

**IMPLEMENTATION OF PROFIT PLANNING TECHNIQUES IN  
COMMERCIAL BANKS  
(A Case Study of Nepal Investment Bank Limited)**

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## **RECOMMENDATION**

This is to certify that the thesis

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Entitled:

**Implementation of Profit Planning Techniques in Commercial Banks  
(A Case Study of Investment Bank Limited)**

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

We have conducted the viva-voce examination of the thesis

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

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## DECLARATION

I hereby declare that the work reported in this thesis entitled “**Implementation of Profit Planning Techniques in Commercial Banks (A Case Study of Nepal Investment Bank Limited)**” submitted to the Central Department of Management, Tribhuvan University, is my original work. It is done in the form of partial fulfillment of the requirements for the Master of Business Studies (MBS) under the supervision and guidance of Dr. Arun Kumar Thakur, Lecturer of Central Department of Management.

July, 2011

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Ramdin Chaudhary

## CONTENTS

	<b>Page No.</b>
Recommendation	i
Viva-Voce Sheet	ii
Declaration	iii
Acknowledgements	iv
Table of Contents	v
List of Tables	ix
List of Figures	xi
Abbreviations	xii
<b>CHAPTER I: INTRODUCTION</b>	<b>1-21</b>
1.1 Background of the Study	14
1.2 Nepalese Economy-Current Macroeconomic Condition	18
1.3 Meaning and Importance of Financial Institutions	21
1.3.1 Major Financial Policy of Nepal	22
1.4 Histories and Development of Banks	26
1.5 Statement of Problems	28
1.6 Objectives of the Study	29
1.7 Profile of NIBL	29
1.8 Limitations of the Study	32
1.9 Organization of the Study	33
<b>CHAPTER II: REVIEW OF LITERATURE</b>	<b>22-52</b>
2.1 Introduction	35
2.2 Concept of Commercial Bank	35
2.2.1 NRB Regulation	36
2.2.2 Evolution of Commercial Bank	36
2.2.3 Existing Scenario of Banking Sector	40
2.2.4 Domestic Legal Provisions Regarding Banking Sector	40

2.2.5 Activities of a Commercial Bank	43
2.2.6 Impact of National and International Situation on Commercial Bank	44
2.3 Profit Planning as a Concept	45
2.4 Mechanism of Profit Planning	47
2.4.1 Profit as a Concept	47
2.4.2 Long Term and Short Term Profit Planning	48
2.4.3 Concept of Planning and Control	49
2.5 Merits and Demerits of Profit Planning Technique	50
2.6 Profit Planning in Commercial Banks	52
2.6.1 Planning for Resources	52
2.6.2 Non-Fund Consuming Income Plan	53
2.6.3 Planning for Expenditure:	53
2.6.4 Planning for Revenue	54
2.7 Application of Profit Plan in Banking Sector	55
2.8 Execution	56
2.9 Review of Previous Studies	57
2.10 Research Gap	65
<b>CHAPTER III: RESEARCH METHODOLOGY</b>	<b>53-58</b>
3.1 Introduction	66
3.2 Research Design	67
3.3 Population and Sample	67
3.4 Sources and Collection of Data	67
3.5 Analytical Tools	68
3.5.1 Statistical and Mathematical tools:	68
3.5.1.1 Percentile Incensement	68
3.5.1.2 Arithmetic Mean average	69
3.5.1.3 Correlation of coefficient	69
3.5.1.4 Regression Analysis	70

3.5.1.5 Standard Deviation ( $\sigma$ )	70
3.5.1.6 Coefficient of Determination	71
3.5.2 Financial Tools	71
<b>CHAPTER-IV: PRESENTATION &amp; ANALYSIS OF DATA</b>	<b>59-123</b>
4.1 General Introduction of Nepal Investment Bank (NIBL)	72
4.4.1 Mission Statement of NIBL	73
4.2 General Activities of NIBL	74
4.3 Profit Plan of Nepal Investment Bank Limited (NIBL)	74
4.3.1 Resource Mobilization Planning	75
4.3.2 Customer Deposit Collection	77
4.3.3 Deposit Collection Budget of NIBL	78
4.3.4 Movement in Deposit Collection of NIBL	82
4.3.4 Other Resources of NIBL	83
4.4 Resources Deployment Plan of NIBL	85
4.1.1 Total Deployment of NIBL	87
4.4.2 Budgeted and Actual LA of NIBL	91
4.4.3 Movement in LA of NIBL	95
4.4.4 Resources Deployment in Other Sector (NLA)	96
4.4.5 Actual Deposit and Outstanding LA of NIBL	98
4.4.6 Plans for Non Fund Consuming Business Activities (Off- Balance Sheet Items)	100
4.4.6.1 Letter of Credit (LC) Business of NIBL	102
4.4.6.2 Bank Guarantee Business of NIBL	103
4.5 Planning for Expenditure of NIBL	105
4.5.1 Interest Expenses	108
4.5.2 Non-Interest Expenses:	109
4.5.3 LA Verses Loan Loss Provision of NIBL	111
4.6 Revenue Planning of NIBL	113
4.6.1 Interest Income	113

4.6.2 Income Other Than Interest	116
4.6.3 Interest Margin	118
4.7 Burden of NIBL	119
4.8 Net Profit and Los of NIBL	121
4.9 Performance Evaluation of NIBL	123
4.9.1 Ratio Analysis	123
4.9.1.1 Liquidity Ratio	124
4.9.1.2 Leverage Ratio	125
4.9.1.3 Debt-Equity Ratio	125
4.9.1.4 Interest Coverage Ratio (ICR)	127
4.9.1.5 Activity Ratio	128
4.9.1.6 Profitability Ratio	129
4.9.2 Cost Volume Profit Analysis	130
4.9.2.1 BEP in terms of Interest Margin	130
4.9.2.2 Margin of Safety of NIBL	131
4.9.2.4 BEP in terms of Volume of O/S LA	132
4.9.2.5 BEP in terms of Volume of Deposit	133
4.10 Major Findings of the Study	134
<b>CHAPTER-V: SUMMARY, CONCLUSIONS AND</b>	
<b>RECOMMENDATIONS</b>	<b>124-128</b>
5.1 Summary	137
5.2 Conclusions	138
5.3 Recommendation	139
<b>BIBLIOGRAPHY</b>	<b>142</b>
<b>APPENDICES</b>	

## LIST OF TABLES

	<b>Page No.</b>
Table 2.1: Licensed Commercial Banks in Nepal	39
Table 4.1: Status of Available Resources of NIBL	76
Table 4.2: Status of Budgeted and Actual Deposit Collection	78
Table 4.3: Summary of Deposit Collection Budget and Actual Deposit	80
Table 4.4: Movement of Deposit Collection of NIBL	82
Table 4.5: Other Resources of NIBL	83
Table 4.6: Summary of budgeted and Actual Resources of NIBL	84
Table 4.7: Total Income Generating Deployment of NIBL	86
Table 4.8: Total Resources Deployment of NIBL	87
Table 4.9: Comparative Table Showing Budgeted and Actual Loan, Discounted, Overdraft of NIBL	91
Table 4.10: Summary of Budgeted LA and Achievement	93
Table 4.11: Table Showing Movement in LA of NIBL	95
Table 4.12: Status of Budgeted and Actual Deployment in Other Sector (NLA)	96
Table 4.13: Summary of NLA of NIBL	97
Table 4.14: Status of LA VS Actual Deposit of NIBL	98
Table 4.15: Summary of Actual Deposit and Actual O/S LA	100
Table 4.16: Status of Non-Fund Consuming Business Activities: Off- Balance Sheet Items	101
Table 4.17: Movement of LC Business in NIBL	102
Table 4.18: Showing the Status of Bank Guarantee Business of NIBL	104
Table 4.19: Status of Expenditure of NIBL	106
Table 4.20: Status of Average Cost of Deposit	108
Table 4.21: Status of Non-Interest Expenses of NIBL	110

Table 4.22: Status of Loan Loss Provision of Total LA of NIBL	112
Table 4.23: Status of Average Return of LA	114
Table 4.24: Summary of Actual LA and Interest Income	114
Table 4.25: Showing Income Other than Interest	117
Table 4.26: Movements in Interest Margin of NIBL	118
Table 4.27: Status of Burden of NIBL	120
Table 4.28: Showing the Status of Profit and Loss of NIBL	121
Table 4.29: Current Ratio of NIBL	124
Table 4.30: Debt-Equity Ratio of NIBL	126
Table 4.31: Calculation of Interest Coverage Ratio	127
Table 4.32: Showing the Activity Ratio of NIBL	128
Table 4.33: Profitability Ratio of NIBL	129
Table 4.34: BEP in Terms of Interest Margin	131
Table 4.35: Showing the Status of Margin of Safety of NIBL	132
Table 4.36: BEP in Terms of Volume of O/S LA	133
Table 4.37: Showing in BEP in Terms of Volume of Deposit	133

## LIST OF FIGURES

	<b>Page No.</b>
Figure 4.1: Status of Total Available Resource	77
Figure 4.2: Bar Diagram Showing Budgeted and Actual Deposit Collection	79
Figure 4.3: Scatter Diagram Showing Budgeted and Actual Deposit Collection	80
Figure 4.4: Scatter Diagram Showing Other Resources of NIBL	84
Figure 4.5: Pie Chart Showing Status of Deployment	89
Figure 4.6: Bar Diagram Showing the Status of Deployment	90
Figure 4.7: Bar Diagram Showing Budgeted and Actual LA of NIBL	92
Figure 4.8: Scatter Diagram Showing Status of Budgeted and Actual LA of NIBL	93
Figure 4.9: Status of Budgeted and Actual NLA of NIBL	97
Figure 4.10: Bar Diagram Showing Actual Deposit and Actual LA of NIBL	99
Figure 4.11: Bar Diagram Showing Non Fund Consuming Activities of NIBL	101
Figure 4.12: Movement of LC Business in NIBL	103
Figure 4.13: Bar Diagram Showing Bank Guarantee Business of NIBL	105
Figure 4.14: Pie Chart Showing Status of Total Expenses of NIBL	107
Figure 4.15: Bar Diagram Showing Average Cost of Deposit	109
Figure 4.16: Status of Loan Loss Provision of Total LA of NIBL	112
Figure 4.17: Bar Diagram Showing Interest Income and Total O/S LA	116
Figure 4.18: Bar Diagram Showing Interest Margin of NIBL	119
Figure 4.19: Bar Diagram Showing the Burden of NIBL	120
Figure 4.20: Bar Diagram Showing the Net Profit and Loss of NIBL	122

## ABBREVIATIONS

AGM	:	Annual General Meeting
ATM	:	Automatic Tailor Machine
BOK	:	Bank of Kathmandu
CBS	:	Center Bureau of Statistics
COD	:	Cost of Deposit
CVP	:	Cost Volume Profit Analysis
EBL	:	Everest Bank Ltd.
GDP	:	Gross Domestic Product
GON	:	Government of Nepal
ICAN	:	Institute of Chartered Accountants of Nepal
LA	:	Loan and Advance
LC	:	Litter of Credit
MOS	:	Margin of Safety
NABIL	:	Nepal Arab Bank Ltd.
NBBL	:	Nepal Bangladesh Bank Ltd.
NIBL	:	Nepal Investment Bank Limited
NIDC	:	Nepal Industrial Development Corporation
NLA	:	Non Loan and Advance
NLSS	:	Nepal Living Standard Survey
NRB	:	Nepal Rastra Bank
NTL	:	National Trading Ltd.
O/D	:	Overdraft
PPC	:	Profit Planning and Control
PPT	:	Profit Planning Techniques
RBB	:	Rastriya Banijya Bank

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

"Profit planning and control is an important approach, mainly in profit oriented enterprises. Profit planning is merely a tool of management. It is not an end of management or substitute of management. It facilitates the managers to accomplish managerial goals in a systematic way" (Ojha and Gautam, 2066).

The excess income over expenditure is called profit. The word profit is brought for visions of reserves. "Profit does not just happen, profits are managed" (Lynch and Williamson, 1989: 125) the concept of profit is not new but the concept of profit planning and control is new word in business literature. We can define profit planning and control is a tool of management used in profit making organization. The managerial skill which increase revenues and minimize the cost is called profit planning and control. Profit planning and control involves long-term commitment waiting for a reward which comes in future and always remains uncertain. Therefore, every planning entails some degree of uncertainty. So, we can conclude profit planning and control is as an organized and formal approach for realize the planning, synchronization and control responsibilities of management which provides guidelines to the overall managerial task. Sound-controlled profit planning and control programs facilities the management to keep a level of profits which will make certain the continuation of the business and the accomplishment of organization responsibilities. "Profit planning through volume of cost analysis, however, is a modern concept of management planning and control programs facilitate the management to keep a level of profits which will make certain the continuation of the business and the

accomplishment of organization responsibilities. "Profit planning through volume of cost analysis, however, is a modern concept of management planning tools designated primarily for industrial enterprises. It involves a study of what a business cost and expenses should be and will be at different level of operations and it include a study of the result effect due to this hanging relationship between volume and cost" (Young Dong, 2001, p. 74) "A profit plan is an advance decision of expected achievement based on the most efficient operating standards in effect or in prospect of time. It is established against which actual accomplishment is regularly compared" (Niel, 2001, p. 305).

Every business or institution is established on the definite goals and objectives. All the tasks performed by company according to their objectives. Mainly two types of institutions are established one is profit oriented and another is service oriented. The financial institutions act as mediators by transferring the resources from the surplus to the deficits, which provides fuel to economic development of the country. Economic activities of a nation can't be carried forward without support of the financial institutions. Financial institutions include financial intermediaries like banks, credit unions, saving and credit, money market funds, life insurance companies, pension's funds mutual funds finance companies etc. Every country has to give a stress on up liftmen of the constant growth and sustainable financial system. Until and unless a nation can assemble its own domestic resources the nation cannot achieve economic growth. Transfer of funds from various savers to dynamic sectors is the major junction of financial institution. Financial consist of financial institution including financial intermediaries using various financial instruments and connecting savers and users of cash. There is a tremendous growth in the number of financial institution in Nepal in the

last two decades. At the beginning of the 1980s when financial sector was not liberalized, there were only two commercial banks, and two development banks performing banking activities in Nepal. There were no micro-credit development banks, finance companies, cooperatives and NGOs with limited banking transactions. Numbers of Banks, Financial Institutions and Financial System in Nepal are as follows:

### **List of Financial Institutions**

Bank and Financial Institutions	Numbers
Commercial Banks	31
Development Banks	83
Finance Company	79
Other Financial Institutions	
Micro-Finance (Registered in NRB)	19
Co-operatives (Registered in NRB)	16
NGO's (Registered in NRB)	45

Source: [www.nrb.org.com/directives,notification](http://www.nrb.org.com/directives,notification).

### **Structure of Financial System in Nepal is as follows:**

Regulator	Participants
Nepal Rastra Bank	Commercial banks
	Development banks
	Finance companies
	Micro finance development banks
	Some of savings and credit co-operatives
	Some of non-governmental organization
Nepal Government	Postal saving banks
	Specialized financial institutions like employees provident fund, citizen investment trust etc.
Insurance Board	Insurance companies

Source: [www.nrb.org.com/directives,notification](http://www.nrb.org.com/directives,notification).

The banks further classified in to various categories on the basis of their functions:

- Central Bank
- Commercial Bank
- Development Bank
- Merchant Bank

The central bank controls the whole currency and credit of the country. It also undertakes the major functional operation of the government and through this influences the behaviour of other financial institutions so as to support and develop the country's economy as a whole. NRB has following objectives: (NRB act 2002, p. 7).

- To formulate necessary monetary and foreign exchange policies in order to maintain the stability of price and balance of payment for sustainable development of economy and manage it;
- To promote stability and liquidity required in banking and financial sector;
- To develop a secure, healthy and efficient system of payment;
- To regulate, inspect, supervise and monitor the banking and financial system.
- To promote entire banking and financial system in Nepal.
- To enhance its public credibility.

