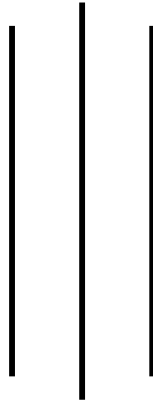


**PROFIT PLANNING OF
Bank of Kathmandu Ltd. and Nepal Credit & Commerce
Bank Ltd.**



A THESIS

By:

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To:

Office of the Dean

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Tribhuvan University

In partial fulfillment of the requirement for the Master Degree
of Business Studies (M.B.S)

Kathmandu, Nepal

April, 2014

RECOMMENDATION

This is to certify that the thesis:

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Nepal Credit & Commerce Bank Ltd.**

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

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VIVA VOCE SHEET

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Viva Voce Committee

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DECLARATION

I hereby declare that the work reported in this thesis entitled **Profit Planning of Bank of Kathmandu Ltd. and Nepal Credit & Commerce Bank Ltd.** submitted to Shanker Dev campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement of the Master Degree in Business Studies (MBS) under the supervision of **Associate Professor Yamesh Man Singh**, Shanker Dev Campus, Faculty of Management, Tribhuvan University.

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ACKNOWLEDGEMENTS

I have prepared this thesis as the partial fulfillment of the MBS degree of Tribhuvan University. I have prepared this thesis sincerely and honestly. Many teachers, friends and family members supported me while completing this research work. So I would like to share the credit of my success with all of them. I would like to express my cordial gratitude to all of my teachers, who taught me at different levels. I would like to express my sincere thanks to my thesis supervisor **Associate Professor Yamesh Man Singh**. His valuable suggestions and guidance from the beginning to the end were indeed very appreciable. I would also like to express my gratitude to all other members of Shanker Dev Campus, particularly staffs from MBS department and the campus library. Last but not the least, my sincere thanks goes to my husband for his constant encouragement and support.

.....

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ABBREVIATIONS

BOK	Bank of Kathmandu
C.V.	Coefficient of Variation
CB	Commercial Bank
COD	Cost of deposit
FY	Fiscal Year
GNP	Gross National Product
JVBs	Joint Venture Banks
LDO	Loan, Discount and Overdraft
NCC	Nepal Credit & Commerce Bank Limited
NMB	NMB Bank Limited
NO.	Number
NRB	Nepal Rastra Bank
OBS	Off-Balance Sheet
P.E.	Probable Error
PPC	Profit Planning and Control
RBB	Rastriya Banijya Bank
ROA	Return on Assets
Rs	Rupees
S.D.	Standard Deviation
T.U.	Tribhuvan University

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Financial activities play a major role in the process of economic development of a country. The current state of Nepalese economy is characterized by unutilized natural resources, subsistence agriculture, deficit trade, mass poverty, illiteracy and so forth. Agriculture is the main occupation of most of the village population but it has not been commercialized yet. It is one of the richest countries in the world in terms of water resources. The water resources available here have remained practically unutilized. Nepal remains as one of the least developed countries in the world. The country's per capita income of \$735 (www.parakhireviews.com) is the lowest in South Asia. Hence, arrangement and mobilization of financial resources would certainly play a major role.

Existence of Financial Institutions serves as a basis for financial activities. The frequency and scale of financial activities determines the profitability for sustainability of these Institutions.

Investments in productive sectors increase economic activities. The unutilized financial resources should be diverted towards productive sector in order to increase the economic activities. To develop the Nepalese economy, the financial institutions should be established. The participations of the private sectors play even more important role for economic development. Hence, various banks, insurance companies, financial companies etc. were established in the private and government sector. However the country has not been able to achieve the desired economic progress so far which is due to the poor capital market condition.

1.1.1 Introduction of Bank of Kathmandu Limited

Bank of Kathmandu was established in 1995 A. D. with the help of expert banking industrial and businessperson. The bank was established under joint investment of the Siam Commercial Bank, Thailand.

The prime objective of BOK is to refer banking services to the different sector like industries, traders, businessmen, priority sectors, small entrepreneurs and weaker sector, of the society and every other people who need banking services. During the period of 10 years of its operation, it has accommodated a large numbers of clients. The bank has earned the glory of customer's service to almost all the top business houses of the country and it occupies one of the leading positions among the joint venture banks in Nepal. The bank is still pursuing to accommodate us many clients as far as possible.

The exporters and importers of the country have established banking relationship with a substantial volume of foreign business, which has extended the BOK's popularity in the international trade front. Bank has developed agency and correspondent relationship with many banks in the world. With the continuous support of values customers, the bank has made all round progress in very sphere of its operation.

1.1.2 Introduction of Nepal Credit and Commerce Bank Ltd.

Nepal Credit & Commerce Bank Ltd. (NCC Bank) formally registered as Nepal - Bank of Ceylon Ltd. (NBOC), commenced its operation on 14th October, 1996 as a Joint Venture with Bank of Ceylon, Sri Lanka. It was the first private sector Bank with the largest authorized capital of NRS. 1,000 million. The Head Office of the Bank is located at Siddhartha Nagar, Rupandehi, the birthplace of LORD BUDDHA, while its Corporate Office is placed at Bagbazar, Kathmandu. The name of the Bank was changed to Nepal Credit & Commerce Bank Ltd., (NCC Bank) on 10th September, 2002, due to transfer of shares and management of the Bank from Bank of Ceylon, an undertaking of Government of Sri Lanka to Nepalese Promoters. At present, NCC Bank provides banking facilities and services to rural and urban areas of the country through its 23 branches. The Bank has developed corresponding agency relationship with more than 150 International Banks having worldwide network.

Technology

The Bank is using Pumori Plus, the most commonly used software by Nepalese Banks. The Bank offers Any Branch Banking Service (ABBS) in all 23 branches. Telex and SWIFT are other modes of communication for efficient and effective transmission of information. In order to facilitate the customers with state of art

technology, Bank is providing Visa Debit Card facilities. NCC VISA Debit Card can be used in any of the ATMs and POS machines displaying VISA LOGO for cash withdrawal, balance enquiry or purchase of goods & Services from various merchants like departmental stores, hospitals, retail shops etc throughout Nepal and India only. In addition, NCC VISA Debit Card enables wider access to VISA Card acceptable more than 4,00,000 ATMs and 2.5 Million Point of Sales(POS) terminals in Nepal and India. With NCC VISA Debit Card one can access one's account 24-hours a day, 7 days a week and enjoy greater convenience to facilitate one's banking and financial needs.

Global Connection

NCC Bank has strategic alliance with ICICI Bank, which facilitates the customers to remit their money to more than 670 locations of India through ICICI Bank branches and their correspondent Banks in India. Customers can affect their money transfer to India either through Speed Transfer Arrangement or through Demand Draft Arrangement. Under Speed Transfer Arrangement, money can be credited on-line to the beneficiary's account at more than 400 branches of ICICI Bank, India. Under Demand Draft Arrangement, the Bank can issue draft payable at more than 670 locations in India. Bank is connected through various prominent Banks in Asia, Europe and North America like Mashreq Bank, Standard Chartered Bank, Bank of Ceylon etc. The services across the globe include remittance, draft arrangement, import and export business, guarantee etc.

1.2 Statement of the Problem

Profit planning tool is a newly developed concept in the business organization. By proper profit planning a business can be managed more effectively and efficiently. Profit planning is the vital tool which directs the organization towards achieving profit. Profit should be basic short term and long term objectives of every business organization. Increasing ratio of profit is a good symbol of organization. By nature, profit is a yard stick of managerial efficiency.

Every financial institution, including a commercial bank must make profit out of its operations for its survival and fulfillment of the responsibilities assigned. Major activities of a commercial bank comprise mobilization of resources, which involves cost, and profitable deployment of those resources, which generates income. The different interest income over the interest cost, which is popularly called interest margin, can be considered as the contribution margin 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 Bank of Kathmandu Ltd. and Nepal Credit & Commerce Bank Ltd. In this ground, the study deals with the following issues.

- How properly the collected fund has been used?
- What is the profitability position of the banks?
- What is the trend position of deposits collection and net profit?
- Is there significant relationship between loan and advances, total interest earned to total assets etc?

1.3 Objectives of the Study

The basic objectives of the study are to analysis the profit planning policy of commercial banks with reference to Bank of Kathmandu Ltd. and Nepal Credit & Commerce bank Ltd. Specific objectives of the study are:

- To find out the relationships between total investment, loan and advances, deposit, net profit and assets.
- To identify the investment priority sectors of Commercial Banks.
- To analyze and forecast the trend and structure of deposit utilization and its projection for five fiscal years of the selected Commercial Banks.
- To provide suggestions and possible guidelines to improve investment policy and its problems.

1.4 Significance of the Study

Profit is the backbone of every organization because the continuity or survival of the each and every organization depended 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 applicability of profit planning system in selected banks. 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.

1.5 Limitations of the Study

This study confines only on profit planning aspect of Bank of Kathmandu Ltd. and Nepal Credit & Commerce bank Ltd. So, the limitations of this study are:

- This study focuses on profit planning control and its application in the BOK and NCC Bank.
- This study covers the related data of the selected banks of five FY covering 2007/08 to 2011/12.
- 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.

Chapter- I Introduction

Chapter- II Conceptual Framework and Review of Literature

Chapter- III Research Methodology

Chapter - IV Data Presentation and Analysis

Chapter - V Summary, Conclusion and Recommendations.

The **first chapter** deal the background of the study, brief profile of BOK and NCC, Statement of Problem, Objectives of the Study, Significance of the Study, Limitation of the Study and Organization of the Study.

The **Second chapter** deal with the review of the available literature. It included review of the related books, journals, articles and previous unpublished Master Degree Dissertation etc.

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

The **fourth chapter** is the most important part of the study which covers the presentation and analysis of data as well as major findings of the study.

The **fifth chapter** covered the summary of the study, Conclusion and recommendations for further improvements.

CHAPTER-II

REVIEW OF LITERATURE

2.1 Concept of Profit Planning

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. 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 co-ordinating if used appropriately, but not a replacement for management.

"Profit Planning is a predetermined detailed plan of action developed and distributed as a guide to current operations and as a partial basis for the subsequent evaluation of performance. Thus it can be stated 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. 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 functions", (Gupta, 1992: 3).

"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. Full and open reporting in performing reports that, focus on assigned responsibilities likewise enhance the degree of communication essential to sound management", (Welsch, et.al.,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 factors affecting the profit obtained from a single product; the planner is given the right to prove the economics, 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.

"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 volume and cost", (Dong, 2000:74).

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 absence of the clear-cut well defined idea of profit. Oxford dictionary defines profit as a (a) financial gain and amount of money gained in business especially the difference between the amount earned and the amount spent (b) Advantage or benefits gained from something", (Hornby & Cowie, 1992: 63).

According to some theories, profits are the factor payment for taking 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. No firm can accomplish its predetermined goals and objectives without proper &

effective planning. Hence it is the life blood of any organization which helps them to run efficiently in competitive environment.

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

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

Planning is the process of developing enterprises objectives and selecting future course of action to accomplish them. It includes

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

(Source: Welsch, et.al., 1992:127).

"The planning processes, both short and long term, are the most crucial components 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 reasons and communicates", (Welsch, et.al., 1992:73).

Planning could be taken as the tools of achieving organizational goals efficiently and effectively from the selection of various alternatives within an acceptable time frame.

The essence of planning is:

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

(Source: Welsch, et.al., 1992:73).

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 an important function of top management. Planning requires the management to setting a future course of action towards which effort will be directed i.e. objective, assessing the organization's resources, i.e. what the organization is going to work with, assessing the current and future environment with which the organization must be connected to achieve its goals and lately determine how and when to allocate resource accomplish the objective. Planning on the other hand is selecting objective and determining a course of action including allocation of resources in order to achieve those objectives in a specific time period. Planning states what, when, and how things will be accomplished. An adequate planning is necessary for control of operations.

2.1.4 Types of Planning

Corporate Planning

The concept of corporate planning was first introduced and started in the United States in the late 1950s and nowadays it is being used in several companies in all over the world. The premises of the corporate planning are as follows:

- Before drawing up a plan which is designed to decide something what the corporation wants to do.

- In these days of rapid change it is necessary to look ahead as far as possible to anticipate these changes.
- Instead of treating a company as a collection of departments treat it as a corporate whole, and
- Take full accounts of the company's environment before drawing up and plan.
(Source: Robertson, 1968: 245).

Strategic Long-Range Planning

Strategic planning is a top management function in which the organization's purpose, mission and overall objectives and policies are developed to position the organization advantageously in its operating environment. It refers to the selection of company objective and the determination of the growth or at least constant and competitive policies that are most likely to accomplish those objectives. Management planning and control is the process carried on within the framework established by strategic planning. Long range planning (5 to 10 years) varying with the enterprise sometimes extends upto 10 years. It is one of the most difficult time-span involved in planning, as many problems in short range planning can be traced to the absence of clear sense of direction and the practice which a comprehensive long-range plan provides. Basically, the long-range planning is more important for broad and long living enterprises.

