002/03	2,420	2,420	(1,959.14)	(2,030.57)	3,838,240.73	4,123,220.33	3978
2003/04	3,460	3,561	(919.14)	(889.57)	844,823.59	791,337.33	8176
2004/05	4,652	4,712	272.86	261.43	74,451.02	68,344.90	7133
2005/06	6,599	6,656	2,219.86	2,205.43	4,927,765.73	4,863,915.18	4895
2006/07	8,659	8,941	4,279.86	4,490.43	18,317,177.16	20,163,948.76	19218
Total	$\Sigma X=30,654$	$\Sigma Y=31,154$	-	-	$\Sigma x^2=35632,006.86$	$\Sigma y^2=38,206,845.71$	$\Sigma xy=51,307$

Mean of budgeted LABP (\bar{X}) = $\frac{\Sigma X}{\text{No. of Years}}$

= $\frac{30654}{7}$

=4379.14

$$\begin{aligned}\text{Mean of Actual LABP } (\bar{Y}) &= \frac{\Sigma Y}{\text{No. of Years}} \\ &= \frac{31154}{7} \\ &= 4450.57\end{aligned}$$

Standard deviation of Actual and Budget LABP

$$\sigma = \sqrt{\frac{\Sigma (x - \bar{x})^2}{n}}$$

$$\begin{aligned}\sigma \text{ of Budgeted amount (x)} &= \sqrt{\frac{35632006.86}{7}} \\ &= \sqrt{5090286.694} \\ &= 2256.166\end{aligned}$$

$$\begin{aligned}\sigma \text{ of Actual amount (Y)} &= \sqrt{\frac{38206845.71}{7}} \\ &= \sqrt{5458120.816} \\ &= 2336.26\end{aligned}$$

$$\begin{aligned}\text{C.V. of (X)} &= \frac{\sigma \text{ of } x}{x} \times 100 \\ &= \frac{2256.166}{4379.14} \times 100 \\ &= 51.52\%\end{aligned}$$

$$\begin{aligned}\text{C.V. of (Y)} &= \frac{\sigma \text{ of } y}{y} \times 100 \\ &= \frac{2336.26}{4450.57} \times 100 \\ &= 52.49\%\end{aligned}$$

$$\begin{aligned}\text{Correlation (r)} &= \frac{\Sigma xy}{n \sigma_x \sigma_y} \\ &= \frac{36888996}{7 \times 2256.166 \times 2336.26} \\ &= \frac{36888996}{36896932.65} \\ &= 0.9997850\end{aligned}$$

APPENDIX 3

Deposits & Actual LABP

(In Million)

Fiscal Year	Deposits (X)	LABP (Y)	x=(X- \bar{X})	y=(Y- \bar{Y})	x²	y²	xy
2000/01	3,572	2,585	(2,156.86)	(1,865.57)	4,652,032.73	3,480,351.42	4,023,771.06
2001/02	3,165	2,279	(2,563.86)	(2,171.57)	6,573,363.45	4,715,716.26	5,567,598.92
2002/03	3,144	2,420	(2,584.86)	(2,030.57)	6,681,486.45	4,123,214.52	5,248,737.06
2003/04	5,146	3,561	(582.86)	(889.57)	339,722.45	791,334.78	518,493.06
2004/05	6,241	4,712	512.14	261.43	262,290.31	68,345.64	133,888.78
2005/06	8,766	6,656	3,037.14	2,205.43	9,224,236.73	4,863,921.48	6,698,201.63
2006/07	10,068	8,941	4,339.14	4,490.43	18,828,160.73	20,163,961.58	19,484,611.06
Total	$\Sigma X=40,102$	$\Sigma Y=31,154$	-	-	$\Sigma x^2=46,561,292.86$	$\Sigma y^2=38,206,845.71$	$\Sigma xy=41675302$

$$\begin{aligned} \text{Mean of budgeted NLABP } (\bar{X}) &= \frac{\Sigma X}{\text{No. of Years}} \\ &= \frac{401024}{7} \\ &= 5728.86 \end{aligned}$$

$$\begin{aligned}\text{Mean of Actual NLABP } (\bar{Y}) &= \frac{\Sigma Y}{\text{No. of Years}} \\ &= \frac{31154}{7} \\ &= 4450.57\end{aligned}$$

