

# **CHAPTER - I**

## **INTRODUCTION**

### **1.1 Background of the Study**

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

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

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

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

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

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

Profit maximization is the basic objective of a firm and to make its services reliable should be rendered to its customers. Profit is a device to measure efficiency of a firm. Planning is the first essence of a management and all other functions are performed within the framework of planning. Planning means deciding in advance what is to be done in future, Planning starts from forecasting and predetermination of future events. The main objective of planning in business is to increase the chance of making profit the budget is the primary planning operation document committed to performance. In this sense budget is also called a profit planning

"Planning is the process of developing enterprise objectives and selecting a future course of action to accomplish them. The term comprehensive profit planning and control is defined as

a systematic and formalized approach for performing significant phase of the management planning and control function" ( welsch, wltition and Grodon 2001:45)

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

As like in the other profit oriented organization, 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 share being traded at stock exchanges, Therefore profit made by them is the important parameter for measurement of effectiveness efficiency of them.

### **1.2 Statement of the Problem**

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

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

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

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

### **1.3 Objective of the Study**

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

- ) To find out the relationships between total investment loan and advances, deposit, net profit and outside assets.
- ) To identify the investment priority sectors of commercial Bank
- ) To assess the impact of investment on profitability.
- ) To analyze and forecast the trend and structure of deposit utilization and its projection for five years of Commercial Bank
- ) To provide suggestion and possible guidelines to improve investment policy and its problems.

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

Profit is the life blood of the any organization because the continuity or survival of the each and every organization is depends upon the earning capacity of that organization. this study is concerned with the profit planning in the commercial bank, It attempts to examine and analyze the applicability of profit planning system in the bank, Profit planning process significantly contributes to improve the profitability as well as the overall financial performance of an organization with the help of the best utilization of resources.

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

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

### **1.5 Limitation of the Study**

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

1. This study focuses on profit planning control and is application in the NABIL
2. Only profit planning aspect of, Nabil Bank has been analyses
3. This study covers the related data of the banks for FY 2003/04 to 2007/08
4. The Study is mostly based on secondary sources of data

### **1.6 Organization of the Study**

The study is divided into the following five chapters.

<b>Chapter -I</b>	Introduction
<b>Chapter-II</b>	Conceptual Framework and Review of literature
<b>Chapter-III</b>	Research methodology
<b>Chapter-IV</b>	Data Presentation and Analysis
<b>Chapter-V</b>	Summary, Conclusion and Recommendations

The first chapter deals the background of the study, brief profile of the NABIL, BOK and EBL statement of problem, objectives of the study, significance of the study, limitation of the study and organization of the study etc

Second Chapter deals with the review of available literature, It takes in review of related books, journals articles and previous unpublished Master Degree Dissertation etc

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

The fourth chapter is the important chapter of the study which implies the presentation and analysis of data as well as major findings of the study

The fifth and last chapter cverst the summary of the study, the main conclusion that blows from the study and offers some recommendations as well as suggestion for further improvement

## **CHAPTER - II**

### **REVIEW OF LITERATURE**

In this part, focus has been made on the conceptual framework and the review of literature that is relevant regarding to the profit planning concepts. In this regard, various books, journals and articles concerned to this topic have been reviewed. Review of literature is based on available literature in the field of research. Every possible effort has been made to grasp knowledge and information that is available from libraries; document collection center helps to take adequate feed back to broaden the information to study. The first part of the chapter deals with the conceptual framework of the study and the second part is concern with the review of previous articles, journals and dissertation.

- i) Conceptual Review
- ii) Review of Related Studies

#### **2.1 Conceptual Framework**

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

Profit Planning is a comprehensive statement of intentions expressed in financial terms for the operation of both short and long period. It is a plan of the firm's expectation and is used as a basis for measuring the actual performance of managers and their units. A profit plan has an immense value in management; it helps in planning and coordinating if used appropriately, but not a replacement for management. "Profit planning is a comprehensive and coordinated plan expressed in financial terms for the operations and resource of an enterprise for some specific period in the future". (Fremgen; 1973:112)

"Profit planning is a predetermined detailed plan of the action developed and distributed as a guide to current operations and as a partial basis for the subsequent evaluation of performance. Thus it can say that profit planning is a tool which may be used by the management in planning the future course of actions and controlling the actual performance" (Gupta, 1992:3). The term comprehensive profit planning and control it defined as a

systematic and formalized approach for performing significant phase of the management planning and control functions.

A profit planning and control program can be one of the more effective communication networks in an enterprise. "Communication for effective planning and control requires that both the executive and the subordinate have the same understanding of responsibilities, ensure a degree of understanding not otherwise understanding of responsibilities, and ensure a degree of understanding not otherwise possible. Full and open reporting in performing report that, fouls on assigned responsibilities likewise enhance the degree of communication essential to sound manager" (Weksch, Hillton and Gordon, 2001:215)

"Profit Planning is an example of short range planning. This planning focuses on improving the profit especially from a particular product over a relatively short period of time. Therefore as used here it is not the same as corporate planning of a cost rendition program" (Terry, 1968:245)

Profit planning involves streamlining activities in order to get employees profit minded and to secure maximum benefit from minimum effort and expenditure, Best results seem to be obtained by assigning a profit planner to investigate all the footers affecting the profit obtained from a single product, the planner is given the right to prove the economies, the organization, The mode of operations, the pricing, the marketing or any fact of making and selling the product that in his judgment affects profit accruing from that product.

"A profit plan is an advance decision of expected achievement based on the most efficient operating standards in effect or n prospect of time,. It is established against which actual accomplishment is regularly compared" ( Niel, 2001:305). " Profit planning through volume of cost analysis however is a modern concept of management planning tools designated primarily for industrial enterprises, It involves a study of what a business cost and expenses should be and will be at different level of operations and it include a study of the resultant effect due to this hanging relationships between column and cost" (Young Dong, 2007:4)

### **2.1.2 Concept of Profit**

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

According to some theories, profits are the factor payment for talking the risk for agreeing to take what is left over after contractual outlays have been made. In the second type of profit theory they viewed as a wage for the service of innovation. Profits in this theory are tied to dynamic development. Profit around which all enterprises activities directly or indirectly revolve play the significant role for judging the managerial efficiency. In absence of profit nobody can think about the long-term survivability of the enterprises.

### **2.1.3 Concept of planning**

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

A planning process includes setting goals, evaluating resources forecasting by different methods and formulating a master plan, Planning depends upon the organized objectives, For the planning purpose a firm's objectives can distinguish mainly three types, the first is prime, the second is instrumental objectives are aims for accomplished of more basis aim. For this purpose the company has established divisional departmental and individual job objectives, specific objectives are those objectives that have been specified as to tome and magnitude which is known as goals. As a result of specifying a time period and a target amount, this

goal is capable of giving specific guidance to various senses of management planning, Objective setting of a firm is very difficult task, Unfortunately, most top management fails to develop a clear and operational statement of company objectives, More carefulness is necessary for this tedious job and it stated from firm's objectives, More carefulness is necessary for this tedious job, Carefully stated firm's objectives would yield at least the following benefits.

1. Company objective provide the ultimate criteria for resolving difficult company decision and
2. Company objectives are the basis for long-range profit planning.

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

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

"The planning processes both short and long term is the most crucial component of the whole system. It is both foundation and the bond for the other elements because it is through the planning process that we determine what we are going to do, how we are going to do it and who is going to do it. It operates as the brain centre of an organization and like the brain it both reason and communicate" (Welsch, Hilton, Groden 1992:73). "planning is the conscious recognition of the futurity of present decision" (Drucker, 1989:87). Planning is the feed forward process to reduce management can plan its activities and condition that state of the enterprise that determines its density" (Pendey, 1991:325)

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

1. To accomplish goals

2. To reduce uncertainty
3. To provide direction by determine the course of action in advance

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

### **2.1.4 Types of planning**

#### Corporate Planning

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

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

He has also defined corporate planning as it is to determine the long term goals of a company as a whole and then to generate plans designated to achieve these goals bring in mind probable change in its environment. It refers to the selection of company objective and the determination of the growth or at least constant and competitive policies that are most likely to accomplish those objectives, It is carried out the highest policy making level of the organization will travel. Management planning and control is the process carried on within the framework established by strategic planning. "Long range 5 to 10 years varying with enterprises sometime extended to 10 years. It is one of the most difficult times span involved in planning as many problems in short range planning can be traced to the absence of clear sense of directions and the practice, which a comprehensive long-range plan provides. Basically, the long-range planning is more important for broad and long living enterprise. "A long range planning is closely concerned with the concept of the corporation as a long living institution" (David, 1964:298). The planner must include the following factors in his/her plan from the analysis of available information.

- a. Probable future opportunity
- b. Uncertainty and
- c. Changes

"Long range planning is the continuous process of making present entrepreneurial (risk taking) decision, Systematically and best possible organizing efforts is need to carry out these decisions and measuring the result of these decisional against the expectations through organized systematic deed back" ( Drucker, 1964:165). It is a decision making process. Such decision should be related about:

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

### **2.1.5 Role of forecasting in Planning**

Forecasting is an integral part of decision making activates of management. An organization establishes goals and objectives seek to predict the environmental factors. The need for

forecasting is increasing as management attempts to decrease its dependence on change and become more scientific in dealing with its environment. Since each area of organization is related to other. A good or bad forecast can effect the entire organization. Planning or budgeting is not nearly forecasting although forecast from the basis of budgeting. Forecasting is the estimate of the future environment with in the company will operate. Budgeting or planning on the other hand involves the determination of what should be done, how the goals may be reached and what individual or units are to assume responsibility and be held accountable.

Forecasting is indispensable in planning. Forecast is statement of expected future conditions definite statements of what will actually happen are patently impossible. Expectation depends upon the assumptions made. If the assumptions are possible the forecast has a better chance of being useful forecasting assumptions and techniques vary with the kind of planning needed.

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

### **2.1.6 Planning Verses Forecasting**

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

management judgment about related items as sales volume, price, production and sales, effort and financing ( Welsch, 2001:109)

### **2.1.7 Purposes of Profit Planning**

Some purposes for the application of profit planning are:

1. To state the firms expectations in clear and facilitate for attainability
2. To communicate expectations to all concerned with the management of the firm so that they understood, supported and implanted
3. To Provide a detail plan of action for reducing uncertainty and for the proper direction of individual and group efforts to achieve goals
4. To coordinate the activates and efforts in such as way the use of resource in maximized.
5. To provided a means of measuring the performance of individuals and units and to supply information on the basis of which the necessary corrective action can be taken.

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

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

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

Income statement

Balance sheet

Capital Expenditure Plan

Personnel Requirement

Research plan and

Long Range Market penetration Plan

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

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

### **2.1.9 Budgeting and Budget**

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

As regards the term 'Budget' it can be visualized as the end result of he budgeting. If Budgeting is the procedure for preparing plan in respect of future financial requirements, the plan when presented in written form is called budget. "Budgeting in facts is a managerial technique and a business budget is such a written plan in which all aspect of business operations with respect to a definite future period are included. It is a formal statement of policy plan, objective and goals established by the top-level management in respect of some future period." (Gupta, 1981:136). A budget is forecast in detail of the result of an officially recognized programmed of operations based on the highest reasonable expected operating efficiency.

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

Plan

Operation and Resources

Financial Terms

Comprehensiveness

Co-operation

Therefore, we can say that budget is a tool, which may be used by the management in planning the future course of action-and in controlling the actual performance.

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

"Budgeting is a forward planning. It serves basically as a device (tool) for management, control: it is rather pivot of any effective scheme of control. Budgeting is the principal tool of planning and control offered to management by accounting functions" (Welsch, 1999:346). The prime objective of budgeting is to assist in systematic planning and in controlling the operations of the enterprises. In fact budgeting is best sources of communication and an important tool in the hands of management. Since, budgeting deals with fundamental polices and objectives. It is prepared by top management. A formal budget by itself will not ensure that a firm's operations will be automatically geared to the achievement of the goals set in the budget. For this to happen, the top-level managers and lower level employees have to understand the goals and support them and co-ordinate their efforts to attain them

Budgeting is a device of a planning and control that serves as a guide to conduct operation and a basis for evaluating actual results. Actual results can be judged being satisfactory or unsatisfactory in the light of the reverent budgeted data and also in the responsibility reporting system. Top executives are able to control every area of the organization through a system of budgetary planning and control reporting by responsibility area.

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

Explicit statement of expectations

Communication

Co-ordination

Expectation as a framework for judging performance

### **2.1.11 Essentials of an Effective Budgeting**

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

#### **Sound Forecasting**

Forecasts are the foundations of budgets are discussed by the executives and when most profitable combinations of forecasts are selected they becomes budgets. The sounder are the forecasts better result would come out of the budgeting system.

### **An Adequate and planned Accounting System**

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

### **Efficient Organization with definite Lines of Responsibility.**

An efficient adequate and best organization is imperative for budget preparation and its operation. Thus a budgeting system should always be supported by a sound organization structure demarcation clearly the lines of Authority and responsibility. Not only this, there should be a true delegation of authority from top to low levels of management. This will provide adequate opportunity to all executives to make decisions and also to participate in the function of budget preparation. Thus, an efficient organization helps not only in budget co-ordination but it also plays important role in budget co-ordination and operation.

### **Formation of Budget Committee**

As mentioned earlier, budget committee receives the forecasts and targets of each department as well as periodic reports and finalizes. And also approves the departmental budgets. Thus in order to make a budgeting system more and more effective, a budget committee should always be set up.

### **Clearly Defined Business Policies:**

Every budget reflects the business policies formulated by the top management. In other words budgets should always prepare talking in to account the policies set for particular department or functions. But for this purpose, policies should be precise and clearly deigned as well as free from any ambiguity.

### **Availability of Statistical Information**

Since budgets are always prepared and expressed in quantitative terms. It is necessary that sufficient and accurate relevant that should be made available to each department. Such data may not be available from accounting system alone and therefore they may be processed

through statistical technique. These data should be as far as possible, reliable accurate and adequate.

### **Support of Top Management**

If a budget program is to be made successful, the sympathy of each member of the management team, it should start preferably from top level (chairman). The enthusiasm for budget operation as well as direction for it should initiate and come from top.

### **Good Reporting System**

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

### **Motivational Approach**

All the employee or staff other than executives should be strongly a properly motivate towards budgeting system, Ina organization it is needed to make each staff member feel to much involved in the budgeting system. To meet this end motivational approach towards budgeting should be followed.

### **2.1.12 Fundamental of PPC**

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

1. A management process that includes planning organizing, staffing, leading and controlling.

2. A managerial commitment to effective management participation by all levels in the entity.
3. An organization structure that clearly specifies assignments of management authority and responsibility at all organization levels.
4. A management planning process.
5. A management control process.
6. Continuous and consistent co-ordination of all the management functions.
7. Continuous feed forward, feedback, follow up, and re-planning through defined communication channels (both downward and upward).
8. A Strategic profit plan.
9. A tactical profit Plan.
10. A responsibility accounting system.
11. A continuous use of the exception principal.
12. A behavior management program.

### **2.1.13 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 concepts through a variety of approaches techniques and sequential steps. These steps are out lines in this study in the following manner.

#### Identification and Evaluation of External Variables.

The variable identification phase of the PPC Process Focuses on (1) identifying and (2) evaluating the effects of the external variable. Management planning must focus on how to manipulate controllable variables and how to work 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 purposes the external relevant variables are, population, G.N.P competitive activates product line, and industry sales. And so far internal variables are concerned employees, capital, research productivity, pricing, operating costs; advertisement 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 operation will be critically analyzed and evaluated periodically and in an orderly manner (Welch, 2001:235).

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 enterprises. Its purpose is to provide enterprise identity continuity of purpose is to provide and identification. One research study listed the purpose of the statement essentially as follows:

1. To define of the purpose of the Co.
2. To clarify the philosophy Character of the Co.
3. To create particular climate with in the business
4. 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.

### **Development of Specific Goals for the Enterprises**

This component of a comprehensive PPC process is to bring the statement of broad objectives into sharper focus and to move from the realm of general information to more specific planning information. It provides both narrative and quantitative goals that are definite and measurable. These are 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 and clearly articulated framework within which operations will be conducted toward common goals.

## **Development and Evaluation of Company Strategy**

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

- ) Increase long-term market penetration by using technology to development new products and innovations the product.
- ) Emphasizes product equality and price for the top 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 oral and productivity by initiating a behavior management program

## **Executive Management Planning Instruction**

Executive management explicitly establishes a planning foundation that is a condition precedent to the movement in the planning foundation the statement of planning guidelines is set as executive management instructions and is disseminated in order to initiate a sophisticated and potent move from broad corporate planning to the development of profits plans by each major responsibility center in the enterprises. It is simply a communication steps from executive management to the lower levels of management and it should adopt the fundamentals of full communication.

### **Preparation and Evaluation of Project Plans**

Periodic Plans and project plans are different in feature and functions. It will be recalled that project plans encompasses different time horizons because each project has a unique time dimension, they encompasses such items as plans for improvements of present, products view and expanded physical facilities, entrance in to new industrial unit from products and industries and new technology and other major activities that can be planned as separate units Consistent with this approach during the formal planning cycle, management must evaluated decide up on the plan status of each project in process and select any new projects to be initiated during time dimension covered b the up coming strategies and tactical profit plans.

### **Development of strategies and Tactical profit plan**

When the managers of the various responsibility centers in the enterprises receive the executive management planning instruction and the projects 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 details and other relevant procedural and format requirement essential for aggregation of the plans of the responsibility centers, into the overall profit plans. All of these activities must be coordinated among the centers in conformity with the organization structure. When 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 reaches the two profit plans should be formally approved by the top executive and distributed to the appropriate managers

### **Implementation of Profits Plans**

That profit plans strategies should be implemented by every level 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 facets involved in management's leadership. However the comprehensive PPC program may aid substantially in performing this function, Plans strategies and policies foundation for substantially in performing this function, Plans strategies and Policies foundation for effective communication. The plan should have been developed with the managerial conviction that they are going to be met or exceeded in all major respects. If these principles are effective in the development process, the various effective and supervisor will have a clear understanding of their responsibilities and the expected level of performance.