"A long-range planning is closely concerned with the concept of the corporation as a long living institution", (David,1964:298).

The planner must include the following factors in his/her plan from the analysis of available information.

- Probable future opportunity
- Uncertainty and
- Challenges

"Long range planning is the continuous process of making present entrepreneurial (risk taking) decision. Systematically and best possible organized efforts are needed to carry out these decisions and measuring the result of these decisions against the

expectations through organized systematic feedback", (Drucker, 1964:165). It is a decision making process. Such decision should be related about:

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

Tactical Short Term Planning

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

2.1.5 Role of Forecasting in Planning

Forecasting is an integral part of decision making activities of management. An organization establishes goals and objectives to predict the environmental factors. The need for forecasting is increasing as management attempts to decrease its dependence on change and become more scientific in dealing with its environment. Since each area of organization is related to others, a good or bad forecast can affect the entire organization. Planning or budgeting is not merely forecasting although forecasts form the basis of budgeting. Forecasting is the estimate of the future environment within which the company will operate. Budgeting or planning on the other hand involves the determination of what should be done, how the goals may be reached and what individual or units are to assume responsibility and be held accountable.

Forecasting is indispensable in planning. Forecast is statement of expected future conditions. 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 requires successive adjustment if sales level changes", (Bratt, 1985: 246).

2.1.6 Planning Verses Forecasting

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

2.1.7 Purposes of Profit Planning

Some purposes of the application of profit planning are:

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

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

(Source: Gitman, 1990:154).

"There is controversy in term of profit. It is defined by different people from different aspect. According to RM Lynch and Robert Williamson usually profits 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 is the reward of entrepreneurship for risk taking. A labour leader might say that it is a measure of how efficiently labour has produced and that it provides a base for negotiating a wage increase. An investor views it as a gauge for return on his/her investment. An internal revenue agent might regard it as the base for determining income taxes. The accountant will define it simply as the excess of firm's revenue over the expenses of producing revenue in a given period. Management thinks of profit as a tangible expression of the goals it has set for the firm, a measure of the performance towards the achievement of it, as a means of measuring the health, growth and continuity of the economy," (Lynch &Williamson, 1989: 249).

2.1.8 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 an 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 enterprise. In fact budgeting is best means of communication and an important tool in the hands of management. Since, budgeting deals with fundamental policies and objectives, it is prepared by top management. A formal

budget by itself will not ensure that a firm's operations will be automatically geared to the achievement of the goals set in the budget. For this to happen, the top level managers and lower level employees have to understand the goals and support them and co-ordinate their efforts to attain them.

Budgeting is a financial tool 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 in the light of the relevant budgeted data and also in the light of changes in conditions. Company controls operations through its budgeting and responsibility reporting system. Top executive are able to control every area of the organization through a systems of responsibility area.

2.1.9 Essentials of an Effective Budgeting

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

Sound Forecasting

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

An Adequate and Planned Accounting System

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

Efficient Organization with Definite Lines of Responsibility

An efficient, adequate and best organization is imperative for budget preparation and its operation. Thus a budgeting system should always be supported by a sound organization structure demarcating clearly the lines of authority and responsibility. Not only this, there should be a true delegation of authority from top to low levels of management. This will provide adequate opportunity to all executives to make decisions and also to participate 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 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 be prepared taking into account the policies set for particular department or functions. But for this purpose, policies should be precise and clearly defined 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 data 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 reliable, accurate and adequate as far as possible.

Support of Top Management

If a budget program is to be made successful, the sympathy of each member of the management team will be required. 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 budgeted performance. The variations should be reported promptly and clearly to the appropriate levels of management.

Motivational Approach

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

2.1.10 Fundamental of PPC

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

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

(Source: Welsch, et al., 2001:235).

2.1.11 Profit Planning and Control Process

A PPC program includes more than the traditional idea of a periodic or master budget. It encompasses the application of a number of related management concepts through a variety of approaches techniques and sequential steps. These steps are outlined 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 variables. 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 purpose the external relevant variables are population, G.N.P., competitive activities product line, and industry sales. And so far internal variables are employees, capital, research productivity, pricing, operating costs, advertisements etc. A particularly significant phase of this analysis includes an evaluation of the present strength and weakness of the enterprises. The comprehensive PPC approach is based on the expectation that these significant aspects of operations will be critically analyzed and evaluated periodically and in an orderly manner" ,(Welsch, et.al. 2001: 235).

Development of the Broad Objectives of the Enterprises

Development of the broad objectives of the enterprises is the responsibility of executive management. Based on a realistic evaluation of the relevant variables and an assessment of the strength and weakness of the organization, executive management, can specify or restate this phase of the PPC process.

The statement of broad objectives should express the mission, vision and ethical character of the enterprise. Its purpose is to provide enterprise identify. One research study listed the purposes of the statement as:

- To define of the purpose of the Co.
- To clarify the philosophy character of the Co.
- To create particular climate within the business.

- To set down a guide for managers so that the decisions they make will reflect the best interest of the business with fairness and justice to those concerned.

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

Companies' strategies are the basic 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 new technology
- Emphasize product quality and price for the top market.
- Expand market
- Market with low price to expand value.
- Use both institutional and local advertisement program to build market share.
- Improve employee morale and productivity by initiating a behavior management program.

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 centre 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 encompass such items as plans for improvements of present, products, view and expanded physical facilities, entrance into new industrial unit from products and industries and new technology and other major activities that can be separately identified for planning purpose. The nature of projects is such that they must be planned as separate units.

Consistent with this approach during the formal planning cycle, management must evaluate the plan status of each project in process and select any new projects to be initiated during time dimension covered by the upcoming strategies and tactical profit plans.

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 detail and other relevant procedural and format requirement essential for aggregation of the plans of the responsibility centers, into the overall profit plans. All of these activities must be coordinated among the centers in conformity with the organization structure. When the two profit plans for the overall enterprises are completed, executive management should subject the entire planning package to a careful analysis and evaluation to determine whether overall plans are the most realistic set that can be developed under the circumstances. When this point 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 and 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 leadership. However the comprehensive PPC program may aid 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 supervisors 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 of no meaning when the implementation is not checked to know if it is used appropriately. To check whether the significance has been raised, 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 and 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:

- Determine the effectiveness of prior corrective action and
- Provide a basis for improving future planning and control procedures.

2.1.12 Basic Assumptions and Limitations of Profit Plan

Profit planning systems are common in both 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 terms of money, if there is to be any assurance that money will be available for the needs of the business. Secondly, it is possible to plan for the future of a business in a comprehensive way,

coordinating every aspect of the business, with every other aspect to establish optimum profits goals. Thirdly, profit planning is pre-planning not merely what to do if things work out as forecasted, but also what to do if things work out differently from the forecast. In developing and using a profit planning and control (PPC) program, the following limitations should be considered:

- Profit plan is based on estimates.
- A PPC program must be continually adapted to fit changing circumstances.
- Execution of a profit plan will not occur automatically, the profit plan is not a 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 individuals in their various spheres of managerial activity. It is not assumed that any profit plan is perfect. The most important consideration is to make sure, by intelligent use of profit plans that all possible attainable benefits are derived from the plans as rendered and to re-plan when there are compelling business reasons", (Welsch, et.al., 2001:265).

2.1.13 Development of Profit Plan

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

2.1.14 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 is the customer deposits. Therefore, the plan for resources mobilization has a primary focus on the customer deposit mobilization. The lending and investment activities depend

on the deposit mobilized by the bank. So the deposit mobilization or collection plan is the starting point in preparing other different plans.

Deposit mobilization is the primary function of a bank, which has major contribution in the total resources of the bank. In terms of cost for the Bank, customer's deposits are of two kinds, viz. (i) interest free deposits i.e. current deposits, margin deposits etc. and (ii) interest bearing deposit i.e. saving deposits, fixed deposits of various tenure, call deposits etc. The interest free deposits are cost free but are generally volatile in nature. Those can be withdrawn without restriction from the bank, thus cannot be invested into higher income yielding assets. Further, interest bearing deposits involve cost of deposit but their retention ratio with the bank are much better so they can be put to high income yielding assets having longer tenure. Therefore, a proper mix of cost free and costly deposits corresponding to short term and longer term deposits are to be maintained by the bank in its deposit mix in order to minimize its average cost of deposit. The cost of deposit of banks is also affected by the prevailing deposit interest rate of other banks in the market.

Budgeted targets for deposit mobilization during a particular year is set in advance with the view of optimizing the cost of deposit and the same are allocated to the different branches of the banks. Such allocations may be regarded as the tactical plan for deposit mobilization of the banks. Banks resources other than customer deposits are the borrowing from other banks and the capital fund. Generally banks borrow from other banks to meet temporary requirement of liquidity which may occur, sometimes, during the banking operation caused due to unexpected withdrawals of deposit or deferment in loan repayments by the borrower by some reason or other. Such activities are managed from the Head Office with the least possible cost.

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

Further, the bankers may choose by themselves whether or not to increase the owner's capital by raising other item included in capital funds beside paid up capital and general reserves. It is always better to have a higher capital fund base of a bank

because creation of bank's assets and the size of lending to any particular borrower are tied up with the capital adequacy requirement by the central bank.

2.1.15 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 while relatively stable fund like saving deposits, fixed deposits and paid up capital could be used to buy long dated high yielding securities, demand deposit which are more volatile, could be used to acquire relatively liquid assets like cash or money at call and short notice on which little or no return is made by the bank", (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. which provides reasonable liquidity to the bank as well as yield some return although they are at very low rate. Major portion of the income of the bank comes as interest income from the resources deployed to loan & advances, bill discounting and overdraft (LDO). As the most part of the resources are for LDO, banks make its lending budgets in advance as per their lending policies. Lending targets are fixed at various sector of economy for various kinds of trades and commercial activities and to various borrowers ensuring well diversification of the assets. The targets are allocated to the branches, which are generally operated as separated profit centers.

2.1.16 Planning for Non-Funded Business Activities

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

Expenditure Planning

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

- Interest Expenses
- Personnel Expenses
- Office Operating Expenses
- Expenses meeting the loss in Exchange Fluctuation
- Non-operating expenses
- Expenses for provision for loan loss
- Expenses for provision for staff bonus
- 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 later includes other expenses as mentioned above except the interest expense.

Interest expenses in a bank depend on the average cost of deposit (COD) mobilized by the bank. Lower the COD lower the interest expenses and thus higher the profitability. Therefore from profitability point of view banks plan their COD at lowest possible

level. The nature of interest expense is that of a variable expense. The net earnings from interest income of a bank deducting the interest expense for the deposit mobilized is called 'Spread' which is similar to the 'Contribution Margin' in sales of commodities by a manufacturing units.

Other expenses are the administrative expenses those are generally incurred by the bank during the course of its operation. Higher the volume of business transaction of a bank, higher will be the amount of its other expenses. Therefore, the expense should be related with the business activities, which ultimately should produce income for the bank. Such other expenses from burden to the profitability as it consumes the spread earned. Therefore budgets are prepared with an aim of reducing the burden as far as possible. The expenses budgets are formulated considering the overall 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, banks make the estimation of the revenue in advance during the period for which the plan is developed. Revenues of a bank are generated in the following forms:

- Interest income
- Commission and discounts
- Dividend
- Other income
- Foreign exchange income
- Non-operating income

(Source: Crosse, H.D: 1963: Management Policies).

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

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

As the average rate of interest on LDO are comparatively higher than any other kind of income yielding assets, from the profitability point of view, higher asset allocation into LDO, higher will be the income. The other income are generated from other activities of the bank such as issuance of L/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 revenue.

2.1.17 Implementation of the Profit Plan

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

The redesigned budget schedules should be assembled in a logical order, reproduced and distributed before the first day of the upcoming budget period. The profit plan completion data is important. "Issuance of a profit plan after the beginning of the

budget period is one sure way of destroying much of the budget potential. Timely completion of the planning budget suggests the need for a budget calendar", (Welsch, et.al., 2001: 235).

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

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

"A budget program viewed and administrated in a sophisticated way does not hamper or restrict management, instead, it provides definite goals around which day to day and mouth to mouth 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, et.al., 2001: 238).

2.1.18 Performance Reports

Performance reporting is an important part of a comprehensive PPC system. Performance reports deal with control aspect of PPC. Performance reports are one of the vital tools of management to exercise its control function effectively.

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

Features of Performance Reports

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

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

Aspects of Performance Reports

The actual use of performance report may vary from person to person which depends upon several factors. One important factor is the extent to which the performance reports serve the management and decision making needs of the users. Top management needs reports that give a complete and readily comprehensive summary of the overall aspects of operations and identification of major events. Middle

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

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

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

2.2 Review of the Previous Studies

A comparative study on profit planning, in the context of particularly commercial banks seems to be a new subject of study for research analysis. So far as the study concerned with the profit planning of commercial banks,

Kharel, Bishal. (2008). conducted a study entitled "*Profit planning of commercial banks in Nepal comparative study of Everest Bank, Nabil Bank and Bank of Kathmandu*", an unpublished master level thesis submitted to Shanker Dev Campus, Faculty of Management, T.U.