Commercial banks have different functions like accepting deposits, capital formation, granting loans, remittance, foreign exchanges. Various new functions have been introduced by commercial banks like credit card, debit card, ATM, tele-banking e-banking lockers, SWIFT, L.C. etc. the over all operations are similar to commercial bank of development and merchant bank. Development bank is focused on the development of the certain sectors of the economy and the services of merchant banking cover project counseling, per investment activities, feasibility studies,

project reports, design of capital structure, issue management, underwriting, loan syndication, and mobilization of funds, venture capital and public deposits. "Merchant Banking is skill based activities and involves serving financial need of every client. Merchant Bankers can turn to any of the activities depending upon resources such as capital, foreign tie-ups for overseas activities and skills. The issue of securities is the core of merchant banking function. The issue function may be broadly divided into pre-issue management and post-issue management" ([www.nidc.org.np](http://www.nidc.org.np)).

## **1.2 Nepalese Economy-Current Macroeconomic Condition**

Nepal is a landlocked country located between two giant countries India and China having good potential in the tourism, hydropower and other business sector. The total area of the country is 147,181 sq. km. and only about 27 percentage of the total land area is under cultivation. Ecologically this country is divided into three regions: (i) The Terai Region (ii) The Himalayan Region (iii) The Mountain Region and politically divided into five development regions, fourteen zones and seventy five districts. Nepalese economy is basically the agriculture based economy and the contribution of the agriculture sector in the total GDP is about 36 percent. Around 77 percent of the total population is engaged in the agriculture sector. The commercialization of the agricultural activities has not yet taken place. There is a wide gap in the distribution of agricultural land. Most of the farmers and landless and the major portion of the land is in the hands of few landlords. The share of manufacturing sector in the total GDP is 10 percent. About 86 percentages of the total population lives in rural area and only 14 percent population lives in urban areas. The government of Nepal (previously called His Majesty's Government) has initiated liberal, open and market oriented economic

policy in 1990s, immediately after the restoration of the democracy. The deteriorating law and order situation, political instability, lack of tourists in the country in the past few years has adversely affected the country's economy. The government is required to make huge investment to develop the sufficient infrastructures like roads, powers, health and higher education etc. in order to make a favorable investment climate in the country. Because of the political unrest, Nepal has been facing very difficult situation. After a decade of insurgency, now the situation seems to be improved and business sector seems to be much hopeful about the economic growth. Nepal is a country located in South Asia. The country is roughly rectangular in shape and Lies on the southern lap of the Himalayas. Nepal is one of the least develop country in the world. 80 percent Nepalese are under the line of poverty. Where as this is a predominantly a land locked agricultural county. Most of the Nepalese are depends on the traditional agricultural sector and the population still reside in the rural area being engaged in agriculture related survival economic activities. The growth in other sectors of the economy is embarrassed by the small domestic market, poor physical infrastructure, inadequate human and financial resources, land locked position of the country, the political instability and the geography of the country. During the FY 2063/64 the country's economic indicators are as follows: ([www.nrb.org.np/current](http://www.nrb.org.np/current) Macroeconomic situation).

- \* The inflation was at 6.4 percent it was 8 percent in FY 2062/63.
- \* The Growth rate of GDP in product in 2.5 percent.
- \* Consumer price index was 8.3 percent in FY 2062/63 this index was increased by 5.1 percent in the FY 2063/64.
- \* FY 2063/64 is the last year of 10th plan. The expected economic growth of plan was 6.2 percent and normal growth was 4.3 percent only 3.4 percent has been achieved through out the plan.

- \* Total exports rose marginally by 0.9 percent in 2063/64 compared to a growth of 2.6 percent in the previous year.
- \* Total imports rose by 10.3 percent in 2063/64 in comparison to a higher growth of 16.3 percent in the previous year.

Fiscal year 2009/10 is satisfactory year from the standpoint of national economic performance. The performance on aggregate is in increase but we are not capable to take more advantage of peace progress. The structure of our GDP is still agriculture base. The preliminary estimates of national income accounts recently released by Central Bureau of Statistics (CBS) has placed the real GDP growth in basic prices at 3.5 percent and in producers' prices at 4.6 percent in 2009/10 compared to the respective growths of 3.9 percent and 4.9 percent in the preceding year.

In 2009/10 the agriculture and non-agriculture sectors are reported to have grown by 5.7 percent and 5.6 percent respectively. These sectors had witnessed the growth of 1.0 percent and 4.1 percent respectively in the previous year.

The monsoon precipitation that plays a crucial role in agriculture production remained satisfactory in 2009/10. As per the statistics released by Department of Hydrology and Meteorology, the country witnessed 98 percent of normal precipitation in June, 125 percent in July and 101 percent in August 2009. This led to a rebound in paddy production in 2009/10. However, winter season remained unfavorable to the production of wheat, barely, pulses and fruits.

The paddy production surged by a whopping 16.8 percent in 2009/10 due mainly to a favorable monsoon. Over past three years, the paddy production has experienced a continuous decline. The maize,

wheat and potato production also surged by 3.2 percent, 3.8 percent and 5.7 percent respectively in the review year. Consequently, the index of food grains and other crops increased by 7.3 percent contrary to the 2.7 percent decline last year. Likewise, the production indexes of vegetable and nursery, fruits and spice, livestock, other livestock and forestry groups accelerated by 9.6 percent, 5.4 percent, 2.6 percent, 3.1 percent, and 0.2 percent respectively.

As per the latest statistics released by CBs, the manufacturing production index declined by 1.4 percent in 2009/10 compared to a growth of 2.6 percent in the previous year. The decline in the index was on account of a substantial fall in the production of vegetable ghee and oil, plastic products, garment and domestic metal products.

Among the other commodity groups included in the manufacturing production index, the production of processed milk, grain meal product and animal feeds, other food products, beverages, tobacco product, pashmina, wood sawn, paper and paper products, news papers, other chemical products, iron rods and billets, and electric wire and cable increased in the review period ([www.nrb.org.np](http://www.nrb.org.np))

### **1.3 Meaning and Importance of Financial Institutions**

"Financial Institution" means a financial institution established under the prevailing laws with the objectives of providing loans for agricultural cooperative, industrial or any other specific economic purpose or of collecting deposits from the general public and the world also includes an institution prescribed as financial institution by Government of Nepal by publishing notice in the Nepal Gazett. (NRB Act 2002) Banking institution is inevitable for resource mobilization and al-round development of the country. It is resources for economic

development; it maintains economic confidence of various segments and extends credit to people.

Bank is most important financial intermediates which accepts the deposits from public and mobilize them in the productive sectors. Banks are the principal source of credit to household: individuals and family business all forms and local units of government. Financial intermediation in advanced to other forms of financing because it fulfills expectations of both savers and users it is the most popular form of moving excessive money from savers to users. Among all financial intermediates commercial bank is the most leading one. "A bank is an organization whose major function is concerned with the collection of the provisionally idle money or general public for the use of advancing to other of disbursement. Banks nowadays do a large number of financial transactions while 'financial institutions' are authorized to do limited transactions only" (Dahal and Dahal, 2002, p. 7).

### **1.3.1 Major Financial Policy of Nepal**

The financial sector policies in the least developed countries have undergone drastic changes during the last three decades and Nepal is not an exception. The elimination of credit control, deregulation of interest and exchange rate, easy entry of banks and financial institutions into the financial system, privatization of financial and non financial institution, autonomy of NRB etc. are the important dimension of the financial liberalization in Nepal. Monetary policy, banking policy, credit policy and the interest rate policy are the major financial policies. The NRB has a major role to play in the formulation, implementation monitoring and supervision of such policies.

## **a. Monetary Policy**

Nepal Rastra Bank began exercising monetary policy since mid 1960 with instrument like credit control regulation, interest rate administration, margin rate, refinance rate and cash reserve ratio. In 1970's requirement, credit limit, / ceiling and directed credit programmers were introduced. Open market operation evolved only in the 1990s with policy shift from direct to indirect monetary control. Effective exercise of cash reserve ration requirement and bank rate as active monetary policy tools evolved even later-since late 1990s. The basic objective of monetary and credit policies have been fostering growth, generating employment, addressing poverty, containing prices, promoting external trade, and attaining healthy balance of payment of the country. The NRB is the apex body assigned the task of designing and operating monetary policy. The most important goals for monetary policy in Nepal are to maintain the price and external sector stability. Excess money supply causes an upward pressure in the level of prices by increasing aggregate demand in the economy in the wake of inelastic supply of output. So monetary policy purports to limit prices by disallowing money to increase in excess of desired demand for it. NRB has published its monetary policy for the fiscal year 2009/10. The few main features of new monetary policy are as follows:

- \* Primarily focused towards curbing acceleration in the pace of inflation.
- \* Economic growth targeted at 5 percent on the basis of Budget of 2009/10.
- \* Average inflation based on consumer price index estimated to be 9.6 percent compared to that of 12.3 percent 2008/9.

- \* Maintaining financial sector stability and to increase the financial intermediation.
- \* Addressing the fluctuation in short-term interest rates and the risks through open market operations.
- \* Increase of total banking internal loan to 11.2 percent 2066/67.
- \* Maximum usage of the financial resources by the private sector.

## **b. Banking Policy**

The NRB has issued its new licensing policy for the establishment of commercial banks, finance companies and development banks on 1st Shrawan 2063. The main provisions contained in the new licensing policy are as follows:

- \* Change in minimum capital requirement of the financial institutions while starting the financial institutions.
- \* List of documents to be presented for carrying out the financial transactions in Nepal.
- \* Minimum requirements of the directors and promoters.
- \* Commitment by the prospective directors of the proposed financial institutions with Nepal Rastra Bank for compliance of the entire rules and regulation formed by Nepal Rastra Bank.
- \* Probable conditions where NRB may reject the application for establishment of the financial institution.
- \* Provisions regarding the expansion of business of the financial institutions.
- \* Provisions regarding the preliminary expenses.
- \* Formats of the applications and commitments.

### **c. Credit Policy**

Often monetary policy and credit policy are interpreted in the same way. Nepal Rastra Bank has also been exercising monetary and credit policies through the same manner. But monetary and credit policies are not exactly the same. Monetary policy is defined as a policy affecting changes in the quantity of money while credit policy is defined as a policy affecting the cost, availability and the allocation of credit. Money differs from credit because money is the liability of the banking system whereas credit is an asset. In the past, NRB has introduced the priority sector lending programmed. Under this programmed all the banks were required to extend certain percentage of their lending to the prescribed priority sector. However, this priority sector-lending requirement is now phased out. With an objective of minimizing the concentration of the credit risk, the NRB has prescribed the single borrower limit for fund based as well as non-fund based. The maximum amount of fund based as well as non-fund based lending to a single borrower has been linked with the core capital of the institution.

### **d. Interest Rate Policy**

Interest is paid for the sacrifice made by the income holder by differing consumption for the time being and imparting with liquidity and to reward the income holder for making savings. There exists a wide array of interest rate in the economy. This is either because of wider varieties of securities having different liquidity, term structure and degree of risk or market imperfection. Interest rate is one of the monetary policy variables along with money supply and credit. In the process of financial system liberalization, initiatives to deregulate interest rate structure in Nepal were taken since Mid 1980s. The complete liberalization of the

interest rate structure, however, took place in 1989 only whereby the commercial banks were set free to determine the deposit and lending rates. However, the existing number of commercial banks and the level of competitiveness in the financial market have not allowed interest rate structure to evolve through a perfect market mechanism. Further, there is a great deal difference in the level of interest rate on loans between formal and informal market rates. One noteworthy situation of the Nepalese financial system has been the poor sensitivity of the commercial banks to changes in bank rate by the Nepal Rastra Bank. This is because of the excess liquidity in the banking sector and therefore commercial banks do not resort to the central bank borrowing for financing their lending activities. (Source of Financial Policy is: Feasibility study report of purposed civic development bank, 2008, p. 27).

#### **1.4 Histories and Development of Banks**

"The history of bank started from the merchants, goldsmith, and money lenders they are called ancestors of modern banking. Before 1848 Goldsmith used to store people's gold and other valuable goods and charge nominal charges against the deposit. That time people deposited their gold and valuable goods for the sake of securities rather than earning interest. The term bank emerged in USA in 1848 B.C." (Paul 1996, p.12). The bank means institute, which deals with money. A bank performs several financial monetary and economic activities that are very essential for economic development of any country. Broadly speaking bank collects surplus money from the people who are not using it at present and hoarding for the future and supplies loan to who are in the position to use it for productive purpose, Basically banks perform various types of services i.e. collection of deposits from the public supply loans to those investors who want to invest in business industry and other sectors, overdraft, letter of credit, bills discounting, promissory notes, merchant

banking, agency function of tasks guarantee against any disable of payment, remittance services etc. Nowadays banking sector is involving in the planning and construction of land housing.

The history of modern financial system is not too long. In Nepal it was begun in 1937 with the establishment of Nepal bank Ltd. as a first commercial bank in Nepal. The bank was established to render services to the people for the economic progress of the country prior to the establishment of Nepal Rastra Bank; it plays the role of central bank also with the establishment of NRB 1956 under the Nepal Rastra Bank Act 1955. The new Nepal Rastra Bank Act was brought out in 2002 by replacing the previous Act of 1995. This new Act has provided operational autonomy and independence to the bank. Then after Government of Nepal and NRB established the Nepal industrial development corporation (NIDC) capital market in 1959. The second commercial bank the Rastriya Banijya Bank was established in the public sector in 1966, with the equity participation of government of Nepal and Agriculture Development Bank Act, 1967, with the by incorporating the assets and liabilities of the co-operative bank (Sharma, 2002, p. 3).

Numbers of financial institutions were setup till now. The legislation of commercial bank Act, 1974 set out regulation for licensing supervision and cancellation of license of commercial banks and encouraged the establishment of other commercial banks in Nepal. The move towards financial liberalization encouraged the entry of joint venture and private commercial banks. In the context of banking development, the 1980s saw a major structural change in financial sector policies, regulations and institutional developments. GON emphasized the role of the private sector for the investment in the financial sector. The financial sector liberalization, started already in the early eighties with the liberalization of the interest rates, encompassed further deregulation of interest rates, relaxation of entry barriers for domestic and

foreign banks, restructuring of public sector commercial banks and withdrawal of central bank control over their portfolio management. The Nepal Arab Bank (NABIL) limited is the first joint venture commercial bank of Nepal was established in 1984. The Nepal Indosez Bank Ltd. (now Nepal Investment Bank Limited) and Nepal Grindlays Bank Ltd. (Now Standard Chartered Bank Ltd.) two other joint venture commercial banks, were established in 1986 and 1987 respectively. With the passage of time, functions of banks have increased manifold. Since banks are rendering a wide range of services to the people of different walks of life, they have become an essential part of modern society. Life without a bank is like brick and mortar or click bank (internet banking), is beyond imagination (Dahal and Dahal 2002, p. 7).

### **1.5 Statement of Problems**

Profit Planning Techniques provides a tool for more effective supervision of individual operation and practical administration of a business as a whole. In our country, the industrialization is still in its early stages therefore, the concept of profit planning has not even been familiar in the most of the business concerns including commercial banks. Commercial banks play a vital role in economic growth of a country. As a commercial institution, a commercial bank must make profit out of its operations for its survival and fulfillment of the responsibilities assigned. A commercial bank's major activities include mobilization of resources, which involves cost, and profitable deployment of those resources, which generates incomes. The differential interest income over the interest cost, which is popularly called interest margin, can be considered as the 'contribution margin' in the profit of the bank. The other operational expenses form a burden to contribution margin which, the banks are attempting to compensate by other income generated out of non fund based business activities of the bank.

This study has tried to analyze and examine the PPC side of commercial bank taking a case of NIBL. Furthermore the study has tried to answer the following research questions.

1. Does NIBL has appropriate profit planning system ?
2. What is the budgeting approach of NBL ?
3. Dose the bank mobilize the deposit and other resources at optimal cost ?
4. What is the trend of overall performance of NIBL ?

### **1.6 Objectives of the Study**

This study is mainly concerned with budgeting system of NIBL. The fundamental objective of this study is to assess the budgeting system of NIBL to study the application of comprehensive PPC system in NIBL. Apart from this following are the other objectives of the study.

- a. To study the current profit planning premises adopted by NIBL.
- b. To analyze the various functional budgets and financial plans implemented by NIBL.
- c. To analyze the performance of bank over the period of study.

### **1.7 Profile of NIBL**

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French Partners. The French partner (holding 50 percent of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one the largest banking group in the world.

With the decision of credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, has acquired on April 2002 the 50 percent shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd.