### **Use of periodic Performance Reports**

Only implementing the strategy will be on no meaning when the implementation is not checked and trial whether used appropriately. So that the significance has been raised that monthly and three monthly performance reports are to be prepared.

### **Follow Up**

It is an important part of control. Because of performance reports are based on assigned responsibilities, they are the basis for effective follow up actions, finally, there should be a special follow up of the prior follow up actions, This step should be designed to:

Determinate the effectiveness of prior corrective action and

Provide a basis for improving future planning and control procedures.

### **2.1.14 Basic Assumptions and Limitations of Profit Plan**

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

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

The profit plan should be regarded not as a master but as a servant. It is not one of the best tools yet devised for advancing the affairs of a company and the individual in their various sphares of managerial activity. It is not assumed that any profit plan is prefect "The most important consideration is to make sure, by intelligent use of profit plans that all possible

attainable benefits are derived from the plans as rendered and to re-plan when there are compelling business reasons (Welsch, 1998:265).

#### **2.1.15 Development of profit Plan**

Development of profit plan in commercial Bank begins with the preparation of various functional budgets. Those function 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 based business, budget for expenditures and revenues The development of profit plan process that involves managerial decision and ideally a high level of management participation, The following are the budgets, which are developed in a bank while making a profit plan

#### **2.1.16 Resources Mobilization Plan or Budget**

Planning for resources mobilization is the foundation for planning in a bank, The all other planning is based on it. The major and the sustainable resource of a bank are the customer deposits. Therefore, the plan for resources mobilization has a primary focus on the customer deposit mobilization or collection plan is the starting point in preparing the other different plan.

Deposit mobilization is the primary function of a bank, which has major contribution in the total resources of the bank. In terms of cost for the bank, customer's deposit are of two kinds, viz (i) interest free deposits i.e. saving deposits, fixed deposits of various tenure, call deposit etc. The interest free deposits are cost free but are generally volatile in nature. Those can be withdrawn without restriction from the bank, thus can not be invested into higher income yielding assets. Further, interest bearing deposits involve cost of deposits but their retention ration 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 deposit 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 bank is also affected by the prevailing deposit interest rate of other banks in the market.

Budgeted targets for deposit mobilization during a particular year is set in advance with each view of optimizing the cost of deposit and the same are allocated to the different branches of the banks, Such allocations may be regarded as the tactical plan for deposit borrowing from other banks and the capital fund, Generally bank borrows from other banks to meet temporary requirement of liquidity which may occur, sometime, during the occurs of banking operation caused due to unexpected withdrawals of deposit or degerment 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 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 aid up capital to improve the capital adequacy of the bank.

Further, the banks may choose by themselves whether or not increase the owner's capital by raising the other item included in capital funds beside paid up capital and general reserves. It is always better to have a higher capital fund base of a bank because; creation of banks' shall have to build their capital base at least of 12 percent by the end of FY 2060/61. "And a bank can take the size of exposure per borrower equivalentents to maximum of 25 percent of its core capital in fund based, and 50 percent of than in non-fund based exposure" (Welsch, 1998:126).

### **2.1.17 Resources Deployment Plan or Budget**

Planning for development 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. 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 child relatively stable fund, like saving deposits, fixed deposits and paid up capital could be used to buy long dated highly yielding securities, demand deposit which are more volatile, could be sued 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 (Vaish, 1996:365). Funds kept as cash in vault and as balance with NRB 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 for lower income yielding assets are generally placing the funds in short-term securities, treasury bills etc. This provides reasonable liquidity to be bank as well as yield some return although they are at very low rate. Major portion the income of the Bank comes as interest income from the resources deployed to loan advances and Bill discounting (LDO). As the part of the resources are for LDO. Banks make its lending budgets in advance as per their lending policies. Lending targets and fixed at various sector of economy for various kinds of trades and commercial activities and to various borrowers ensuring well diversification of the assets. The targets are allocated to the branches, which are generally operated as separated profit centers.

#### **2.1.18 Planning for Non-Funded Business Activities**

Other activities of commercial banks where it does not have to involve its fund yet it can generate other income are called non-funded business activities of the bank They are usually letter of credit and bank grantee issuance business of the bank where the bank undertakes payment liabilities ,which are contingent in nature and the banks charges certain percentage of commission on such transaction to their client where availing these facilities from the bank .The bank fixes annual target for such business and those are allocated to the branches of the bank .

#### **Expenditure Planning**

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

- a. Interest Expenses

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

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

Interest expenses in a bank depend on the average cost of deposit (COD) mobilized by the bank. Lower the COD, lower the interest expenses and thus higher the profitability. Therefore, from a profitability point of view, banks plan their COD at the lowest possible level. The nature of interest expense is that of a variable expense. The net remaining 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 unit.

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

## **Revenue Plan**

Revenue of a bank is generated from the income yielding activities of the bank. Therefore while preparing the 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 developed. Revenues of a bank are generated in the following forms:

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

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

The interest income is earned by charging interest on the fund deployed in interest earning assets such as loan and advances, overdraft, investments in government securities, 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 and 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 assets allocation into LDO, higher will be the income. The other income are generate from other activities of the banks such as issuance of L/C Bank Guarantees, from remittance charges, cheque 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 the amount of its revenue, Therefore the bank develops its plans for various activities in such a way that it optimizes its revenues.

### **2.1.19 Implementation of the Profit Plan**

Development of an annual profit plan ends with the planned 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 redistribution the completed profit plan it is general characteristics of the firm. Before redistribution the completed profit plan it is general desirable to recast certain budget schedules so that technical accounting mechanics and jargon are avoided as much as possible

The redesigned budget schedules should be assembled in on logical order, reproduced and distributed before the first day of the upcoming budget period. The profit plan completion data is important. Issuance of profit plan after the beginning of the budget period is one sure way of destroying much of the budget potential. Timely completion of the planning budget suggests the need for a budget calendar (Welch, 1999:135)

The final test of whether the efforts and cost in developing a profit plan are worthwhile is its usefulness to management. The plan should be developed with the conviction that the enterprises are going to meet or exceed all major objectives. Participation enhances communication. If this principal is to be effective, the various executives and supervisors should have clear understanding of their responsibilities. The copies of the complete profit plan be prepared and distributed to the member of executives managements. 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 into 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 expectation and steps in implementation. At this top level meeting the importance of action, flexibility and continuous control may well be emphasized. In essence, each manager has to

realize that the budget is a tool for his or her use. Conferences should be held so as to convey the profit plan to each level of management.

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

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

#### **2.1.20 Performance Reports**

Performance reporting is an important part of a comprehensive PPC system. Its phase of a comprehensive PPC program significantly influences the extent to which the organization's planned goals and objectives are attained. Performance reports deal with control aspect of PPC. The control function of management defined as the action necessary to assure the objectives plan, policies and standard are one of the vital tools of management to exercise its control function effectively.

Special external reports, reports to owner and internal reports are specially presented in the organizational Performance reports include in internal report groups. It is usually prepared on a monthly basis and follows a standardized format such reports are designed to facilitate internal control by management. Fundamentally actual results of reports are compared with goals and budget plans. Frequently they identify problems that require special attention since these reports are prepared to pinpoint both efficient and inefficient performance.

### **Features of Performance Reports**

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

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

### **Aspects of Performance Reports**

The various managers use their performance reports depends on many factors. Some behavioral and some technical. One important factor is the extent to while the performance reports serves the management and decisional 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 date on day-to-day operation. Similarly lower level management needs reports that must be detail simple understandable and limited to items having a direct bearing on the supervisor's operational responsibilities.

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

### **2.1.21 Concept of Commercial Banks**

The term 'Bank' signifies the place where we keep our money for safe keeping as well as for earning some interest or the place from where we borrow money as loan. As regard to the borrowing money from the Bank, we may consider its function as that of money lender in our society. But a bank a moneylender is different in the sense that the former lends the money which is principally collected from their depositors while later does so from its own resources. 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 and Urdang, 1985:29)

Bank refers to an institution, which perform the activities related with money and credit. Banks have been traditionally regarded as merely the purveyor of money. But today they are not merely purveyor of money but creator or manufacturer of money in an economic system. Macleod, in this book 'theory of credit' has defined the bank not only as an institution, that borrows and lend money but also the institutions whose debts usually are referred to as bank deposit and are commonly acceptable in final settlement of other peoples debt. He has taken the bank deposit as the debt owe by bank and that particular depositor can set off his liability with his creditor by the deposit in the Bank to the extent of his deposit amount.

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 specially established with the objectives of co-operative, agricultural, industrial or any other of such kind of specified purpose. The Act has defined the commercial bank.

Should be established with a specified objective of co-operative, agricultural, industrial or nay of such 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.

From the various definition made and opinion produced regarding commercial banking it can be concluded that a commercial bank is set up to collect-scattered funds and employ them to productive sector of economy.

### **2.1.22 Evolution of Commercial Bank**

The words Bank is derived from the word "Banco" or "Banque" all meaning to a bench. This refers that early bankers transacted their money lending activities on benches in the marketplace exhibiting the coins of different countries in different denominations for the purpose of changing and or lending money. Some writers are of the opinion that the word "Bank" come from the German word "Banc" meaning joint stock fund (Varshney, 1993:1.69)

In its native form, banking is as old as in the authentic history and origins of the modern commercial banking are traceable in ancient times. In ancient Greece, around 2000 B.C the famous temples of Ephesus, Delphi and Olympian were used as depositories for people surplus find and these temples were the centers for money lending transactions. The priests of these temples acted as financial agents until public confidence was destroyed by the spread of disbelief in the religion. Later, however, for a few centuries, banking as an organized system of money lending receded because of the religious belief that the charging of interest was immoral. However, the banking as we know today, made its first beginning around the middle of 12th century in Italy. The Bank of Venice, founded in 1157 A.D was the first public banking institutions Following this in 14th century, the Bank of Barcelona and the Bank of Genoa were established in 1401 A.D and 1407 A.D respectively (Vaish, 1996:192)

Commercial Banks play an important role in facilitating the affairs of the economy in various ways .The operations of commercial Banks record the economic pulse of the country. The size and composition of their transaction reflect the economic happening in the country .Commercial Banks have played a vital role in giving the direction in economy growth over

the time by financing the requirement of industries and trade in the country .By encouraging thrift among the people ,banks have fostered the process of capital formation in the country. In the context of deposit mobilization, commercial banks induce the savers to hold their savings in the form of bank deposit thus help bringing the scattered resources into the organized banking sector, which can be allocated, to the different economic activities. In his way, they help in country's capital assets formation. Through their advances, banks also help the creation of income out of which further saving by the community and further growth potentials emerge for the good of the economy. In a planned economy, banks make the entire planned productive process possible by providing funds to the public sector, joint sector or private sector for any type of organization. All employment income distribution and other objective of the plan as far as possible subsumed into the production plan which banks finance (vaish, 1996:265)

the importance of commercial banks in directing the economic activities in the system is immense .Not only in the highly developed economies where the commercial and industrial activities are paralyzed in the absence of banks, even in the developing countries economy are most of the economic activities particularly of organized sectors bank based. Therefore, concisely it can be said that the growth of the economy is tied up with the growth of the commercial banks in the economy.

## **2.2 Review of Previous Studies**

Commercial banks came into the existence mainly with the objectives of collecting the idle funds mobilizing them into productive sector and causing on overall economic development. Any institution accepting deposits subject to withdrawal on the demand and granting loans to the different sector, creation of credit is done by a bank. So far as the study concerned with the profit planning of commercial banks, there are various study have been available in the field of profit planning of commercial banks in the Nepalese contest, of them have been analyzed in this section:

Ojha (1995) in his study on *Budgeting System in public enterprises in Nepal*, a comparative study of Royal Drugs Limited and Herbs Production and processing industry, he has focused

his basic objectives of the study to highlight the current practice of Budgeting System and its effectiveness. Mr. Ojha has followed analytical as well as descriptive approach. The main objective of the study to highlight the current practice of Budgeting System and its effectiveness in public enterprises and to draw a picture of Budgeting System process adopted in those enterprises. Major findings and conclusions of this research work drawn by Mr. Ojha are mentioned below:

- ) Royal Drug Limited (RDL), Herbs production, and processing company (HPPC) have not adequately considered controllable and non-controllable variables affecting the company. Furthermore strengths and weakness.
- ) The objectives of Nepalese public enterprises are not clear. RDL and HPPC both also have no any objective to create and maintain and optimum enterprise environment that maximizes the interest and motivation of all employees.
- ) RDL and HPPC both have no marketing specialists. So these enterprises are unable to develop the alternative marketing policy for sales expansion and fro new supply sources of raw materials. These enterprises are not operated on commercial basis.

The identified conclusions about different aspects of profit plan are presented in more than 50 points in his study including above major findings.

Karki (2000) has carried out a research in the topic '*A comparative study on Budgeting System of Rasriya Banizya Bank Ltd (RBB) and Himalayan Bank Limited (HBL)*'. The time period covered by this research 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 this research she has carried out some objective, finding and recommendations

Some objectives are:

- ) To determine comparative systematic budgeting capacity.
- ) to identify comparative revenue and cost efficiency.
- ) To know the comparative fund mobilization and lending policy.

Some findings are:

1. Total revenue & total cost of RBB is higher tan HBL but its profits are lower.

2. Government seems less conscious in the present situation of RBB.
3. 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.
4. As the accounting system, of RBB is Careless that it has not been audited from the FY1993-94 and its difficult to take decision about data analysis.
5. No proper planning strategy seems to be developed although HBL is operating at profit But RBB is running with heavy cumulative loss.
6. Interest coverage ration of both banks is more than 1 except in the FY1995-96 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.
7. Interest spread is higher in RBB than in HBL.
8. Return on paid of capital is always negative in RBB. Net profits also negative in RBB.

Sharma (2002) Carried a study entitled, “Profit planning in commercial banks with a case study of Nepal Bangladesh Bank” for the purpose of the partial fulfillment of the requirement for Master Degree in Business Administration. He has studied the profit planning in commercial banks with a case study of NB Bank. The main objective of this study is to trace out the situation of profit planning in Nepalese commercial banks. His major findings are:

- ) NB Bank lacks active and organized planning department to undertake innovative products research and development works.
- ) Objectives of the Banks are expressed in literary form, and not specified clearly. therefore, there is danger if it being misinterpreted in the ways of one’s benefit by the concerned.
- ) Major concentration of resources mobilization of NB Bank is at deposit mobilization. In this respect, they are incurring higher cost toward deposit mobilizations.

- ) Bank's resources deployment for non-yielding liquid assets (cash and bank balance) is increasing every year, which is detrimental to profitability objectives, but it is supportive to meeting liquidity requirement of the Bank.
- ) Outstanding letter of credit liability of the bank is increasing every year however the growth is not consistent.
- ) Interest expenses amount of the bank is the highest among other income items in revenue. The total Interest income amount of the Bank is the highest among other income items in the total revenue.
- ) The average current ratio of the bank has found be always higher than standard ratio 2:1, which shows satisfactory liquidity position of the bank.

Sharma recommended following major points in his study for the consideration to improve the existing situations:

1. 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 other productive use.
2. Objective of the banks should be clearly defined in order to avoid the risk of it being misinterpreted the average cost of deposit of deposit of the bank is high, therefore bank should try to lower it by mobilizing more and more low cost or cost free deposit 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. The Nepal Rastra bank has put the restriction on the difference of average rate of interest income and average rate interest expenses of the bank (i.e. spread) not to exceed 5 percent .Therefore the bank has to put more focus on the other kind of non founded activities by which it shall increasing income from other sources than interest to increase its profitability
4. 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 may in (interest margin) of the bank, therefore lowering the other expenses the bank shall enhance its profit.

5. Net profit of the bank is the amount, which is obtained by subtracting the amount of the 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 followed by the central banks norm.

Dhungana (2003) ‘*A study of joint venture banks profitability* ‘ this study was conducted with main objective of assessing the profitability of joint venture bank in Nepal (during the period of five years from 1997/88 to 2001/02).Other objective of the study were

- ) to identify whether the profitability of joint venture banks are optimal or no to identify the pattern of profitability of join venture banks especially of Nepal investment bank limited
- ) to suggest on the basis of finding and analysis.

The major findings, he had presented were as follows:

1. Interest income of NIBL (Nepal investment bank limited) was high. Scb’s commission and discount earning and foreign exchange income were higher than both of NIBL and Nabil where Nabil’s other operating income was appeared higher than other banks.
2. NIBL had paid highest tax per share than other banks and SCB paid the same least.
3. In average, Nabil, NIBL and SCB had highest personnel expenses, interest expenses on Deposit and other operating expenses respectively.

Sharma (2004) conducted a study entitled profit planning in commercial banks with a case study of NABIL bank .His major objective and finding are:

Objective are:

- ) To identify the efficiency of planning of NABILB bank LTD.
- ) To determine the profitability of NABIL bank LTD.
- ) To examine the fund mobilizing and lending policy.
- ) To study the impact of now management techniques in making profit.

Findings are:

NABIL bank lacks active and organized planning department to undertake innovative products research and development works.

- ) Objective of the banks are expressed in literary form, and not specified clearly, therefore, there is a danger if it being misinterpreted in the ways of one's benefit by the concerned. Major concentration of resources mobilization of NABIL bank is at deposit mobilization .In this respect they are incurring higher cost toward deposit mobilization.
- ) Banks resource deployment for non-yielding liquid assets (cash and bank balance) is increasing every year, which is determined to profitability objectives, but it is supportive to meeting liquidity requirement of the bank.
- ) Interest expenses amount of the bank is the highest amount other income items in the total revenue.
- ) Outstanding letter of credit liability of bank is increasing every year however the growth is not consistent.
- ) Interest income amount of the bank is the highest among other income items in the total revenue.
- ) The average current ratio of the bank has found to be always higher than standard ratio 2:1, which shows satisfactory liquidity position of the bank.

Lamsal (2005) has conducted a research in the topic 'A comparative study of profit planning analysis of HBL and SCB. 'This research of Mr .Lamsal was mainly centered in profit planning analysis of both the banks .The main objective of his research was to highlight the profitability position of both the banks .The data and other necessary research ,he has pointed various finding and recommendations .Some remarkable findings and recommendations are as follows

- ) Profitability position of SCB is comparatively better than the same of GBL. So HBL is recommended to utilize its resources more effectively for generating more profit margins.
- ) Both banks should fulfill some social obligation by extending their resources to rural areas and promote development of poor and disadvantaged groups .In order to do so,

- they should open branches in the remote areas with the objective of providing cheaper banking services. The minimum amount to open account should be reduced.
- ) Reports of HBL show that it is not involved in social activities .Therefore it is suggested that HBL should involve or contribute for such social programs to maintain favorable image.