His main objectives:

- 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

His Major Findings:

- 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. Asset management ratio found that EBL is better position as compared to that of Nabil and BOK.
- EBL has best in loan loss provision.
- Investment on share and debenture to total working found ratio is higher in BOK.
- 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.
- The return, loan, advances ratio, and return on assets of EBL are lowest of all. The ratio suggests that the earning capacities of the bank's 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.
- 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 .
- EBL has shown 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.

Pandey Indra Mani (2008) conducted a research on the topic '*A study on Profit Planning of Commercial Bank (A comparative study of SBI Bank Ltd. and Himalayan Bank Ltd.)*', an unpublished master level thesis submitted to Shanker Dev Campus, Faculty of Management, T.U.

Major Objectives of his study are:

- To highlight the current profit planning premises adopted and its effectiveness in HBL and SBI .
- To analyze the variance of budgeted and actual achievements.
- To study the growth of the business of the Banks over the period.
- To provide suggestion and recommendations for improvements of the overall profitability of the banks.

Major Findings of his study are:

- Major concentration of the analysis on profit planning in commercial banks is at deposit mobilization. In this respect, they are incurring higher cost toward deposit mobilizations. The average growth rate of total deposit of SBI L is more than of HBL i.e. 17.0725% > 11.36%.
- The LABP of both banks were in fluctuating rate over the study period, but in the FY 2002/03, negative growth of SBI L was by -1.54% (on the basis of FY 2001/02). Comparatively SBI L was having good position than HBL (from the average growth rate i.e. 16.08% > 14.11% respectively).
- In the SBI L, NLABP was high at first years and negative in second year then after it fluctuated. Towards the end, it's growth rate was 22.19 percent (on the basis of 2004/05). Similarly in the HBL, NLABP was positive in 5 years and negative in two years. At last year it's growth rate was negative by -7.79 percent (on the basis of 2004/05)
- Expenditure of the both banks were in increasing trend but in the FY 2002/03 of SBI L and FY 2001/02 of HBL was decreased. In comparasion, the more increasing trend was in the HBL than SBI L.

Major Recommendations made by him were;

- The deposit collections of both the banks are increasing over the period but the collection of HBL is not satisfactory in comparison with SBI L. So, it is recommended to HBL to collect more amounts as deposit through large variety of deposit scheme and facilities, like cumulative deposit scheme, gift cheques recurring deposit scheme (life insurance), and monthly interest

income. The minimum amount needed to open an account should be minimized so that it will attract other small deposits.

- The average cost of deposit of SBI L is high than HBL. Therefore SBI L should try to lower it by mobilizing more and more low cost or lost free deposits thereby reducing the interest cost because due to high cost of deposit, bank is forced to invest its fund more on high yield assets, which are generally not liquid and obviously risky for the bank.
- Correlation between interest expenses and deposit of HBL is negative, it shows there is no relation between interest expenses and deposit but it is not possible. So HBL should increase its cost of deposit rate.

Sharma, Indra (2009), has submitted thesis on the topic '*Profit Planning of Nepal Credit & Commerce Bank Ltd.*', an unpublished master level thesis submitted to Shanker Dev Campus, Faculty of Management, T.U.

Major Objectives of his 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

Major Findings:

- While NCC bank had been able to utilize its total deposits in year 2010/2011. Likewise, the mean ratio of NIC Asia and NCC bank are 83.11% and 77.72% respectively
- Similarly, the ratio of NCC is highest of 16.42% and the lower of 2.73% respectively in FY 2007/2008 and 2011/2012.

His Major Recommendations:

- While NCC bank had been able to utilize its total deposits in year 2010/2011. Likewise, the mean ratio of NCC bank is 77.72% respectively.
- By coefficient variation analysis, NIC bank has more uniformity than NCC bank since NIC has less CV of 4.36%. But it is true that the banks should aim to maintain more the 50% of deposits as loan to achieve profit.
- Total loan to total ratio of NCC bank is fluctuating trend it is not better for the bank so it should be try to manage it properly.
- NCC had been strong to mobilize its total deposit as loan and advances. Nevertheless, higher ratio is not always better from liquidity point of view so bank should always keep better optimum liquidity position.
- However, the ratio of NCC in all year is above the average standard which is not good.

Maharjan, Luna (2009) conducted a study on the topic '*Profit Planning in a Commercial Bank (a case study of Standard Chartered Bank)*', an unpublished master level thesis submitted to Shanker Dev Campus, Faculty of Management, T.U.

Major Objectives of her study are:

- To highlight the current profit-planning premises adopted and its effectiveness in Standard Chartered Bank.
- To observe Standard Chartered Bank's Profit Planning on the basis of overall managerial Budgets developed by Bank.
- To analyze the variance of budgeted and actual achievements
- To study the growth of the business of the Bank over the period.
- To make necessary suggestions and recommendations.

Major Findings of her study were;

- The decision making process is highly centralized however, management takes the feed forwards for annual planning and strategy building through manager conferences and strategy building through manager conferences and strategic meeting organized twice in every year at the head office.
- Interest expenses amount is the highest among total expense items of the bank every year.
- The total deposit of the bank is found increasing every year corresponding to the increase in interest expenses the total deposit is perfectly and positively correlated with total interest expenses.
- The Profitability ratio shows that it is a useful measurement for all financial researchers invested in the assets. As Return on assets is high during 2005/06 with 2.55% and return on equity is high in same fiscal year with 37.55%, this shows that overall efficiency of the SC Bank and better utilization of total resources available is higher and strong.

Major Recommendations made by her were;

- Profit Planning & control technique should be used for making long term banking strategies and managerial decisions.

- Employee training & career planning at advance level should be given more focus in order to keep the man power updated with the changing practices and the technologies.
- The average cost of deposit of the Bank is high. Therefore, bank should try to lower it by mobilizing more and more low cost or cost free deposits thereby reducing the interest cost due to high cost of deposit, bank is forced to invest its liquid and obviously risky for the bank.
- Bank CD ratio is high, which is rather a compulsion to meet the cost of high cost deposits. Higher CD ratio although gives better return in short term, it hampers the liquid and is more risky for the bank and calls for more provision for loan loss. In this way, the profitability of the bank also get hampered on the long run. Therefore, the bank should improve its position from lowering the deposit cost and increase the investments in liquid assets although they are of low yield.

Uprety, Santosh (2012) has conducted a research on “*Profit Planning and Control of Commercial Banks in Nepal*”, an unpublished master level thesis submitted to Shanker Dev Campus, Faculty of Management. T.U. In his study, he has selected Machhapuchhre Bank limited as a sample bank, Major Objectives of his study were;

- To examine the main approaches of profit planning.
- To test the extant of achievement of planning of Machhapuchhre Bank Limited.

Major Findings of her study were;

- Machhapuchhre Bank Ltd lacks active and organized planning department to undertake innovative products research, lunch and development work.
- Management isn't free to operate the bank. Intervention of NRB and Ministry of finance regarding personnel placement and other matters has paralyzed the effectiveness of the bank.
- The analysis of the position of deposit in MBL shows that the deposit, which are raised by the bank is not fully utilized. In fact this also reflects the lack of definite policy of the MBL.

- MBL has the most sophisticated GLOBUS banking software enabling to provide modern banking facilities like tale banking, internet banking point of sale services, ATM facilities, SWIFT facility and many more.
- It is the first private commercial bank to keep sophisticated communication technology which has interlinked all its branches to the centralized database system and has enabled the bank to provide anywhere banking facilities to all its valued customers.
- Loans were approved based on proprietors or promoters statements rather than verifying and evaluating the possibilities of happening and non happening of their plans and statements.
- While evaluating the loan application only the positive aspect or prospective are high-ighted and the risks involved (negative aspects) are not adequately addressed.
- Additional loans/facilities are provided and loans are renewed without evaluating the past performance of the client. Even problematic loans are renewed for the sake of showing them good.
- Analysis of the real need of the project and its capability to pay back are not done. Appraisals are based on the directors and promoters rather than the viability of the project.

2.3 Research Gap

Today's world is marketed by rapid changes and new developments, financial recession, as such researchers conducted a few years back may not be adequate to explain current phenomena. Thus continuous attempt needs to be taken and new researches should be conducted to build our existing knowledge base, interpret and analyze events in the face of dynamism. Most of the past research studies about profit planning system are basically related to profit planning system of manufacturing sectors or production oriented activities. The researcher could find only one study so far that has been related to profit planning system of a commercial bank i.e. in NB Bank. All the research have pointed out that there is no proper profit planning system and recommend for the effective implementation of profit planning system in the concerned institutions.

This study shall be a new study in this field as no study has been made so far in the profit planning of commercial banks i.e. comparative study on profit planning in Bank of Kathmandu and NCC Bank Limited. This study has tried to indicate the implementation of profit planning system as well as to see how far the banks are practicing. This study has analyzed the financial position of BOK, and NCC bank by applying the tools of ratio analysis and other mathematical and statistical tools. Finally it concludes the various findings of research and recommendations to the BOK, and NCC bank.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Research Design

This study is an examination and evaluation of budget process in profit planning program of BOK and NCC bank. Various functional budgets and other related accounting information and statement of the banks were taken as reference materials to analyze and evaluate the profit planning system of banks. Descriptive as well as analytical approaches were been adopted in this research. This is a comparative study research of the selected commercial banks.

3.2 Population and Sample

As this research aims at studying the profit planning aspect of the commercial bank taking the reference of BOK and NCC and data have been analyze for several years of its operation. Here, all the commercial banks are population of the study and BOK and NCC have been selected as sample for the present study.

3.3 Data Collection Procedures and Sources of Data

This study is mostly based on secondary data. However, primary data and information have been obtained through informal discussions with the staffs of the bank. Secondary data have been collected from the annual published accounting and financial statement of the banks. Similarly other necessary data have collected from website, newspapers and related publications.

3.4 Research Variables

Loans/Advances, overdrafts and Bills discounted (LDO), customer deposits, total resources, total deployment interest expenses, other expenses, interest income, other income etc. of the banks are the research variables of this study.

3.5 Analysis of data

"Analysis is the careful study of available facts so that one can understand and draw conclusion from them on the basis of established principles and sound logic. This study is mostly based on the analysis of secondary data with the help of different statistical tools. Therefore the data have been collected accordingly and managed, analyzed and presented in suitable tables, formats, diagrams, graphs and charts. Such presentations have been interpreted and explained wherever necessary," (Cottle et al, 1988: 29).

Financial, mathematical and statistical tools are used to analyze the presented data, which includes ratio analysis, percentage, regression analysis, correlation, mean, standard deviation, coefficient of variance, percentile increment, etc.

3.6 Statistical tools

To draw the conclusion by analyzing the collected data simple statistical tool like arithmetic mean, multiple bar diagram and tabulation are used to implicit the comparative results.

3.6.1 Arithmetic mean average

The central values that represent the characteristics of the whole distribution or the values around which all items of the distribution tend to concentrate are called average. Arithmetic mean or arithmetic average is one of the important statistical measures of average. The arithmetic mean of a given set of observation is their sum divided by the number of observations.

3.6.2 Multiple Bar- diagrams and graphs

Diagrams and graphs are visual aids which give a bird's eye view of a set of numerical data which show the information in a way that enables us to make comparison between two or more than two sets of data. Diagrams are in different types. Out of these various types of diagram, one of the most important form of diagrammatic presentation of data is multiple bar diagram which is used in cases where multiple characteristics of the same set of data have to be presented and compared.

3.6.3 Percentage

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

3.6.4 Coefficient of correlation(R)

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

$$r = \frac{n \sum xy - \sum x \cdot \sum y}{\sqrt{[n \sum x^2 - (\sum x)^2][n \sum y^2 - (\sum Y)^2]}}$$

3.6.5 Regression analysis

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

3.6.6 Standard deviation (σ)

The standard deviation is the absolute measure of dispersion. It is defined as the positive square root of the mean of the square of the deviation taken from the arithmetic mean. The greater the amount of dispersion or variability, the greater the standard deviation, the greater will be the magnitude of the deviation of the values from their mean. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series and a large standard deviation means just the opposite.

3.6.7 Coefficient of variation (C.V.)

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

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Liquidity Ratio

a. Current Ratio

Current Ratio demonstrates the level of debt paying ability of an organization. Current assets can be converted into cash within short period of time normally not exceeding one year. Current liabilities are those obligation which are payable within short period. Current assets consist of cash and bank balance, money at call or short terms notice, loan & advances, investment in government securities and other interest receivable and other miscellaneous current assets. Current liabilities consist of deposits, loan and advances, bills payable, Tax provision, staff bonus, dividend payable and miscellaneous current liabilities.

In the table 4.1 below, current ratio of commercial banks has been analyzed. The table reflects that the current assets of all commercial banks have exceeded the current liabilities during the five years period. In general it can be said that all the banks have sufficient current assets to meet their short term obligations. In other words bank are capable of discharging their current obligations.