The name of the bank has been changed to Nepal Investment Bank Ltd. Upon approval of bank's Annual General Meeting. Nepal Rstra Bank and Company Registra's office with the following shareholding structure.

A group of companies holding 50 percent of the capital. Rastriya Banijya Bank holding 15 percent of the capital. Rashtriya Beema Sansthan holding 15 percent percentage. The remaining 20 percent being held by the General Public (www.nibl.com.np).

NIBL has the largest local network in the country. The head office of the bank is located at Durbarmarg, Kathmandu. Besides the head office, the bank has 40 numbers of branches with in the country. The bank is planning further more branches in the country. Branch details are as follows:

### **Kathmandu Head Office Durbarmarg, Kathmandu**

<b>1. KATHMANDU HEAD OFFICE</b> Durbar Marg, P.O. Box 3412	
<b>2. SEEPADOLE BRANCH</b> Suryabinayak, Bhaktapur	<b>3. BIRGUNJ BRANCH</b> Adarshanagar, P.O. Box 101
<b>4. PULCHOWK BRANCH</b> Pulchowk, Lalitpur	<b>5. BANEPA BRANCH</b> Banepa, Kavre
<b>6. JEETPUR BRANCH</b> Jeetpur, Bara	<b>7. NEWROAD BRANCH</b> Newroad, Kathmandu
<b>8. BIRATNAGAR BRANCH</b> Golcha Chowk, Biratnagar	<b>9. BUTWAL BRANCH</b> Traffic Chowk, Butwal
<b>10. BHAIRAHAWA BRANCH</b> Maitri Road, Bhairahawa	<b>11. POKHARA BRANCH</b> Chiple Dunga, Pokhara
<b>12. PUTALISADAK BRANCH</b> Putalisadak, Kathmandu	<b>13. NARAYANGARH BRANCH</b> Pulchowk, Narayangarh
<b>14. JANAKPUR BRANCH</b> Mills Area, Janakpur	<b>15. NEPALGUNJ BRANCH</b> Dhamboji, Nepalgunj
<b>16. THAMEL BRANCH</b> Chaksibari, Thamel	<b>17. KALIMATI BRANCH</b> Kalimati Chowk, Kalimati
<b>18. BIRTAMOD BRANCH</b> Traffic Chowk, Birtamod	<b>19. BATTISPUTALI BRANCH</b> Battisputali, Kathmandu
<b>20. DHANGADI BRANCH</b> Main Road, Dhangadi	<b>21. GONGABU BRANCH</b> Gongabu Chowk, Kathmandu

<b>22. SURKHET BRANCH</b> Neta Chowk, Surkhet	<b>23. JUMLA BRANCH</b> Khalang Bazaar, Jumla
<b>24. BOUDHA BRANCH</b> Boudha, Kathmandu	<b>25. HETAUDA BRANCH</b> Bank Road, Hetauda
<b>26. PALPA BRANCH</b> Tansen, Palpa	<b>27. LUKLA BRANCH</b> Chaurikharka, Lukla
<b>28. NAYA BANESHWOR BRANCH</b> Naya Baneshwor, Kathmandu	<b>29. DHUMBARAHI BRANCH</b> Pipalbot Chowk, Kathmandu
<b>30. BHOTAHITI BRANCH</b> Bhotahiti, Kathmandu	<b>31. TULSIPUR BRANCH</b> Tulsipur, Dang
<b>32. TRIPURESHWOR BRANCH</b> Tripureshwor, Kathmandu	<b>33. DAMAULI BRANCH</b> Safasadak, Damouli
<b>34. KRISHNANAGAR BRANCH</b> Krishnanagar, Kapilvastu	<b>35. GAIGHAT BRANCH</b> Gaighat, Udayapur
<b>36. LAZIMPAT BRANCH</b> Lazimpat, Kathmandu	<b>37. PARSА BRANCH</b> Parsa, Chitwan
<b>38. MAHARAJGUNJ BRANCH</b> Maharajgunj, Kathmandu	<b>39. LALBANDHI BRANCH</b> Lalbandhi, Sarlahi
<b>40. LAGANKHEL BRANCH</b> Lagankhel, Lalitpur	<b>41. WALING BRANCH</b> Waling, Syangja

Source: [http://www.nibl.com.np./branch\\_network.html](http://www.nibl.com.np./branch_network.html)

### **Board of Directors**

Mr. Prithigvi Bahadur Pandey	Chairman/CEO	Group "A"
Mr. Prajanya Rajbhandari	Director	Group "A"
Mr. Deepak Man Serchan	Director	Group "A"
Mr. Krishna Prasad Sharma	Director	RBB
Mr. Rajesh Rajkarnikar	Director	Rastriya Beema Sanstan
Mr. Surendra Bdr. Sing	Director	Public Shareholder
Mr. Damodar Prasad Sharma Pandey	Director	Under BFIA

Source: <http://www.nibl.com.np./branchofdirectors.html>

Achievement of objective in every organization depends on the application of available resources most effectively. Mobilization of internal resources is one of the key factors in economic and social development of a country. Financial institutions are the major players in this field. The more healthy banking practice in an economy, the better becomes the economic development. The research study is connected with the profit planning in commercial banks with a case study of NIBL, with the major objectives of examining the proper applicability of profit planning system in the bank. Profit planning process significantly contributes to improve the profitability as well as the overall financial performance of an organization by the best utilization of resources.

Profit planning is the heart of management. It tells us profit is the most important indicator for judging managerial efficiency and do not fast happened for this every organization has to manage its profits. Various functional budgets are the basic tools for proper planning of profit control over them.

Other research study may be useful for those who want to know PPC in the NIBL. It may also helpful for future researchers as a reference materials.

Profit planning is the most useful technique for the analysis the profitability and its performance. Hence, this study provides the guideline for the technique of profit planning.

### **1.8 Limitations of the Study**

This study is focused on profit planning of NIBL. So, it believes the past "patterns" and "trends" of bank report will recur in the future and can therefore be used for prediction purpose. Nothing is out from the

limitation this study also is not an exception. Here researcher has tried to eliminate as far as possible yet here are some limitations these are as follows:

- \* The study focuses on profit planning and its application in NIBL.
- \* Since, the report is prepared in short time based on secondary data and some published sources, the outcome of the study may not be exactly this study covers the related data of the bank from FY 2062/63 to 2066/67.
- \* In this study, the sample of NIBL is selected among all the commercial banks. But these may not represent the character of financial institutions.
- \* This study is analysis with the help of financial tools and few statistical tools.
- \* As detailed analysis and presentation requires enough time and high cost but due to financial and time constraint, this study could not use all the theory of profit planning.

## **1.9 Organization of the Study**

The whole study is divided into five chapters, which includes:

### **Chapter I : Introduction**

The first chapter deals with introduction. This includes Background of the study, Nepalese Economy - current macroeconomic situation, importance of financial institutions, histories and development and banks in Nepal, statement of problem, objectives of the study, profit of NIBL, rationale of the study, limitations of the study, organization of the study.

## **Chapter II : Review of Literature**

Second chapter deals with the review of available literature. It includes review of books, reports, journals, previous unpublished thesis related websites etc.

## **Chapter III : Research Methodology**

Third chapter explains the research methodology used in the study, which includes research design, resource of data, population and sample, methods of data analysis.

## **Chapter IV : Data Presentation and Analysis**

The fourth chapter, which is the important chapter of the study, will be including presentation and analysis of data.

## **Chapter V : Summary, Conclusion and Recommendation**

The fifth chapter summarizes the main conclusion that flows from the study and offers suggestions for further improvement and conclusion of the study.

A bibliography and appendices will be attached at the end of the study.

## **CHAPTER II**

### **REVIEW OF LITERATURE**

#### **2.1 Introduction**

In this chapter, attempts have been made to review some of the basic literatures on budgeting theory including review of empirical evidence of previous studies. The researcher has presented the conceptual frame work about the commercial banks, its activities, banking practices, the legal and regulatory frame work, and profit planning concepts and its applicability in a commercial banking activities. In this connection, the researcher has reviewed various literatures in the form of books written by various authors, published newspapers, journals, browsing materials from the concerned web sites, NRB regulation, commercial act, NIBL old annual reports in the related subject matters.

#### **2.2 Concept of Commercial Bank**

Meaning of 'Bank' in oxford dictionary says 'an establishment for keeping money and valuable safely, the money being paid out of the customer's order by means of cheques. According to commercial bank Act 2031 "Commercial banks as a bank which exchanges money, accepts deposits, funding loans and performs other commercial activities and which is not specially established with the objectives of co-operative, agricultural, industrial or any other of such kind of specified purpose". (Commercial Bank Act. 2031). The major functions of commercial banks are as follows:

- Accepting various types of deposits
- Lending money in various sectors
- Letter of Credit
- Bank Guarantee
- Remittance

- Bills Receivable/payable
- Others

The commercial bank act provided for the modalities of establishing a commercial bank, as per which, a commercial bank can be established under the company act as a limited company only with the recommendations of NRB, the central bank of Nepal. By the various definitions we can bring to a close that a commercial bank is set up to collect spread funds and employ them to creative sector.

### **2.2.1 NRB Regulation**

Bank and Financial Institution Regulation Act 2063 has been introduced to supervision and control to bank and financial institution. this act was published in Nepal gazette on 2063/7/19 B.S. The main objectives of the act are as follows:

- To protect and promote the depositors rights by increasing attitude of public towards the bank and financial institutions.
- To provide qualitative services by the means of healthy competition among the banks.
- To provide guides lines about establishment, operation, management, rules regulations and legal provisions.

### **2.2.2 Evolution of Commercial Bank**

The Latin work "Bancus", Italian 'banca', French 'Banque' are the original form of the modern bank. According to some authors the work 'bank' is derived from all of above words the meaning of all words to a bench. This refers that early bankers transact their money lending activities on benches in the market exhibiting the cons of different countries in different denominations for the purpose of changing and or lending money.

Some writers are of the opinion that the word 'Bank' came from the German word 'banc' meaning joint stock fund (Varshney, 1993, p. 145). Money lenders in the streets of major cities of Europe used benches for acceptance and payment of valuables and coins. When they were unable to meet their liabilities, the depositors used to break their benches. The term "bankruptcy" is derived thereof.

Banking is as old as is the authentic history and origins of the modern commercial banking are traceable in ancient times. In ancient Greece, around 2000 A.D. The famous temples of Ephesus, Delphi and Olympia were used as depositories for peoples surplus fund the these temples were the centers for money lending transaction. The priest of these temples acted as financial agents until public confidence was destroyed by the spread of disbelief in the religion. Later, however, for a few centuries, banking as an organized system of money lending receded because of the religious belief that the charging of interest was immoral. However, the banking as we know today, made its first beginning around the middle of 12th century in Italy. The bank of Venice, founded in 1157 A.D. was the first public banking institution. Following this, in 14th century, the bank of Barcelona and bank of Genoa were established in 1401 A.D ([www.bankinginnepal.com](http://www.bankinginnepal.com)).

The ancient Hindu scriptures refer to the money lending activities in the vedic period India. During the Ramayana and Mahabharata eras, banking had become a full-fledged business activity and during the Smriti period, the business of banking was carried on by members of Vaisya community. Manu, the great law giver of the time speaks of the earning of interest as the business of Vaisyas. The bankers in the smriti period performed most of those functions which the banks in modern times performs such as the accepting of deposits, granting loans, acting as the

treasurer, granting loans to the king in times of grave crises and banker to the state and issuing and managing currency of the country. (Vaish, 1996:183)

In Nepal goldsmiths, merchants and money lenders were the ancient bankers of Nepal other countries. Tejarathe Adda established during the Prime Minister Ranoddip Sing B.S 1933, was the first step towards the institutional development banking in Nepal. Tejarath Adda did not collect deposits from public but gave loans to employees and public. Banking in modern senses started with the beginning of Nepal Bank limited (NBL) on B.S1994. NBL had Heroic accountability of attracting people toward banking sector pre dominant money lenders net and of increasing banking services. Nepal Rastraya Bank (NRB) was established on B.S 2013.01.14 as a central bank under the NRB act 2012 B.S the government had responsibility of stretching banking services to the corner of the country and also managing financial system in the appropriate system. NRB has been working as the government's bank and has contributed to the growth of financial sector. The major confront before NRB today is to make sure the healthy of financial institution. Accordingly, NRB has been trying to change them and has introduced as host of prudential measures to safe guard the interest of the public. NRB is yet to do a lost to prove themselves and efficient supervisor. NRB really requires strengthening their policy making, supervision and examination device. Government set up Rastriya Banijya Bank (RBB) in BS 2022 as a fully government owned commercial bank. Nepalese banking system has now a wide geographic reach and institutional diversification. Following table reflects the present development of commercial banking institutions in Nepal.

**Table 2.1**  
**Licensed Commercial Banks in Nepal**

<b>S.N.</b>	<b>Commercial Banks</b>	<b>Operation Year (A.D.)</b>	<b>Head Office</b>
1.	Nepal Bank Ltd.	1937/11/15	Kathmandu
2.	Rastriya Banijya Bank Ltd.	1966/01/23	Kathmandu
3.	NABIL Bank Ltd.	1984/07/16	Kathmandu
4.	Nepal investment Bank Ltd.	1986/02/27	Kathmandu
5.	Standard-Chartered Bank Nepal Ltd.	1987/01/30	Kathmandu
6.	Himalayan Bank Ltd.	1993/01/18	Kathmandu
7.	Nepal SBI Bank Ltd.	1993/07/07	Kathmandu
8.	Nepal Bangladesh Bank Ltd.	1994/06/05	Kathmandu
9.	Everest Bank Ltd.	1994/10/18	Kathmandu
10.	Bank of Kathmandu Ltd.	1995/03/12	Kathmandu
11.	Nepal Credit and Commerce Bank Ltd.	1996/10/14	Siddharthanagar
12.	Lumbani Bank Ltd.	1998/07/17	Narayangadh
13.	Nepal Industry and Commercial Bank Ltd.	1998/07/21	Biratnagar
14.	Machhapuchhre Bank Ltd.	2000/10/03	Pokhara
15.	Kumari Bank Ltd.	2001/04/03	Kathmandu
16.	Laxmi Bank Ltd.	2002/04/03	Birgunj
17.	Siddhartha Bank Ltd.	2002/12/24	Kathmandu
18.	Agricultural Development Bank Ltd.	1968/01/02	Kathmandu
19.	Global Bank Ltd.	2007/01/02	Birgunj, Parsa
20.	Citizen Bank Ltd.	2007/06/21	Kathmandu
21.	Prime Commercial Bank Ltd	2007/09/24	Kathmandu
22.	Sunrise Bank Ltd.	2007/10/12	Kathmandu
23.	Bank of Asia Ltd	2007/10/12	Kathmandu
24.	DCBL	2008/05/25	Kathmandu
25.	NMB	2008/06/05	Kathmandu
26.	Kist Bank Ltd	2009/05/07	Kathmandu
27.	Janta Bank Ltd	2010/04/05	Kathmandu
28.	Mega Bank Nepal Ltd	2010/09/17	Kathmandu
29.	Commerz and Trust Bank Nepal Ltd	2010/09/29	Kathmandu
30.	Civil Bank Limited	2011	Kathmandu
31.	Century Bank Limited	2011	Kathmandu

Sources: NRB, Mid-July, 2010.

\* Upgraded by Development Bank

+ Upgraded by Merchant bank and Finance

### **2.2.3 Existing Scenario of Banking Sector**

As mention in the previous section, there are 31 commercial banks presently in operation. 2 commercial bank are has been registered in NRB and they are coming shortly in operation. Among these banks some are established under joint venture with foreign banks while some are fully domestic bank. Out of total commercial banks, 6 commercial banks are with foreign joint venture rest of all are fully domestic banks.