Gautam: (2006) has conduct research on "*A Comparative study on financial performance of Standard Chartered Bank Limited and Nepal Bangladesh bank Limited*" Financial performance is analyzed with two important tools. The first most important tools are the financial tools, which includes ratio analysis and other is a statistical tools, which is bankruptcy score.

The objectives of his research are:

1. To study the existing capital structure of financial position of selected joint venture commercial banks and to analyze its impact on the profitability.
2. To access the debt servicing of the joint venture commercial bank.
3. To examine the correlation and the signification of their relationship between different ratios related to capital structure.
4. To provide suggestions and recommendations for the optimal capital structure of the joint venture commercial bank.
5. To obtained the objectives, some financial, statistical and accounting tools.

He has found his study were the joint venture banks are operating in Nepal as commercial merchant banks. The growth is still going on as so many new banks are coming into existence after this study. Therefore, JVB's are operating with higher technology and new efficient methods in banking sector. However, this study has been undertaking only three JVB's viz. SCBNL and NBBL to examine and evaluation the financial data.

The research findings of the study are as follows:

- ) The research sample JVB's have used high percentage of total debt in raising the assets. The higher ratio constitutes that the outsider's claim in total assets of the bank is owner's claim.

- ) The on an average, NBBL bank constitutes 16.27 times of P/E ratio, which should be reduce as quickly as possible.
- ) The financial risk of the banks NBBL average degree of finance leverage constitutes 3.73 times which indicates the higher degree of financial risks 3.73 times which indicates the higher degree of financial risks.
- ) The average ROE of JVB's i.e. SCBL and NBBL area 37.36% and 21.75% respectively.

Now, in Nepal many banks and other financial institution are functioning to collect deposits and invest money somewhere in the investable sectors. Therefore, efficiency has been increased since liberalization policy taken by the government. Heavy remittance has also helps to increase the amount of deposits in bank

Kharel (2008) conducted a study entitled "*Profit planning of commercial banks in Nepal comparative study of Everest Bank, Nabil Bank and Bank of Kathmandu* " His major objective and finding are:

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

- ) To find out the relationships between total investment loan and advances, deposit, net profit and outside assets.
- ) To identify the investment priority sectors of commercial Bank
- ) To assess the impact of investment on profitability.
- ) To analyze and forecast the trend and structure of deposit utilization and its projection for five years of Commercial Bank
- ) To provide suggestion and possible guidelines to improve investment policy and its problems.

Conclusion of the study

- ) The liquidity position of EBL is comparatively better than that NABIL and BOK. EBL has invested higher sector in government securities than BOK less then portion than of Nabil.

- J Asset management ratio found that EBL is better position as compared to that of Nabil and BOK. EBL has trying to best in loan loss provision. Investment on share and debenture to total working found ratio is higher in BOK.
- J The interest earned to total outside asset and return on total working fund ratio of EBL is lowest of all. However, over all analysis of profitability ratios is average profitable in comparison to other compared bank. I.e. Nabil and BOK. to make the profit BOK is taking highest risk by providing the higher portion of its deposit as a loan.
- J The return, loan, advances ratio, and return on assets of EBL are lowest of all. The ratio suggests that the earning capacities of the banks loan and advances is satisfactory. The return on asset of the bank is good in average. It indicates the good earning capacity of the bank assets and good utilization of its assets.
- J The total interest paid to working fund ratio is less than the interest earned to total working fund ratio. so it is profitable position as it is profitable position as it is getting higher return that is interest cost.
- J The degree of risk is average on EBL. The credit risk ratio is higher than the compared banks. However, the lowest C.V. of credit ratio and average C. V. of liquidity risk ratio and capital ratio over the study period provides for the assurance of consistency of the degree of risk. EBL has showing its good performance by increasing the total deposit, loan and advance and investment in profitable sectors interested earning by providing loan to clients. The trend of the total investment, total deposit, loan and advances and net profits of EBL shows better position than that of NABIL and BOK.

## **CHAPTER - III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Research is a systematic and organized effort to investigate a specific problem that needs a solution. This process of investigation involves a series of well thought out activities of gathering, recording, analyzing and interpreting the data with the purpose of finding answers to the problem. Thus, the entire process by which we attempt to solve problems or search the answers to questions is called research.

Research Methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it, we study the various steps that are generally adopted by a researcher, studying his research problem along with the logic behind them (Kothari, 1990:13).

The research for going the knowledge about method of goal achievement, which is desire, is known as research methodology (Joshi, 2001:12).

A research methodology helps us to find out accuracy, validity and suitability. The justification on the present study cannot be obtained without help of proper research methodology. For the purpose of achieving the objectives of study, the applied methodology will be used. The research methodology has primarily sought the evaluation of the profit planning of NABIL Bank Ltd. The research methodology adopted in this chapter follows some limited but crucial steps aimed to achieve the objectives of the research.

#### **3.2 Research Design**

A research design is an overall framework or plan for the collection and analysis of data. The research design serves as a framework for the study, guiding the collection and analysis of the data. The research design then focuses on the data-collection methods, the research instruments utilized, and the sampling plan to be followed. Specifically research design describes the general plan for collecting, analyzing and evaluating data after identifying,

- What the researcher wants to know and

- What has to be dealt with in order to obtain the required information? (Wolf & Pant, 2002:50)

Research design is the plan, structure, and strategy of investigation conceived so as to obtain answers to research questions and to control variance. The plan is the overall scheme or program of the research. It includes an outline of what the investigator will do from writing the hypotheses and their operational implications to the final analysis of data. The structure of the research is more specific.

Thus, a research design is a plan for the collection and analysis of data. It presents a series of guide posts to enable the researcher to progress in the right direction in order to achieve the goal. The design may be a specific presentation of the various steps in the problems, formulation of hypothesis, conceptual clarity, methodology, survey of literature and documentation, bibliography, data collection, testing of the hypothesis, interpretation, presentation and report writing. Generally, a common research design possesses the five basic elements viz. (i) selection of problem (ii) methodology (iii) data gathering (iv) data analysis and (v) report writing.

### **3.3 Sources of Data:**

There are two sources of data collection. They are primary source and secondary source.

#### **a) Primary Source:**

The primary source of data is collected from the concerned bank. The way of data collection is by annual report and making questionnaire and distributed to the credit department of the concerned bank and also to the client of the bank.

#### **b) Secondary Source:**

This refers to data that are already used and gathered by others. Secondary data are mostly used for this research purpose. So the major sources of secondary data are as follows

- Economy survey of NG, Ministry of finance.
- Annual general report of EBL.

- National newspaper, journals, magazine, and reports for Central Library of T. U., Library of Shanker Dev Campus.
- Internet.
- NRB directives.

### **3.4 Population and Sample**

Population refers to the entire group of people, events, or things of interest that the researcher wishes to investigate. The researcher cannot normally survey everyone in the population so a small part of the total population is taken to represent the total population. Hence, a sample is a collection of items or elements from a population or universe. It comprises some observations selected from the population. Here Nabil Bank Limited has been selected as sample for the present study. Similarly, financial statements of this bank for 5 years have been taken as samples for the same purpose.

### **3.5 Methods of Data Analysis**

Mainly financial methods are applied for the purpose of this study. Appropriate statistical tools are also used. Among them correlation analysis regarded as major one is used for this research. To make the study more specific and reliable, the researcher uses two types of tool for analysis,

- a) Accounting Tools
- b) Statistical Tools

#### **3.5.1 Accounting Tools**

For the sake of analysis, various financial tools were used. The basic tools used were ratio analysis. Besides it, income and expenditure analysis.

Source of fund

Application of fund

Profit

### **3.5.1.1 Ratio Analysis:**

Ratio refers to the numerical or quantitative relationship between two items/variables. A ratio is calculated by dividing one item of relationship with the other. The technique of ratio analysis is apart of the whole process of analysis of financial statements of any business of industrial concern especially to take output and profit. A ratio is a figure or a percentage representing the comparison of one-dollar amount with some other dollar amount as a base (Roy, 1974:98).

Ratio analysis is a widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. In financial analysis a ratio is used as an index or yardstick for evaluating the financial position and performance of a firm. Ratio helps to summarize the large quantities of financial data and to make qualitative judgment about the firm's financial performance (Pandey, 1979:97).

A large number of ratios can be generated from the components of profit and loss account and balance sheet. They are sound reasons for selecting different kinds of ratios for different types of situations. For this study, ratios are categorized into the following major headings:

#### **i) Cash and Bank Balance to Total Deposit Ratio:**

This ratio shows the ability of banks immediate funds to cover their deposit. Higher the ratio shows higher liquidity position and ability to cover the deposits and vice versa. It can be calculated by dividing 'cash and bank balance' by deposits. This ratio can be calculated using the following formula.

$$\text{Cash and Bank Balance to Total Deposit Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposits}}$$

#### **ii) Cash and Bank Balance to Interest Sensitive Deposit Ratio.**

The ratio of cash and bank balance to interest sensitive deposits measures the ability to meet its sudden outflow of interest sensitive deposits due to the change in interest rate.

$$\text{Cash and bank balance to interest sensitive deposit ratio} = \frac{\text{Cash and bank balance}}{\text{sensitive deposit}}$$

### **Activity / Efficiency Ratio:**

It is also known as turnover or efficiency ratio or assets management ratio; measures how efficiently the firm employs the assets. Turnover means; how much number of times the assets flow through a firm's operations and into sales (Kulkarni, 1994:138).

Greater rate of turnover or conversion indicates more efficiency of a firm in managing and utilizing its assets, being other things equal. Various ratios are examined under this heading.

#### **i) Credits and Advances to Total Deposits Ratio:**

Commercial banks utilize the outsider's fund for profit generation purpose. Credits and advances to deposit ratio shows whether the banks are successful to utilize the outsiders funds (i.e. total deposits) for the profit generating purpose on the credit and advances or not. Generally, a high ratio reflects higher efficiency to utilize outsider's fund and vice-versa. The ratio can be calculated by using following formula.

$$\text{Credits and Advances to Total Deposits Ratio} = \frac{\text{Credit and Advances}}{\text{Total Deposits}}$$

#### **ii) Credits and Advances to Fixed Deposit Ratio:**

Fixed deposits are the long-term interest bearing obligations and credits and advances is the major sources of investment to generate the income by the commercial banks. This ratio measures how many times the amount is used in credits and advances in comparison to fixed deposit for the income generating purpose. The ratio is slightly differ with the former one, because it only includes the fixed deposits, where as the former on includes all the deposits. The following formula is used to obtain this ratio.

$$\text{Credits and Advances to Fixed Deposit Ratio} = \frac{\text{Credits and Advances}}{\text{Fixed Deposits}}$$

#### **iii) Credit and Advances to Total Assets Ratios:**

It measures the ability in mobilizing total assets into credits and advances for profit generating income. A higher ratio is considered as an adequate symbol for effective

utilization of total assets of bank into credit and advances which creates opportunity to earn more and more. It is calculated as:

$$\text{Credit and Advances to Total Assets Ratio} = \frac{\text{Credits and Advances}}{\text{Total Assets}}$$

**iv) Cash and Bank Balance to Interest Sensitive Deposit Ratio.**

The ratio of cash and bank balance to interest sensitive deposits measures the ability to meet its sudden outflow of interest sensitive deposits due to the change in interest rate.

$$\text{Cash and bank balance to interest sensitive deposit ratio} = \frac{\text{Cash and bank balance}}{\text{sensitive deposit}}$$

**v) Total Debt to Equity Ratio:**

Total debt to equity ratio measures the relative proportion of outsiders and owner's funds employed in the total capitalization. Here, total debt includes total deposits, bills payable and other liabilities of the bank and equity includes paid up capital and reserves. The formula used to determine the ratio is:

$$\text{Total Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Equity}} \times 100\%$$

**vii) Total Assets to Net Worth Ratio:**

The ratio is calculated to find out the proportion of owner's fund to finance for the total assets. Total Assets comprises of the total value of the assets side of balance sheet where as net worth is the sum of the share capital plus reserves and retained of the bank. It is calculated to see the amount of assets financed by net worth.

$$\text{Total Assets to Net Worth Ratio} = \frac{\text{Total Assets}}{\text{Net Worth}} \times 100\%$$

**viii) Total Debt to Total Assets Ratio:**

It examines the relationship between borrowed funds (i.e. total debt) and total assets. It shows the relative extent to which the firm is using borrowed money. A lower ratio is preferable since it reduces the distress of the creditors by using more amount of equity on

total assets. Total debt includes both current liabilities and long term debt. Creditors prefer low debt ratios because the lower the ratio, the greater the cushion against creditors losses in the event of liquidation. Stockholders on the other hand may want more leverage because it magnifies expected earnings. It is computed as:

$$\text{Total Debt to Total Assets Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}} \times 100\%$$

### **Profitability Ratio**

This ratio shows the profitability conditions of the bank. Profit is essential for the survival of bank so it is regarded as the engine that drives the banking business and indicates economic progress. Profitability ratios are calculating to measure the management ability regarding how well they have utilized their funds. Lending is one of the major functions of commercial bank so following are the various types of ratio, which should the contribution of loan and advances in profit and help to be investor whether to invest in particular firm or not.

#### **i) Net Profit to Gross Income Ratio**

The ratio measures the position of profitability of the company to total income. This shows the sound and weakness of the company to utilize its resources. Higher ratio shows the higher efficiency of management and lower ratio shows the lower efficiency of the management. The formula of net Profit to Gross income ratio is-

$$\text{Net Profit to Gross income ratio} = \frac{\text{Net profit}}{\text{Gross income}}$$

#### **ii) Interest Income to Total Income Ratio**

The ratio measures the volume of interest income to total income. The high ratio indicated the banks performance on other fee-based activities. The high ratio indicates the high contribution made by lending and investing activities.

$$\text{Interest income to total income ratio} = \frac{\text{Interest income}}{\text{Total income}}$$

### **iii) Operating Profit to Loan and Advances Ratio**

Operating profit to loan and advances ratio measure the earning capacity of commercial bank. Operating profit to loan and advances ratio is calculated by dividing operating profit by loan and advances.

$$\text{Operating profit to loan and advances ratio} = \frac{\text{Operating profit}}{\text{Loan and advances}}$$

### **iv) Return on Loan and Advances Ratio**

This ratio measures the earning capacity of the commercial bank through it fund mobilization as loan and advances. Higher ratio indicated greater success to mobilize fund as loan and advances and vice versa. Mostly loan and advances includes cash, credit, bank overdraft, bills purchased and discounted.

$$\text{Return on loan and advances} = \frac{\text{Net profit}}{\text{Loan and advances}}$$

### **v) Net Profit to Total Assets**

This ratio shows the relationship of Net profit and total assets and is to determine how efficiently the total assets and is to determine how efficiently the total assets have been used by the management. This ratio indicates the ability of generating profit per rupees of total assets. It also evaluates the present return on the total assets as a guide for return expected on future purchase of assets. Higher the ratio shows the more efficient operating of management and lower the ratio shows the low efficient operating of management. This ratio is computed by –

$$\text{Net profit to total assets ratio} = \frac{\text{Net profit}}{\text{Total assets}}$$

### **vi) Earning Per Share (EPS)**

Earning per share measures the profit available to the cash equity holders. It only measures the overall operational efficiency bank. It is the profit tax figure EPS tells us what profit the common share holder get for every share.

$$\text{Earning per share} = \frac{\text{Profit after tax}}{\text{No. of common share}}$$

### vii) Price Earning Ratio

This ratio shows the relationship between earning per share and market value per share. This ratio measures the profitability of the firm. Higher ratio shows the higher efficiency of the management and lower ratio shows the lower efficiency of the management. The ratio is computed by-

$$\text{Price Earning Ratio} = \frac{\text{Market value per share}}{\text{Earning per share}}$$

### 3.5.2 Statistical Tools:

For supporting the study, statistical tool such as Mean, Standard Deviation, Coefficient of Variation, Correlation, Trend Analysis, Hypothesis and diagrammatic cum pictorial tools have been used under it.

#### i) Arithmetic Mean (Average):

“Arithmetic Mean is statistical constants which enables us to comprehend in a single effort of the whole.” (Bowley, 2000:357). It represents the entire data by a single value. It provides the gist and gives the bird's eye view of the huge mass of unwieldy numerical data. It is calculated as:

$$\bar{X} = \frac{X}{N}$$

Where,

$\bar{X}$  = Arithmetic mean

N = Number of observations

X = Sum of observations

## ii) Correlation Coefficient (r):

Correlation may be defined as the degree of linear relationship existing between two or more variables. These variables are said to be correlated when the change in the value of one results change in another variable. Correlation is of three types. They are Simple, Partial and Multiple correlations. Correlation may be positive, negative or zero. Correlation can be classified as linear or non- linear. Here, we study simple correlation only." In simple correlation the effect of others is not included rather these are taken as constant considering them to have no serious effect on the dependent variable (Pant and Chaudhari, 2055:281-284).

It is calculated as:

$$r_{x_1x_2} = \frac{N \sum X_1X_2 - (\sum X_1)(\sum X_2)}{\sqrt{[N \sum X_1^2 - (\sum X_1)^2]} \sqrt{[N \sum X_2^2 - (\sum X_2)^2]}}$$

Whereas,

$r_{x_1x_2}$  = Correlation between  $X_1$  and  $X_2$

$N \sum X_1X_2$  = No. of Product observation and Sum of product  $X_1$  and  $X_2$

$\sum X_1 \sum X_2$  = Sum of Product  $X_1$  and sum of Product  $X_2$

## iii) Probable Error:

The probable error of the coefficient of correlation helps in interpreting its value. With the help of probable error, it is possible to determine the reliability of the value of the coefficient in so far as it depends on the conditions of random sampling. The probable error of the coefficient of correlation is obtained as follows:

$$P.E. = 0.6745 \frac{1 - r^2}{\sqrt{N}}$$

Here,  $r$  = Correlation coefficient

$N$  = Number of pairs of observations

If the value of 'r' is less than the probable error, there is no evidence of correlation, i.e., the value of 'r' is not at all significant. Then, if the value of 'r' is more than six times of the probable error, the coefficient of correlation is practically certain, i.e., the value of 'r' is significant.