Table 4.1
Current Ratio (Times)

Bank	Fiscal Year					Mean	SD	CV
	2007/08	2008/09	2009/10	2010/11	2011/12			
BOK	1.05	1.06	1.07	1.07	1.09	1.068	0.0133	0.0125
NCC	0.90	1.07	1.07	1.11	1.12	1.054	0.0796	0.0755

(Source: Appendix No. 1)

The current ratios of BOK for the fiscal years 2007/08 to 2011/12 were in increasing trend. Similarly NCC has also increasing trend ratio. In an average, NCC has higher current ratio, which indicates that its liquidity position is fair. The value of coefficient of variation of BOK is 1.24% which is comparatively lower than NCC. Thus it can be said that current ratio of BOK is consistent than that of NCC.

b. Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance are assets that constitute the first line of defense and consist of cash in hand and other cash items balance with domestic banks and balance with banks abroad. This ratio measures the most liquid assets i.e. cash and balance out of the total current asset of bank. Higher ratio shows the bank's ability to meet demand for cash.

The table below shows cash and bank balance to total deposit ratio of BOK, and NCC from the FY 2007/08 to 2011/12.

Table 4.2
Cash and Bank Balance to Total Deposit Ratio

Bank	Fiscal Year					Mean	SD	CV
	2007/08	2008/09	2009/10	2010/11	2011/12			
BOK	10.62	9.09	12.07	8.85	7.99	9.724	1.4477	0.1489
NCC	11.66	20.19	13.00	20.29	15.85	16.2	3.5671	0.2202

(Source: Appendix No. 2)

In general, the cash and bank balance to total deposit ratios of both banks were in acceptable range. In average NCC has higher cash and bank balance to total deposits ratio than BOK. In this sense the liquidity position of NCC was better.

c. Cash and Bank Balance to Current Assets Ratio

This ratio measures the proportion of most liquid assets i.e. cash and bank balance out of the total current assets of bank. Higher ratio indicates the bank's ability to meet the daily cash requirement. Bank has to maintain adequate cash for the customers demand against deposit when required.

The table below shows the Cash and bank balance to current asset ratio of BOK and NCC from the FY 2007/08 to 2011/12.

Table 4.3**Cash and Bank Balance to Current Assets Ratio**

Bank	Fiscal Year					Mean	SD	CV
	2007/08	2008/09	2009/10	2010/11	2011/12			
BOK	9.24	8.31	10.87	7.85	6.92	8.638	1.3434	0.1555
NCC	12.88	18.32	11.71	17.60	13.40	14.782	2.6617	0.1801

(Source: Appendix No. 3)

The Table 4.3 shows that the cash and bank balance to current asset ratio of both banks were in fluctuating trend during the study period. BOK has maintained a highest ratio of 10.87% in the year 2009/10. Similarly NCC has highest ratio of 18.32% in the fiscal year 2008/09. Similarly the coefficient of variation of NCC is 18.01%, which is higher than BOK.

d. Investment on Government Securities to Current Assets Ratio

This ratio examines portion of a commercial banks current assets which is invested in different government securities i.e. treasury bills and government bonds. Commercial banks are interested to invest their collected fund on different securities issued by government to utilize their excess funds. Even government securities are not so liquid as cash and bank balance of commercial bank; they can easily be sold in the market or can also be converted into cash in other ways. The Table 4.4 below reflects that investment in government securities to current asset ratio of both banks are in fluctuating trend.

Table 4.4**Investment on Government Securities to Current Assets Ratio**

Bank	Fiscal Year					Mean	SD	CV
	2007/08	2008/09	2009/10	2010/11	2011/12			
BOK	16.37	12.19	8.69	12.90	16.50	13.33	2.9088	0.2182
NCC	19.67	21.62	14.08	14.11	14.71	16.838	3.1769	0.1887

(Source: Appendix No. 4)

The mean ratio of BOK is lower than NCC. The coefficient of variation of NCC is lower in comparison to the BOK banks. Lastly it can be concluded that NCC has invested its larger portion of its current assets in government securities than other banks.

e. Loans and Advances to Current Assets Ratio

Loan and advances include short and long term loan overdrafts and cash credit. Commercial banks should not keep its all collected funds as cash and bank balance in order to invest as loan and advances to the customers. If sufficient loan and advances cannot be granted, it should pay interest on those un-utilized deposits funds. Even high loan and advances may also effects to keep the bank in most liquid position because they can only be collected at the time of maturity. Thus, a bank must maintain its loan and advances on proper way.

Table 4.5
Loan and Advances to Current Assets Ratio

Bank	Fiscal Year					Mean	SD	CV
	2007/08	2008/09	2009/10	2010/11	2011/12			
BOK	65.98	71.90	72.95	72.76	72.02	71.122	2.6029	0.0366
NCC	63.00	54.77	67.65	64.08	68.20	63.54	4.8188	0.0758

(Source: Appendix No. 5)

The Table 4.5 shows the percentage of loan and advances to current assets ratio position of BOK, and NCC. The loan and advances to current assets ratio of both banks were in increasing trend. The mean ratio of BOK is highest than that of NCC.

It reflects that loan and advances to current asset ratios of the BOK has maintained a highest ratio of 72.95% in the FY 2009/10. Similarly NCC has 68.20% in the FY 2011/12. The coefficient of variation among ratio is lower in case of BOK, which indicates uniformity in comparison to NCC bank. So it can be concluded that BOK is better in mobilization of its loan and advances.

4.1.2 Asset Management Ratio

Commercial bank must manage its assets very well to satisfy its customers to earn high profit and for its own existence. It measures the efficiency of the bank.

a. Loans and Advances to Total Deposit Ratio

This ratio measures how successfully the banks are able to mobilize the total deposit on loan and advances for profit generating purpose. Higher ratio indicates the better mobilization of total deposits, but too high is also not better from liquidity point of view.

The table 4.6 reflects the percentage of loan and advances to total deposit ratios position of BOK and NCC.

Table 4.6
Loan and Advances to Total Deposit Ratio

Bank	Fiscal Year					Mean	SD	CV
	2007/08	2008/09	2009/10	2010/11	2011/12			
BOK	75.87	78.71	80.99	82.03	83.11	80.142	2.5843	0.0322
NCC	57.05	60.36	75.13	73.86	80.68	69.416	9.1017	0.1311

(Source: Appendix No. 6)

The ratios of BOK and NCC were in increasing trend for the study period. BOK has maintained higher loan and advances to total deposit i.e. 83.11% in fiscal year 2011/12 and NCC maintained the higher ratio of 80.68% in fiscal year 2011/12. The mean value of BOK i.e. 80.142% which is higher than NCC. The CV of BOK is lower than that of the other bank which indicate that its loan and advances are stable and consistent.

Hence it can be concluded that BOK is in better position regarding the mobilization of total deposits on loan and advances and acquiring higher profit in comparison with NCC.

b. Total Investment to Total Deposit Ratio

Commercial bank must mobilize its deposit fund by investing in different securities issued by government and other financial, non financial sectors. This ratio measures the extent to which the banks are capable to mobilize their deposits on investment in various securities. This ratio is computed by dividing total investment by total deposit.

Table 4.7 shows the total investment to total deposit ratio of the banks BOK & NCC.

Table 4.7
Total Investment to Total Deposit Ratio

Bank	Fiscal Year					Mean	SD	CV
	2007/08	2008/09	2009/10	2010/11	2011/12			
BOK	24.15	20.23	15.39	16.09	20.40	19.252	3.1993	0.1662
NCC	19.03	25.97	17.34	18.00	18.82	19.832	3.1276	0.1577

(Source: Appendix No. 7)

From table 4.7, it is found that, total investment to total deposit ratios of both banks are in either increasing, decreasing trend or in fluctuating trend during study period 2007/08 to 2011/12. The total investment to total deposit ratio of BOK has highest ratio of 24.15% in FY 2007/08 and lowest ratio of 15.39% in FY 2009/10. NCC has highest and lowest ratio of 25.97% and 17.34% in FY 2008/09 and 2009/10 respectively.

BOK has the lowest mean value (19.252), NCC's mean value (19.832) is also similar to BOK. Likewise the value of coefficient of variation on NCC is lower than that of both banks. After analysis it is clear that the investment policy of NCC is in better position in comparison to both banks. The total investment to total deposit ratio of NCC is more homogeneous because it has low coefficient of variation. Year wise ratio is promoted in figure 4.2 below.

c. Loan and Advances to Total Working Fund Ratio

Loan and advances are the major components of the total working fund. The ratio reflects some extent to which the commercial banks are able to utilize loan and advances for the purpose of profit generation. Total working fund is the total assets. It is composed up of current assets, fixed assets, miscellaneous assets and investment, loan and advance and interest receivable.

Table 4.8 shows the loan and advance to total working fund ratio of BOK and NCC.

Table: 4.8
Loan and Advances to Total Working Fund Ratio

Bank	Fiscal Year					Mean	SD	CV
	2007/08	2008/09	2009/10	2010/11	2011/12			
BOK	64.51	70.33	71.46	71.23	70.55	69.616	2.5868	0.0372
NCC	61.42	53.61	65.14	62.65	72.03	62.97	5.9482	0.0945

(Source: Appendix No. 8)

This clearly shows that loan and advances to working fund ratio of NCC is in highly fluctuating trend. BOK has the highest ratio 71.46% in the FY 2009/10, NCC has the highest ratio i.e. 72.03% in the FY 2011/12.

The mean value of BOK has maintained higher loan and advances to total working fund ratio than that of NCC. In this regard, BOK is in better position among other banks. The coefficient of variation of BOK is significantly lower than that of other bank.

d. Investment on Government Securities to Total Working Funds Ratio.

It is said that commercial banks should never use all the total deposits resources as loan and advances and other credit from security and liquidity point of view. So to some extent commercial bank seem to be interested to utilize their resources by purchasing government securities. This ratio reflects the relationship between the banks investment in securities in comparison to the total working funds. Table 4.9

shows the investment on government securities to total working fund ratio of BOK and NCC.

Table: 4.9

Investment on Government Securities to Total Working Fund Ratio

Bank	Fiscal Year					Mean	SD	CV
	2007/08	2008/09	2009/10	2010/11	2011/12			
BOK	16.01	11.92	8.51	12.63	16.16	13.05	2.8460	0.2182
NCC	19.18	21.16	13.55	13.80	15.54	16.65	3.0234	0.1816

(Source: Appendix No. 9)

Table 4.9 reflects that investment on government securities to total working fund ratio of both banks are in fluctuating trend. The mean value of NCC is the highest (16.65) than the BOK. This means NCC has invested relatively larger portion of working funds on government securities as than BOK. The comparative picture composed to investment on government securities to total working fund ratio for the study period.

e. Investment on Shares and Debentures to Total Working Fund Ratio

This ratio shows the banks' investment in share and debentures of subsidiary and other companies. Now-a-days, commercial banks are interested to invest on government securities only. They are also interested to invest in shares and debenture of different types of companies. Most of the commercial banks of Nepal have purchased shares of various development banks and some of them have purchased the share of other companies too.

This ratio reflects the extent on which the banks are able to mobilize their total assets on purchase of share and debenture of other companies to generate income and utilize their excess fund. A higher ratio indicates greater portion of investment on shares and debenture out of total working fund.

Table 4.10 shows the investment on shares and debenture to total working fund ratio of BOK and NCC from the FY 2007/08 to 2011/12.

Table 4.10**Investment on Shares and Debentures to Total Working Fund Ratio**

Bank	Fiscal Year					Mean	SD	CV
	2007/08	2008/09	2009/10	2010/11	2011/12			
BOK	0.62	0.64	0.60	0.17	0.16	0.438	0.2233	0.5098
NCC	2.75	3.08	2.33	1.56	1.62	2.268	0.6028	0.2658

(Source: Appendix No. 10)

The table 4.10 reflects that investment on shares and debentures to total working fund ratio of all banks are in fluctuating trend. In an average, NCC has maintained high investment on shares and debentures to total working fund ratio than BOK. The coefficient of variation of BOK is higher than NCC which indicate that BOK is more variable and less consistent in this regard.

f. Total Off Balance Sheet Operation to Loan and Advances Ratio

Commercial banks should concentrate not only on fund based activities such as loan and advances, investment on different sectors and so on. Rather, they should pay their attention to increase free based off balance sheet activities. Income generated through the free based off balance sheet activities constitutes a significant proportion in the total income of most of the commercial banks statement. A high ratio indicates the highest OBS transaction or vice versa. The total OBS operation to loan & advances ratio of the both banks for the study period has been tabulated in table 4.11 below.

Table 4.11**Total OBS Operation to Loan and Advances Ratio**

Bank	Fiscal Year					Mean	SD	CV
	2007/08	2008/09	2009/10	2010/11	2011/12			
BOK	22.80	24.42	52.45	68.79	68.22	47.34	20.2471	0.4277
NCC	34.63	33.09	31.92	3.61	35.90	27.83	12.1850	0.4378

(Source: Appendix No. 11)

The total OBS operation to loan and advances ratio of BOK is generally in increasing trend whereas the NCC bank is generally following fluctuating trend. The mean of NCC is lower than that of other bank i.e. $27.83 < 47.34$. BOK has highest mean value composed to NCC and BOK. The coefficients of variance of the both banks are comparable.

g. Loan Loss Ratio

Loan loss occurred when the debtors fail to pay their loan. Loss of the loan is not only the default of debtors but it is also because of the failure of recovery of loan by the bank. Negligence in its part makes a negative impact on the earning and capital of a bank very badly. Greater loan loss provision is made in income statement if high loss is expected.