### **2.2.4 Domestic Legal Provisions Regarding Banking Sector**

Nepal Rastra Bank Act, 2002 has given full authority to the Nepal Rastra Bank regarding regulation, inspection and supervision of the banks and financial institution. Bank and financial institution ordinance 2060, Which is popularly know as Umbrella Act, has recently been enacted in unified form. Agricultural Development Bank Act, 1967. Commercial Bank Act, 1974, Finance Company Act, 1986, Nepal industrial Development Corporation Act, 1990 and Development Bank Act 1996 have been repealed with the promulgation of this ordinance. The ordinance governs the functional aspect of banks and financial institution. Some of the important provisions in the ordinance regarding the banking sector have been analyzed in the chapter as follows: Any person wishing to incorporate a bank or financial institution to carry on financial transactions should incorporate a bank or financial institution as a registered public limited company under the prevailing law of Nepal with prior approval of NRB by fulfilling the conditions prescribed in section 4 of the ordinance. The individual desiring for the incorporation of such entity is required to submit an application NRB for prior approval with the prescribed documents. The NRB is required to conduct necessary investigation and grant permission to establish a bank or

financial institution with or without terms or conditions if all the criteria are met and information of disapproval with reason is also to be given to the concerned person in case the application is denied. Similarly, any foreign bank or financial institution wishing to establish a bank or financial by making joint venture investment with a corporate body incorporated in Nepal or with Nepali citizen or as subsidiary company with 100% share is eligible to furnish the application to establish a bank or financial institution. However, the ordinance is silent about the percentage of equity investment in joint venture; such foreign corporate body can invest. It has been regulated by regulation till now as 75%. The ordinance prohibits anybody to conduct financial transaction except an established bank or financial institution and no bank or financial institution can use the proposed name for the purpose of carrying financial transaction with out obtaining license from NRB. The bank or financial institution desiring to conduct financial transaction must submit an application for license to the NRB in the prescribed form including the prescribed fees, documents and description. NRB will grant license if it is satisfied with the basic physical infrastructure of the bank or financial institution. If the issuance of license for operating financial transaction will promote healthy and competitive financial intermediary and protect the interest of the depositors, the application is competent to operate financial transaction in accordance with the provision of this ordinance and its regulation, directive, order or provisions of memorandum and Article of Association and there are sufficient grounds to believe that the entity is competent to operate financial transaction. (*www.banking in nepal.com.np*)

The NRB will classify the institutions into A, B, C, D groups on the basis of the minimum paid up capital and provide the suitable license

to increase its authorized, issued and paid up capital if it seems necessary. Similarly, the license holder entity must maintain a capital fund according to ratio prescribed by NRB based on the basis of its total asset or risk weighted assets, and other transactions. At the same time the license holder entity must maintain a risk fund according to ratio prescribed by NRB based on the basis of liability relating to its total asset and the other risk to be borne from off balance sheet transaction. The license holder entity must maintain general reserve fund regularly every year till the amount becomes double of the paid up capital of such entity. The bank of financial institution can be upgraded if the authorized capital is enough for upper class, the institution has been able to make profit for last five years and the non-performing asset is within the prescribed limit. Similarly, the bank or financial institution can be degraded if it fails to meet prescribed capital within the time period, it has been making loss for last five years, it has violated the directives of Rastra Bank time and again and it fails to maintain Risk Management fund as prescribed by it. The NRB will make necessary investigation and avail opportunity to clarify before taking such decisions. The NRB is in full power to deny license for financial transaction if the conditions taking to account the existing financial position of the bank or financial institution, the interest of depositors and healthy operation of financial transaction. Similarly, it may increase, decrease or modify the terms and conditions time to time. The NRB can suspend the license of the license holder for a specific period of time issued for the purpose of carrying financial activities or it may order the bank or financial institution to close the operation of their office partially or fully if such a license holder acts against the provisions of the Nepal Rastra Bank Act, 2002, or the regulation made there under or fails to act in accordance with the order or directives issued by it or fails to act for the welfare and in the interest of the depositors. The NRB

may cancel the license issued under this ordinance to carry on the financial transaction of the license holder under the certain circumstances as stipulated in the ordinance. A foreign bank or financial institution desiring to open its office with in the kingdom of Nepal must submit an application to NRB in the form as prescribed along with the fees and particulars as prescribed. The NRB may issue a license to foreign bank or financial institution to carry on financial transaction by allowing them to open a office with the kingdom of Nepal taking into account the situation of completing existing tin the banking sector, the contribution that could be rendered in the Nepalese banking sector and the reputation of such foreign bank or financial institution. The NRB may specify necessary terms and condition in the course of granting transaction license and it shall be duty of the foreign bank or financial institution to comply with such terms and conditions. (*www. bankinginnepal.com.np*)

### **2.2.5 Activities of a Commercial Bank**

As per the Commercial Bank Act 2031, a 'Bank' is a commercial bank established under this act 'Banking Transaction' are the activities of accepting deposits from the others for the purpose of lending or investing, repayable on demand or after some stipulated time period by means of generally accepted procedure (Commercial Bank Act, 2031).

The functions or receiving money from his customers and repaying it by honoring their cheques as and when required is the function, above all function, which distinguish a banking business from any other kind of business. The major activities of a commercial bank essentially accepting deposits and making loans and advances. On the present scenario banking activities are not limited only accepting deposits and lending loan and advance, others income generating activities has been added as in time

span like remittance services, land development and housing project, locker facilities, debit and credit cards, bank guarantee, bill payments services etc. The major activities of a commercial bank have been divided in to two parts are as follows:

- \* Collection of Resources
- \* Deployment or mobilization of Resources

### **2.2.6 Impact of National and International Situation on Commercial Bank**

Despite the current political instability in the country, the total flow of domestic credit has increased during the year. This is mainly because of substantial growth of credit flow to government and non-financial government corporations like NOC, NAC and National Trading etc. However, the prolonged conflict in the economy has started taking its toll on the private sector. The delay in peace process, the current security condition, and the significant imbalance in the political situation of the country have opened up few doors for new investment opportunities. On the one hand, private sector credit is steadily declining and on the other what little extension there is, getting riskier. On the positive side, the living standard of Nepalese people has risen due to the direct impact of more and more Nepalese people working abroad. The Nepal Living Standard Survey (NLSS)-II Released by the Central Bureau of Statistics (CBS) states that in nominal terms, average household income has grown by more than 80 percent. This is an important factor which the Banks have capitalized on, as is evident from the growing competition amongst the banks to extend consumer loans. Nepal has shown good initiation and commitment in following the rules and regulations laid down by the South Asian Free Trade Agreement (SAFTA), scheduled to become a reality from January 1 2006, and Bay of Bengal initiative for Multi-

Sectorial Technical and Economic Cooperation (BIMSTEC). Nepal's recent entry to SAFTA and BBIMSTEC has setup a ladder for possible economic growth in the future. Similarly, Nepal's accession to the World Trade Organization (WTO) our service quality in order to compete with them. In view of these, it is imperative for the Bank to have its business plan and strategy accordingly. (*www.nibl.com.np*).

### **2.3 Profit Planning as a Concept**

Profit planning and control is also called comprehensive budgeting, managerial budgeting and budgeting only. The word profit planning and control has recently introduced in the business literature. Most of profit oriented business concerns use profit planning and control as a managerial tools.

"A profit planning and control program can be one of the more effective communication networks in an enterprise. Communication for effective planning and control requires that both the executive and the subordinate have the same understanding of responsibilities ensure a degree of understanding not otherwise understanding of responsibilities and ensure a degree of understanding not otherwise possible. Full and open reporting in performing reports that, focus on assigned responsibilities like wise enhance the degree of communication essential to sound management" (Welsch, Hilton and Gordon, 2001, p. 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, p. 245)

"Profit planning is a predetermined detailed plan of action developed and distributed as guide to current operations and as a partial

basis for the subsequent evaluation of performance. Thus it can say that profit planning is a tool which may be used by the management in planning the future course of actions and controlling the actual performance"(Gupta, 1992, p. 3).

"Profit planning is comprehensive and co-ordinate plan expressed in financial terms for the operations and resource of an enterprise for some specific period in the future" (Fremgen, 1973, p. 12).

"Comprehensive profit planning and control is a systematic and formalized approach for accomplishing the planning, co-ordination and control responsibilities of management. (Welsch, Hilton and Gordon, 2001, p. 45) Profit plan as an exact and rigorous analysis of the past and the probable and desired future experience with a view to substituting considered intention for opportunism in management the establishment of a system of periodic performance reports detailed by assigned responsibility and follow up procedures. (International management institution Geneva conference, 1980)

The role of profit planning and control is very important in profit oriented enterprises. Roles of PPC are as follows:

- To provide definite goals and objectives that serve as benchmarks for evaluation performance of business.
- To provide information to management timely.
- To point out efficiency and inefficiency.
- To reduce cost and make profit more.
- It provides a valuable means of controlling income and expenditure of a business, as it is a 'plan for spending'.
- It reflects weakness in the organization very promptly.
- To fix responsibility center for manager.

- It provides a tool through which managerial policies and goals are periodically evaluated tested and established as guidelines for the entire organization.

"Profit plan is estimation and predetermination of revenues and expenses that estimated how much income will be generated and how it should be spent in order to meet investment and profit requirements. In the case of institutional operation it presents a plan for spending income in a manner that does not result in a loss" (Ninemeir and Schmidgall, 1984, p. 125)

Profit plan stand for an overall plan of accomplishment, covers exact period of time and prepares the planning decision of the management. It can be viewed as one of the major important approaches that have been developed to make easy successful presentation of the organization procedure. Now a days profit planning system is mainly common to business organization but the viability of it depends upon the size of the business. The common objectives of profit planning system whether applied to business administration are to make policy as well as with the execution of policy. And a purpose established after the deliberation of the feasible courses of events n the future. In conclusion profit planning is directed towards the final objectives of the enterprises and generally includes all of its important elements. It has main objectives of achieving the most favorable profit in the enterprises.

## **2.4 Mechanism of Profit Planning**

### **2.4.1 Profit as a Concept**

Profit is excess income over expenditure. Profit is a basic element of profit planning and control. There is no meaning of profit planning and control with out profit. Every profit oriented business concerns involves

to profit generating activities. "Oxford dictionary defines profit as financial gain or amount of money gained in business especially the difference between the amounts earned and the amounts spent. Like wise, advantage of benefits gained from something is called profit "(Hornby and Cowie, 1992, p. 63). The successes and failure of business entity measures by profit earned by them in certain period of time. The major concern of stock holder is profit so organization always wants to maximization of profit. Performance of management of organization measured by profit and loss. Survivability and sustainability of enterprises depends on profit.

#### **2.4.2 Long Term and Short Term Profit Planning**

Strategic profit plan and tactical sales plan is known is long term short term profit planning. Strategic sales plan is prepared for 10 years. It is wide and universal in nature and developed by year and amount.

"The strategic profit plan is broad and it usually encompasses five or more years in the future. The tactical profit plan is detailed and encompasses one year time horizon the up coming year. The development of strategic and tactical profit plans each year is a process that involves managerial decision and ideally a high level of management participation" (Welsch, Hilton and Gordon 2006, p. 173). While preparing the strategic profit plan state of economy, political stability, population study etc are keep in considerations. Like wise, tactical profit plan is prepared for short period of time. By the time it is prepare for a month, quarter, half year and a year.

### **2.4.3 Concept of Planning and Control**

Planning is the basic element of profit planning and control. Planning is going according to plan the primary purpose of planning are to reduce uncertainty about future profit, to incorporate management judgment and decisions in to the planning process, to provide necessary information for developing other elements of comprehensive profit plan and to facilitate management control of sales activities. Operational planning is often referred to as short term budgeting and looks at resources, production etc for a financial period, usually a year. It provides a detailed plan of what the organization hopes will be achieved within the next financial year. Strategic planning often referred to as the long term plan and looks at where the organization is heading over a number of years. for example of five year plan would be a long term plan it presents the organization with an idea of the broad direction that it hopes to be heading in. The Strategic plan will incorporate the operational plans of the organization. The operational plan translating the strategic plan into achievable short term goals" (Lynch 2003, p. 158)

"Planning is the process of developing enterprises objectives and selecting a future course of action to accomplish them. It includes developing premises about the environment in which they are to be accomplished "(Welsch, Hilton, Gordon, 2001, p. 45). Arrangement for doing or using something considered or worked out in advance is planning." Planning is the feed forwards process to reduce uncertainty about the future. The planning process is based on the conviction that management can plan its activities and condition the state of the enterprises that determine its destiny" (Pandey, 1991, p. 325). Planning is a quantified assessment of future condition about a particular subject

based on one or more explicit assumption. The management of organization make plan and it may accept, modify or reject. Planning is the intellectual mental process. It is goal oriented primary function of management. It is goal oriented primary function of management.

"The major component of profit planning and technique is controlling. The dictionary meaning of control is having a power to regulate something standard of comparison of checking the results of the experiment" (Hornby 1992, p. 84) "Control is the process that measures current performance and guides it towards some pre determined goals control is the process of checking to determine whether or not plans are being adhered to whether or not proper progress is being made towards the objectives and goals and acting if necessary to correct deviations. Controlling can be defined as a process of measuring and evaluating actual performance of each organizational component of an enterprise and initiating corrective action when necessary to ensure efficient accomplishment of enterprise objectives, goals, policies and standards. Planning establishes the objectives, goals, policies and standards of an enterprises control is exercised by using personal evaluation periodic performance, reports and special reports. Comparison with standard and actual is called controlling. Controlling is a one of the important aspect of managerial function.

## **2.5 Merits and Demerits of Profit Planning Technique**

Profit planning technique has both merits and demerits even though merits are dominant one. Merits of profit planning and control listed below.

- Profit planning techniques brings organizational policy into action.

- Organizational structure will be sound and effective by the means of PPT.
- Historical statistical and accounting data is used by PPT.
- It compels management to plan for the most economical use of labor material and capital.
- Efficiency and inefficiency can be measured by PPT.
- Management attention can be drawn by PPT for the general business condition.
- It reduced cost by increasing the span of control because fewer supervisors are needed.
- PPT creates understanding between management and their co-workers.
- PPT reduce the uncertainty and gives guidelines to achieve organizational goal.
- It provides to all level of management the habit of timely, careful, and adequate consideration of the relevant factors before receiving important decisions.

Profit planning technique can't be assumed that it is free from problem. Some of its demerits listed below.

- Preparing profit plan is a difficult task.
- Some of traditional types manager don't like to prepare profit plan.
- It is not realistic to without and distributes goals, policies and guidelines to all the supervisors.
- It takes away management flexibility.
- It creates all kinds of behavioral problems.
- It adds a level of complexity that is not needed.
- The manager's supervisors and other employees do not like the budget.

## **2.6 Profit Planning in Commercial Banks**

Profit planning in manufacturing sector is common it has been started in organization like banking sector too. Development of profit plan in banking sector begins with the preparation of various functional budgets. A bank prepares budget for deposit collection, lending expenditure, income, investment, non fund base business etc. these budget are taken as functional budgets despite this budget now a days bank also prepare for future plan this is called profit plan.

### **2.6.1 Planning for Resources**

Planning for resources is functional plan for banking sector. This is also a starting function all the planning depends on resource planning. The major resources of bank share capital and deposit. The lending and investment plan depends on the resources plan. Deposit is a primary sources of resources collection. There are various types of deposit in the bank some are interest free and some are with interest. A proper mix of cost free and costly deposits corresponding to short term and long term deposits are to be maintained by the banks in its deposit mix in order to minimize its average cost of deposit at the some time having comfortable mix of income yielding assets. Besides the deposits other resources are borrowing by inter bank loan. Certain rate of interest is directed by the NRB for inter bank loan the bank can fulfill short term requirement by taking inter bank loan too. Another resource is reserves and provision of banks.

Collection of resources is one of the major functions of banks whereas deployment of such resource is also as important as this. The assets portfolio is determines by the planning for deployment. Bank can utilized their fund basically in three types of investment sector like liquid

assets, lower income generating assets higher income generating assets. Liquid assets means banks should maintain certain percentage of total deposit for their short term fund requirement i.e. called liquid assets management. Secondly bank can invest in securities, treasury bills etc. i.e. lower income generating assets and last in higher income generating assets is interest generating sector like loans and advance. Most of the portion of deployment is in the loan and advance of a bank. 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.

### **2.6.2 Non-Fund Consuming Income Plan**

Income without investing of banks fund is called non funded income. They are LC, Bank guarantee payment of bills etc. A source of income which is generating with out any investment is called non funded business activities.

### **2.6.3 Planning for Expenditure:**

Income can't imagine with out expenditure so expenditure should be planned in proper way. The expenses planning and controlling are very essential for supporting the objectives and planned programs of the business concens. The income after deducting all of expenditure is called profit so in the process of profit planning the expenditure planning plays the vital role. A bank always tries to control their expenses by preparing periodical budget. Expenditure minimization means that the profit maximization so the expenses must be planned carefully for developing a profit plan. In a bank there are generally following expenses.