#### **iv. Trend Analysis**

The least square method to trend analysis has been used in measuring the trend analysis. This method is widely used in practice. The straight line trend of a series of data is represented by the following formula.

$$Y = a + bx$$

Here,

Y is the dependent variable, a is y intercept or value of y when  $x=0$ , b is the slope of the trend line or amount of change that comes in y for a unit change in x.

## **CHAPTER - IV**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.1 Introduction**

This chapter pact with the analysis, presentation, interpretation and major finding of relevant data of Nabil Bank in order to fulfill the objectives of research study. To obtain better result, the data have been analyzed according to the research methodology as mentioned in third chapter. The purpose of this chapter is to introduce the mechanics of data analysis and interpretation concern to Profit Planning. With the help of this analysis, efforts have been made to highlight profit planning of Nabil Bank as well as other cases or problems also. For analysis, different types of analytical methods and tools such as financial ratio analysis as well as statistical analysis are used. This chapter deals with the various aspects of credit management such as financial ratios, impact of deposit in liquidity, priority sector lending, lending efficiency, correlation and trend analysis.

#### **4.2 Financial Statement Analysis**

Financial analysis is done by applying various financial tools in order to clear picture on the viability of the project. The financial analysis is done to ascertain the liquidity, profitability, leverage, debt servicing and interest servicing ability of the firm. The concept of financial statement analysis has been already discussed in previous chapter. Here data analyze the by using accounting as well as financial tools. For the sake of analysis, various financial tools were used. The basic tools used were ratio analysis. Besides it, income and expenditure analysis.

Source of fund

Application of fund

Profit

### Source and Application of Fund

Sources	Application/Uses
Funds from operation	Loss from operation
Decrease in working capital	Increase in working capital
Issue of share	Redemption of preference share
Issue of debenture	Redemption of debenture
Increase in long term liabilities	Repayment of long term liabilities
Sales of fixed assets	Purchase of fixed assets
Sales of long term investment	Investment made
Non trading receipt like, rent, dividend, tax refund etc.	Non trading payment like dividend

The above table shows the sources and application/uses item. One left hand side the sources of funds and right hand side the uses or application of funds. The major sources of funds include sale of assets, issue of share and debentures, borrowing of loans, whereas major uses or application of funds include purchase of assets , repayment of loans, repurchase of equity shares , payment of taxes, dividend, redemption of debenture and preference share.

In the summary cash item comes in organization or company is sources and cash item goes from company is uses or application.

#### **4.2.1. Liquidity Ratio:**

Liquidity refers to the ability of a firm to meet its short- term or current obligations. So liquidity ratios are used to measure the ability of a firm to meet its short-term obligations. Inadequate liquidity can lead to unexpected cash short falls that must be covered at excessive costs reducing profitability. In the worst case, inadequate liquidity can lead to the liquidity insolvency of the institution. To find -out the ability of the bank to meet their short-term obligations, which are likely to mature in the short period, the following ratios are developed under the liquidity ratios to identify the liquidity position.

### i) Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance to total deposit ratio shows that percentage relation between cash and bank to total deposit. It means the liquid balance available in respect to total deposit of the bank whereas the difference between the cash & bank balance to total deposit is said as the investment of the bank. The reserve requirement below 10% of deposit liabilities is noted as fully liberalized, 10%-15% as largely liberalized, 15%-25% as partially repressed and above 25% as completely repressed, it is ranked by 3, 2, 1 and 0 respectively. The ratio calculations are as follows

$$\text{Cash and Bank balance to Total Deposit} \times \frac{\text{Cash and Bank balance}}{\text{Total Deposit}}$$

**Table No 4.1**

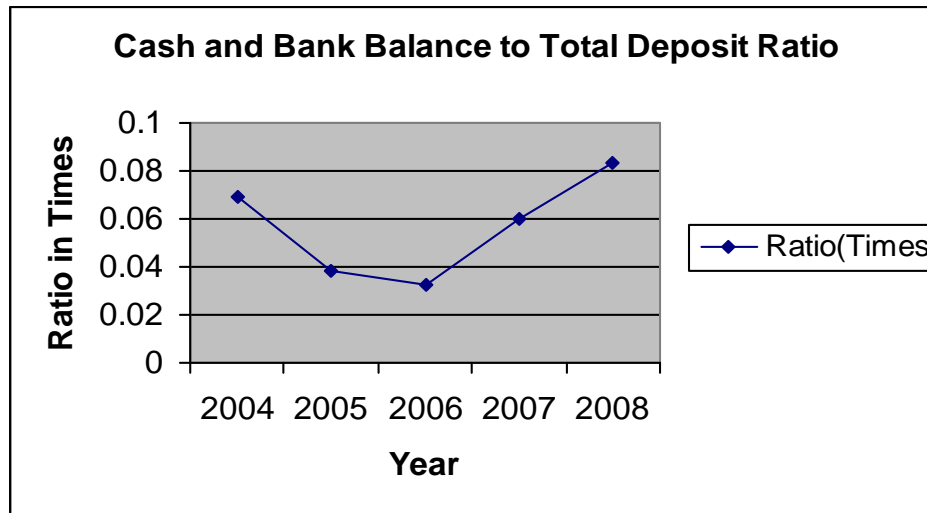
**Cash and Bank Balance to Total Deposit ratio** (Amount in million)

Year	Cash	Bank balance	Total Deposit	Ratio(Times)
2004	287	684	14119	0.06877
2005	146	413	14587	0.03832
2006	238	392	19347	0.03256
2007	270	1129	23342	0.05993
2008	511	2160	31915	0.08369
Mean				0.05666

*Source: Annual report of Nabil Bank*

In above table shows that the cash and bank balance to total deposit ratio of Nabil Bank is in constant trend. The ratios are 0.06877, 0.03832, 0.03256, 0.05993 and 0.08369 respectively. The average mean ratio is 0.05666 times in the study period. . The highest ratio is 0.0869 times in year 2008 and the lowest ratio 0.03256 times in year 2006. These all ratio shows that the bank is not maintain the good liquidity position of the bank. These ratios show low liquidity position of the bank. Therefore, it shows that the bank much utilization of resource. Cash reserve ratio in year 2008 is 8.37% and only 3.26% in 2006. It's show the optimum utilization of resource by Nabil bank. Cash & bank balance to total deposit ratio is shown in the following graph.

**Figure No. 4.1**



**i) Cash and Bank Balance to Current Deposit Ratio:**

This ratio shows the relations between cash & bank balance to current deposit. Cash and bank balance is aggregate outcome of deposit of customers plus other income and reserves of the bank. Bank is responsible to customer to pay out upon demand of customers any time so it is very important factor. The ratio between cash and bank to current deposit are as follows.

$$\text{Cash and Bank balance to Current Deposit} \times \frac{\text{Cash and Bank balance}}{\text{Current Deposit}}$$

**Table No 4.2**

**Cash and Bank Balance to Current Deposit Ratio**

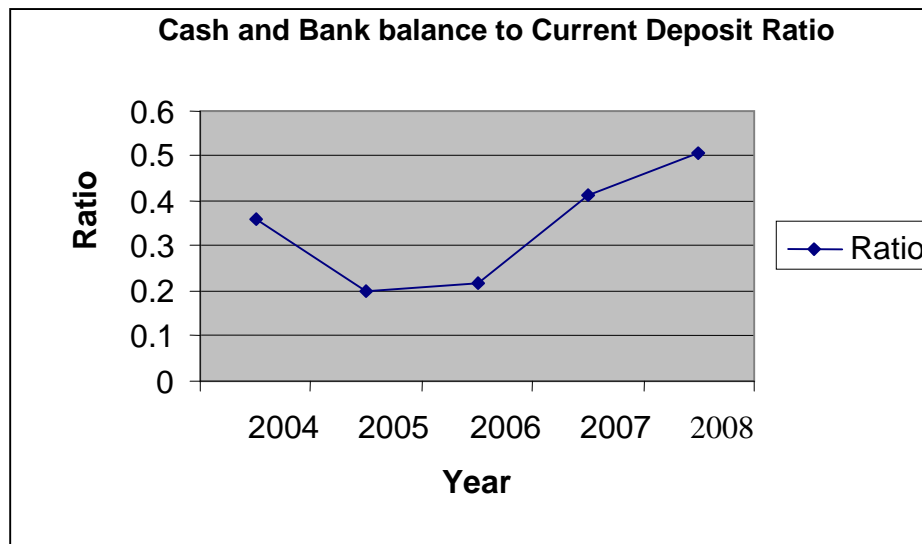
(Amount in Million)

Year	Cash	bank balance	Current Deposit	Ratio(Times)
2004	287	684	2689	0.3611
2005	146	413	2799	0.1997
2006	238	392	2911	0.2164
2007	270	1129	3395	0.4121
2008	511	2160	5284	0.5055
Mean				0.339

*Source: Annual report of Nabil Bank*

Above Table shows the calculation of Cash and bank balance to current deposit of Nabil Bank. The ratios are 0.3611, 0.1997, 0.2164, 0.4121 and 0.5055 times respectively from the first year to last year of the research period. The mean average calculation is 0.339 times, which means consistency in this ratio during the research period. Cash and bank balance would not sufficient to meet the demand of current depositors. So here seems to be making more cash and bank balance to meet the current deposit. Otherwise the bank would lose its image from the viewpoints of customers if all current depositors demand their deposit. Here mean ratio is only 0.339 so more cash and bank balance is required to maintain the current depositor required

**Figure No 4.2**



**iii) Cash and Bank Balance to Interest Sensitive Deposit Ratio.**

Interest sensitive deposit is directly affected by interest rate. The ratio of cash and bank balance to interest sensitive deposits measures the ability to meet its sudden outflow of interest sensitive deposits due to the change in interest rate.

**Table No 4.3**

**Cash and Bank balance to interest sensitive deposit Ratio**

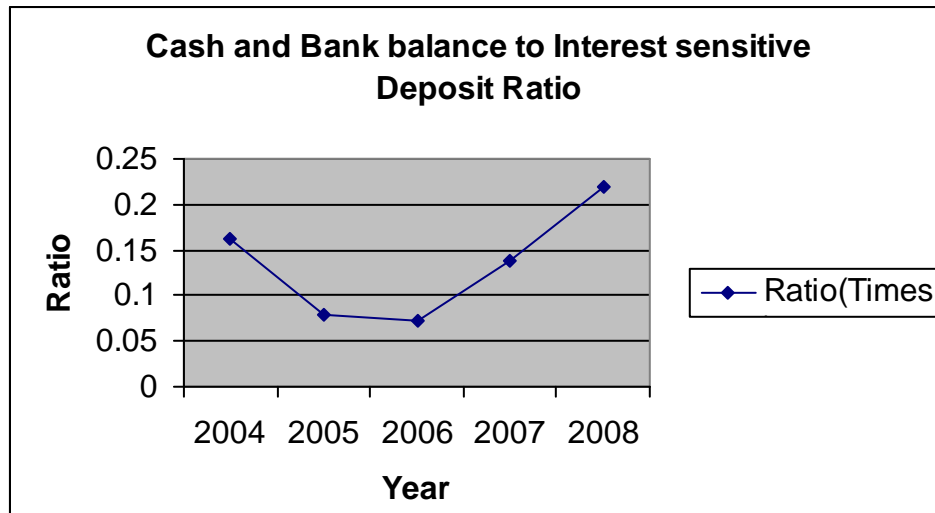
(Amount in million)

Year	Cash	Bank balance	Sensitive Deposit	Ratio(Times)
2004	287	684	5994	0.1620
2005	146	413	7026	0.07956
2006	238	392	8771	0.07183
2007	270	1129	10187	0.13733
2008	511	2160	12160	0.21965
Mean				0.1341

*Source: Annual report of Nabil Bank*

Table 3 shows that the cash and bank balance to interest sensitive ratio of Nabil bank is in fluctuating trend. The ratios are 0.1620, 0.07956, 0.07183, 0.13733 and 0.21965 respectively according to consecutive year 2004 to 08. The mean ratio is 0.1341 times. This means that the bank is able to maintain this ratio in the good financial condition. The highest ratio is 0.22 times in the year 2008 and lowest ratio of 0.072 times in the year 2006. In year, 2008 this bank mobilized deposits 0.22 times and it maintained good financial condition. In year, 2006 mobilized saving deposit 0.072 times and it indicates it does not maintain good financial condition. The sensitive deposit ratio is volatiles so the condition of sensitive of bank also fluctuating. Therefore, credit management neither good nor bad position of the Nabil Bank. Cash, bank balance and interest sensitive deposit are presented following diagram.

Figure No 4.3



#### 4.2.2 Assets Management Ratio:

Asset management means manage or utilization of all about of asset. It is also known as turnover or efficiency ratio or assets management ratio. It measures how efficiently the firm employs the assets. Turnover means; how much number of times the assets flow through a firm's operations and into sales Greater rate of turnover or conversion indicates more efficiency of a firm in managing and utilizing its assets, being other things equal. There are some ratios are examined under.

##### i) Credit and Advances to Fixed Deposit Ratio:

Credit and advances clearly state that it is the assets of the bank and fixed deposit is the liability. It's also known as loan and advance ratio. So, this is the ratio between assets and liability. This helps to show the ratio of Loan & advances to fixed deposit. We can also conclude that what part of the credit and advances is initiated against fixed deposit.

$$\text{Credit \& advances to fixed deposit} = \frac{\text{Credit and Advances}}{\text{Fixed Deposit}}$$

**Table No 4.4**  
**Credit and Advances to Fixed Deposit Ratio**

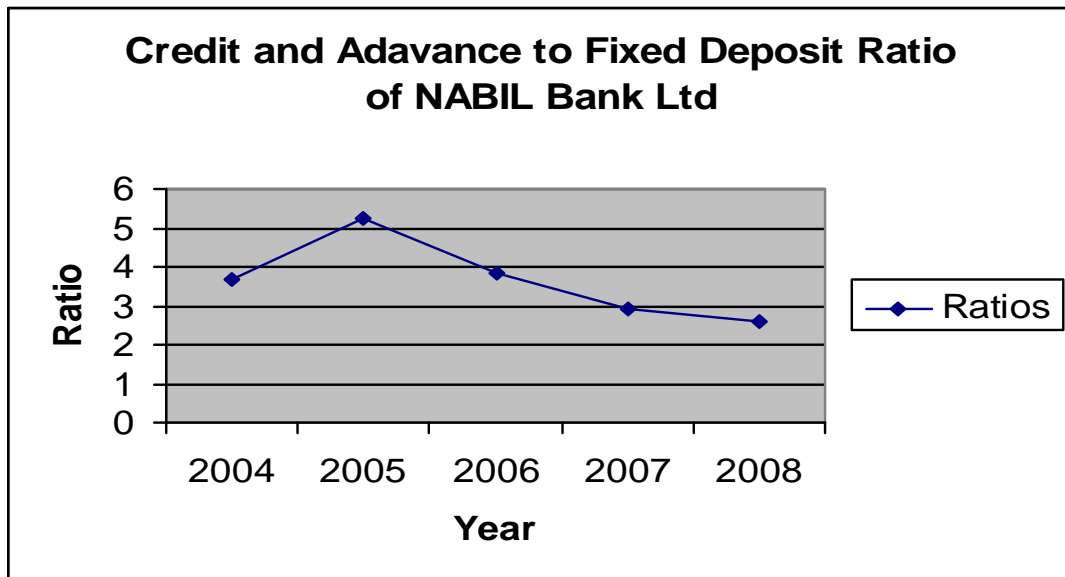
(Amount in million)

Year	Credit and advances	Fixed deposit	Ratio(Times)
2004	8549	2310	3.7
2005	10947	2078	5.27
2006	13279	3449	3.85
2007	15903	5435	2.93
2008	21759	8464	2.57
Mean			3.66

*Source: Annual report of Nabil Bank*

From the above table it is visualized that Loan and advances to fixed deposits ratio are increasing and decreasing trend in overall. The ratio of Nabil bank in 2004 was 3.7 and increased in 2005 year up to 5.27 after that the Ratio are decreasing trend i.e. 3.58 and 2.57 times in the following years respectively. The mean average of Nabil is 3.66 times at research period. Credit and advance to fixed deposit ratio is represented in figure as follow.

**Figure No 4.4**



**ii) Credit and Advances to Total Deposit Ratio:**

Credit and advances is the investing activities of the bank and total deposit is the deposit amount of the bank collected from its customers or depositor. So, we are trying to find out the ratio between credit & advances to total deposit. This ratio measures the extent to which the bank is successful to manage its total deposit on loan and advances for the purpose of income generation. A high ratio indicates better mobilization of collected deposit and vice-versa. However, it should be noted that too high ratio might not be better from liquidity point of view.

**Table No 4.5**  
**Credit and Advances to Total Deposit Ratio**

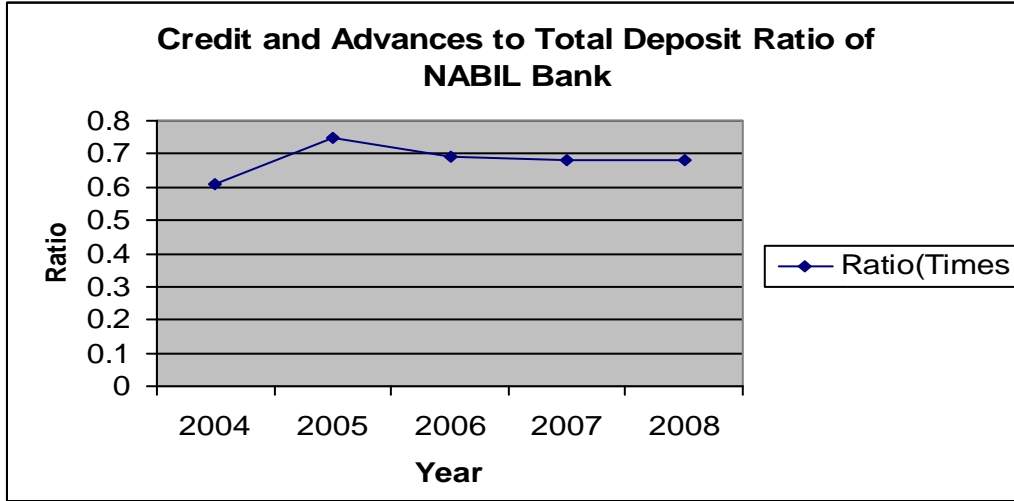
(Amount in million)

Year	Credit and advances	Total deposit	Ratio(Times)
2004	8549	14119	0.61
2005	10947	14587	0.75
2006	13279	19347	0.69
2007	15903	23342	0.68
2008	21759	31915	0.68
Mean			0.68

*Source: Annual report of Nabil Bank*

Above Table shows that the total loan advances to total deposit ratio of NABIL is in constant not more fluctuating trend. The highest ratio is 0.75 times in year 2005 and lowest ratio 0.61 times in year 2004. The average mean ratio of NABIL is 0.68 times in the study period. This means the bank is able to proper mobilization of collected deposit. According to NRB directives above 70% to 90% of loan and advances to total deposit ratio is able to better mobilization of collected deposit. So all of the year the bank has tries to meet the NRB requirement or it has utilized its deposit to provide loan. This means that credit management is in good position of the bank. Loan advances and total deposit are presented in the line diagram.