But this will lead to low profit and possible losses and produces low increase or decrease in capital. The loan loss ratio shows how efficiently the bank manages its loan and advances and makes effort for timely recovery of loan.

The loan loss ratio data of the two banks for the study period is presented in table 4.12 below.

Table 4.12
Loan Loss Ratio

Bank	Fiscal Year					Mean	SD	CV
	2007/08	2008/09	2009/10	2010/11	2011/12			
BOK	0.87	0.30	0.23	0.71	0.88	0.598	0.2794	0.4672
NCC	5.45	3.03	0.89	1.33	0.76	2.292	1.7751	0.7745

(Source: Appendix No. 12)

The table 4.12 reflects that the loan loss ratio of all the both banks have fluctuating trend. On the other hand BOK has the lowest mean value (.598) compared to that of NCC (2.292). Similarly the standard deviation & coefficient of variation are lower for BOK. So the data shows that the performance of BOK in terms of loan recovery is better in comparison than NCC.

4.1.3 Profitability Ratio

Profitability ratios are useful to measure the efficiency of operation of a firm in term of profit. Profit is the indicator of the financial performance of any firm. Commercial banks acquire profit by providing different kinds of services. Higher profitability ratio generally shows the efficiency of the management. The following profitability ratios are related to study under this heading.

a. Return on Loan and Advances Ratio

Return on loan and advances ratio measures the earning capacity of banks on its total deposits mobilized on loan and advances. Mostly loan and advances includes loan, cash credit, and overdraft, bills purchased and discounted. In other words return on loan and advances ratio indicates how efficiently the banks have employed its resources in the firm of loan and advances.

Table 4.13 below depicts the return on loan & advances ratio data of the both banks under study.

Table 4.13
Return on Loan and Advances Ratio

Bank	Fiscal Year					Mean	SD	CV
	2007/08	2008/09	2009/10	2010/11	2011/12			
BOK	2.79	2.90	3.15	3.05	3.46	3.07	0.2307	0.0752
NCC	-3.13	11.29	6.05	5.30	2.50	4.402	4.7184	1.0719

(Source: Appendix No. 13)

The table 4.13 reveals that the returns on loan and advances ratio of all the both banks are following the fluctuating trend during the period of 2007/08 to 2011/12. The mean of BOK is lesser than NCC i.e. $3.07 < 4.402$. The standard deviation of BOK is lesser than NCC banks. Similarly the coefficient of variation of BOK is less than NCC i.e. $7.52\% < 107.19\%$.

b. Return on Total Working Fund Ratio

It is also known as return on asset. This ratio measures the profit earning capacity by mobilizing available resources (total assets). Net profit includes the profit that is left to the internal equities after all charge and expenses cost.

The table below shows the return on assets of BOK and NCC for the period 2007/08 – 2011/12.

Table 4.14
Return on Total Working Fund Ratio

Bank	Fiscal Year					Mean	SD	CV
	2007/08	2008/09	2009/10	2010/11	2011/12			
BOK	1.80	2.04	2.25	2.18	2.44	2.142	0.2141	0.1000
NCC	-1.92	6.06	3.94	3.32	1.80	2.64	2.6589	1.0071

(Source: Appendix No. 14)

Table 4.14 shows clearly that the ratio is highly fluctuating in case of NCC, and slightly fluctuating in case of BOK. The coefficient of variation of BOK is lesser than that of NCC i.e. 10.00% < 100.71%. It indicates that the return on total working fund ratio of BOK is stable and consistent in comparison to NCC.

c. Total Interest Earned to Total Outside Assets Ratio

It measures the interest earning capacity of the banks through efficient utilization of all the outside assets. Higher ratio indicates better use of outside assets of a commercial bank. Total outside assets includes loan and advances, investment on government securities, share and debentures and all other types of investment.

The table below exhibits total interest earned to total outside assets ratio of BOK and NCC for the study period.

Table 4.15

Total Interest Earned to Total outside Assets Ratio

Bank	Fiscal Year					Mean	SD	CV
	2007/08	2008/09	2009/10	2010/11	2011/12			
BOK	6.61	6.60	7.73	9.39	10.97	8.26	1.6959	0.2053
NCC	9.59	9.13	8.98	10.48	12.32	10.1	1.2270	0.1215

(Source: Appendix No. 15)

The total interest earned to total outside assets ratio of all the both banks are in fluctuating trend. NCC has the highest mean ratio (10.1) which indicates its better success in earning high interest income in comparison to BOK. If the coefficient of variation is observed, NCC has the lowest than the BOK i.e. 12.15% < 20.53%. This reflects that the total interest earned to total outside assets ratio of NCC is relatively consistent.

d. Total Interest Earned to Total Working Fund Ratio

This ratio is calculated to find out the percentages of interest earned to total assets. It reflects the extent to which the banks are successful in mobilizing their assets to gain higher income as interest. Higher ratio indicates higher earning power.

Table 4.16 below shows the interest earned to total working fund ratio of BOK and NCC for the period 2007/08 – 2011/12.

Table 4.16

Total Interest Earned to Total Working Fund Ratio

Bank	Fiscal Year					Mean	SD	CV
	2007/08	2008/09	2009/10	2010/11	2011/12			
BOK	5.62	5.83	6.58	8.00	9.64	7.134	1.5053	0.2110
NCC	7.85	7.00	7.20	8.17	10.95	8.234	1.4227	0.1728

(Source: Appendix No. 16)

Table 4.16 reveals that the ratio of BOK is in increasing trend, where the ratio. The ratio of NCC is also fluctuating but it is comparatively greater than that of BOK. After

analysis it can be concluded that total interest earned to total working fund ratio of BOK is satisfactory compared to other banks. BOK has higher coefficient of variation than NCC.

e. Total Interest Paid to Total Working Fund Ratio

This ratio is calculated to find out the proportion of interest paid against the total working fund. Higher ratio indicates the higher interest expenses on total working fund and vice-versa. Table 4.17 below reflects the mean, S.D and C.V of total interest paid to total working fund ratio of the both banks for the study period.

Table 4.17
Total Interest Paid to Total Working Fund Ratio

Bank	Fiscal Year					Mean	SD	CV
	2007/08	2008/09	2009/10	2010/11	2011/12			
BOK	2.33	2.35	2.75	3.86	4.92	3.242	1.0067	0.3105
NCC	4.69	3.39	3.34	4.55	7.12	4.618	1.3719	0.2971

(Source: Appendix No. 17)

In the above table, total interests paid to working fund ratio of BOK are in increasing trend and BOK has fluctuating trends. The NCC bank has highest mean value whereas the coefficient of variance of BOK is clearly higher than the NCC. Standard deviation and coefficient of variance of BOK and NCC are comparable.

4.1.4 Risk Ratio

Bank has to take risk to get return on investment. Risk taken is compensated by the increase in profit. So a bank has to take higher risk if it expects higher return on its investment.

a. Credit Risk Ratio

Bank utilizes its collected funds in providing credit to different sectors while making investment. It is essential for a bank to examine the credit risk involved in the project. This ratio shows the proportion of non-performing assets in total loan and advances of

the bank. Due to the unavailability of the relevant data the ratio is measured with the help of loan and advances to total assets.

Table 4.18
Credit Risk Ratio

Bank	Fiscal Year					Mean	SD	CV
	2007/08	2008/09	2009/10	2010/11	2011/12			
BOK	64.51	70.33	71.46	71.23	70.55	69.62	2.5868	0.0372
NCC	61.42	53.61	65.14	62.65	72.03	62.97	5.9482	0.0945

(Source: Appendix No. 18)

The table 4.18 shows the percentage of credit risk ratio of BOK and NCC. The credit risk ratio of BOK is in fluctuating trend during the study period i.e. it has maintained maximum ratio of 71.46% in the FY 2009/10 and it has minimum ratio of 64.51% in the year 2007/08. Similarly credit risk ratio of NCC is also fluctuating trend. NCC has maintained maximum ratio of 72.03% in the year 2011/12.

The mean of NCC is lower than the BOK i.e 62.97. The coefficient of variance of BOK is 3.72%, and NCC has 9.45%. Among both banks BOK has less C.V, it indicates that its credit policy is consistent than NCC.

b. Liquidity Risk Ratio

The liquidity risk of the bank defines its liquidity need for deposit. A higher liquidity indicates less risk and less profitable bank and vice-versa. The ratio of cash and bank balance to total deposits is the indicator of the bank's liquidity needs. The cash and bank balance are the most liquid assets and they are considered as bank's liquidity sources.

The liquidity risk ratios of the both banks for the study period have been tabulated below in table 4.19.

Table 4.19
Liquidity Risk Ratio

Bank	Fiscal Year					Mean	SD	CV
	2007/08	2008/09	2009/10	2010/11	2011/12			
BOK	10.62	9.09	12.07	8.85	7.99	9.724	1.4477	0.1489
NCC	11.66	20.19	13.00	20.29	15.85	16.2	3.5671	0.2202

(Source: Appendix No. 19)

The table 4.19 reflects that the liquidity risk ratios of both banks are in fluctuating trend. NCC's liquidity risk ratio recorded 11.66% in the FY 2009/10 and 13.00% in FY 2008/09. The liquidity ratios of BOK and NCC are less fluctuating. BOK has the less standard deviation and coefficient of variance compared to NCC. NCC has the highest standard deviation and coefficient of variance. BOK seems more consistent in terms of liquidity risk ratios.

c. Capital Risk Ratio

A bank needs to maintain adequate capital in relation to the nature and condition of its assets, its deposits liabilities and other corporate responsibilities. This ratio measures ability of bank to attract deposits and inter-bank funds. It also determines the level of profit. A bank can earn if a bank choose to take high capital risk. The capital risk ratio of the both banks for the study period has been presented in table 4.20 below.

Table 4.20
Capital Risk Ratio

Bank	Fiscal Year					Mean	SD	CV
	2007/08	2008/09	2009/10	2010/11	2011/12			
BOK	9.44	9.57	9.80	9.41	10.37	9.718	0.3538	0.0364
NCC	-9.13	9.61	9.81	12.68	12.70	7.134	8.2407	1.1551

(Source: Appendix No. 20)

From the table 4.20, it is clearly seen that the percentage of capital risk ratio of BOK is generally stable during the study period. NCC has followed the fluctuating trend.

NCC has the value of -9.13 in FY 2007/08 and 12.70 in FY 2011/12. The capital risk ratios of the banks over the study period have been well reflected in mean, standard deviation and coefficient of variance. BOK is the most stable in terms of capital risk ratio.

4.1.5 Growth Ratio

It represents how well the commercial banks are maintaining their economic and financial position. Here those growth ratios are analyzed and interpreted, which are related to the fund mobilization and investment management of a bank. In this topic, there are four types of growth ratio and under this section growth ratio of total deposit, total investment, loan and advances and net profit are calculated.

a) Growth ratio of total deposit

Growth ratios of total deposit of banks under study are calculated to find out the trend of growth of total deposit and to detect actual position of banks. The growth ratios are derived from the interpolation of the factor, which is calculated by dividing final deposit with initial deposit.

Table 4.21
Trend of Total Deposit

(Rs in millions)

Bank	Fiscal Year					Growth Rate (%)
	2007/08	2008/09	2009/10	2010/11	2011/12	
BOK	12,389	15,834	18,084	20,316	21,018	14.13
NCC	6,500	7,320	9,128	10,825	10,951	13.93

(Source: Appendix No. 21)

The table 4.21 shows that the growth ratio of BOK deposit is higher than that of NCC. BOK has maintained ratio of 14.13% and NCC is 13.93% respectively. This means the performance of BOK to collect greater deposit compared to NCC. BOK and NCC are improving year by year. Among both banks NCC has lowest growth ratio i.e.13.93%.

b) Growth ratio of loan and advances

Growth ratios of total loan and advances of banks under study are calculated to find out the trend of growth of total loan advances and to detect actual position of banks. The growth ratios are derived from the interpolation of the factor, which is calculated by dividing final loan and advances with initial loan and advances.

Table 4.22
Trend of Loan and Advances

(Rs in millions)

Bank	Fiscal Year					Growth Rate (%)
	2007/08	2008/09	2009/10	2010/11	2011/12	
BOK	9,399	12,463	14,647	16,665	17,468	16.76
NCC	3,708	4,418	6,858	7,995	8,835	24.24

(Source: Appendix No. 21)

The table 4.22 shows that the growth ratio of loan and advances of NCC is higher than BOK. BOK has able to maintain of 16.76%, whereas NCC able to have maintained 24.24%. The highest growth ratio is 24.24% and lowest growth ratio is 16.76%. The NCC also maintained the average performance to grant loan and advance in the study period.

c) Growth ratio of total Investment

Growth ratios of total investment of sample banks are calculated to find out the trend of growth of total investment and to detect better position of banks. The growth ratios are derived from the interpolation of the factor, which is calculated by dividing final investment with initial investment.