Standard deviation of Deposits and LABP

$$\sigma = \sqrt{\frac{\Sigma (x - \bar{x})^2}{n}}$$

$$\begin{aligned}\sigma \text{ of deposits (x)} &= \sqrt{\frac{46561292.86}{7}} \\ &= \sqrt{6651613.266} \\ &= 2579.07\end{aligned}$$

$$\begin{aligned}\sigma \text{ of Actual amount (Y)} &= \sqrt{\frac{38206845.71}{7}} \\ &= \sqrt{5458120.816} \\ &= 2336.26\end{aligned}$$

$$\begin{aligned}\text{C.V. of (X)} &= \frac{\sigma \text{ of } x}{x} \times 100 \\ &= \frac{2579.07}{5728.86} \times 100 \\ &= 45.06\%\end{aligned}$$

$$\begin{aligned}\text{C.V. of (Y)} &= \frac{\sigma \text{ of } y}{y} \times 100 \\ &= \frac{2336.26}{4450.57} \times 100 \\ &= 52.49\%\end{aligned}$$

$$\begin{aligned}\text{Correlation (r)} &= \frac{\Sigma xy}{n \sigma_x \sigma_y} \\ &= \frac{41675302}{7 \times 2579.07 \times 2336.26} \\ &= \frac{41675302}{42177646.55} \\ &= 0.988089\end{aligned}$$

APPENDIX 4

Interest Exp & Total Deposits

(In Million)

Fiscal Year	Deposits (X)	Interest Exp (Y)	x=(X- \bar{X})	y=(Y- \bar{Y})	x²	y²	xy
2000/01	3572.00	180.00	(2,156.86)	(61.43)	4,652,045.06	3,773.64	132,495.91
2001/02	3165.00	197.00	(2,563.86)	(44.43)	6,573,378.10	1,974.02	113,912.30
2002/03	3144.00	142.00	(2,584.86)	(99.43)	6,681,501.22	9,886.32	257,012.63
2003/04	5146.00	184.00	(582.86)	(57.43)	339,725.78	3,298.20	33,473.65
2004/05	6241.00	226.00	512.14	(15.43)	262,287.38	238.08	(7,902.32)
2005/06	8766.00	340.00	3,037.14	98.57	9,224,219.38	9,716.04	299,370.89
2006/07	10068.00	421.00	4,339.14	179.57	18,828,135.94	32,245.38	779,179.37
Total	$\Sigma X=40,102$	$\Sigma Y=1,690$	-	-	$\Sigma x^2=46,561,292.8$ 6	$\Sigma y^2= 61,131.71$	$\Sigma xy=1607542$.43

$$\begin{aligned} \text{Mean of Deposits } (\bar{X}) &= \frac{\Sigma X}{\text{No. of Years}} \\ &= \frac{40102}{7} \\ &= 5728.86 \end{aligned}$$

$$\begin{aligned} \text{Mean of Interest Expenses } (\bar{Y}) &= \frac{\Sigma Y}{\text{No. of Years}} \\ &= \frac{1690}{7} \\ &= 241.43 \end{aligned}$$