Figure No 4.5



**iii. Credit and Advances to Total Assets Ratio:**

Credit and Advances to Total Assets Ratio is determined to find out the relationship between credit & advances to total assets. Credit and advances is the part of total assets. This ratio helps to find out that how much proportion of credit & advances to total assets.

$$\text{Credit \& advances to total assets} = \frac{\text{Credit \& advances}}{\text{Total assets}} \times 100\%$$

Table No 4.6

**Credit and Advances to Total Assets**

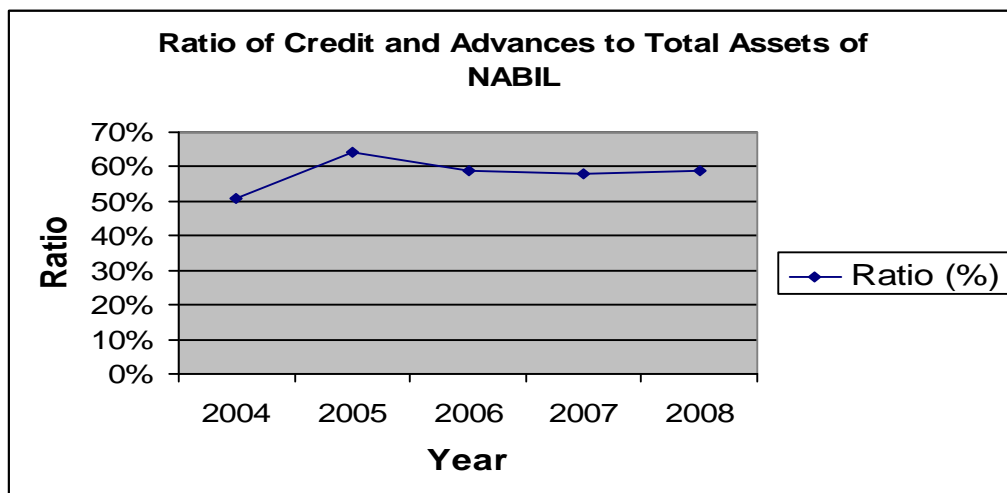
(Amount in million)

Year	credit and advances	Total assets	Ratio(Times)	Ratio (%)
2004	8549	16745	0.51	51%
2005	10947	17186	0.64	64%
2006	13279	22330	0.59	59%
2007	15903	27253	0.58	58%
2008	21759	37133	0.59	59%
Mean			0.58	58%

Source: Annual report of Nabil Bank

From the above table shows the Nabil bank has generally mixed or fluctuating trends of Credit and Advances to Total Assets ratio under the study period. The ratios are 51%, 64%, 59%, 58% and 59% in their respective year. The highest ratio is 59% in the year 2008 and the lowest ratio is 51 % year 2004. The average mean ratio is 58%. It shows that bank has capability in utilizing total assets in the form of credit and advances. Consistency in the utilization of assets in the form of credit and advance is satisfactory because the fluctuation of the ratio is minimum. Loan and advances to total assets ratio is represented in figure as follow.

**Figure No 4.6**



**iv) Total Debt to Equity Ratio:**

Total debt is the liability of the firm and it is payable toward its creditors. Debt includes the value of deposits from customers, loan & advances payable, Bills payable and other liabilities. Equity is the share capital and reserves of the firm. This ratio shows the comparison in between total debt and equity.

Total debt = Debentures & Bonds + Borrowings + Deposits + Bills Payable + Proposed & Undistributed Dividends + Income Tax Liabilities

Total Equity = share capital + Reserve and surplus

$$\text{Total debt to equity} = \frac{\text{Total Debt}}{\text{Equity}}$$

**Table No 4.7**  
**Total Debt to Equity Ratio:**

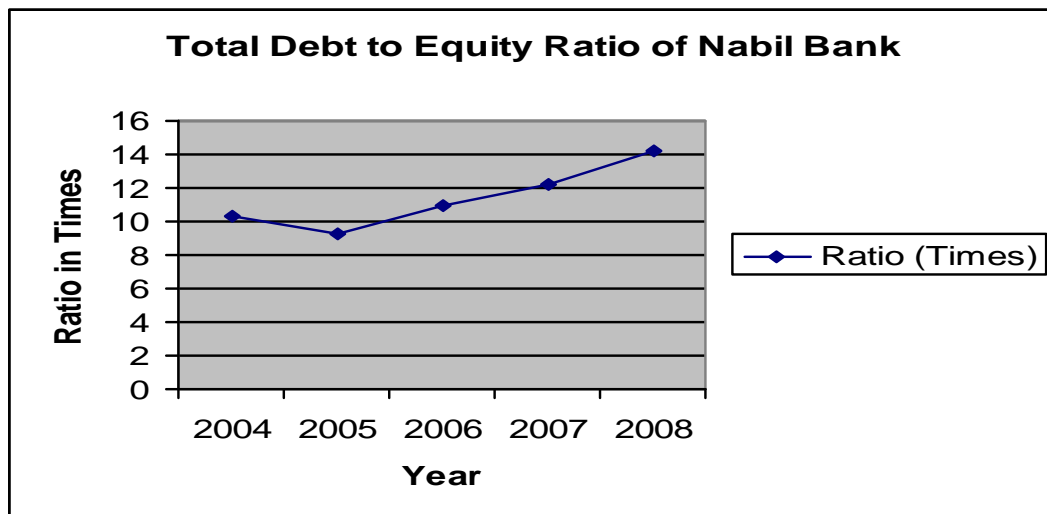
(Amount in million)

Year	Total Debt	Total Equity	Ratio (Times)
2004	15264	1482	10.30
2005	15406	1658	9.29
2006	20455	1875	10.91
2007	25196	2057	12.25
2008	34696	2437	14.24
Mean			11.38

*Source: Annual report of Nabil Bank*

Above table shows Debt to total equity ratio is decrease in 2005 and continuously increasing trend till research period. The ratio is 10.30, 9.29 times in the first year 2004, 10.91 times in the second year 2005, 12.25 times in the third year 2006, 14.24 times in the fourth year 2007 and 14.24 times in the fifth year 2008 of the research period. The average mean ratio is 11.38 times. Excess amount of debt capital structure results heavy burden in payment of interest. Risk of liquidation increase if the debt cannot be repaid in the time. High gearing ratio may provide high return to the equity shareholders if the bank makes profit. Ratio is represented in figure as follow.

**Figure No 4.7**



**v) Total Debt to Total Assets:**

A metric used to measure a company's financial risk by determining how much of the company's assets have been financed by debt. Calculated by adding short term and long term debt and then dividing by the company's total assets. In general creditors prefer a low debt ratio & owner prefer a high debt ratio in order to magnify their earning on one hand and to maintain their concerned control over the firm on the other hand.

$$\text{Total debt to Total Asset} = \frac{\text{TotalDebt}}{\text{Total Asset}}$$

**Table No 4.8**

**Total Debt to Total Assets**

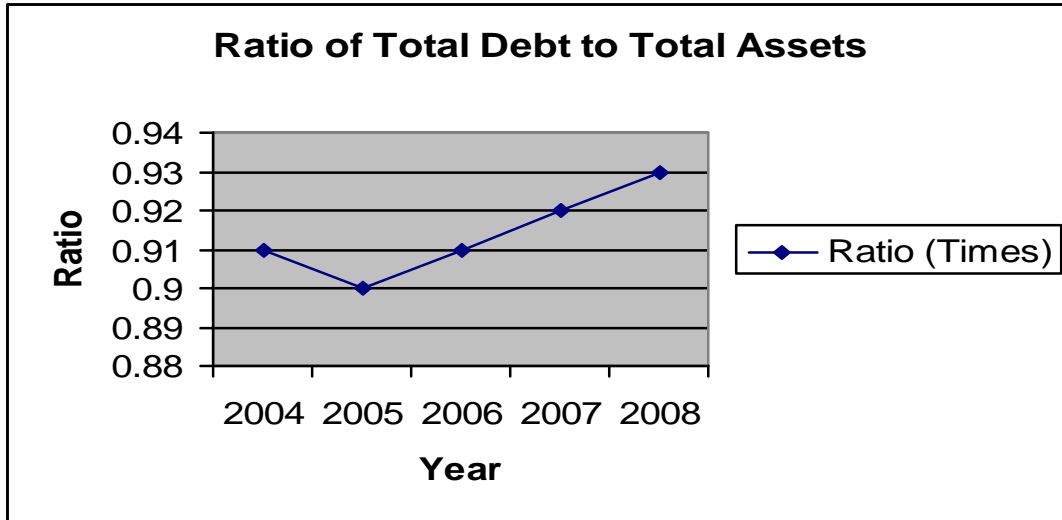
(Amount in million)

Year	Total Debt	Total assets	Ratio (Times)
2004	15264	16745	0.91
2005	15406	17186	0.90
2006	20455	22330	0.91
2007	25196	27253	0.92
2008	34696	37133	0.93
Mean			0.92

*Source: Annual report of Nabil Bank*

In above table the ratio is found as 0.91 times, 0.90 times, 0.91 times, 0.92 times and 0.93 from 1st to 5th year of the study period 2004 to 2008 respectively. The average mean ratio in 5 years research period is 92 times. It means almost 92% of total assets is financed by the outsider's' funds. it is seen that there is not much deviation in the ratio for the five years study period. It means no change in the policy on this ratio for the five years. Ratio is represented in figure as follow.

Figure No 4.8



#### 4.2.3 Profitability Ratio

Profit is major objective of any business organization. Profit is engine that drives the business enterprises. Profitability ratios are very helpful to measure the overall efficiency in operation of a financial institution. Profitability ratio is calculated on the basis of sales and investment. In the context of banks, no bank can survive without profit. Profit is one the major indicates or efficient operation of a bank. The banks acquire profit by providing different services to its customers or by providing loan and advances and making various kinds of investment opportunities. Profitability ratios measure the efficiency of bank. A higher profit ratio shows the higher efficiency of a bank. The following ratios are calculated:

##### i) Net Profit to Gross Income Ratio

The ratio measures the volume of gross income. The high ratio measure the higher efficiency of the bank and lower ratio indicates the lower efficiency of the bank.

**Table No 4.9**  
**Net Profit to Gross Income Ratio**

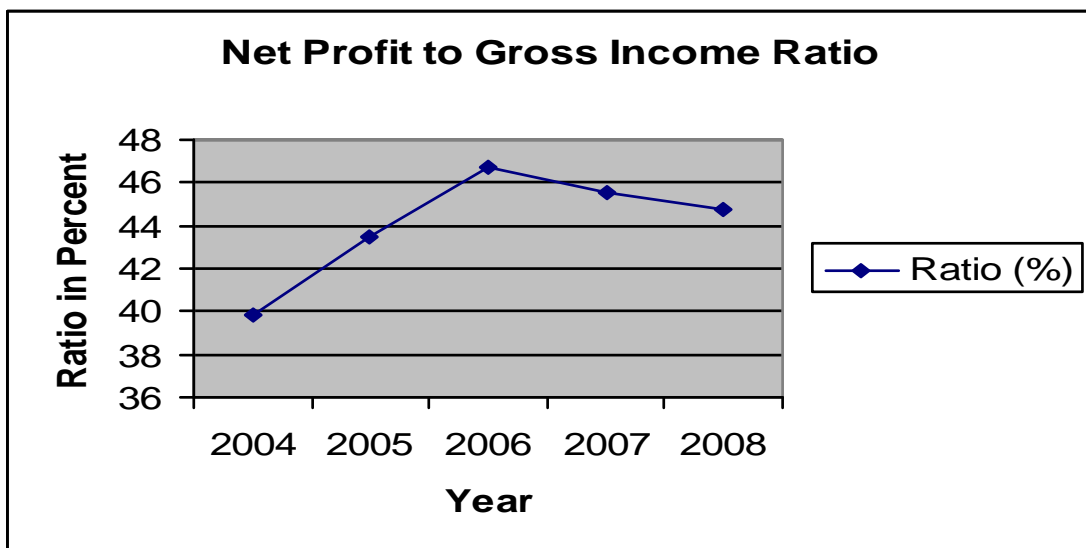
(Amount in million)

Years	Net profit	Gross Income	Ratio (%)
2004	455	1143	39.81
2005	520	1195	43.51
2006	635	1360	46.69
2007	674	1480	45.54
2008	747	1670	44.73
Mean			44.06

*Source: Annual report of Nabil Bank*

Table no 4.9 shows that the total net profit to gross income ratio of NABIL is in increasing and decreasing trend. The highest ratio is 46.69% in year 2006 and lowest ratio 39.81% in year 2004. The mean ratio is 44.06%. The Ratios are 43.51%, 45.51% and 44.73% in year 2005, 2007 and 2008 respectively. These are able to obtain higher efficiency of the bank. Therefore, credit management is in good position of the bank. Net profit to gross income ratio is represented in figure as follow.

**Figure No. 4.9**



## ii) Interest Income to Total Income Ratio

This ratio measures the volume of interest income to total income. The high ratio indicates the banks performance on other free base activities. The high ratio indicates the high contribution made by lending and investing activities.

**Table No 4.10**  
**Interest Income to Total Income Ratio**

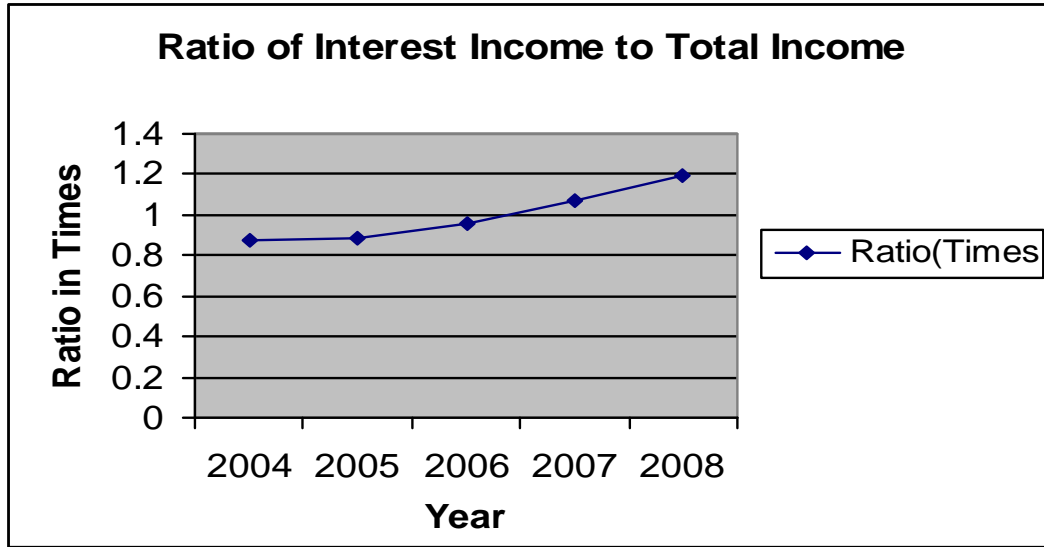
(Amount in million)

Years	Interest income	Total income	Ratio(Times)
2004	1002	1143	0.88
2005	1069	1195	0.89
2006	1310	1360	0.96
2007	1588	1480	1.07
2008	1979	1670	1.19
Mean			0.99

*Source: Annual report of Nabil Bank*

Table no10 shows that the total interest income to total income ratio of NABIL is in increasing trend. The ratios are 0.88 times, 0.89 times, 0.96 times, 1.07 times and 1.19 times in fiscal year 2004, 2005, 2006, 2007 and 2008 respectively. The highest ratio is 1.89 times in year 2008 and lowest ratio 0.88 times in year 2004. The mean ratio is 0.99 times in the study period. The ratio indicates the high contribution made by lending and investing activities. The total interest income to total income is continuously increasing trend. Therefore, credit management is in a good position of the bank. Interest income and total income are presented in bar diagram as follows:

Figure No. 4.10



**iii) Operating Profit to Loan and Advances Ratio**

Operating profit to loan advances ratio measures the earning capacity of commercial bank. Operating profit to loan and advance ratio is calculated by dividing operating profit by loan and advance.

$$\text{Operating profit to loan and advance ratio} = \frac{\text{Operating Profit}}{\text{Loan and Advance}}$$

Table No 4.11

**Operating profit to Loan and advances Ratio**

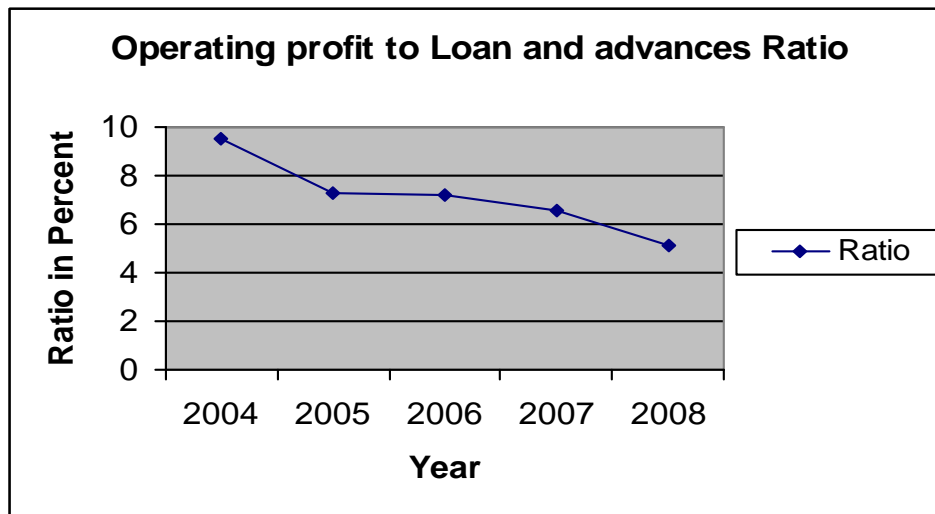
(Amount in million)

Years	Operating profit	credit and advances	Ratio (%)
2004	812	8549	9.50
2005	796	10947	7.27
2006	953	13279	7.18
2007	1038	15903	6.53
2008	1123	21759	5.16
Mean			7.13

Source: Annual report of Nabil Bank

Table no 11 shows that the operating profit to loan and advances ratio of NABIL is in decreasing trend. The highest ratio is 9.5% in the year 2004 and lowest ratio 5.16% in the year 2008. The average mean ratio over the period is 7.13%. This shows the high profitability in 2004 and low profitability in 2008 through loan and advance of the bank. Ratios are 7.27%, 7.18% and 5.16% in year 2005, 2006 and 2007 respectively. These show the fine profitability position of commercial bank, But there is a declining in operating profit to loan and advance ratio. Anyway credit management is in good position of the bank. Operating profit and loan advances are presented in the bar diagram as follows

**Figure No. 4.11**



**iv) Return on Loan and Advances Ratio**

This ratio measures the earning capacity of commercial banks through its fund mobilization as loan advances and vice-versa.