Table 4.23
Trend Ratio of Total Investment

(Rs in millions)

Bank	Fiscal Year					Growth Rate (%)
	2007/08	2008/09	2009/10	2010/11	2011/12	
BOK	2992	3204	2783	3269	4287	9.41
NCC	1237	1901	1583	1948	2061	13.62

(Source: Appendix No. 21)

The table 4.23 shows that the growth ratio of NCC total investment is higher than BOK. NCC is able to maintain 32.24%, whereas BOK maintained and 9.41%. NCC Bank has highest growth ratio due to grant huge investment in FY 2011/12.

d) Growth ratio of total net profit

Growth ratios of total net profit of sample banks are calculated to find out the trend of Growth of total net profit and to detect better position of banks. The growth ratios are derived from the interpolation of the factor, which is calculated by dividing final net profit with initial net profit.

Table 4.24
Growth ratio of total net profit

(Rs in millions)

Bank	Fiscal Year					Growth Rate (%)
	2007/08	2008/09	2009/10	2010/11	2011/12	
BOK	262	361	462	509	605	23.27
NCC	-116	499	415	424	221	17.49

(Source: Appendix No. 21)

The table 4.24 shows that the growth ratio of BOK total net profit is higher than NCC. Net profit of NCC is poor in comparison with BOK, BOK is able to maintain the growth ratio in better position. So it clear that BOK has high growth rate in comparison to NCC.

From the above analysis of tables, it can be concluded that BOK performance regarding the collection of deposit, granting loan and advances on total investment and net profit is comparatively better.

4.2 Statistical Tools

4.2.1 Trend Analysis

i) Trend Analysis of Total Deposit

An effort has been made to calculate the trend values of deposits of BOK and NCC for five fiscal years from mid July 2007/08 to 2011/12 and forecast for next five fiscal years from the mid July 2011/12 to 2015/16.

Table 4.25
Trend Value of Total Deposit of BOK and NCC

(Rs in millions)

Fiscal year	Trend Value of BOK	% Change	Trend Value of NCC	% Change
2007/08	13,180.2	-	6,463	-
2008/09	15,354.2	16.49	7,704	19.20
2009/10	17,528.2	14.16	8,945	16.11
2010/11	19,702.2	12.40	10,186	13.87
2011/12	21,876.2	11.03	11,426	12.17
2012/13	24,050.2	9.94	12,667	10.86
2013/14	26,224.2	9.04	13,908	9.80
2014/15	28,398.2	8.29	15,148	8.92
2015/16	30,572.2	7.66	16,389	8.19
2016/17	32,746.2	7.11	17,630	7.57

(Source: Appendix No. 22, 23)

The total deposits of BOK and NCC were in the increasing trend. If all other things remain the same the total deposits of the BOK will have more deposit than the NCC, in the next five fiscal years.. The total deposit of BOK will be 32,746.2 million in the mid July 2016/17. The total deposit of NCC will be Rs. 17,630 million.

By analyzing the above trend value, it can be found that the total deposit collection position of BOK will be better in comparison to NCC. Generally the deposit collection positions of both banks were in increasing trend.

ii) Trend Analysis of Loan and Advances

Here the trend values of loan and advances of BOK and NCC have been calculated for five fiscal years from mid July 2007/08 to 2011/12. The forecast for next five fiscal years up to 2016/17 have been done.

The table 4.26 below reveals that the trend value of loan and advances of both the banks were in increasing trend. Similarly the total loan and advances of NCC will be Rs. 16,045 million in the fiscal year 2016/17. Total loan and advances of BOK will be 28,366 million in the fiscal year.

Table 4.26
Trend Values of Loan and Advances of BOK and NCC

(Rs in millions)

Fiscal year	Trend Value of BOK	% Change	Trend Value of NCC	% Change
2007/08	10,060	-	3,597	-
2008/09	12,094	20.22	4,980	38.45
2009/10	14,128	16.82	6,363	27.77
2010/11	16,162	14.40	7,746	21.74
2011/12	18,196	12.59	9,129	17.85
2012/13	20,230	11.18	10,512	15.15
2013/14	22,264	10.05	11,895	13.16
2014/15	24,298	9.14	13,278	11.63
2015/16	26,332	8.37	14,661	10.42
2016/17	28,366	7.72	16,045	9.44

(Source: Appendix No. 24, 25)

From the above analysis it can be found that the loan and advances position of BOK will be comparatively higher than NCC i.e. Rs. 28,366 > Rs. 16,045 million respectively.

iii) Trend Analysis of Total Investment

Under this topic, an effort has been made to calculate the trend values of total investment from the mid July 2007/08 to 2011/12 and to forecast for the period of July 2012/13 to 2016/17.

Table 4.27 shows the trend values of total investment from mid July 2007/08 to 2015/16/16 of the BOK and NCC.

Table 4.27
Trend Values of Total Investment of BOK and NCC

(Rs in millions)

Fiscal year	Trend Value of BOK	% Change	Trend Value of NCC	% Change
2007/08	2,776	0	1,407	0
2008/09	3,042	9.58	1,577	12.08
2009/10	3,307	8.71	1,746	10.72
2010/11	3,573	8.04	1,916	9.74
2011/12	3,838	7.42	2,085	8.82
2012/13	4,104	6.93	2,255	8.15
2013/14	4,369	6.46	2,424	7.49
2014/15	4,635	6.09	2,594	7.01
2015/16	4,900	5.72	2,763	6.52
2016/17	5,166	5.43	2,933	6.15

(Source: Appendix No. 26, 27)

Total investments of BOK and NCC have the increasing trend. The total investment of NCC will be 2933 million in the mid July 2016/17, which is lowest in comparison with BOK. BOK has expandable trend value of 5166 million in the mid July 2016/17. From the above analysis.

iv) Trend Analysis of Net Profit

Under this topic, an effort had been made to analyze net profit of BOK and NCC from the mid July 2007/08 to 2011/12 and forecast for the period from mid July 2011/12 to 2015/16. Table 4.28 shows the trend values of net profit for the period of ten years from mid July 2007/08 to 2016/17.

Table 4.28
Trend Value Net Profit of BOK and NCC

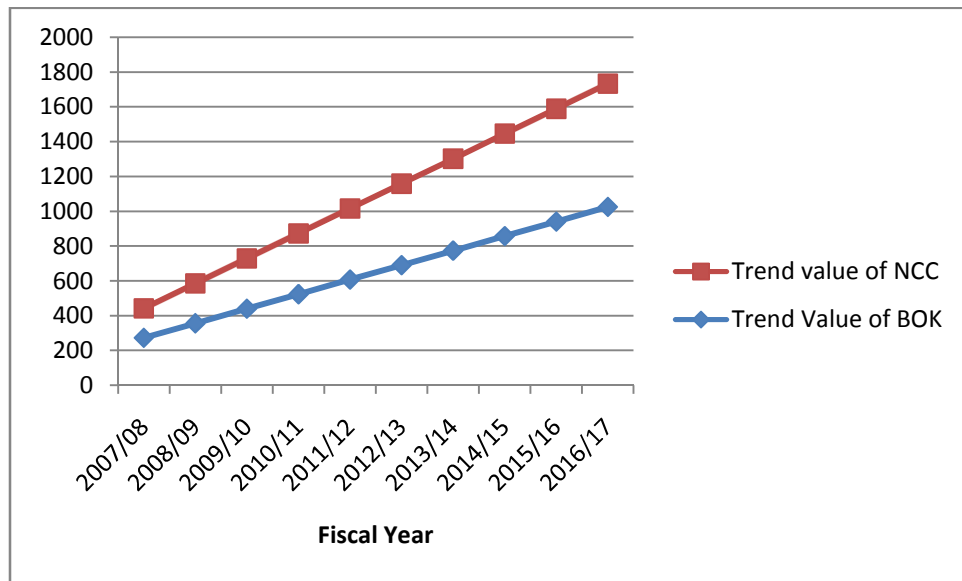
(Rs. In millions)

Fiscal year	Trend Value of BOK	% Change	Trend Value of NCC	% Change
2007/08	273	0.00	169	0.00
2008/09	356	30.40	229	35.50
2009/10	440	23.60	289	26.20
2010/11	523	18.86	349	20.76
2011/12	607	16.06	408	16.91
2012/13	690	13.67	468	14.71
2013/14	773	12.03	528	12.82
2014/15	857	10.87	588	11.36
2015/16	940	9.68	648	10.20
2016/17	1,024	8.94	708	9.26

(Source: Appendix No. 28, 29)

The above table 4.28 shows the net profit of both banks have the increasing trend value. The net profit of NCC will be 708 million in the mid July 2016/17. Similarly net profit of BOK will be 1024 million, which is the highest amount than NCC bank. Trend value of net profit of the both banks for the period of 2007/08 to 2016/17 has been shown in figure 4.1 below.

Figure: 4.1
Trend Value Net Profit of BOK and NCC



From this trend analysis it can be said that the net profit of NCC in the medium among the banks which shows i.e. $1024 > 708$ million in the year 2016/17. The above calculated trend values of all both banks are fitted in the trend line.

4.2.2 Coefficient of Correlation Analysis

Karl Pearson coefficient of correlation (Direct Method) has been used to find out the relationship between deposit and loan and advances, deposit and total investment and outside assets and net profit etc.

i) Coefficient of Correlation between Deposit and Loan and Advances

It measures the intensity or magnitudes or degree of relationship between the two variables. In the analysis, deposit is independent variable (X) and loan and advances are dependent variable (Y). The objectives of computing coefficient of correlation (r) between the two variables are to justify whether deposit is significantly used as loan and advances or not.

The table 4.29 shows the value of 'r', r^2 , P. E. and 6P.E. between deposit and loan and advance of BOK and NCC.

Table 4.29

Coefficient of Correlation between Deposit and Loan and Advances

Banks	Evaluation Criterions			
	r	r ²	P.E.	6 P. E.
BOK	0.9997	0.9994	0.0001810	0.001086
NCC	0.9906	0.9813	0.005641	0.03385

(Source: Appendix No. 30,31)

The table 4.29 shows the value of 'r', r², P. E., 6 P. E. between deposit and loan and advances of BOK and NCC from the fiscal years 2007/08 to 2011/12. In case of BOK, it is found that coefficient of correlation between deposit and loan and advances is 0.9997. It shows the positive relationship between two variables. The value of coefficient of determination (r²) is 0.9994, which means 99.94% of the variation in the dependent variable (loans and advances), has been explained by the independent variable (deposit). Similarly, considering the value of 'r' i.e. 0.9997 and comparing it with 6 P.E. i.e. 0.001086, we can clearly see that it is greater than the value of 6 P.E., it means the value of 'r' is significant. In other words there is significant relationship between deposit and loan and advances. NCC also have similar trend.

In conclusion it can be stated that BOK and NCC exhibit significant relationship between deposit and loan and advances because 'r' is greater than 6 P.E. in all cases. However BOK has higher correlation between deposit and loan and advances as well as higher value of (r²) in comparison to NCC.

ii) Relationship between Deposit and Total Investment

Coefficient of correlation between deposit and total investment measures the degree of relationship between these two variables. Deposit is independent variable (X) and total investment is dependent variable (Y). The purpose of computing it is to find out whether deposit is significantly used as investment or not. Table 4.30 shows the value of 'r', r², P.E, 6 P.E. deposit and total investment of BOK and NCC from the fiscal year 2007/08 to 2011/12.

Table 4.30

Coefficient of Correlation between Deposit and Total Investment

Banks	Evaluation Criterions			
	r	r ²	P.E.	6 P. E.
BOK	0.5897	0.3478	0.1967	1.1802
NCC	0.7313	0.5348	0.1403	0.8418

(Source: Appendix No. 32, 33)

The table 4.30 shows the value of 'r', r², P.E., 6 P.E. between deposit and total investment of BOK and NCC. From the table, it is found that coefficient of correlation between deposit and total investment of BOK is 0.5897. It shows the positive relationship between two variables i.e. deposit, independent variable (X) and total investment, dependent variable (Y). Moreover, the value of coefficient of determination (r²) is 0.3478. It means 34.78% of the variation in the dependent variable is explained by the independent variable. Similarly considering the value of 'r' and comparing it with 6 P.E.i.e.1.1802, we can see that it is less than the value of 6P.E. it shows that the value of 'r' is not significant.

In case of both banks 'r' is less than 6P.E. So there is no significant relationship between deposit and total investment. That means Bok and NCC has not been able to follow the policy of maximizing the investment of their deposits.

iii) Coefficient of Correlation between Outside Asset and Net Profit

Here outside assets (x) are independent variables and net profit is dependent variable (y). The objective of computing coefficient of correlation between outside asset and net profit is to find out whether net profit is significantly correlated with respect to total outside assets or not.

Table 4.31 shows the value of 'r', r², P.E., 6 P.E. between outside asset and net profit of BOK and NCC.