- Administrative expenses
- Interest expenses

- Operating expenses
- Loan loss provisions
- Bad debts
- Non-operative expenses
- Expenses by the exchange fluctuation etc

Interest expense in direct expenses for the financial institution. It is paid in to customer interest bearing deposit as per the bank's rules or agreed rate between bank and customer. Payment of interest is capitalized in same account of customer after deducting government tax prevailing rate of tax is 5% for persons and 15% for corporate. The expenditure side of bank's income statement is covered by interest by the large amount than other expenses so interest expenses are major and direct expenses. In the total income after deducting the interest expenses are major and direct expenses. In the total income after deducting the interest expenses rest amount called contribution margin. Other expenses are administrative expenses those are generally incurred by the bank during the course of its day to day operation. Other expenses depend of the volume of the transaction. Higher the volume of transacting higher will be operating expenses.

#### **2.6.4 Planning for Revenue**

The major expenditure of banks is interest and also major head of income is also interest. The main income source of bank or financial institution is interest margin. A bank lends their fund by taking some margin. The sources of income for bank is not only the interest other non funded sources are also can generate income whereas interest is dominant one. The major sources of revenue for a bank are listed below:

- Interest income

- Dividend received/earned
- Commission and Discount
- Miscellaneous income
- Foreign exchange income
- Remittance income
- Other non funded incomes

Income of a bank is basically activity based it depends of the volume of business. Higher the income generating activities of bank, higher will be amount of its revenues. Therefore the bank develops its plans for various activities in such a way that it maximizes its income.

## **2.7 Application of Profit Plan in Banking Sector**

Traditionally comprehensive profit planning and control was applicable only to large manufacturing and complex organization. But in the modern concept the profit planning and control is applicable non-manufacturing enterprises too, like service companies, financial institutions, hospitals, retail business, construction companies etc. The fact that a company has peculiar circumstances of critical problem is frequently a good reason for the adoption of certain profit planning and control procedures. In respect to size, when operations are extensive enough to require more than one or two supervisory personnel, there may be a need for profit planning and control application.

Now a days banking sector are also curious about preparing profit plan budget. Functional budget only gives their operational plan whereas PPC gives idea about profit maximization.

## 2.8 Execution

The only preparing profit is use less while it doesn't come in execution. The plan should be developed with the confidence that the enterprises are going to meet or exceed all major objectives. The final examination of whether the hard work and cost in developing a profit are worth while is its helpfulness to top management.

"The development of an annual profit plan ends with the planned income statement, the balance sheet and planned statement of changes in financial position. These three statements summarize and integrate the details of plans developed by the management for the period. They also report the primary impact of detailed plans on the financial characteristics of the firm. Before redistributing the completed profit plan it is generally desirable to recast certain budget schedules so that technical accounting mechanics and jargon are avoided as much as possible. The redesigned budget schedules should be assembled in on logical order, reproduced and distributed before the first day of the upcoming budget period. The profit plan completion date is important. Issuance of a profit plan after the beginning of the budget period is one sure way of destroying much of budget potential. Timely completion of the planning budget suggests the need for a budget calendar." (Welsch-1999, p. 265)

The manager of each responsibility center obtains an approved profit plan for his center and it becomes the basis for current operations and selection considerable coordinate and controlling belongings.

After execution of profit planning the performance should be reported. Its phase of a comprehensive PPC program significantly influences the extent to which the organization's planned goals and

objectives are attained. Performance reports deal with control aspect of PPC. The control function of management defined as "The action necessary to assure the objectives, plans, policies and standards are being attended." Performance reports are one of the vital tools of management to exercise its controls function effectively.

## **2.9 Review of Previous Studies**

Profit planning and control played the vital role in overall profitability management which provides the guideline for the achievement of organizational goals and objectives. Various studies have been conducted for the behaviour of profit planning. Regarding this various empirical studies have been conducted in related area of profit planning. There are many researches carried out by different researchers in this topic.

The profit planning in the context of particularly commercial banks seems to be a new subject of study for research and analysis. So far this researcher could find some studies that have been made in this topic. Here are reviewed some theses some are in the manufacturing sector and some are related with the financial sector which can help us to understand about their objectives, used statistical tools and major findings about this topic.

Sharma (2002) had conducted a study on "Profit Planning in Commercial Banks: A Case Study of Nepal Bangladesh Bank" The major concern of Mr. Sharma is to study the profit planning in commercial bank by taking a case study of Nepal Bangladesh Bank. His major objectives and some of the major findings are as follows:

## **Objectives**

- To highlight the current profit planning premises adopted and its effectiveness in NB Bank.
- To observe NB bank's profit planning on the basis of overall managerial budgets developed by the bank.
- To analyze the variance of budgeted and actual achievements.
- To study the growth of the business of the bank over the period.
- To provide suggestion and recommendation for improvements of the overall profitability of the bank.

## **Major Findings**

- NB bank has adopting a policy of keep minimum number of employees as possible.
- The decision making process in highly centralized.
- NB bank lacks active and organized planning department to undertake innovative products R and D works.
- Lack of staff training.
- NB bank has policy of taking highly qualified employees.
- The rate of expansion of branches of NB has increased.
- Controlling function of the branches are so far being carried out directly by Head Office, which may be difficult in the days to come because of its wide geographical extend.
- Objectives of the Bank are expressed in literary form and not specified clearly.
- The major resources of NB bank are cost bearing deposit.
- The budgeted and actual deposit mobilization by the bank has been well meet every year.
- Major portion or resources has been deployed in loan and advances.

- The budgeted and actual deployment has been met every year.
- The interest expenses of the bank are fund increasing each year corresponding to the increase in deposit. The interest expenses are perfectly and positively correlated with deposit.
- The amount of interest income is increasing every year corresponding to increase in LA. There is a perfect and positive correlation between interest income and loan and advances.
- The other income of bank is also in increasing trend.
- The bank has suffered of by loss during the first year of it's operation. It is in constantly increasing trend afterward. As the rate of growth of spreads is higher than burden the profitability of the bank is increasing.

Karki (2002) had conducted a research in "A Comparative Study on Budgeting system of Rastriya Banizya Bank and Himalayan Bank limited". Some of major objectives and findings are as follows.

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

**Some findings are**

- Total revenue and total cost of RBB is higher than HBL but its profits are lower.
- Governments seems less conscious in the present situation of RBB.
- In case of RBB, its deposit, total revenue, loan and advances are increasing every year whereas the profits are negative of highly fluctuating, which is mainly due to high fluctuation in cost.
- As the accounting system, of RBB is careless that it has not been audited form the FY 1993/94 and it difficult to take decision about data analysis.

- No proper planning strategy seems to be developed although HBL is operating at profit but RBB is running with heavy cumulative loss.
- Interest coverage ratio of both banks is more than 1 except in the FY 1995/096 of RBB It shows that interest paying capacity of both the banks is sound but the ratio of HBL is higher than the ratio of RBB. It means HBL is stronger to pay interest liability.
- Interest spread is higher in RBB than in HBL.
- Return on paid of capital is always negative in RBB. Net profits also negative in RBB.

Tiwari (2003) had conducted a research entitled "Profit Planning in Commercial Banks: A Case Study of Standard Chartered Bank Limited" For this purpose of the study he used the data. The major concern of Mr. Tiwari is to study the profit planning in commercial bank by taking a case study of SCBL. His objectives and some of major findings are as follows.

- To highlight the current profit planning premises adopted and it's effectiveness in SCBNL Bank.
- To analyze the variance of budgeted and actual achievements.
- To study the growth of the business of the bank over the period.
- To provide suggestion and recommendation for improvements of the overall profitability of the bank.

### **Major Findings**

- Bank is awarded by 'Bank of the year 2002 Nepal'
- Bank management policy is very strong. It kept minimum number of employees number of employees and highly qualified for maintain the job
- The bank always adopt new technology
- The Bank provides ATM and 365 days of services for customers.

- The Bank provides funds for NGOs and Scholarship for the schools.
- The Bank is adopting new Accounting Policy prescribed by NRB.
- Customer deposit collection is the main resources mobilization of the bank.
- Loan, Allowance and Bill purchasing hold the highest outlet of resources deployment
- There is no significant relationship between budgeted and actual LABP.
- Bank's actual deposit is more variable than actual outstanding LABP. Hence, the coefficient of variation of actual deposit is highest than actual outstanding liability LABP.
- LABP holds highest outlet resources deployment among the various portfolios.
- Actual LABP are increasing trend.

Thapa (2006) had study on "Profit Planning in Merchandising company: A Case Study of National Trading Limited" his objectives and major findings areas follows:

**Objectives:**

- To examine the practical and effectiveness of profit planning in National Trading limited.
- To analyze the various functional budgets adopted by National Trading Limited.
- To evaluate the performance of budgeted and actual in NTL.
- To provide summary finding and recommendation.

### **Some of Major Findings:**

- NTL does not take in account its weakness and strength to support planned activities.
- NTL fails to maintain its periodic performance report for the evaluation of performance to find the underlying causes of poor achievements.
- It seems that budgeted sales are higher than actual sales.
- Financial position of NTL is not satisfactory.
- There is low degree of positive correlation between sales and profit and negative correlation between profit and assets.
- There is not completed and comprehensive budgeting system.
- NTL is operating above BEP and enjoining profit but not appropriate.

Kharel (2008) has conducted a research on "Profit Planning of Commercial Banks in Nepal: A comparative study of Everest Bank Limited, Nabil Bank Limited, and Bank of Kathmandu Limited" his objectives and major findings re as follows;

### **Objectives:**

- To find out the relationship between total investment, loan and advances, deposit, net profit and outside assets.
- To identify the investment priority sectors of Commercial Banks.
- To assess the impact of investment of profitability.
- To analyze and forecast the trend and structure of deposit utilization and its projection for five years of commercial banks.

### **Some of major findings:**

- The liquidity position of EBL is comparatively better than that of Nabil and Bok. In spite of the current ratio is average among the

other two banks EBL has maintained the cash and bank balance to meet the customers demand.

- EBL has invested highest sectors like government securities than BOK and lesser portion than that of Nabil.
- From the analysis of assets management ratio it can be found that EBL is in better position as compared then that of Nabil and Bok.
- EBL has invested the highest portion of total working fund on government securities as compared to Nabil and BOK.
- Due to more efficient loan policy, Nabil suffers less from loan loss provision.
- BOK has higher investment on shares and debentures to total working fund ratio.
- The interest earned to total outside assets and return on total working fund ratio of EBL is lowest of all.
- The return on loan and advances ratio and return on assets of EBL is lowest of all. The ratio suggests that the earning capacity of the banks loan and advances is satisfactory.
- 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 getting higher return that is interest cost.
- The degree of risk is average on EBL. The credit risk ratio is higher than the compared banks. However the lowest C.V. of credit ratio and average C.V of liquidity risk ratio and capital ratio over the study provided for the assurance of consistency of the degree of risk.
- EBL has showing its good performance by increasing the total deposit loan and advances 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 profit of EBL shows better position than that of NABIL and BOK.

Bajgai (2009) had conducted a research on “Profit Planning in Commercial Bank: A Case Study of Nepal Investment Bank Ltd.” His research was based on primary data as well as on secondary data and information. The objectives of his study are as follows:

- To evaluate the various between budgeted and deposit performance.
- To provide suitable suggestion and recommendations whereas necessary for information and NBIL.
- To calculate comparative revenue and cost efficiency and customer services.
- To identify the performance of budgeted and actual in NIBIL.

His major findings are as follows:

- The contribution margin fluctuating trend.
- The budgeted and deposit development had been met every year.
- It has launched new branches rapidly.
- The other income and bank is increasing trend every year. And other expenses of bank was also in increasing trend.

Karki (2010) had conducted a research entitled "Production budgeted in and its impact on profit plan (A case study of Nebico Pvt. Ltd.). His research was based on primary data as well as secondary data and information.

Some of the remarkable findings were as follows:

- No clear and defined guideline for objective, responsibility and duties.
- Lack of decision making power at middle and lower level.
- Lack of effectiveness inventory policy.
- Lack of effective controlling tools to reduce unnecessary costs.
- Need to establish a separate research and development for better result in factor.
- Need to increase a systematic approach towards comprehensive profit planning.

## **2.10 Research Gap**

Today's world is marketed by rapid changes and new developments, 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 researcher and 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 the profit planning system of manufacturing organization or production oriented activities. The researcher could find some study so far that has been related to profit planning system of commercial bank in Rastra Banijya Bank, Himalayan Bank, Standard Chartered Bank, Nepal Bangladesh Bank. All the dissertations have pointed out that there is no proper profit planning system and recommend for the effective implementation of profit planning system in the concerned institution. Through many affiliate researchers have been done in this area but these have been very few exclusive researchers on this subject. This study may be a new study in this field a no study has been made profit planning of NIBL. In the past financial institution were depends only the interest margin in present economic dynamism only the interest margin is not sufficient to improve profitability so this researcher has tried to analyze the extra ordinary items of income generation in financial instruction. To bring the forth the new developments and to bridge the gap between the pat of research and the present situation, I set out to conduct the research in this stimulating topic. I have been through many literature reviews and given my best to fulfill this work. In my research effort had been made to understand the Profit Planning and control in commercial bank and I hope this research will be fruitful for future researchers as reference.

## **CHAPTER III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

The main purpose of this chapter is to discuss the research methodology such as research design, population and sample. Data collection technique and analytical tools of the research study. It is widely accepted that research is simply the process of arriving at dependable solution to problem through the planned and systematic collection, analysis and interpretation of data. It is important tools for advancement of knowledge and accomplishment of purpose, thus research methodology is a way to systematically solve the research problem. It may be understood as science of studying how research is done scientifically".(Kothari, 1990/Shakya 2008, p.57). Research methodology, as a vital part of research study, describes the various sequential steps to be adopted by researcher in studying research problem along with the logic behind them.

This study has intense relation with application of planning and control in a commercial bank with a specific reference to Nepal Investment Bank regarding the objectives to analyze, examine and interpret the application of profit planning in the Bank. The Research methodology includes, research design, data collection procedures, and research variable and tools use. For our purpose the following steps provides useful procedural guidelines so far as research methodology is concerned.

### **3.2 Research Design**

This study is a case study in nature. A true research design is basically concerned with various steps to collect the data for analysis and draw a relevant conclusion. Recommendation is another important aspect of design strategy. The research design allows the researcher to take an appropriate measure and direction towards the predetermined goals and objectives. A research design is the arrangement of conditions for the collection and analysis of data in a manner to combine relevance to the research purpose with economy in procedure. Research design is the plan, structure and strategy of investigation imagines obtaining answers to research questions and controlling various things. This study is an examination and evaluation of budget process in profit planning program of Nepal Investment Bank. Various functional budgets and other related accounting information's and statement of Bank are the materials to analyze and evaluate the profits planning system of the Bank. Descriptive as well as analytical research designs have been adopted in this research. This is a case study research.

### **3.3 Population and Sample**

This research aims to studying the profit planning aspect of commercial bank taking the case study of a single bank Nepal Investment Bank, and data have been analyzed for five years so the five years data have been taken as sample for this case study.

### **3.4 Sources and Collection of Data**

Here both primary and secondary data has been used for this study. The primary data can be taken from informal discussion with executives. But this study is mainly based on secondary data. The main sources of

secondary data are quarterly and annual reports, official records, web site, brochures, prospectus and other relevant publications of NIBL, NRB, Central Bureau of Statistic and relevant publications. From these sources the relevant historical data are gathered for analysis purpose.

### **3.5 Analytical Tools**

We have analyzed the data by using various statistical, Mathematical and financial tools in this study.

#### **3.5.1 Statistical and Mathematical tools:**

We have analyzed the data by using following statistical and mathematical tools.

- Percentile Increment
- Mean
- Standard Deviation
- Correlation of coefficient
- Coefficient of variation
- Probable Error
- Coefficient of Determination

##### **3.5.1.1 Percentile Incensement**

This statistical tools gives the percentage change of previous year to current year. This tools helps to find out the increment in the study variable. Simply, the word percentage means per hundred. In other word, the fraction with 100 as its denominator is known as percentage and numerator of this fraction is known as rate of percent.