**Table No 4.12**  
**Return on Loan and Advances Ratio**

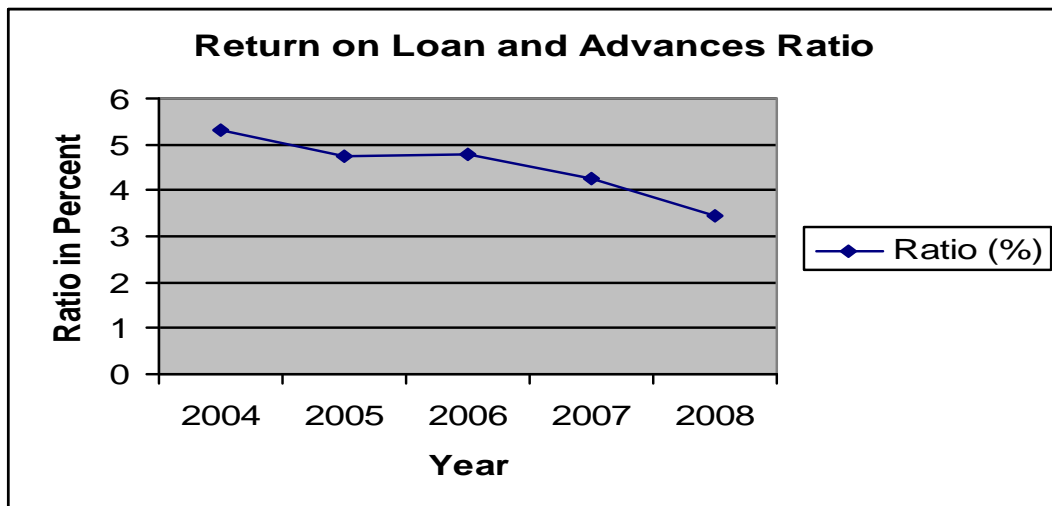
(Amount in million)

Years	Net profit	Credit and advances	Ratio (%)
2004	455	8549	5.32
2005	520	10947	4.75
2006	635	13279	4.78
2007	674	15903	4.24
2008	747	21759	3.43
Mean			4.5

*Source: Annual report of Nabil Bank*

Table no 12 shows that return on loan and advances ratio of NABIL is in fluctuating trend. The highest ratio is 5.32% in the year 2004 and lowest ratio 3.43% in the year 2008. The average mean ratio is 4.5%. The Ratios are 4.75%, 4.78% and 4.24% in years 2005, 2006 and 2007 respectively. These show the highest earning in 2004 and lowest earning capacity in 2008 from loan and advances. These show the little high earning capacity of Nabil Bank through loan and advances. Thus, credit management is in good position. Net profit and loan advances are represented in the bar diagram as follows.

**Figure No. 4.12**



### V) Net profit to Total assets

This ratio shows the relationship of Net Profit and total assets is to determine how efficiently the total assets and is to determine how efficiently the total assets have been used by the management. This ratio indicates the ability of generating profit per rupees of total assets.

**Table No 4.13**  
**Net profit to Total Assets**

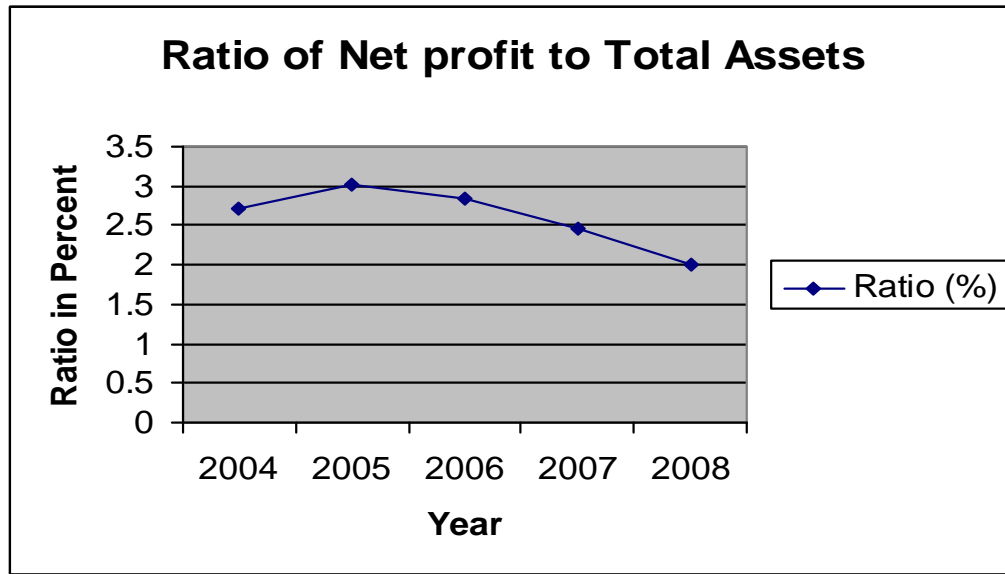
(Amount in million)

Years	Net profit	Total assets	Ratio (%)
2004	455	16745	2.72
2005	520	17186	3.03
2006	635	22330	2.84
2007	674	27253	2.47
2008	747	37133	2.01
Mean			2.61

*Source: Annual report of Nabil Bank*

In above table shows that the Net profit to total assets ratio of NABIL is in fluctuating trend. The ratio is 2.72% 3.03%, 2.84%, 2.74% and 2.01% in years 2004, 2005, 2006, 2007 and 2008 respectively. The highest ratio is 3.03 in 2005 and lowest ratio is 2.01% in the year 2008. The mean ratio is 2.61%. This shows the normal earning capacity through asset utilization. In above the five year research period net profit and total assets both are fluctuating trend.

Figure No 4.13



**vi) Earning per Share**

It measures the profit available to equity shareholders on per share basis i.e. the amount they can get each share held. The objective of computing this ratio is to measure the profitability of the firm on per equity share basis. This ratio is commutated by dividing the net profit after preference dividend by the number of equity.

**Table No 4.14**  
**Earning Per Share**

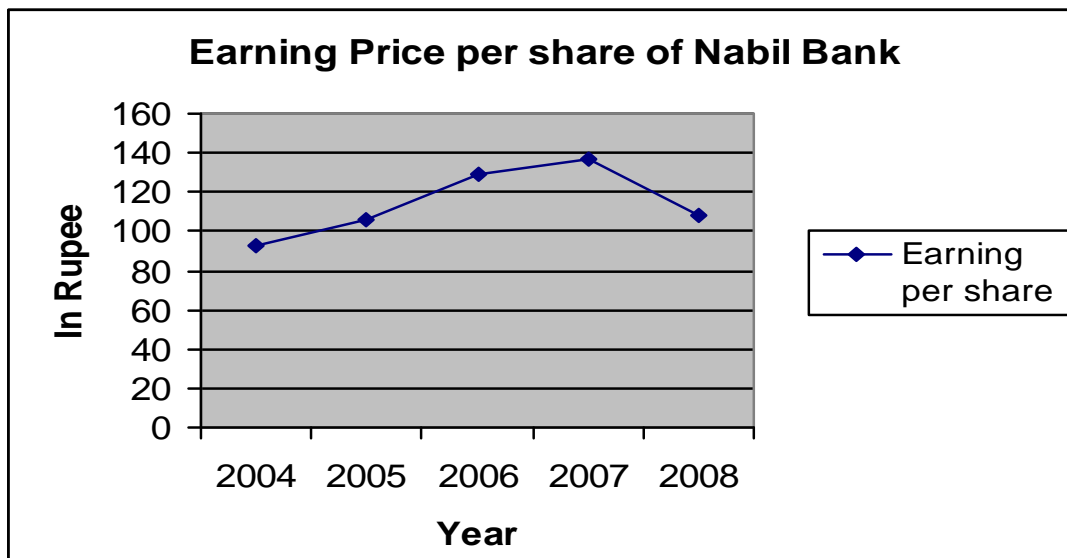
(Amount in million)

Years	Net profit	No. of equity shares	Earning per share (In Rs.)
2004	455	4916455	92.61
2005	520	4916455	105.49
2006	635	4916455	129.21
2007	674	4916455	137.08
2008	747	6892	108.31
Mean			114.54

Source: Annual report of Nabil Bank

Above table shows that Earning per share of NABIL is in increasing trend up to 2007. The highest EPS is RS 137.08 in year 2007 and lowest EPS Rs.92.61 in year 2004. The average means EPS of Nabil Bank is Rs.114.54 in the study period. This shows the better profitability in the coming last years. Earning per shares are Rs.105.49, Rs.129.21 and Rs.108.31 in year 2005, 2006 and 2008 respectively. These mean that the better profitability in the study years. In the year 2008 EPS 108.31 is lower due to increased number of shareholder. Aggregate profit is in increasing trends. Therefore, credit management and overall performance of company is in good position. Earning per shares is represented in the following diagram.

**Figure No 4.14**



**vii) Price Earning Ratio**

Price earning ratio measures the profitability of the firm. Higher ratio measures the higher profitability of the firm lower ratio measures lower profitability of the firm. This ratio shows the relation ship between earning per share and market value per share.

$$\text{Price earning ratio (PE ratio)} = \text{Market value per share} / \text{Earning per share}$$

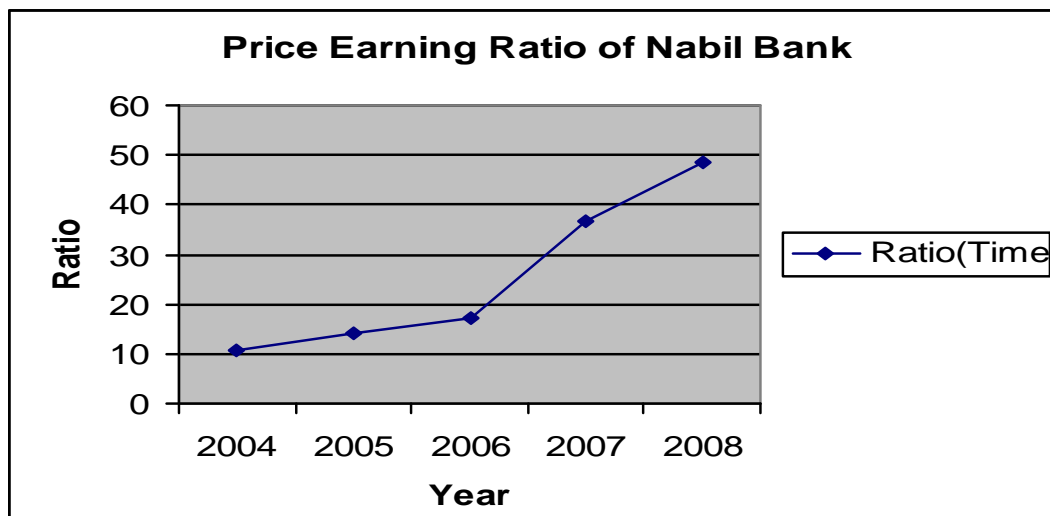
**Table No 4.15**  
**Price Earning Ratio**

Years	Market price per share	Earning per share	Ratio(Times)
2004	1000	92.61	10.80
2005	1505	105.49	14.27
2006	2240	129.21	17.34
2007	5050	137.08	36.84
2008	5275	108.31	48.70
Mean			25.59

*Source: Annual report of Nabil Bank*

Above table shows that price earning ratio earning of Nabil Bank is in increasing trend. The highest price earning ratio is 48.70s in year 2008 and lowest ratio 10.80 times in year 2004. The average mean ratio of the Nabil is 25.59 times in the study period. This shows the better profitability in the last years. Ratios are 14.27 times, 17.34 and 36.84 times in year 2005, 2006 and 2007 respectively. These mean that the better profitability in the coming last years. It represents high expectation of company in market and high demand of share. But it is recommended to risk in invest in market price. Anyway creditability seems to be good position. Price earning ratios are represented in the diagram as follow:

**Figure No 4.15**



### 4.3 Statistical Analysis:

#### i) Correlation Coefficient:

Correlation coefficient is used to define the relationship between two or more variable. Coefficient of correlation has been studied to find out whether the two available variables are inter-correlated or not. If the result falls with in the correlated point, the two variables are inter-correlated otherwise not. Now to find out the correlation coefficient between total lending and total assets, the widely used method of Karl Pearson's Coefficient of Correlation has been adopted.

$$\text{Coefficient of Correlation (r)} = \frac{N \sum xy - (\sum X)(\sum Y)}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

Here,

N = Number of pairs of x and y observed.

x = values of credit and advances.

y = values of total assets.

r = Karl Pearson's Coefficient of Correlation.

#### ii) Probable Error

It is a method to determine the reliability of the value of Pearson's coefficient of correlation. It helps in interpreting the value of coefficient of correlation. If r is the calculated correlation coefficient in a sample of n pairs of observation, then its standard error, usually denoted by S.E. & is given by.

$$\text{S.E. (r)} = \frac{1 - r^2}{\sqrt{n}}$$

Probable error of the coefficient of correlation can also be calculated from S.E. of the coefficient of correlation by the following formula:

$$\text{Probable Error (P.E.)} = 0.6745 \times \frac{1 Z r^2}{\sqrt{n}}$$

Where r = coefficient of correlation

n = no of observations

The probable error is used to test whether the calculated value of correlation significant or not.

If  $r < 6 \times \text{P.E}(r)$ , then the value of r is not significant

If  $r > 6 \times \text{P.E}(r)$ , then the value of r is significant

In this course of study, correlation coefficient and probable error is used to measure sample the relation ship between.

- Total credit and Total assets
- Loan and advance and Total deposit

#### A) Correlation Coefficient between Deposit & Profit

Deposit have played vary important role in performance of a commercial banks and similarly profit is very important to factor of bank. Co-efficient of correlation between deposit and profit measures the degree of relationship between these two variables. In this analysis, deposit is independent variable (X) and profit are dependent variable (Y). The main objectives of computing 'r' between these two variables is to justify whether deposit are significantly used as loan & advances in proper way or not.

**Table No. 4.16**  
**Correlation between Deposit and Profit**

Name of Banks	Evaluation Criterions			
	r	R <sup>2</sup>	P.Er.	6 P.Er.
NABIL	0.946	0.895	0.03267	0.19

Source: BY SPSS Data Editor

From the above table, it is found that coefficient of correlation between deposits and profit of NABIL is 0.946. It shows that both have the positive relationship between these two variables. It refers that deposit and profit of NABIL positive correlated. Moreover, the coefficient of determination of NABIL is 0.895. It means 89.5 percent of profit has been explained by deposit. The correlation coefficient of NABIL banks is significant because the correlation coefficient is greater than the relative value of 6 P.Er. i.e  $0.946 > 0.19$ . In other words, there is significant relationship between deposits and Profit.

### **B) Coefficient of Correlation between Total Deposits and Total Investment**

The coefficient of correlation between deposit and investment measures the degree of relationship between these two variables or deposit is significantly utilized or not. In correlation analysis, deposit is independent variable (X) and total investment is dependent variable (Y).

The following Table No. 4.30 shows the coefficient correlation between deposits and total investments i.e. r, P. Er., 6 P. Er. and coefficient of determination ( $R^2$ ) of NABIL during the study period.

**Table No. 4.17**  
**Correlation between Deposit and Total Investment**

Name of Banks	Evaluation Criteria			
	r	$R^2$	P.Er.	6 P.Er.
NABIL	0.926	0.857	0.0429	0.257

*Source: BY SPSS Data Editor*

From the above table, the researcher found that the coefficient of correlation between total deposit and total investment of NABIL is 0.926 It shows the high degree positive correlation. In addition, coefficient of determination of NABIL is 0.857 It means only 85.7 percent of total investment is explained by total deposit. The correlation coefficient is significant because the correlation coefficient is more than 6 P.Er. It refers that there is significant relationship between total deposit and total investment of NABIL. From the above analysis,

the conclusion can be drawn NABIL have positive correlation. It indicates that both are successful to mobilize its deposit to provide investment.

**C) Co-efficient of Correlation between Loan and advance and Net Profit**

Co-efficient of correlation between total assets and net profit is used to measure the degree of relationship between two variable i.e. Loan and advance and net profit of NABIL during the study period. Where Loan and advance is independent variable (X) and net profit is dependent variable (Y). The main objective of calculating this ratio is to determine the degree of relationship whether there the net profit is significantly correlated or not and the variation of net profit to loan and advance through the coefficient of determination. The following table shows the ‘r’, R<sup>2</sup>, P.Er. and 6 P. Er. between those variables of NABIL for the study period.