Standard deviation of Deposits and Int. Expenses

$$\sigma = \sqrt{\frac{\Sigma (x - \bar{x})^2}{n}}$$

$$\begin{aligned} \sigma \text{ of deposits (x)} &= \sqrt{\frac{46561292.86}{7}} \\ &= \sqrt{6651613.266} \\ &= 2579.07 \end{aligned}$$

$$\begin{aligned} \sigma \text{ of Actual amount (Y)} &= \sqrt{\frac{61131.71}{7}} \\ &= \sqrt{8733.1014} \\ &= 93.45 \end{aligned}$$

$$\begin{aligned} \text{C.V. of (X)} &= \frac{\sigma \text{ of } x}{x} \times 100 \\ &= \frac{2579.07}{5728.86} \times 100 \\ &= 45.02\% \end{aligned}$$

$$\begin{aligned} \text{C.V. of (Y)} &= \frac{\sigma \text{ of } y}{y} \times 100 \\ &= \frac{93.45}{241.43} \times 100 \\ &= 38.71\% \end{aligned}$$

$$\begin{aligned} \text{Correlation (r)} &= \frac{\Sigma xy}{n \sigma_x \sigma_y} \\ &= \frac{1607542}{7 \times 2579.07 \times 93.45} \\ &= \frac{1607542}{1687098.641} \\ &= 0.952844 \end{aligned}$$

APPENDIX 5

LABP & Interest Income

(In Million)

Fiscal Year	LABP (X)	Interest Income (Y)	$x=(X-\bar{X})$	$y=(Y-\bar{Y})$	x^2	y^2	xy
2000/01	2,585	294	-1,865.57	-136.14	3,480,351.42	18,534.10	253978.6998
2001/02	2,279	298	-2,171.57	-132.14	4,715,716.26	17,460.98	286951.2598
2002/03	2,420	291	-2,030.57	-139.14	4,123,214.52	19,359.94	282533.5098
2003/04	3,561	364	-889.57	-66.14	791,334.78	4,374.50	58836.1598
2004/05	4,712	458	261.43	27.86	68,345.64	776.18	7283.4398
2005/06	6,656	580	2,205.43	149.86	4,863,921.48	22,458.02	330505.7398
2006/07	8,941	726	4,490.43	295.86	20,163,961.58	87,533.14	1328538.62
Total	$\Sigma X=31,154$	$\Sigma Y=3,011$	-	-	$\Sigma x^2=38,206,845.7$ 1	$\Sigma y^2=17,0496.8$ 6	$\Sigma xy=2,548,62$ 7.43

$$\begin{aligned} \text{Mean of Deposits } (\bar{X}) &= \frac{\Sigma X}{\text{No. of Years}} \\ &= \frac{31154}{7} \\ &= 4450.57 \end{aligned}$$

$$\begin{aligned} \text{Mean of Interest Income } (\bar{Y}) &= \frac{\text{Summation of Interest Expenses}}{\text{No. of Years}} \\ &= \frac{3011}{7} \\ &= 430.14 \end{aligned}$$

Standard deviation of LABP and Interest Income

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

$$\begin{aligned} \sigma \text{ of LABP}(x) &= \sqrt{\frac{38206845.71}{7}} \\ &= \sqrt{5458120.816} \\ &= 2336.26 \end{aligned}$$

$$\begin{aligned} \sigma \text{ of Actual amount (Y)} &= \sqrt{\frac{170496.86}{7}} \\ &= \sqrt{24356.69} \\ &= 156.06 \end{aligned}$$

$$\begin{aligned} \text{C.V. of (X)} &= \frac{\sigma \text{ of } x}{x} \times 100 \\ &= \frac{2336.26}{4450.57} \times 100 \\ &= 52.49\% \end{aligned}$$

$$\begin{aligned} \text{C.V. of (Y)} &= \frac{\sigma \text{ of } y}{y} \times 100 \\ &= \frac{156.06}{430.14} \times 100 \\ &= 36.28\% \end{aligned}$$

$$\begin{aligned} \text{Correlation (r)} &= \frac{\sum xy}{n \sigma_x \sigma_y} \\ &= \frac{2548627}{7 \times 2336.26 \times 156.06} \\ &= \frac{1607542}{2552177.1492} \\ &= 0.9985 \end{aligned}$$