### 3.5.1.2 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 observations is their sum divided by the number of observations.

### 3.5.1.3 Correlation coefficient

Correlation analysis is a statistical tool. It is used to determine if movements in one variable are accompanied by movements in the other. These quantities are correlated. It shows the effect on one variable due to the change in another variable. The degree of relationship between the variables under consideration is measured through correlation analysis. The Pearson's coefficient of correlation is widely used in practice and is denoted by the symbol "r". The formula for computing Pearson's "r" is:

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}}$$

Where,

r = the correlation coefficient

x = X -  $\bar{X}$

y = Y -  $\bar{Y}$

X = Independent variable

Y = Dependent variable

Following general rules are applied to interpret the coefficient of correlation:

When

$r = +$ , it means there is a perfect positive relationship between the variables.

When

$r = -$ , it means there is a perfect negative relationship between the variables.

When

$r = 0$ , it means that there is no relationship between the variables i.e. the variables are uncorrelated.

#### **3.5.1.4 Regression Analysis**

Regression is the statistical tool which is used to determine the statistical relationship between two or more variables and to make estimation of one variable on the basis of other variables 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.

#### **3.5.1.5 Standard Deviation ( $\sigma$ )**

The standard deviation is the absolute measure of dispersion. It is defined as the positive square root of the mean of the square of the deviation taken from the arithmetic mean. The greater the amount of dispersion or variability, the greater the standard deviation, the greater will be the magnitude of the deviation of the 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.

### **3.5.1.6 Coefficient of Determination**

The square of correlation coefficient is called coefficient of determination.

### **3.5.2 Financial Tools**

Ratio Analysis and CVP analysis has been used in this study as financial analytical tools. Ratio analysis is main focus as financial tools through out the study as "Ratio analysis is such power full tool of financial analysis that thought the help of it economic and financial position of business unit can fully x-rayed" (Kothari, 1971, p. 197)

## **CHAPTER-IV**

### **PRESENTATION AND ANALYSIS OF DATA**

This chapter is devoted to the presentation, analysis, interpretation and scoring the empirical finding out of the study through definite course of research methodology. To achieve the stated objective of the study researcher has tabulated the available data in different chart, table and analyzed using tools where necessary and applicable stated in the research methodology.

#### **4.1 General Introduction of Nepal Investment Bank (NIBL)**

Nepal investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French Partners. The French partner (holding 50% of the capital of NIBL) was credit Agricole Indosuez, a subsidiary one of the largest banking group in the world. With the decision of Credit Agricole Indosuez to divert, a group of Nepalese companies comprising of bankers, professionals, industrialists and businessmen, has acquired on April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd. The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting (AGM). The shareholding pattern of NIBL is group of Nepalese companies holding 50% of the capital Rastriya Banijya Bank holding 15% of the capital. Rashtriya Beema Sansthan holding 15% percentage. The remaining 20% being held by the General Public. "The NIBL's vision is to be the most preferred provider of Financial Services in Nepal". The bank has 2000 Million of authorized capital and the proposed amendment of authorized capital of bank is NRs 4000 million for the purpose of bonus share and issue of right share. Issued capital of the bank is NRs

1203.9154 Million and fully paid up. (Source Annual report of NIBL 2066/67) NIBL has a history of providing high quality services to valued customers and sound return to stakeholders over two decades. it is the mission to continue this legacy and sustain growth path. The Bank has been awarded the prestigious award "Bank of the Year 2008" by the London-based Financial Times Group's The Banker-making it the first Nepali Bank to win the award three times. (Sources Kantipur daily 12th Mangsir 2065) NIBL had also won the "Bank of the Year 2005". The Bank was selected for this honor amongst the Nepali banks be meeting the stringent benchmark criteria set by the Banker. The award is based on the growth and performance in terms of capital, assets, and return on equity and management quality. The Bank of the Year 2008 award has energized to remain focused on NIBL mission. Winning this award for the third time has not only recognized the overall banking value it has created for the market but has testified endeavors to live up to the expectations of ever growing loyal customer base. Likewise the bank has awarded by "Best Presented Accounts Award -2006" by the institute of Chartered Accountants of Nepal (ICAN). NIBL has 40 branches and 80 ATM counters it has target of 50 branches up to year 2011 (*www.nibl.com.np*).

#### **4.4.1 Mission Statement of NIBL**

To be the leading Nepali Bank, delivering world class service through the blending of stat-of-the art technology and visionary management in partnership with competent and committed staff, to achieve sound financial health with sustainable value addition to all our stakeholders. NIBL is committed to do this mission while ensuring the highest levels of ethical standards, professional integrity, corporate governance and regulatory compliance. (*Source: www.nibl.com.np*)

## **4.2 General Activities of NIBL**

Every business concern has an objective of profit making likewise commercial banks also has same objective of making profit. NIBL as a commercial bank performs various activities to achieve the objective and give sufficient return to stake holders. The general activities of NIBL are listed below:

- Collection of Deposits
- Providing loan and advances
- LC services
- Remittance services
- Issuing bank guarantee
- On line Bill payment services
- Safe locker services
- Credit/Debit cards
- Trade finance
- Bills Purchase
- Export Credit
- Clearing/Collection

## **4.3 Profit Plan of Nepal Investment Bank Limited (NIBL)**

The bank prepares the some of functional business budgets which includes the business budget, revenue, expenditure, and profit plan. The business budget is estimation of business activities to be performed and the goals to be achieved by the bank with in the particular fiscal year. The strategic plan of NIBL set some targets and used to be limited only up to the top management level were not published for the public. The business budget consists the total activities to be performed, broadly in terms of

resources mobilization and deployments. The profit plan of NIBL is as follows:

- Resources mobilization planning
- Deployment of resources planning
- Non-fund consuming business activities plan
- Revenue and expenditure plan

(Source: Budget Statements of NIBL)

#### **4.3.1 Resource Mobilization Planning**

The resources means required fund for the bank operation. It includes capital fund, loan and borrowing, deposit collection and other liabilities. Among these same resources are cost bearing and some are cost free sources. Here the researcher going to present status of available resources of NIBL in tabular and chart form.

**Table 4.1**  
**Status of Available Resources of NIBL**

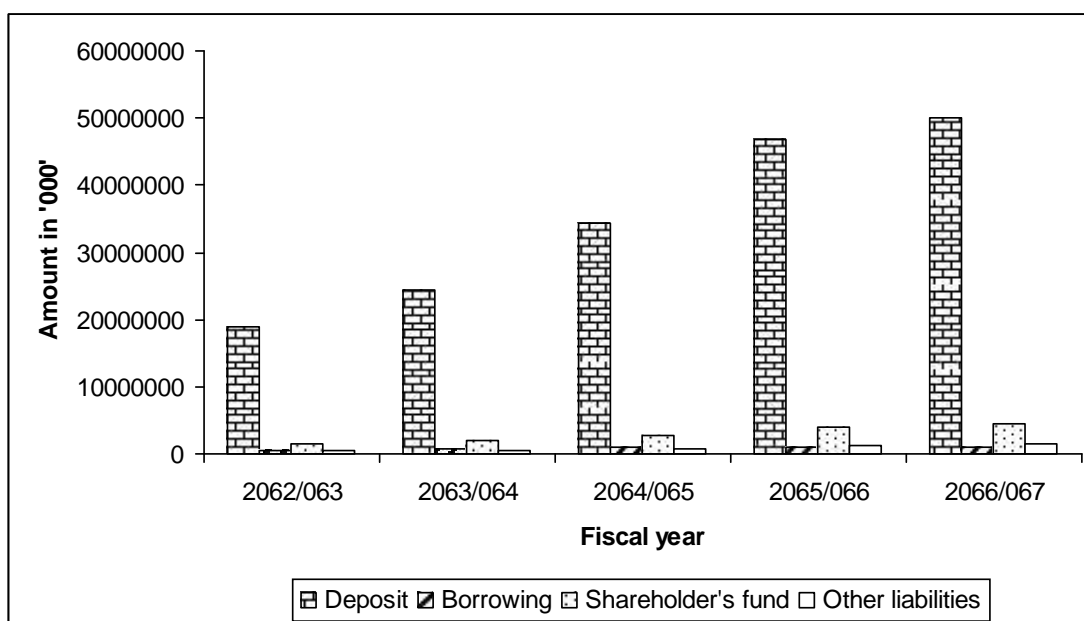
Figure in Rs,'000'

F/Y	Deposit		Borrowing		Shareholder Fund		Other Liabilities		Total Resources year wise
	Amount(Rs)	%	Amount(Rs)	%	Amount(Rs)	%	Amount(Rs)	%	
2062/063	18927306	88.73	550000	2.58	1415440	6.64	437392	2.05	21,330,138
2063/064	24488856	88.76	800000	2.90	1878124	6.80	423866	1.54	27,590,846
2064/065	34451726	88.62	1050000	2.70	2688717	6.92	682853	1.76	38,873,306
2065/66	46698100	88.09	1088800	2.05	3907840	7.37	1316062	2.48	53010803
2066/67	50094725	87.42	1087314	1.90	4585393	8.00	1537978	2.68	57305410
Total of Resources	174660713		4576114		14475514		4398151		

Source: Annual report of NIBL (2062/63 to 2066/67).

The above table shows the status of total resources of NIBL. The resources are collected from customers deposit, share holder fund, other liabilities and borrowings if required. The major source of resource collection is customer deposit since it has higher figure in the above table. For the more analysis purpose the resources plotting in the charts below.

**Figure 4.1**  
**Status of Total Available Resource**



The above table, Bar Diagram shows the deposit collection is a major source of resource collection so we have divided total resource in two parts one is deposit collection and another is other resources (other than deposit).

- Customer Deposit Collection
- Other Resources

### 4.3.2 Customer Deposit Collection

As deposit collection is major activities of commercial bank this is the important source of resources mobilization. As per the data F/Y 2062/63 to 2066/67 the customer deposit is as high as 88%. These

deposits are collected from different sectors individual and corporate customer. Deposits are collected from different sectors individual and corporate customer. Deposits are collected as per the bank's rules some deposits are interest bearing and some are interest free the researcher has categorized the deposit in to two types is as follows:

**1) Interest Caring Accounts:**

- a. Saving Account
- b. Call Deposit Account
- c. Fixed Deposit Account
- d. Certificate of Deposit

**2) Interest Free Account**

- a. Current Deposit Accounts
- b. Margin Deposit Account
- c. Other Deposit Account

**4.3.3 Deposit Collection Budget of NIBL**

NIBL prepares the plan for the deposit collection. The budgeted and actual deposit collection of NIBL has presented in table below:

**Table 4.2**

**Status of Budgeted and Actual Deposit Collection**

Figure in Rs, '000'

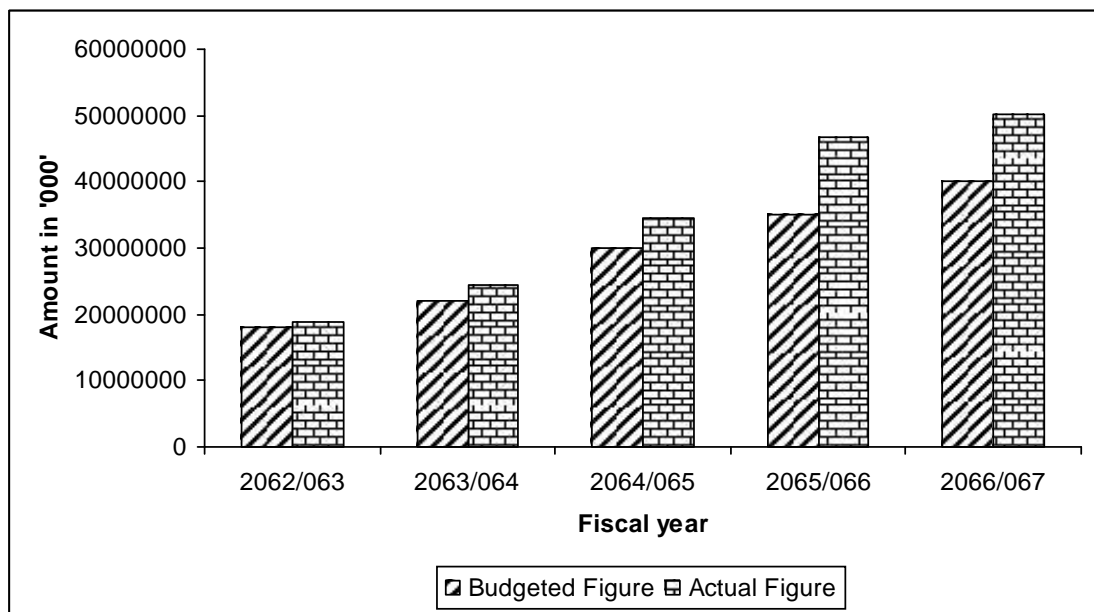
Fiscal Year	Budgeted Figure(Rs)	Actual Figure(Rs)	Achievement (%)
2062/063	18000000	18927306	105.15
2063/064	22000000	24488856	111.31
2064/065	30000000	34451726	114.84
2065/066	35000000	46698100	133.42
2066/067	40000000	50094725	125.24

Sources: Annual Reports and Budget Statements of NIBL.

The above table shows the status of budgeted and actual deposit collection of NIBL. The bank has achieved its objectives of deposit collection every year more than 100%. The base of preparing the budgets is the actual deposit collection the last year. The achievement range is slightly fluctuation it ranged between 105.15% to 133.42% through out the five year of study period. The data of table are presenting in bar diagram for the analysis purpose.

**Figure 4.2**

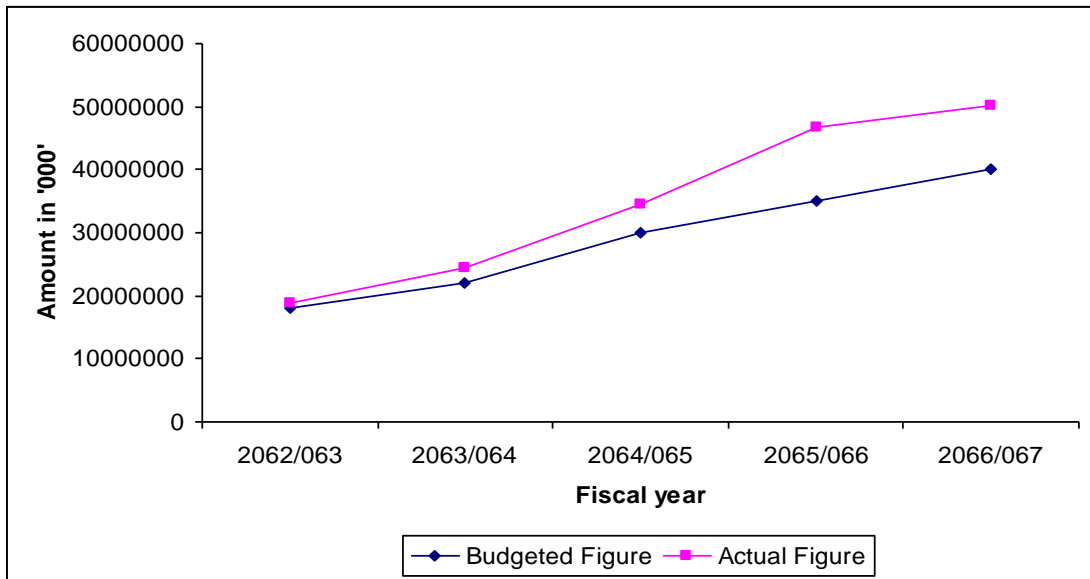
**Bar Diagram Showing Budgeted and Actual Deposit Collection**



The above bar diagram shows the budgeted and actual figure of deposit collection of NIBL. The actual deposit has over the budgeted figure so that the targeted collection of deposit has met very year by NIBL. The position of budgeted and actual deposit collection showing in the scatter diagram.

**Figure 4.3**

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



The above table and charts shows the deposit collection target has more than the budgeted amount. This gives the high achievement made by bank toward deposit collection sector. In the above bar diagram shows the achievement level higher than budgeted like wise scatter diagram shows actual collection is higher that budgeted amount. NIBL is well performing in the deposit collection sector. The researcher find the relationship and statistical results between budgeted and actual deposit collection by using some statistical tools like arithmetic mean, standard deviation, coefficient of variation, correlation and regression and probable error.