Table 4.31

Coefficient of Correlation between Outside Asset and Net Profit

Banks	Evaluation Criteria			
	r	r ²	P.E.	6 P. E.
BOK	0.9910	0.9821	0.005399	0.03239
NCC	0.4092	0.1674	0.2512	1.5072

(Source: Appendix No. 34, 35)

Table 4.31 above shows the value of r, r², P.E, 6 P.E. between outside Asset and Net Profit of BOK and NCC for the study period 2007/08 to 2011/12. From this table, it has been found that the coefficient of correlation between total outside assets (independent variable) and net profit (dependent variable) is 0.9910 in case of BOK. It shows positive relationship between these variables. The value of coefficient of determination (r²), is 0.9821 indicated that 98.21% of the variation in the dependent variable has been explained by the independent variable. The value of r is greater than the value of 6P.E, which reveals BOK is capable to earn net profit by mobilizing in total outside assets.

Likewise, the coefficient of correlation between total outside assets and net profit in the case of NCC is 0.4092. Again when we consider the value of coefficient determination (r²) i.e. 0.1674, it means 16.74% of the variation in the dependent variable has been explained by the independent variable.

iv) Coefficient of Correlation between Deposit and Net Profit

The coefficient of correlation between deposit and net profit measures the degree of relationship between these two variables. Here deposit (X) is independent variable and net profit (Y) is dependent variable. The objectives of computing coefficient of correlation between these two variables are to justify whether net profit is significantly correlated with deposits or not.

Table 4.32 shows the value of 'r', r², P.E., 6 P.E. between deposit and net profit of BOK and NCC for the study period.

Table 4.32
Coefficient of Correlation between Deposit and Net Profit

Banks	Evaluation Criterions			
	r	r ²	P.E.	6 P. E.
BOK	0.9794	0.9592	0.01231	0.07386
NCC	0.3946	0.1557	0.2457	1.5282

(Source: Appendix No. 36, 37)

From this table, it has been found that the coefficient of correlation between total deposit i.e. independent variable and net profit i.e. dependent variable is 0.9794 in case of BOK. It shows positive relationship between these two variables. Considering the value of coefficient of determination (r^2), i.e. 0.9592, it is indicated that 95.92% of the variation in the dependent variable has been explained by the independent variable. Similarly considering the value of r being greater than the value of 6 P.E, it is indicated that BOK is capable to earn net profit by mobilizing in total deposit. Likewise, the coefficient of correlation between total deposit and net profit in the case of NCC is 0.3946. Again when we consider the value of coefficient of determination (r^2) i.e. 0.7533 and 0.1557, it means 75.33% and 15.57% of the variation in the dependent variable has been explained by the independent variable.

The above analysis clears that; the value of 'r' in case of BOK is significant correlation between mobilizations of funds return. But in the case of NCC the value of 'r' is far less than 6 P.E. So NCC bank has no significant correlation between mobilization of funds and returns.

v) Coefficient of Correlation between Deposit and Interest Earned

The coefficient of correlation between deposits and interest earned measures the relationship between these two variables. Deposits are independent variable (X) and an interest earned is dependent variable (Y). The objective of calculating r between two variables is to see whether deposit is significantly used to earn interest or not.

Table 4.33 below shows the value of 'r', r^2 , P.E. and 6P.E of BOK and NCC for the study period.

Table 4.33

Coefficient of Correlation between Deposit and Interest Earned

Banks	Evaluation Criterions			
	r	r ²	P.E.	6 P. E.
BOK	0.9280	0.8612	0.04187	0.2512
NCC	0.9435	0.8902	0.03312	0.1987

(Source: Appendix No. 38, 39)

The coefficient of correlation 'r' between deposit and interest earned in case of BOK is 0.9280, which indicates a positive relationship between these variables. The coefficient of determination (r^2) is 0.8612 which indicates that 86.12% of the variation in dependent variable has been explained by independent variable. Similarly considering the value of 'r' and comparing with 6 P.E. it is clear that the value of r is greater than the value of 6 P.E. This shows that it has significant relationship between deposit and interest earned. The coefficient of correlation 'r' between two variables in case of NCC is 0.9435 respectively. These figures again indicate the positive relationship between the two variables in both the cases.

vi) Coefficient of Correlation between Loan and Advances and Interest Paid

Here, loan and advances is independent variables (X) and interest paid in dependent variable (Y). The purpose of calculating 'r' between these variables is to establish whether increase in loan and advances has to play any role in decreasing in interest expenses. Table 4.34 shows the values of 'r', r^2 , P.E and 6 P.E. of BOK and NCC for the study period.

Table 4.34

Coefficient of Correlation between Loan and Advances and Interest Paid

Banks	Evaluation Criterions			
	r	r ²	P.E.	6 P. E.
BOK	0.9048	0.8187	0.05469	0.3281
NCC	0.8742	0.7642	0.07113	0.4268

(Source: Appendix No. 40, 41)

The coefficient of correlation between loan and advances and interest paid in the case of BOK is 0.9048. It shows the positive relationship between two variables. The coefficient of determination (r^2) in case of BOK shows a higher degree dependency than NCC. The value of r is greater than value of 6 P.E.in case of BOK which states that there is significant relationship between loan and advances and interest paid. Similarly the coefficient of correlation between loan and advances and interest paid in the case of NCC is 0.8742. They show the positive relationship between these variables. The values of coefficient of determination (r^2) 0.7642 it means 76.42% of the variation in the dependent variable is explained by the independent variable. Again considering, the value of r and comparing with 6 P.E.in both cases it is greater than 6 P.E. which reveals that the value is significant relationship between two variables.

vii) Coefficient of Correlation between Total Working Fund and Net Profit

The coefficient of correlation between the total working fund and net profit measures the degree of relationship between them. Here, total working fund is taken as independent variable (X) and net profit is taken as dependent variable(Y). The main purpose of calculating 'r' is to see whether total working fund is significantly used to generate earnings or in other words whether these variables are significantly correlated or not. Table 4.35 shows the value of 'r', r^2 , P.E, 6 P.E. between these two variables of BOK and NCC for the study period.

Table 4.35

Coefficient of Correlation between Total Working Fund and Net Profit

Banks	Evaluation Criterions			
	r	r ²	P.E.	6 P. E.
BOK	0.9884	0.9769	0.006968	0.04181
NCC	0.5426	0.2944	0.2184	1.3104

(Source: Appendix No. 42, 43)

From table, it is found that coefficient of correlation between total working fund and net profit of BOK is 0.988. Since the value of 'r' i.e. 0.9884 is more than 6 P.E.i.e.0.04181, there exist significant relationship between total working fund and net profit. The coefficient of correlation between both total working fund & net profit in case of BOK is 0.9884, which indicates a positive relationship between these two variables. The value of coefficient of determination (r²) is 0.9769 which indicates that 97.69% of the variation is dependant variable has been explained by independent variable.

4.2.3 Test of Hypothesis

i) Test of Hypothesis on Loans and Advances to Total Deposits Ratio of BOK and NCC

To test the ratios of loans and advances to total deposits of BOK and NCC with the statistical tools "T-test" has been done.

$$t = 2.2661$$

$$\text{Degree of freedom} = n_1 + n_2 - 2 = 5 + 5 - 2 = 8$$

Level of significance, $\alpha = 5\%$

Critical value: The tabulated value of t at 5% level of significance for one tailed test and for 8 degree of freedom is 1.860 i.e. $t_{0.05}(8) = 1.860$

Decision: Since the calculated value of t is 2.2661 which is greater than the tabulated value 1.860, the null hypothesis (H₀) is rejected. This means there is significant difference between mean ratios of loans and advances to total deposit of BOK and NCC.

ii) Test of Hypothesis on Total Investment to Total Deposit Ratio of BOK and NCC

This ratio of total investment to total deposit of BOK and NCC are taken and carried out under t- test.

$$t = -0.2592$$

$$\text{Degree of freedom} = n_1 + n_2 - 2 = 5 + 5 - 2 = 8$$

Level of significance, $\alpha = 5\%$

Critical value: The tabulated value of t at 5% level of significance for one tailed test and for 8 degree of freedom is 1.860 i.e. $t_{0.05}(8) = 1.860$

Decision: Since the calculated value of t i.e. -0.2592 is less than the tabulated value i.e. 1.860, the null hypothesis is accepted. This means there is no significance difference between mean ratio of total investment to total deposit of BOK and NMB.

iii) Test of Hypothesis of Investment on Government Securities to Current Assets Ratio of BOK and NCC.

To test the significance of relationship between BOK and NCC under statistical tool "T-test" has been done.

$$t = -1.5369$$

$$\text{Degree of freedom} = n_1 + n_2 - 2 = 5 + 5 - 2 = 8$$

Level of significance, $\alpha = 5\%$

Critical value: The tabulated value of t at 5% level of significance for one tailed test and for 8 degree of freedom is 1.860 i.e. $t_{0.05}(8) = 1.860$

Decision: Since, the calculated value of t i.e. -1.5369 is less than the tabulated value 1.860, so the null hypothesis is accepted i.e. there is no significance difference between mean ratio of total investment to total deposit of BOK and NCC.

iv) Test of Hypothesis on Loans and Advances to Current Assets Ratio of BOK and NCC.

To test the significant relationship between loans and advances of BOK and NCC under statistical tool, “T-test” has been done.

$$t = 2.7681$$

$$\text{Degree of freedom} = n_1 + n_2 - 2 = 5 + 5 - 2 = 8$$

Level of significance, $\alpha = 5\%$

Critical value: The tabulated value of t at 5% level of significance for one tailed test and for 8 degree of freedom is 1.860 i.e. $t_{0.05}(8) = 1.860$

Decision: Since the calculated value of t i.e. 2.7681 is greater than the tabulated value i.e. 1.860, the null hypothesis is rejected. This means there is significance difference between mean ratio of investment on government securities to current assets ratio of BOK and NCC.

v) Test of Hypothesis on Return on Loans and Advances Ratio of BOK and NCC

The ratios of return on loans and advances of BOK and NCC are taken and under t-test of significance difference.

$$t = -0.5631$$

$$\text{Degree of freedom} = n_1 + n_2 - 2 = 5 + 5 - 2 = 8$$

Level of significance, $\alpha = 5\%$

Critical value: The tabulated value of t at 5% level of significance for one tailed test and for 8 degree of freedom is 1.860 i.e. $t_{0.05}(8) = 1.860$

Decision: Since the calculated value of t i.e. -0.5631 is less than the tabulated value i.e. 1.860, the null hypothesis is accepted i.e. there is no significant difference between mean ratio of return on loan and advances ratio of BOK and NCC.

vi) Test of Hypothesis on Total Interest Earned to Total outside Assets Ratio of BOK and NCC

The ratio of total interest earned to total outside assets of BOK and NCC are taken and carried out under “T- test” of significance difference.

$$t = -1.7581$$

$$\text{Degree of freedom} = n_1 + n_2 - 2 = 5 + 5 - 2 = 8$$

Level of significance, $\alpha = 5\%$

Critical value: The tabulated value of t at 5% level of significance for one tailed test and for 8 degree of freedom is 1.860 i.e. $t_{0.05}(8) = 1.860$

Decision: Since the tabulated value of t i.e. -1.7581 which is less than the tabulated value i.e. 1.860, the null hypothesis is accepted i.e. there is no significance difference between mean ratio of investment on government securities to current assets ratio of BOK and NCC.

4.3 Major Findings of the Study

1. The current ratio of BOK shows increasing trend during the study period. The ratio ranges from lowest 1.05 in 2007/08 to highest 1.09 in 2011/12 with an average ratio of 1.068. The mean ratio of BOK is higher than NCC.
2. The main ratio of this bank is higher than BOK and NCC which indicates that its liquidity position is better to serve its customers deposit withdrawal demands.
3. The mean ratio of investment on government securities to current asset of BOK is lower than NCC. i.e $13.33 < 16.838$. It means the BOK has invested it's as much as portion of its current assets as government securities. The C.V. of BOK is higher in comparison to the other banks. So on the basis of C.V. the ratio of BOK are more volatile and inconsistent.
4. The Loan and advances to current assets ratio of BOK are in increasing trend. The mean ratio of BOK is higher than NCC i.e $71.122 > 63.54$ which indicates that its liquidity positions consistencies.
5. The loans and advances to total deposit ratio of BOK has an increasing trend. The mean ratio of BOK is higher than NCC. The mean ratio is 80.142 % with

lowest 3.22% C.V which shows that the ratios are satisfactory consistent over the study period.