**Table No. 4.18**  
**Correlation between Loan and advance and Net profit**

Name of Banks	Evaluation Criteria			
	r	R <sup>2</sup>	P.Er.	6 P.Er.
NABIL	0.955	0.912	0.0265	0.1589

*Source: Through SPSS Data Editor*

Above table shows correlation coefficient between, Loan and advance and net profit is 0.955 of NABIL. It refers that there is positive correlation between these two variables. Here, 91.2 percent of net profit is contribute by Loan and advance as its coefficient of determination of 0.912 shows. Moreover, this relationship is significant because the coefficient of correlation is more than 6 P.Er. In conclusion, NABIL has significant relationship between Loan and advance and net profit.

**D) Coefficient of Correlation between Total Investment and Net Profit**

Coefficient of correlation between total investment and net profit measures the degree of their relationship. In the, correlation analysis, investment is independent variable and net profit is dependent variable. The following Table shows the coefficient of correlation

coefficient of determination, probable error and six times of P.Er. During the fiscal year 2003/04 to 2007/08.

**Table No. 4.19**  
**Correlation between Total Investment and Net Profit**

Name of Banks	Evaluation Criterions			
	r	R <sup>2</sup>	P.Er.	6 P.Er.
NABIL	0.847	0.717	0.085	0.511

*Source: Through SPSS Data Editor*

Above table shows correlation coefficient between total investment and net profit of NABIL is 0.847 which implies there is positive correlation between total investment and net profit. In addition, coefficient of determination of NABIL is 0.717. It means only 71.7 percent of Profit is contribute by total investment. Obviously, this correlation is significant at all due to coefficient of correlation is higher than 6P.Error. in this way. NABIL has significant relationship between total investment and net profit.

### **iii. Trend Analysis:**

Here, trend analysis of total deposits and loan and advances is projected for the five years. The measure of trend analysis shows the behavior of given variables in series of time. This trend analysis is carried out to see average performance of the banks for next five years.

Trend analysis is based on some assumptions;

- All the other things will remain unchanged.
- The bank will run in present condition.
- The economy will remain in present stage.
- N.R.B. will not change its guidelines to commercial banks.

#### **a) Trend Analysis of Total Deposit:**

Deposits are the important part in banking sector hence its trend for next seven years will be forecasted for future analysis. This is calculated by the least square method.

$$Y = a + bx$$

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

S = sigma

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where  $x = X - \text{Middle year}$

Here,

$$a = \frac{\sum Y}{N}$$

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

NABIL

$$a = 20662$$

$$b = 4434.7$$

Where as

$$Y_c = 20662 + 4434.7 X \text{ of NABIL}$$

**Table No 4.20**  
**Trend of Total Deposit**

(Amount in million)

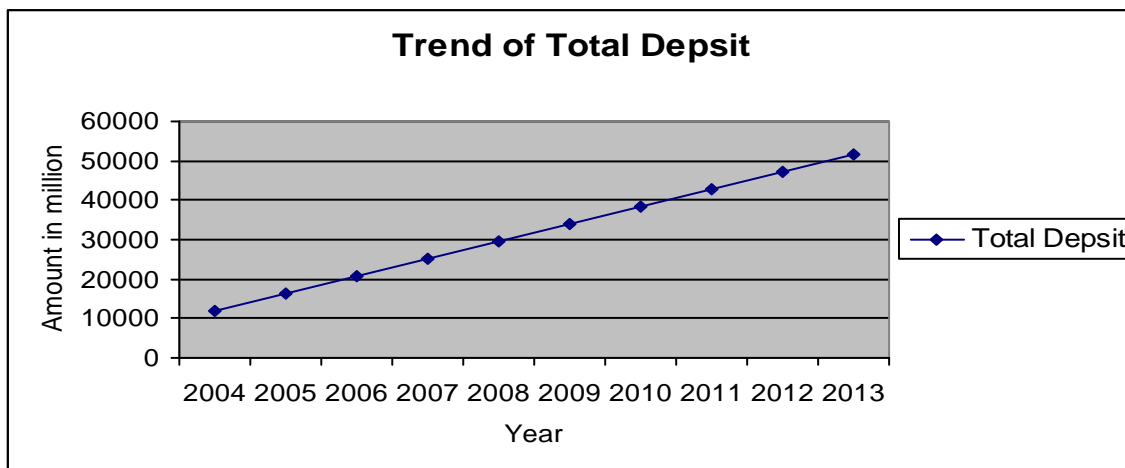
Year	Total Deposit $Y = a + bx$
2004	11792
2005	16227
2006	20662
2007	25097
2008	29532
2009	33967
2010	38402
2011	42837
2012	47272
2013	51707

Appendix 1

The following graph helps to show the trend lines of total deposit for the projected five years.

The equation is  $Y_c = 20662 + 4435 x$

**Figure No 4.16**



**b)Trend Analysis of total Loan and Advance:**

Here, the trend values of loan & an advance of NABIL has been calculated for further Eight year. The following Table shows the actual and trend values of NABIL.

$$Y = a + bx$$

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where  $x = X - \text{Middle year}$

Here,

$$a = \frac{\sum Y}{N}$$

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

NABIL

$$a = 13721.91$$

$$b = 3130.973$$

$$Y_c = 13721.91 + 3130.973 X \text{ of NABIL}$$

**Table No 4.21**

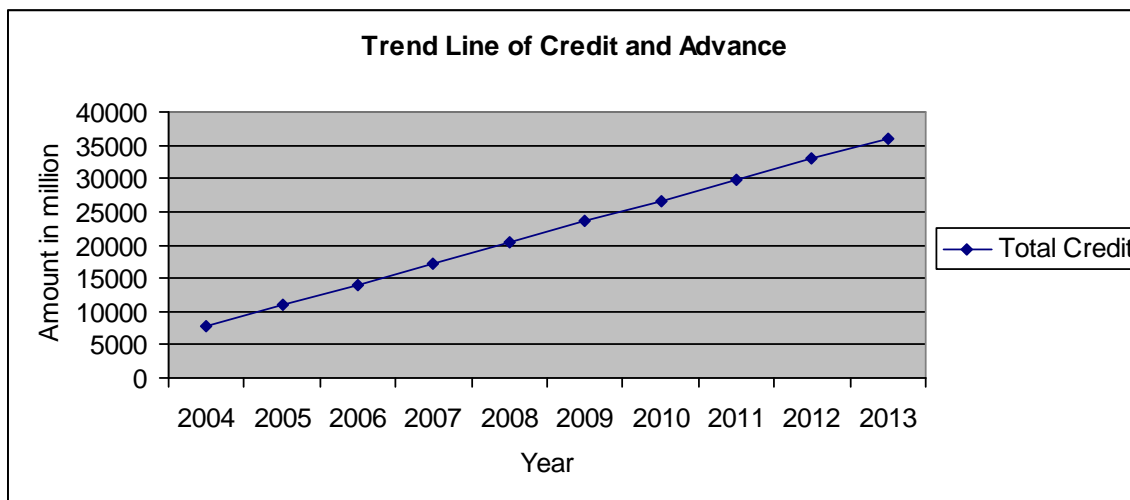
**Trend Analysis of total Loan and Advance**

Year	Total Credit $Y = a + bx$
2004	7811
2005	10949
2006	14087
2007	17225
2008	20363
2009	23501
2010	26639
2011	29777
2012	32915
2013	36053

Appendix 2

The following graph helps to show the trend lines of Loan and advance for the projected five years. The equation is  $Y_c = 14087 + 3138x$

**Figure No 4.17**



**c) Trend Analysis of Total Asset:**

Under this topic, an attempt has been made to analyze trend analysis total investment of NABIL and MBL for further eight years

$$Y = a + bx$$

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where  $x = X - \text{Middle year}$

Here,

$$a = \frac{\sum Y}{N}$$

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

$$a = 24129$$

$$b = 5084$$

$$Y_c = 24129 + 5084 x$$

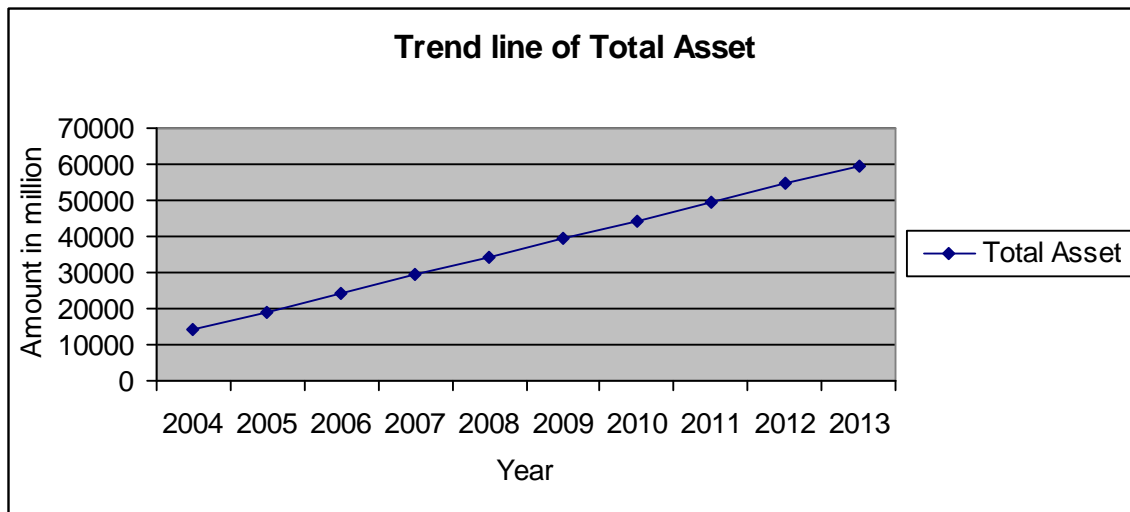
**Table No 4.22**  
**Trend Analysis of Total Asset**

<b>Year</b>	<b>Total Asset</b> Y= a + bx
2004	13961
2005	19045
2006	24129
2007	29213
2008	34297
2009	39381
2010	44465
2011	49549
2012	54633
2013	59717

Appendix 3

The following graph helps to show the trend lines of Total Asset for the projected five years.  
The equation is  $Y_c = 24129 + 5084x$

**Figure No 4.18**



**c) Trend Line of Net Profit**

Here, the trend values of net profit of NABIL and MBL have been calculated for five years FY 2003/04 to FY 2007/08 and forecasting for the next eight year till FY 2015/16.

$$Y = a + bx$$

Where,

Y = dependent variable, a = Y-intercept, b = slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where  $x = X - \text{Middle year}$

Here,

$$a = \frac{\sum Y}{N}$$

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

NABIL

$$a = 606.048$$

$$b = 73.712$$

$$Y_c = 606.048 + 73.712 X \text{ NABIL}$$

**Table No 4.23**  
**Trend Analysis of Net profit**

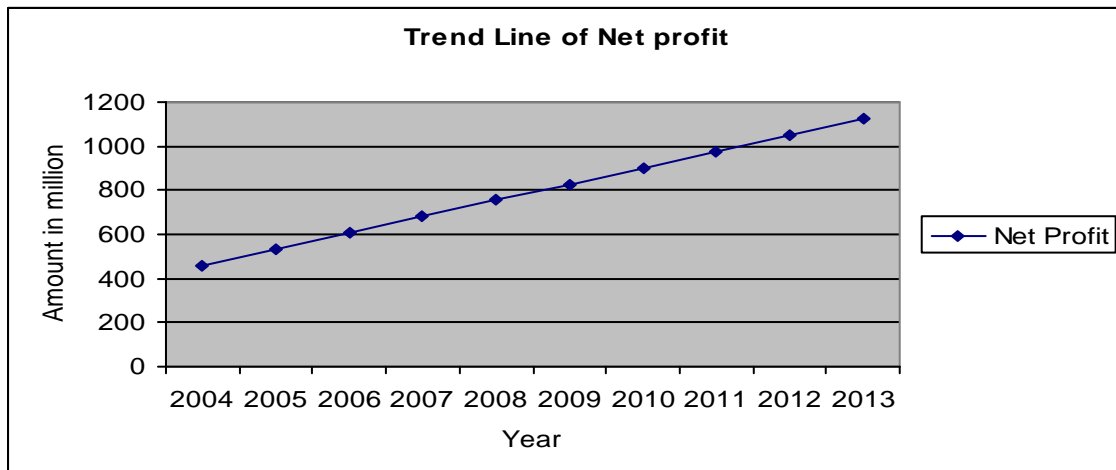
Amount in million

<b>Year</b>	<b>Net Profit</b> $Y = a + bx$
2004	458
2005	532
2006	606
2007	680
2008	754
2009	828
2010	902
2011	976
2012	1050
2013	1124

Appendix 4

The following graph helps to show the trend lines of Net profit for the projected five years.  
The equation is  $Y_c = 606 + 74x$

**Figure No 4.19**



#### **4.4 Major Finding of the Study**

##### **A. Liquidity Ratio**

The cash and bank balance to total deposit of the Nabil bank shows the fluctuating trend during the study period. The mean ratio is 0.057 times in the study period. Cash and bank balance to current deposit of the bank shows the fluctuating trend during the study period. The mean ratio is 0.339 times in the study period. This means that the bank is able to be maintained in the good liquidity position of the bank. Therefore, that credit management is in good position of the NABIL.

Cash and bank balance to interest sensitive ratio of Nabil bank is also in fluctuating trend. The mean ratio is 0.1341 times. In previous year the ratio is high and in mid year low and in the last year again high in aggregate study period. This means that the bank is able to maintain in the good financial condition.

##### **B. Assets Management Ratio**

Credit and advance to fixed deposit ratio of NABIL is Fluctuating trend. The average mean ratio is 3.66 times in the study period. Credit and advances to total deposit ratio is little fluctuating trend. The mean ratio is 0.68 times in the study period. Similarly credit and advance to total asset is not so fluctuating tends. The average mean ratio is 58% in the study period. The ratio indicates the high contribution made by lending and investing activities. Thus, credit management is in a good position.

Non-performing assets to total assets ratio of NABIL is in a declining trend, which is good. The average mean ratio is 1.19%. This indicates that the bank has continuously decreasing their nonperforming asset. The bank is able to obtain higher lending opportunity. Thus, credit management is in a good position.

The Debt to equity ratio of NABIL is in increasing trend during the study period. The average mean ratio is 11.38 times. Excess amount of debt capital structure results heavy burden in payment of interest. Risk of liquidation increase if the debt cannot be repay in the

time The analysis indicates that the bank is highly leveraged because the claim of the outsiders exceeds than those of the owners over the bank assets.

The Debt to assets ratio of NABIL is high or in other words they have excessively geared capital structure. On an average 92% of assets are financed through debt capital that is outsiders cost bearing fund, which implies that the bank has riskier debt financing position. Total asset to net worth of NABIL is increasing trend. The average mean ratio is 12.41 times at the study period. It is good for company.

### **C. Profitability Ratios**

Profitability ratios are very helpful to measure the overall efficiency in operation of a financial institution. Net Profit to gross income ratio of NABIL is in increasing and decreasing trend. There is highest ratio in 2006. the mean ratio is 44.06%. The bank is able to obtain higher efficiency. This means that credit management is in good position.

Interest income to total income ratio of NABIL is in increasing trend. The mean ratio is 0.99 times in the study period. Here interest income play dominant role in total income. The ratio indicates the high contribution made by lending and investing activities.

Operating profit to loan and advances ratio of NABIL is decreasing trend. The average mean ratio over the period is 7.13%. This shows the better profitability position of the bank.

Return on loan advances ratio of NABIL is also in fluctuating trend and stepping downward in ending study period. It indicates contribution in return is decreasing by loan and advance. The average mean ratio is 4.5%. Anyway, this shows the normal earning capacity of NABIL in loan and advances.

Net profit to total assets ratio of NABIL is in fluctuating trend. The highest ratio is 3.03% in 2005 and lowest ratio is 2.01% in the year 2008. The mean ratio is 2.61%. This shows the normal earning capacity through asset utilization.

Earning per share of NABIL is in increasing trend. The highest EPS is RS 137.08 in year 2007. The average means EPS of Nabil Bank is Rs.114.54 in the study period. These mean that the better profitability in the study years. In the year 2008 EPS 108.31 is lower due to

increased number of shareholder. Aggregate profit is in increasing trends. Therefore, credit management and overall performance of company is in good position

Price earning ratio of NABIL is increasing trend. The highest price earning ratio is 48.70s in year 2008 and lowest ratio 10.80 times in year 2004. The average mean ratio of the Nabil is 25.59 times in the study period. This shows the better profitability in the coming last years. It represents high expectation of company in market and high demand of share.

#### **D. Statistical tools**

In statistical analysis, correlation analysis and trend analysis has been calculated. it is found that coefficient of correlation between deposits and profit of NABIL is 0.946. It refers that deposit and profit of NABIL positive correlated. Moreover, the coefficient of determination of NABIL is 0.895. The correlation coefficient of NABIL banks is significant. the coefficient of correlation between total deposit and total investment of NABIL is 0.926. Coefficient of determination of NABIL is 0.857. The correlation coefficient is significant because the correlation coefficient. The correlation coefficient between Loan and advance and net profit of NABIL is 0.955. It refers that there is positive correlation between these two variables. Here, 91.2 percent of net profit is contribute by Loan and advance as its coefficient of determination of 0.912 shows. Moreover, this relationship is significant because the coefficient of correlation is more than 6 P.Er. The correlation coefficient between total investment and net profit of NABIL is 0.847 which implies there is positive correlation between total investment and net profit. Coefficient of determination of NABIL is 0.717. The correlation is significant due to coefficient of correlation is higher than 6P.Error. In this way. NABIL has significant relationship between total investment and net profit.

Trend analysis tools are done for future forecasting. Trend analysis for total deposit is calculated to see future deposit trend of the bank. Average increasing trend is 20662 million. Trend analyses for loan & advance is done to see future loan & advances. Average increasing trend is 14087 million. Trend analyses for Total asset is calculate to see future total asset. Average increasing trend is 24129 million. Similarly, trend analysis of net profit is done to see future profit. Average increasing trend of net profit is 606 million per year. In this way trend of all values are increasing and upward slope.