**Table 4.3**

**Summary of Deposit Collection Budget and Actual Deposit**

**Figure in Rs. '000'**

Statistical Tools	Budgeted Deposit (X)	Actual Deposit (Y)
Mean (Rs.)	29000000	34932142.6
Standard Deviation ( $\sigma$ ) (Rs.)	9055385.138	13544274.51
Coefficient of Variation (%)	31.22546599	38.7730998
Correlation of Coefficient (r)	0.990757039	
Probable Error(PE)	$r > 0.561002008$	

The above table shows that actual deposit is more variable than budgeted deposit since the CV of actual deposit is higher than budgeted deposit. Budgeted deposit is more consistent and homogeneous actual deposit is more variable in nature. A greater CV represents less homogenous. By using another statistical tool correlation coefficient to analyze the relationship between budgeted deposit and actual deposits researcher is using Karl Pearson's coefficient of correlation is denoted by (r). By calculating (r) can examine whether positive correlation between budgeted deposit and actual deposit is or not.

Budgeted deposit is denoted by X and assumed to be independent variable and actual deposit is denoted by y is assumed to be dependent variables. So that increase in budget is support to increase in actual achievement or vice versa, this meant that there should be positive correlation between, budgeted figure and achievement figures. Significance of correlation of (r) tested with probable error (PE) by the calculation as per appendix ...

The researcher have found (r) is 0.99075 and PE is 0.5610. The figure of 'r' shows that there is positive perfect correlation between budgeted deposit and actual deposit. The relation of IE with r is  $r > 6PE$  so it is significant so the actual deposit going on same direction. Another statistical tools regression line can also be fitted to show the degree of relationship between budgeted deposits actual deposit and to forecast the achievement with given targets so that the regression line of 'Y' on 'X' is as follows:

$$y - \bar{y} = r \frac{s_y}{s_x} (x - \bar{x})$$

$$y - 34932143 = 0.9907 \times \frac{13544275}{9055385} (x - 29000000)$$

$$y - 34932143 = 1.4818(x - 29000000)$$

$$y = 1.4818X + 39478986$$

From the above equation it is clear that actual deposit is in increasing trend. By the help of this equation we determine the expected deposits achievement with given value of budgeted deposit ( $X = 45000000$ ) ascertain the expected deposits achievement for F/Y 067/68.

When

$$X = 45000000$$

The expected deposit for the year 2067/78

$$\begin{aligned} y &= 1.4818 \times 45000000 - 39478986 \\ &= 27202014000 \end{aligned}$$

The relation between budgeted and actual amount deposit remains same the amount of deposit in FY 2067/68 will be Rs. 27202014000 stated by the above regression line.

#### 4.3.4 Movement in Deposit Collection of NIBL

**Table 4.4**

**Movement of Deposit Collection of NIBL**

**Figure in Rs,'000'**

Fiscal Year	Deposit Amount(Rs)	Growth Amount(Rs)	in	Growth in Percentage
2062/63	18927306	-		-
2063/64	24488856	5561550		29.69
2064/65	34451726	9962870		40.68
2065/66	46698100	12246374		35.55
2066/67	50094725	3396625		72.74

The above table shows the growth trend of deposit collection of NIBL. F/Y 2062/63 is the base year for the growth calculation. In F/Y 2063/64 the deposit collection is increased by the 29.38% in comparison

with F/Y 2062/63. The amount of deposit collection is in increasing trend where as the increasing percentage is fluctuating as a result in F/Y 2063/64 the percentage has decrease in 29.38% from 40.68% of F/Y 2064/65 and in F/Y 2066/67 the trend of growth is 72.74% with comparison of F/Y 2063/64.

#### 4.3.4 Other Resources of NIBL

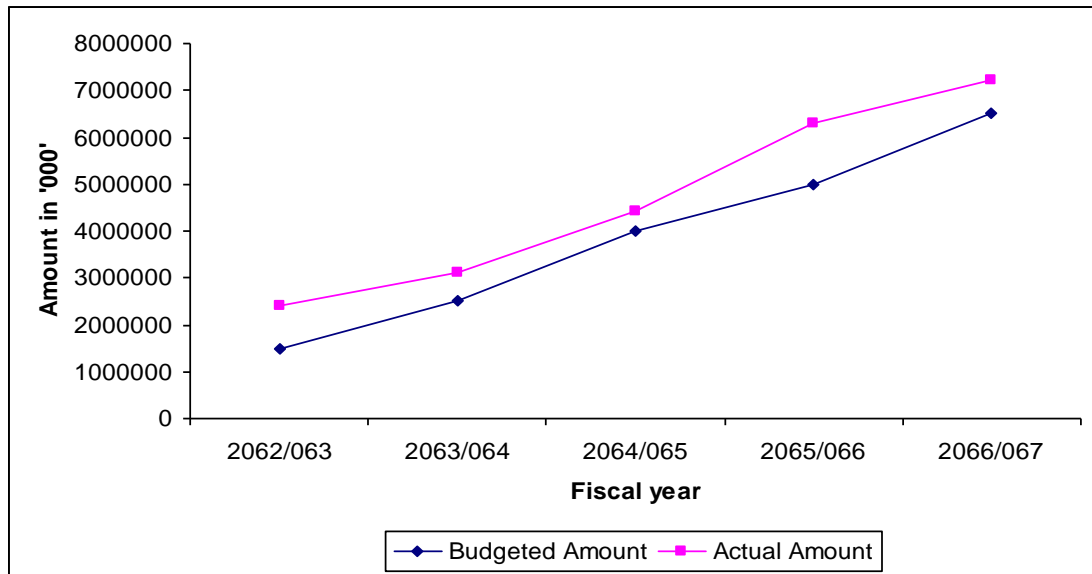
Other resources of NIBL contribute 12% in total resources. It is formed of share holder fund and other liabilities except deposit collection. The budgeted and actual other resources of NIBL presented in the following table.

**Table 4.5**  
**Other Resources of NIBL**

Fiscal Year	<b>Figure in Rs '000'</b>		
	Budgeted Amount(Rs)	Actual Amount(Rs)	Achievement(%)
2062/063	1500000	2402832	160
2063/064	2500000	3101990	124
2064/065	4000000	4421580	110.54
2065/066	5000000	6312703	126.25
2066/067	6500000	7210688	110.93

The above table shows more than 100% achievement in resources other than deposit except in the F/Y 2062/63. The achievement trend of other resources is in increasing in the amount where as the increment ratio is in declining trend. The bank has highest achievement in F/Y 2062/63 likewise budgets are prepared but the actual figure doesn't match accordingly. The achievement percentage is ranged between 110.54% to 160 below 100% indicate the lower achievement and more than 100% indicate the higher achievement of budgeted figure. The status of resources other than deposit presented in Bar and scatter diagram.

**Figure 4.4**  
**Scatter Diagram Showing Other Resources of NIBL**



From the above table and diagrams we can find the status of budgeted and actual resources of NIBL. The actual resources is higher than budgeted in the bar diagram except the year 2062/63 like wise scatter diagram the actual amount is in high position than budgeted except year 2062/63.

We can find the relationship between budgeted and actual other resources of NIBL by using statistical analytical tools that is arithmetic mean, standard deviation, coefficient of variation and probable error (P.E.). The detail calculation is shown in appendix no 2 now researcher is going to present the summary of this appendix.

**Table 4.6**  
**Summary of budgeted and Actual Resources of NIBL**

Statistical Tools	Budgeted Deposit (X)	Actual Deposit (Y)
Mean (Rs.)	3900000	4689958.6
Standard Deviation ( $\sigma$ ) (Rs.)	1981161.276	2050121.675
C.V (%)	50.79900707	43.71300154
r	0.986326312	
P.E	$r > 0.564919681$	

The average amount of other resources of actual figure is higher than the budgeted figure so the bank has achieved higher than its target. Budgeted figure is more variable than actual since it has high coefficient of variation it means actual figure is more consistent and homogeneous than budgeted figure of other resources. Here the budgeted resource other than deposit of NIBL is the more variable than actual resources in nature. Here researcher has used another statistical tools i.e. correlation of coefficient (r). The result of 'r' is 0.9863 so it has perfectly correlated between the budgeted resources and actual resources. The actual resources will change in the same direction, as the budgeted resources. The significance of 'r' is tested by P.E. since the value of 6P.E is less than 'r' gives the absolute result.

#### **4.4 Resources Deployment Plan of NIBL**

Allocation of available resources in to different sector is called deployment of resources plan. Resources can be use for maintain liquidity, investing in income generating activities, investing for fixed assets purchase and other assets. The available resources can be allocated in to three purposes these are listed below.

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

##### **a) Deployment to Maintain Liquidity Position**

Liquidity need to be maintained for the purpose of payment of withdrawals from deposit amount and payment for other liabilities and expenses. The liquidity can be maintained in terms of cash in vault and balance in bank. The return on such amount may be nominal or no return at all. The central bank of Nepal NRB has instructed to commercial bank to maintain certain liquidity as per their deposits. The liquidity position

should be maintained as required higher the liquidity can't give effective return and lower the liquidity became failure to repay the deposit.

**b) Deployment for Income Generating Activities**

The major function of a commercial bank is to collection of deposit and invests them in different sector as loan deployment of fund in income generating activities can divided in to two categories.

\* Loan and Advance (LA)

\* Other Investment

LA refers loan, Advances, O/D, Bills Purchase and discount and other loan which generates income in terms of interest other investment includes, investment in securities, Treasury bill etc.

**Table 4.7**

**Total Income Generating Deployment of NIBL**

Figure in Rs, "000"

Fiscal Year	Other Investment		Loan and Advance		Total
	Amount(Rs)	Percentage	Amount(Rs)	Percentage	
2062/063	5672869	30	13178152	70	18851021
2063/064	6868650	27.88	17769100	72.12	24637750
2064/065	6874024	19.98	27529305	80.02	34403329
2065/066	7399812	16.73	36827157	83.26	44226969
2066/067	8635530	17.42	40948440	82.58	49583970

The above table shows the status of income generating deployment of NIBL. The major portion of deployment of the bank covers by the loan and advance. The range of loan and advance is 70% to 83.26% where as the range of other investment is 16.73% to 30%.

**c) Deployment in Other Assets**

Assets needs in the organization to shows the performance of business such assets may be fixed or current. These assets can't give returns directly but with out these other activities can't be run smoothly. Fixed Assets subject to write off at certain period of time as expenses.

#### 4.1.1 Total Deployment of NIBL

**Table 4.8**  
**Total Resources Deployment of NIBL**

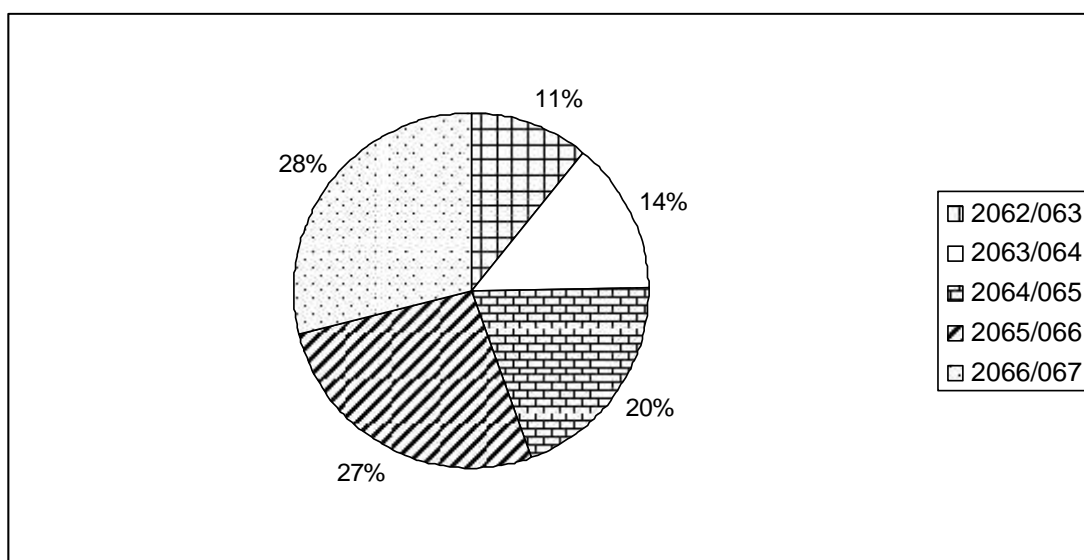
**Figure in Rs, "000"**

Fiscal Year	Cash & Bank Balance		Investment & Money Received at call		Loan and Advance		Fixed Assets		Other Assets		Total (Year wise)
	Amount(Rs)	%	Amount(Rs)	%	Amount(Rs)	%	Amount(Rs)	%	Amount(Rs)	%	
2062/063	2335521	10.75	562869	26.10	13178152	60.64	343450	1.58	201090	0.93	21731082
2063/064	2441514	8.70	6868650	24.47	17769100	63.19	759456	2.70	234797	0.84	28073517
2064/065	3754942	9.53	6874024	17.44	27529305	69.86	970092	2.46	277597	0.71	39405960
2065/066	7918004	14.77	7399812	13.81	36827157	68.71	106752	1.98	390653	0.73	53596378
2066/067	6815889	11.76	8635530	14.90	40948440	70.68	1136247	1.96	399438	0.69	57935544
Total Sector wise	19865870		30340885		136252154		3315997		1503575		

(Sources: Annual Reports of NIBL 2062/63 to 2066/67)

Above table shows the total deployment of funds in various sectors of NIBL. The range of cash and bank balance of NIBL through out the study period is 8.70% to 14.77% it means the bank use their fund to maintained liquidity position 8.70% to 14.77% out of total deployment. The trend of cash and bank balance slightly fluctuating trend. Like wise the ban use their fund in investment 13.81% to 26.10% over the period. The trend of investment is in fluctuating trend in the F/Y 2062/63 the percentage of investment is 26.10% whereas in decreased in year 2066/67 in 13.81% other three years are in average. The highest use of resources in the loan and advances the range of loan and advance is 60.64% to 70.68% out of total deployment over the five years period. In the F/Y 2062/63 the percentage is and in it increased in F/Y 2063/64 to 63.19% but in F/Y 2063/64 it slightly decreased in 669.86% again in the F/Y 2063/64 it increased than F/Y 2062/63 to 63.19% but could not recover the percentage of F/Y 2062/63. In the F/Y 2066/67 the percentage of loan and advance is fluctuating trend in terms of percentage the amount is in increasing trend over the study period. NIBL use the resources in fixed assets and other assets in nominal percentage out of total deployment. The range of fixed assets is 1.58 to 2.70 and other assets are 0.69% to 0.93% out of total deployment over the study period. For the analysis purpose the total deployment of NIBL is presented in pie chart and bar diagram below:

**Figure 4.5**  
**Pie Chart Showing Status of Deployment**

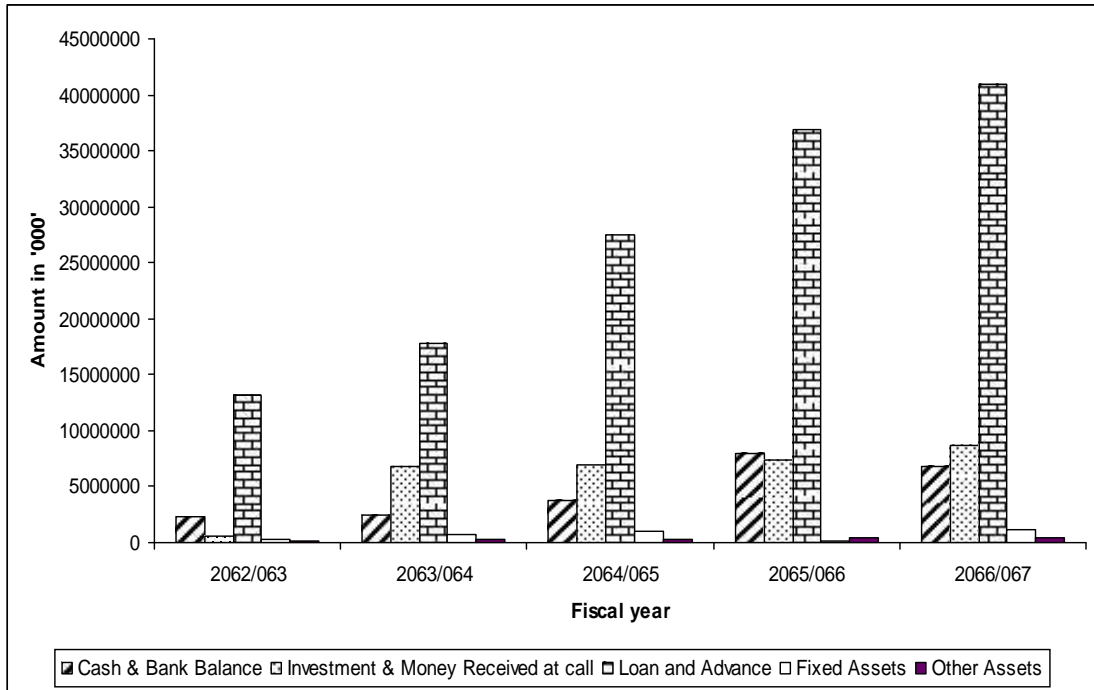


The above pie chart shows the total deployment of NIBL in various sectors. The Loan and advance holds the highest area of the chart since it has 60.64% of deployment out of total deployment. This means the bank more use their resources in the deployment of loan and advance than other. Like wise investment is 26.10% out of total deployment. The third highest sector of deployment is Cash and bank balance this shows the bank keeps the liquidity of 10% out of total deployment in average over the five year of study period. Similarly the bank uses their resources in fixed assets and other assets 2.7% and 0.93% respectively over the five years period.