6. Investment to total deposit of both banks has in fluctuating trend during the study period. The mean ratio of total investment to total deposit of BOK is lesser than NCC i.e $19.252 < 19.832$.
7. The loans and advances to total working fund of ratio BOK has higher than NCC. Its C.V is 3.72% which is lowest than NCC. It shows the ratios are consistent over the study period. Loan and advances are the most risk and most productive asset of the bank. From the study shows two third of the asset taken optimum risk towards the mobilization of its fund to risky assets.
8. In case of investment on government, securities to total working fund mean ratio of BOK has lower than NCC. The mean of the ratio is 13.05% with highest C.V of 21.82% which shows that its ratio is more variable and less consistent over the study period.
9. The investment on shares and debenture to total working fund ratios of all both banks have fluctuating trend during the study period. The mean ratio of BOK is found to be 0.438 with 50.98% C.V. The coefficient of variation of BOK is higher than that of NCC which indicates that BOK is more variable and less consistent.
10. Total off balance sheet operation to loan and advances ratios of BOK has increasing trend during the study period. The analysis of the ratios shows that OBS operation of the bank is in decreasing and fluctuating trend. It may be due to competition in the banking sector or bank is not getting enough attention towards non-funded business.
11. The loan loss ratio of BOK has fluctuating trend. The mean of the ratio of it is found to be 0.598% with C.V of 46.72%, which is lowest than that of the other compared bank, it shows that the bank manages its loan and advances and makes effort for timely recovered of loan. The variability of the ratio of BOK is lower than that of other compared bank. The decreasing trend of loan loss provision indicates that the quality of loans becoming de-grading year by year.
12. The mean ratio of return on loans and advances ratio of BOK is lower than NCC. The mean of the ratio is found to be 3.07 with C.V of 7.52%, which indicates that the ratios are less variable. The average ratio of 7.52 % suggests that the earning capacity of the bank's loan and advances is not satisfactory.

13. Return on total working fund ratios of BOK are in fluctuating trend during the study period. Its ratio ranges from 1.80% to 2.44%.
14. The mean ratio of total interest earned to total outside assets of BOK is lowest of all. The total interest earned to total outside assets ratio of the BOK is less variable in comparison to NCC. Its C.V between the ratios is found to be 20.53% which shows that the ratios are satisfactory consistent during the study period.
15. Total interest earned to total working fund ratios of BOK have ranging from 5.62% in 2007/08 to 9.64% in 2011/12. The mean ratio of total interest earned to total working fund of BOK is 7.134 with 21.10% C.V. The ratio indicates that BOK has average earning power of the total assets.
16. The total interest paid to working fund ratios of NCC has fluctuating trend during the study period. The mean ratio of total interest paid to total working fund of NCC is higher than other banks, which means it has paid average interest. Similarly it has lower coefficient of variance among both banks which indicates that total interest paid & total working fund ratio is inconsistent than that of BOK. So, NCC is in better position from payment of interest point of view. It seems to be successful to collect its working fund from less expensive sources in comparison to others.
17. Credit risk ratios of the banks are in fluctuating trend. The mean of the ratios of BOK is found to be 69.62 which are higher than NCC. Similarly its C.V is 3.72% which is less compared with other bank. It indicates that its credit policy is consistent than other bank.
18. The mean capital risk ratio of BOK is in between the compared banks. The ratio of BOK is less variable, which indicates that the capital risk ratio is consistent.
19. The analysis of the growth ratio of total deposits total loan and advances, total investments and net profit of BOK in comparison with NCC during the study period shows that the total deposits of the bank is in increasing trend with the net growth rate of 14.13%.
20. The total investment of studies banks are fluctuating trend during the study period.

21. The total net profit of BOK is in increasing trends but NCC is in fluctuating trend during the study periods. BOK and NCC have 23.27% and 17.49 % respectively.
22. The trend analyses of total deposit of BOK and NCC have increasing trend. From the trend analysis it is forecasted that the total deposit of BOK in 2015/16/16 will be Rs 32746.20 million. Similarly the total deposit of NCC will be 17630 million in the third mid July of 2016/17 respectively. The deposit collection of BOK is better than that of NCC.
23. From the trend analysis of total loan and advances it has been seen that the total loan advances of all the both banks have increasing trend. The total loan and advance of BOK in i.e. 18196 million and NCC i.e. 9129 million.
24. Total investments of BOK and NCC have in increasing trend. The total investment of the BOK in the year 2016/17 is projected to be 5166 million. The total investments of NCC will be 2933 million.
25. The net profits of all both banks have the increasing trend. The net profit of BOK by the year 2016/17 is projected to be 1024 million, which is the highest value under the study period.
26. The Correlation coefficient between deposits and loan and advances of the BOK is .9997 which is highest among other bank. Its probable error multiplied by six is found to be 0.001086 since 'r' > 6 P.E and 'r' is positive which is near by 1, there is very strong positive correlation between deposits and loans and advances during study period.
27. The Correlation coefficient between total outside assets and net profit of the BOK is 0.9910 which is highest among other banks. It's probable error multiplied by six is found to be 0.03239, since $r > 6$ P.E and 'r' is positive which is near by 1, there is very strong positive correlation between outside assets and net profit. But in case of NCC is insignificant correlation between two variable because the value of 'r' i.e. 0.4092 is less than that of the value 6 P.E. i.e. 1.5072.
28. The Correlation coefficient between deposits and net profit of the BOK is 0.9794. It shows the positive relationship between two variables. It's probable error multiplied by six is found to be lesser than the value 'r'. So it is indicates that it is successful to utilize the deposit. But in case of NCC there is no relationship could be established between the deposit and net profit.

29. The Correlation coefficient between deposits and interest earned of the BOK and NCC are 0.9280 and 0.9435. It's probable error multiplied by six is found to be 0.2512 and 0.1987. Since $r > 6P.E.$ and r is positive. There is positive correlation between deposit and interest earned.
30. The Correlation coefficient between loan and advances and interest paid of BOK and NCC the value of r also higher than the value 6 P.E., so the relation is significant.
31. The Correlation coefficient between total working fund and net profit of BOK is 0.9884. It shows the positive relationship between two variables. It's probable error multiplied by six is found to be lesser value of ' r '. But in case of NCC have no relationship could be established between the total working fund and net profit because its ' r ' is lesser than the value of 6P.E.
32. The calculated value of t i.e. 2.2661 is greater than that the tabulated value i.e. 1.860, so there is significant difference between mean ratios of loan and advances to total deposit of BOK. But there is significant difference between mean ratios of loan and advances to total deposit of BOK and NCC, which indicates that it isn't mobilizing the total deposit on loan and advances for profit generating purpose.
33. There is no significant difference between mean ratios of total investment to total deposit ratio of BOK and NCC. So these banks mustn't mobilize its deposit funds by investing in different securities issued by government and other financial sectors.
34. The calculated value of t i.e. -1.5369 is less than that the tabulated value i.e. 1.860, so there is no significant difference between mean ratios of investment on government securities to current assets ratio of BOK.
35. The calculated value of t is greater than that of tabulated value of BOK & NCC. This indicates there are significant differences between mean ratio of loan and advances to current assets of BOK and NCC. It must invest its collected funds as and bank balance in order to make high profit by mobilizing its funds by keeping some amount as liquidity.
36. There is no significant difference between mean ratios of total interest earned total outside assets of BOK & NCC.

CHAPTER -V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Commercial banks are major financial institutions, which occupy quite an important place in the framework of every country's economy because they provide capital for the development of industry, trade and business and other resources. Commercial banks have its own role and contribution in the economic development; they maintain economic confidence of various segments and extend credit to people. The banking sector has to play developmental role to boost the economy of its country by adopting the growth oriented investment policy and building up the financial structure for future economic development formulation of sound investment policies and planned effort pushed forward the force of economic growth. The income and profit of the bank depends upon its lending procedure, lending policy and investment of its fund utilize in different securities. Commercial banks are able to utilize their deposits properly i.e. providing loans and advances or lending for a profitable project, the reason behind it is lack of sound investment policy. The main objective of this study is to evaluate the profit planning policies adopted by BOK and NCC. The study is totally based on secondary sources of data collected by using various published and unpublished sources. There are 31 commercial banks operating in Nepal which are considered to be the population of the study and out of them two commercial banks i.e. BOK and NCC has been taken as a sample of the study and the collected data have been analyzed by using various financial tools and statistical tools like ratio analysis, correlation coefficient, regression equation etc. Regarding the profit planning policies of commercial banks, there are basically five basic principles a bank follows while providing the loans i.e. liquidity, profitability, security, suitability and diversification. Various processes while making investment decision are applied in the study i.e. set investment process, security analysis, portfolio construction, revision, performance evaluation .The data obtained from annual reports and websites of the concerned banks, likewise the financial statements of five fiscal years from the 2007/08 to 2011/12 were used for the purpose of evaluation.

5.2 Conclusion

The liquidity position of BOK is comparatively better than NCC. In spite of the current ratio in average among the banks BOK has maintained the cash and bank balance to meet the customers demand. All the banks have met the normal standard current assets ratio to meet the short term obligation of their customers.

From the analysis of assets management ratio it can be found that BOK is in better position as compared to NCC. The loans and advances to total deposit ratio, loan and advances to total working fund ratio of BOK is higher than NCC. NCC has invested the highest portion of total working fund on government securities as compared to BOK. Due to more efficient loan policy, BOK suffers less from loan loss provision. It takes low credit risk and has sufficient deposits of non bearing interest which can be used in a creation period. Anyhow BOK is also trying to be best in loan loss provision. Investment on shares and debentures to total working fund ratio is higher in BOK. The interest earned to total outside assets and return on total working fund ratio of BOK is lowest of all. But overall analysis of profitability ratios, BOK is average profitable in comparison to NCC. To make the profit, BOK is taking highest risk by providing the higher portion of its deposit as a loan. The return on loan and advances ratio and return on assets of BOK is lower than NCC. The ratio suggests that the earning capacity of the bank's loan and advances is not satisfactory. The return on assets of the bank is good in average; it indicates the good earning capacity of the bank assets and good utilization of its assets.

The total interest paid to working fund ratio of NCC is less than the interest earned to total working fund ratio. So it is in profitable position as it is getting higher return that is interest cost. The degree of risk is average on BOK. 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. BOK is showing its good performance by increasing the total deposit, loan and advances and investment in profitable sectors interested earnings by providing loan to clients. The trend of the total investment, total deposit, loan and advances and net profit of BOK shows better position than NCC.

5.3 Recommendations

On the basis of the findings of the study the following recommendations can be drawn:-

1. In commercial banks the liquidity position affects external and internal factors such as saving for investment situations, central banks requirements, the leading policies management capacity etc. In this study it should try to lower the current liabilities to improve its liquidity position. Current ratios of both two banks were not satisfactory. It is below its standard rate 2:1. So the banks are suggested to improve current assets.
2. From the study it is found that BOK has not invested funds in government securities than that of other bank. BOK liquidity position shows that it has kept relatively funds as cash and bank balance which doesn't earn any return. This ultimately affects profitability of bank. Investment in government securities i.e. TBs development bonds. Saving certificate are free of risk and highly in nature. So BOK is recommended to invest its fund in government securities instead of keeping them idle. "Something is better than nothing".
3. In practice joint ventured banks are urban based; service quite a few elite, a fluent big customer are heavily dependent on free based activities. To overcome its situation they should be accessible to rural areas and possible loan and advances to its deposit. So the customers are enjoying by getting deposit borrowing and other services.
4. BOK has invested it's more of the funds that is total investment on total deposit ratio but the percentages of investment on share and debenture is nominal. So it is suggested to invest more of its fund in share and debenture of different companies.
5. NCC loan and advances to total deposit ratio is lowest compared to other bank. To overcome from the situation it is recommended to follow liberal lending policy and invest more and more of total deposit in loan and advances and maintain stability on the investment policy.
6. BOK's loan loss ratio is increased year by year. So this bank is recommended that before providing the loan make sure that your clients are in good character and able to pay its loan or may take the collateral which is nearly two times more than that of your guaranteed.

7. Profitability ratios of banks are not satisfactory, if resources held idle bank have to beared more cost and result would be lower profit margin. So portfolio condition of a bank should be regularly revised from time to time. It should always try to maintain the equilibrium in the portfolio condition of the bank. The bank should use its funds in more portfolio sectors. It should utilize its risky assets and shareholders' funds and it should reduce its expenses and should try to collect cheaper fund being more profitable.
8. The risk taken by BOK from the angle of credit risk and capital risk are in an average but the consistencies of the same are highly volatile which may result higher loss. So it should not test such risk on an experiment basis it should carefully study it so as to achieve higher return from the above risk.
9. In the light of growing competition in the banking sector the business of the bank is customer oriented. It should strengthen and activate its marketing function, as it is an effective tool of attracting and retaining customers. The bank should develop an innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient way.
10. The investment policy of BOK is good in every aspect as studied above but the consistency in the above investment sectors is in equilibrium states. It is found that at time bank focuses much of its attention to one sector leaving other sector untouched, so it is recommended to touch all the sectors and balance it effectively as to have the optimal performance of the bank.
11. To get success itself and to encourage financial and economic development of the country through industrialization and commercialization, a commercial bank must mobilize its fund and debentures of other financial and non financial companies. And if other sectors go up positively then bank can utilize its fund more and more by providing them loan or getting sufficient dividend on their share or interest on their debentures. Commercial banks need to strengthen its economic structure to achieve piped overall development. They have to resort to innovative approach of banking there by bringing professionalism in their business. If they follow those suggestions they can have better reach to the modern innovative and competitive banking markets.

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