## **CHAPTER - V**

### **SUMMARY CONCLUSION AND RECOMMENDATION**

#### **5.1 Summary**

The research is about the profit planning of Nabil bank. In this chapter, summary conclusion and recommendation are included. All the summary and conclusion are made according to obtained data from analysis. Recommendation has made which would be beneficial for the management of the bank and other stakeholder.

In the aspect of liquidity position, cash and bank balance reserve ratio shows the more liquidity position.. Cash and bank balance to total deposit has fluctuating trend in 5 years study period. The average mean ratio is 0.05666 times in the study period. These all ratio shows that the bank is not maintain the good liquidity position of the bank. Cash and bank balance to current deposit is also fluctuating. The mean average calculation is 0.339 times. Cash and bank balance would not sufficient to meet the demand of current depositors. The average mean of Cash and bank balance to interest sensitive ratio is 0.1341 times. it shows the bank is able to maintain good financial condition

In the assets management ratio, credit advances to total assets ratio is decreasing trends. But in aggregate is shows the better performance but credit and advances to total deposit position in minimum than the averages. Whereas investment in credit and advances is done safely and not taking more risk. That's why assets management position of the bank shows better performance in the recent years. Non –performing assets to total assets ratio is decreasing trend the average mean ratio is 1.19%. The bank is able to obtain higher lending opportunity during the study period. Therefore, credit management is in good position of the bank

In leverage ratio Debt to equity ratio is in an increasing trend and the average mean ratio for total debt to equity ratio is 11.38 times Total debt to total assets ratio is 92 times, which means 92% of the bank's assets are financed with debt, and only the remaining 8% of the financing comes from shareholder's equity. High total debt to total assets ratio posses' higher financial risk and vice-versa. Total assets to net worth ratio of the bank are decreasing in

second year then increasing trend thereafter. The average ratio is 12.41 times it represent good condition of Total assets to net worth ratio

In the aspect of profitability position, total net profit to gross income, the total interest income to total income ratio of NABIL is in increasing trend. The mean ratio is 0.99 times in the study period. The ratio indicates the high contribution made by lending and investing activities operating profit to loan and advances ratio of NABIL is in decreasing trend. Return on loan and advances ratio of NABIL is in fluctuating trend the average mean ratio is 4.5%. These show the little high earning capacity of Nabil Bank through loan and advances. Net profit to total assets ratio is in fluctuating trend the mean ratio is 2.61%. This shows the normal earning capacity through asset utilization. Earning per share of NABIL is in increasing trend. The Price earning ratio of Nabil Bank is in increasing trend. The average mean ratio is 25.59 times in the study period. These mean that the better profitability in the coming last years. It represents high expectation of company in market and high demand of share.

After analyzing the lending efficiency of the bank, that loan loss provision to total loan and advances ratio of NABIL is in decreasing trend. The ratio is continuously decreasing this indicates that bank increasing performance. Thus, credit management is in a good position. The None-performing loan to total loan and advance ratio is also decreasing trend. This ratio indicates the more efficient operating of credit management. The interest expenses to total deposit ratios shows the improving efficiency of the bank

In statistical analysis, correlation analysis and trend analysis have been calculated. Correlation coefficient between total credit and total assets is 0.989, which shows high degree of positive correlation. It can be concluded that total assets and total credit are increasing and can be said that increasing assets will have positive impact towards total credit. Correlation coefficient between total deposit and loan & advances has high degree of positive correlation i.e. 0.990. It is concluded that increasing total deposit will have positive impact towards loan & advances.

Trend analysis tools are done for future forecasting. Trend analysis for total deposit is calculated to see future deposit trend of the bank. Average increasing trend is 20662 million. Trend analyses for loan & an advance is done to see future loan & advances. Average increasing trend is 14087 million. Trend analyses for Total asset is calculate to see future total asset. Average increasing trend is 24129 million. Average increasing trend of net profit is 606 million per year.

## **5.2 Conclusion**

The study is conducted on profit planning of Nabil Bank, which is one of the leading banks in Nepal. NABIL has been maintaining a steady growth rate over this period. NABIL has earned a net profit of Rs 747 million for the fiscal year 2007/08 and this comes to be 10.83% more as compared to the same period in the previous fiscal year. NABIL earned a operating profit of Rs 1122.7 million for the fiscal year 2007/08 and this comes to be 8.19% more as compared to the same period in the previous fiscal year. Similarly total deposit is Rs 31915 million for the fiscal year 2007/08 and this comes to be 36.72% more as compared to the same period in the previous fiscal year. Similarly total loan is Rs 21759 million which is increase by 36.8% compare as previous fiscal year.

Nabil bank has adequate liquidity position. It shows that bank's investment is appropriate. Now in Nepal, many banks and other financial institution are functioning to collect deposits and invest money somewhere in the investigable sectors. Remittance has also help to increase the amount of deposit in bank. On the other hand due to political crisis economic sectors have been damaged. Most of the projects have been withdrawn due to security problem. So, banks are utilizing their fund in home loan, auto loan and share loan etc in consumer banking.

Loan loss provision to total loan and advances ratio of NABIL is in decreasing trend. This shows that good quality of assets in total volume of loan and advances. Total non-performing assets to total assets ratio is also in decreasing trend. It indicates proper mange of total asset. This ratio indicates the more efficient operating of credit management. Ratios are decreasing trends it indicates the bank is decreasing the non-performing loan from total loan. Interest

expenses to total deposit ratio of NABIL is increased in fiscal year 2007/08. That this ratio does not indicate higher interest expenses on total deposit.

Equity portion of the bank is slightly increasing in the recent years due to issue of directives by Nepal Rastra Bank (NRB) the entire bank to increase its paid up capital. Every commercial bank has to meet 2000 million paid up capitals till 2070 B.S. Nabil Bank has currently Ordinary Shares of 6,892,160 Rs. 100 each 689,216,000 paid up capital. NRB has issued that direction to provide more safety to the customers. Therefore, bank has continuously increasing their capital every year.

### **5.3 Recommendation**

These findings may be useful for them who are concerned directly or indirectly with the credit management of the bank especially reference to Nabil bank. On the basis of above analysis and findings of the study, following suggestions and recommendation can be drawn out.

- Cash and bank balance of NABIL is high. Bank's efficiency should be increased to satisfy the demand of depositor at low level of cash and bank balance does not provide return to the bank. Therefore some percentage of the cash and bank balance should be invested in profitable sectors.
- Bank is suggested to make policy to ensure rapid identification of delinquent loans. Bank should make immediate follow-up of loan until it is recovered. The recovery of loan is very challenging as well as important part of the bank. Therefore bank must be careful to strengthen credit collection policy
- NABIL should avoid extending credits merely based on oral information presented at the credit interview. Historical financial and trade records should be obtained for proper assessment of the proposal.
- NRB recommended following the NRB directives which will help to reduce credit risk arising from defaulter, lack of proper credit appraisal, defaulter by blacklisted

- borrowers and professional defaulter. Government has established credit information bureau, which will provide suggestion to commercial bank. So NABIL is suggested to collect as much information about borrowers and only lend to non-risky area and to non-defaulter.
- Nabil bank should be fulfilling some social obligations by extending their resources to rural areas and promoting the development of poor and disadvantages group. In order do so; they should open their branches in the remote area with the objective to provide the banking services. The minimum deposit amounts should be reduced.
  - The economic liberalization policy adopted by Nepal Government has created an environment of cutthroat competition in the banking sectors. In this context NABIL bank is suggested to formulate and implement sound and effective financial and non-financial strategies to minimize their operational expenses to meet required level of profitability.
  - International relations of the Nabil bank are satisfactory in comparison to others banks. Due to tough competition the bank should make negotiation with the international banks to increase its transactions in the international areas.
  - According to NRB directives, all the commercial bank should increase the capital up to Rs 2000 million by 2070 B.S. NABIL is increasing the paid up capita to meet NRB directive. The increment in capital can be made either by capitalization of profit, declaration of Bonus share or right share issue.

## BIBLIOGRAPHY

### Books and Journal

- Baxley, J. B. (1987). *Banking Management*. New Delhi: Subject publication.
- Benerjee, S. K. (1998). *Financial Management*. New Delhi: S. Chand & Company Ltd., Ram Nagar.
- Bhalla, V.K. (1997), *Investment Management*, Fourth Edition, New Delhi: S. Chand & Company Ltd.
- Brigham, Eugene F. (1983), *Financial Management*, New York: A Harcourt Publishers International Company.
- Charles, J. P. (1999), *Investment Analysis and Management*, Bombay: Himalayan Publishing House.
- Chaudhary, A. K. & Sharma P. K. (2058), *Statistical Methods*, Kathmandu: First Edition, Khanal Books Prakshan.
- Cheney, J. M. and Moses, E. A. (1983), *Fundamental of Investment*, New York: St. Paul;West Publishing Company.
- Crosse, H.K. (1963), *Management Policies for Commercial Banks*, New Jersey: Second Edition , Englewood Cliffs, Prentice Hall, Inc.
- Desai, V.R. Mutalik (1967), *Banking Development in India*, Bombay: Pc Mansktol and Sons Pvt. Ltd.
- Francis, J. C. (1991), *Investment Analysis and Management*, New York: Mc Graw Hill, International Edition.
- Gittman and Jochnk, L.J. (1990), *Fundamental of Investment*, New York:vv Harper and Row Publisher.

- Gupta, G.P. (1984), *Banking System, its Role in Export Development*, New Delhi: S. Chand and Company.
- Kothari, C.R. (1989), *Research Methodology; Methods and Techniques*, New Delhi: Willey Eastery Limited.
- Merriam, G. C. (1975), *Webster's New Collegiate Dictionary*, New York: Eighth Edition Springfield,
- Munakarmi, S. P. (2002), *Management Accounting*, Kathmandu: Buddha Academic Enterprises Pvt. Ltd.
- Pandey, I. M. (1975), *Financial Management*, New Delhi: Vikash Publishing House Pvt. Ltd.
- Pradhan, R. S. (1998), *Financial Management Practice in Nepal*, New Delhi: Vikash Publishing House.
- Reed E. W. Gill, Edward K. Cotter Richard V. & Smith, Richard K. (1980), *Commercial Banking*, New Jersey: Second Edition, Prentice Hall, Inc. Englewood Cliffs.
- Reilly, F. K. (1998), *Investment*, Japan: The Dryden Press, CBS Publishing.
- Richard, Levin I. and David, Rubin S. (1991), *Statistics for Management*, New Delhi: Prentice Hall of India Pvt. Ltd.
- Sharpe, J. William and Gordon, J. Alexander. (1996), *Investment*, New Delhi: Prentice Hall of India.
- Singh, P. (1998), *Investment Management*, Bombay: Himalayan Publishing House.
- Swamy, R. and Basudeven, S.V. (1979), *A Text Book of Banking; Law, Practice and Theory of Banking*, S. Chand & Company Ltd. India.
- Van Horne, J. C. (2000). *Financial Management and Policy*. New Delhi: Prentice Hall of India Pvt. Ltd.
- Western, J. F. and Copland, T. E. (1992). *Managerial Finance*. The Dryden Press International Edition, Ninth Edition.

Wolff, H. K. and Pant, P.R. (2000). A Hand Book for Social Science Research and Thesis Writing. Kathmandu: Buddha Academic Enterprises Pvt. Ltd.

### **Dissertations**

Bhattarai, P (2004) “*Implementation of Directives Issued by Nepal Rastra Bank: A comparative Study of Nepal SBI Bank Ltd and Nepal Bangladesh Bank Ltd*” An unpublished thesis of Master Degree, T.U.

Bohara, B. R. (1992), *A Comparative Study of the Financial Performance of Nepal Arab Bank Limited and Nepal Indosuez Bank Limited*, Kathmandu: An unpublished thesis of Master Degree, T.U.

Dhungana D. (2003). *A study of joint venture banks profitability*, Kathmandu: ‘An unpublished thesis of Master Degree, T.U.

Joshi J. M. (2004), *Financial Analysis of Nepalese Commercial Banks*, Kathmandu: An unpublished Master’s Degree Thesis, T.U.

Karki H. (2000). *A comparative study on Budgeting System of Rasriya Banizya Bank Ltd (RBB) and Himalayan Bank Limited (HBL)*, Kathmandu: Unpublished Thesis, Shanker Dev Campus.

Khadka, R. R. (1998), *A Study on Investment Policy of NABIL in Comparison to Other JVBs in Nepal: An Unpublished Thesis*, Central Department of Management, T.U.

Kharel, S. (2008). *"Profit planning of commercial banks in Nepal comparative study of Everest Bank, Nabil Bank and Bank of Kathmandu*, Kathmandu: Unpublished Thesis, Shanker Dev Campus.

Lamsal H. (2005). *A comparative study of profit planning analysis of HBL and SCB*, Kathmandu: An unpublished thesis of Master Degree, T.U.

Ojha (1995). *Budgeting System in public enterprises in Nepal*, Kathmandu: An unpublished thesis of Master Degree, T.U.

Panta, U. R. (1976), *A Study of Commercial Bank Deposits and its Utilization*, Kathmandu: An unpublished thesis of Master Degree, T.U.

Regmi, P. (2004) "A study on credit practices of joint venture commercial banks with reference to Nepal SBI Bank Ltd. And Nepal Bangladesh Bank Ltd." An Unpublished Master Degree Thesis, Central Department of Management, T.U.

Sapkota, U. P. (2002), *A Study on Fund Mobilizing Policy of Standard Chartered Bank Ltd. in Comparison to Nepal Bangladesh Bank Ltd. and Himalayan Bank Ltd.*, Kathmandu: An unpublished thesis of Master Degree, T.U.

Sharma, B. (2004). *Profit Planning in commercial banks with a case study of NABIL bank*, Kathmandu: Unpublished Thesis, Shanker Dev Campus.

Sharma, S. (2002). *Profit planning in commercial banks with a case study of Nepal Bangladesh Bank*, Kathmandu: n unpublished thesis of Master Degree, T.U.

Shrestha, S. (2008) "A study on the credit risk management of Nepalese Commercial Banks" aims following objective taking Kumari Bank and Machhapuchre Bank. Kathmandu: Unpublished Thesis, Shankerdev Campus.

Silwal, U. B. (1980), *Lending Policy of Commercial Banks in Nepal*, Kathmandu: An unpublished thesis of Master Degree, T.U.

### **Websites**

[www.nabilbank.com](http://www.nabilbank.com)

[www.nro.org](http://www.nro.org)

[www.nepalstock.com](http://www.nepalstock.com)

[www.sebonp.com.np](http://www.sebonp.com.np)

[www.nrb.org.com.np](http://www.nrb.org.com.np)

## APPENDIX – 1

### Trend Analysis of Total Deposit

(Amount in million)

Year(x)	Total deposit(Y)	$X = x - 2006$	$X^2$	$XY$
2004	14119	-2	4	-28238
2005	14587	-1	1	-14587
2006	19347	0	0	0
2007	23342	1	1	23342
2008	31915	2	4	63830
<b>N = 5</b>	<b>Y = 103310</b>	<b>X = 0</b>	<b>X<sup>2</sup> = 10</b>	<b>XY = 44347</b>

$$Y = a + bx$$

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where  $x = X - \text{Middle year}$

Here,

$$a = \frac{\sum Y}{N} \qquad b = \frac{\sum XY}{\sum X^2}$$

$$= \frac{103310}{5} = 20662 \qquad = \frac{44347}{10} = 4435$$

Substituting these values of a and b in eq (I) we get the required trend line

$$Y_c = 20662 + 4435x$$

## APPENDIX -2

### Trend Analysis of (Total Credit) Loan and advance

(Amount in million)

Year(x)	Total Credit(Y)	X = x - 2006	X <sup>2</sup>	XY
2004	8549	-2	4	-17098
2005	10947	-1	1	-10947
2006	13279	0	0	0
2007	15903	1	1	15903
2008	21759	2	4	43518
<b>Total</b>	<b>Y = 70437</b>	<b>X = 0</b>	<b>X<sup>2</sup> =10</b>	<b>XY = 31376</b>

Let trend line be

$$Y = a + b x \dots\dots\dots(I)$$

Where x = X-Middle year

Here,

$$a = \frac{\sum Y}{N}$$

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

$$= \frac{70437}{5}$$

$$= \frac{31376}{10}$$

$$= 14087$$

$$= 3138$$

Substituting these values of a and b in eq (I) we get the required trend line

$$Y_c = 14087 + 3138 x$$

## APPENDIX – 3

### Trend Analysis of Total Asset

(Amount in million)

Year (x)	Total Asset (Y)	$X = x - 2006$	$X^2$	XY
2004	16745	-2	4	-33490
2005	17186	-1	1	-17186
2006	22330	0	0	0
2007	27253	1	1	27253
2008	37133	2	4	74266
<b>N = 5</b>	<b>Y = 120647</b>	<b>X = 0</b>	<b>X<sup>2</sup> = 10</b>	<b>XY = 50843</b>

Let trend line be

$$Y = a + bx \dots \dots \dots (I)$$

Where x = X-Middle year

Here,

$$a = \frac{\sum Y}{N}$$

$$= \frac{120647}{5}$$

$$= 24129$$

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

$$= \frac{50843}{10}$$

$$= 5084$$

Substituting these values of a and b in eq (I) we get the required trend line

$$Y_c = 24129 + 5084x$$

## APPENDIX – 4

### Trend Analysis Net Profit

(Amount in million)

Years(x)	Net profit(Y)	X = x-2006	X <sup>2</sup>	XY
2004	455	-2	4	-910
2005	520	-1	1	-520
2006	635	0	0	0
2007	674	1	1	674
2008	747	2	4	1494
<b>N = 5</b>	<b>Y = 3031</b>	<b>X = 0</b>	<b>X<sup>2</sup> = 10</b>	<b>XY = 738</b>

Let trend line be

$$Y = a + bx \dots\dots\dots (I)$$

Where x = X-Middle year

Here,

$$a = \frac{\sum Y}{N}$$

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

$$= \frac{3031}{5}$$

$$= \frac{738}{10}$$

$$= 606$$

$$= 74$$

Substituting these values of a and b in eq (I) we get the required trend line

$$Y_c = 606 + 74x$$