The deployment of resources in various sector of NIBL can be presented in the bar diagram for the analysis purpose. The diagram is presented below and analyzed accordingly.

**Figure 4.6**

**Bar Diagram Showing the Status of Deployment**



The above diagram shows the deployment of Banks available resources at various portfolios among which LA is in highest position through out the study period the trend is in increasing over the period. Like wise the investment is in second position out of total deployment amount the trend of investment is increasing except the year 2063/64. The third positing of deployment holds by cash and bank balance in is also in increasing trend over the five years of study. The other assets and fixed assets hold the fourth and 5<sup>th</sup> position but it is in fluctuating trend over the five years of time period.

By the above table, and charts researcher find that the highest portion of deployment is hold by loan and advance out of total deployment. Therefore researcher has categorized the deployment in to parts. These are follows:

- \* Deployment in LA
- \* Deployment in other sector (NLA)

#### 4.4.2 Budgeted and Actual LA of NIBL

Since the LA is a major sector of deployment of the bank the researcher going to analyze about the position of LA of NIBL. Following table shows the budgeted amount of LA and the same achieved actually.

**Table 4.9**  
**Comparative Table Showing Budgeted and Actual Loan and Advance of NIBL**

**Figure in Rs, "000"**

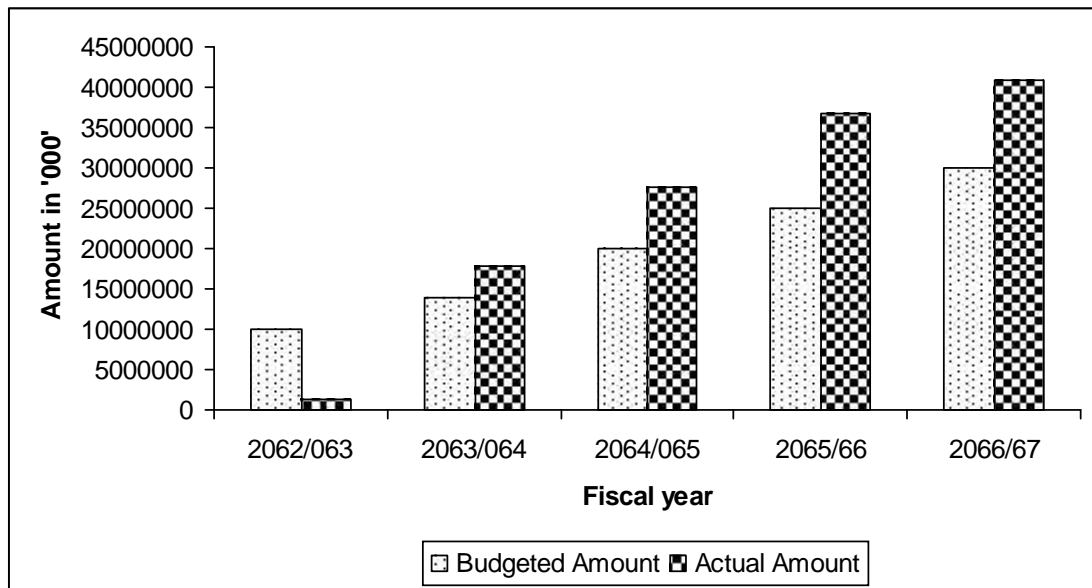
Fiscal Year	Budgeted Amount(Rs)	Actual Amount(Rs)	Achievement (%)
2062/063	10000000	1318152	131.78
2063/064	14000000	17769100	126.92
2064/065	20000000	27529305	137.65
2065/066	25000000	36827157	147.31
2066/067	30000000	40948440	136.49

(Sources: Annual Reports and Budget Statements of NIBL)

Above table shows that status of budgeted and actual LA of NIBL. The actual achievement of LA is more than the 100% in every year. The investment in LA is increasing trend in terms of amount where as the achievement percentage with budgeted figure is fluctuating trend. The range of achievement over the five year period is 126.92% to 147.31% it shows that NIBL has meet the targeted investment in LA in every year but the achievement trend is not same increment trend. For the study purpose the figure of LA are presented in Bar and scatter diagram and draw some conclusion accordingly.

**Figure 4.7**

**Bar Diagram Showing Budgeted and Actual LA of NIBL**

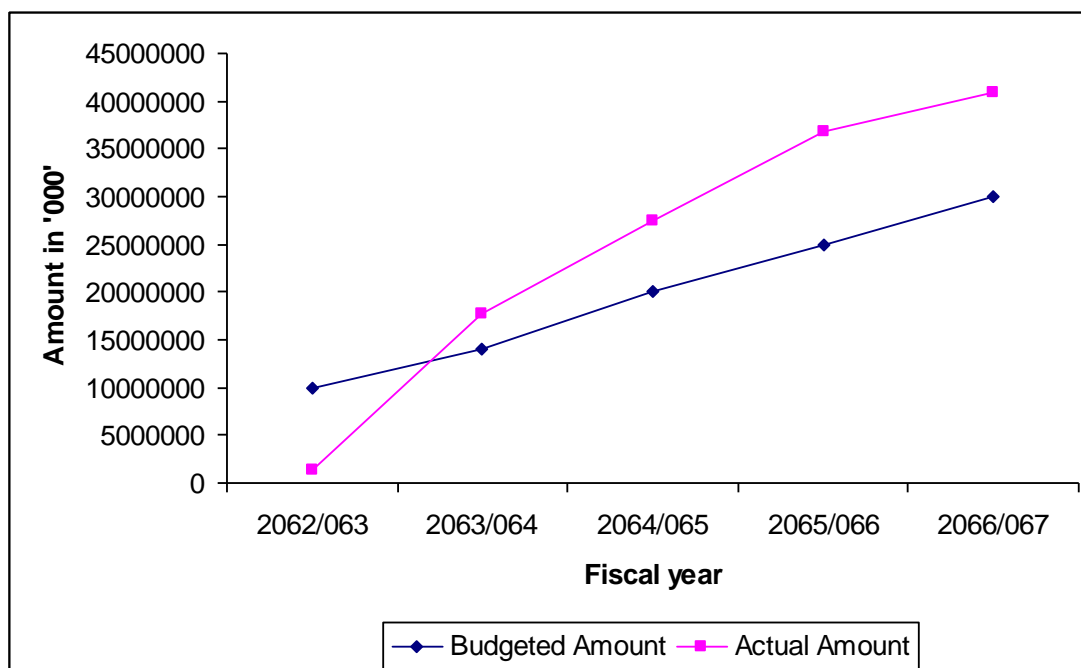


The above bar diagram shows the trend of budgeted and actual deployment of resources in the sector of LA. The trend of actual deployment is in increasing trend and budgeted too. The actual achievement of LA has met the budgeted LA in every year. For the more analysis purpose the figure of budgeted and actual LA in presenting in scatter diagram to shows the relationship between budgeted figure and actual achievement through out the study period.

The scatter diagram showing the status of budgeted and actual deployment in LA of NIBL.

**Figure 4.8**

**Scatter Diagram Showing Status of Budgeted and Actual LA of NIBL**



The actual deployment in LA is in higher position than budgeted LA through out the study period it means the scatter diagram shows that the relation between actual achievements is higher than budgeted LA. This researcher is going to find the relationship between the budgeted LA with that of different years by the help of statistical tools. The summary of LA budget and achievement are presented below.

**Table 4.10**

**Summary of Budgeted LA and Achievement**

**Figure in Rs. '000'**

Statistical Tools	Budgeted Deposit (X)	Actual Deposit (Y)
Mean (Rs.)	19800000	24878430.8
Standard Deviation ( $\sigma$ ) (Rs.)	8074651.695	15919121.44
C.V. (%)	40.78106917	63.9876428
r	0.969926124	
P.E	r > 0.579268029	

The above table shows that budgeted LA is less variable than actual LA. Since the coefficient of variation of actual LA is greater than that of budgeted LA, actual LA are more variable nature. On the other hand budgeted LA more consistent and homogeneous than actual a greater coefficient of variation is said to be more heterogeneous. Here NIBL bank actual LA is the variable nature than budgeted LA. We can use another statistical tool correlation co-efficient to analyze the relationship between budgeted LA and Actual LA. There should be positive correlation between budgeted and actual LA. We can take the help of Karl person's coefficient of correlation to find correlation between actual LA and budgeted LA. Karl Person's coefficient of correlation between budgeted LA and actual LA or not. For this purpose budgeted LA is denoted by X and actual LA is denoted by Y. Here X is independent variable and Y is dependent variable. Here the correlation between budgeted and actual LA IS 0.9699 it means the relation between budgeted and actual LA are perfectly co-related. Significance of r is tested with PE we have  $r > 6PE$  this means the value of r is more significant. So it is not doubtful that actual LA will go on same direction that of budgeted LA.

From the calculation in appendix no 3 We have obtained the value of r being 0.9980. Now the coefficient of determination which explains the change in Y variable i.e. actual LA by X variable i.e. budgeted LA can be calculated as the square of r.  $r^2 = (0.9699)^2 = 0.9407$ . Another statistical tools regression line can also be fitted show the degree of relationship between budgeted LA and actual LA and the forecast the achievement with given target. For this purpose achievement figure have been supposed to be depended up on independent target. So that the regression line of achievement 'Y' on targeted 'X' or Y on X is as follows.

$$y - \bar{y} = r \frac{\sum y}{\sum x} \times (x - \bar{x})$$

$$y-24878431 = .9699 \times \frac{15919121}{8074652} (x - 19800000)$$

$$y-24878431 = 1.4118 \times (x - 19800000)$$

$$y = 1.9122x - 12982163$$

From the equation, it is clear that actual LA are in increasing trend. By the help of this regression equation, we ascertain the expected LA achievement with the given value of target LA say X for fiscal year 067/68 = 40000000

Then expected LA achievement

$$y = 1.9122 \times 40000000 - 12982163$$

$$= 63505837000$$

#### 4.4.3 Movement in LA of NIBL

**Table 4.11**

**Table Showing Movement in LA of NIBL**

Figure in Rs,'000'

Fiscal Year	LA Amount(Rs)	Growth in Amount(Rs)	Growth in %
2062/063	13178152	-	-
2063/064	17769100	7890948	34.84
2064/065	27529305	9760205	54.93
2065/066	36827157	9297852	33.77
2066/067	40948440	4121283	11.19

Source: Annual report of NIBL 2062/63 to 2066/67.

The above table shows the movement of LA of NIBL. The base year to calculate the growth rate of NIBL is F/Y 2062/63. The increment rate is 34.84% in F/Y 2063/64 in comparison with F/Y 2062/063. The rate of growth is declined in the F/Y 2062/063 it is only 26.068% since the amount of LA could not increased as last year. In the F/Y 2062/63. The

growth rate in 2064/65 has reached to 54.93% comparison of F/Y 2066/67 since the amount of LA increased.

#### 4.4.4 Resources Deployment in Other Sector (NLA)

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

**Table 4.12**

#### **Status of Budgeted and Actual Deployment in Other Sector (NLA)**

Figure in Rs '000'

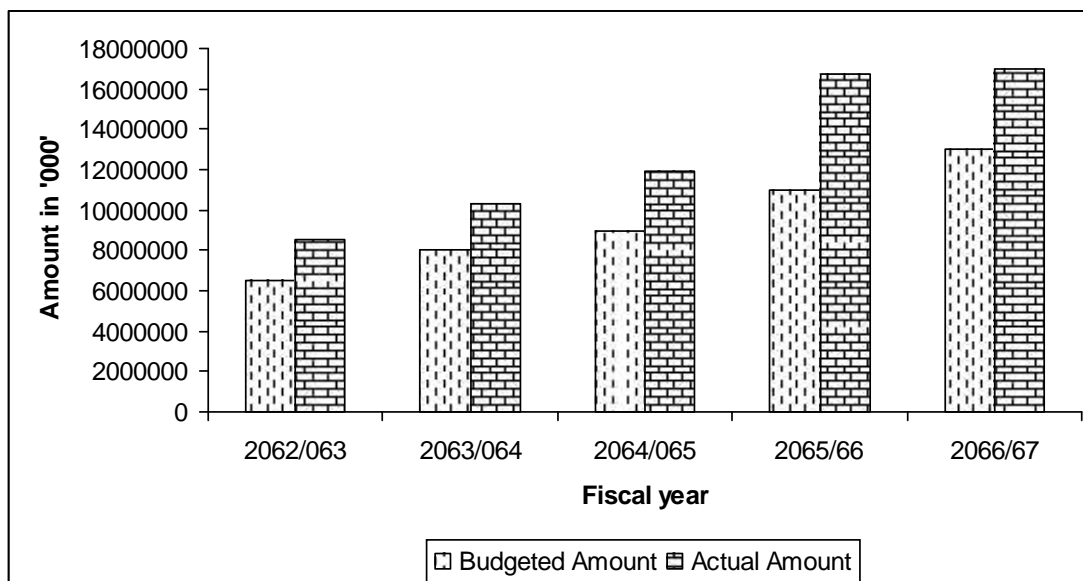
Fiscal Year	Budgeted Amount(Rs)	Actual Amount(Rs)	Achievement(%)
2062/063	6500000	8552930	131.58
2063/064	8000000	10304417	128.81
2064/065	9000000	11876655	131.96
2065/066	11000000	16769597	152.45
2066/067	13000000	16987105	130.67

Source: Annual Reports and Budget Statement of NIBL.

The above table shows the status of budgeted and actual deployment in other sector than LA(NLA). The actual achievement of investment in other sector has more than the 100% each year. The rate of such achievement in fluctuating trend over the study period. The achievement is 131.58% in F/Y 2062/63 and it decreased in F/Y 2063/64 to 128.81%. Again in F/Y 2064/65 in increase to 131.58% and slightly fluctuating up to F/Y 2066/67. The average rate of achievement over the five year is 128.56% this indicate that the bank achieved its target by 25% approximately. For the analysis purpose the status of budgeted and actual NLA is presenting in diagram below.

**Figure 4.9**

**Status of Budgeted and Actual NLA of NIBL**



Above table and diagrams shows that more than 100% of achievement of targets in deployment of resources other than LA i.e. NLA. To show the relationship between budgeted and actual NLA we have calculated some values by using statistical tool below.

**Table 4.13**

**Summary of NLA of NIBL**

**Figure in Rs. '000'**

Statistical Tools	Budgeted Deposit (X)	Actual Deposit (Y)
Mean (Rs.)	9500000	12898140.8
Standard Deviation ( $\sigma$ ) (Rs.)	2549509.757	3819669.312
C.V. (%)	26.83694481	29.61410774
r	0.96412056	
P.E	r > 0.5842896	

The above table shows the summary of investment in other sector (NLA). The average investment in other sector is highest than the budgeted figure. It means the target has been achieved. The actual NLA is

more variable in nature since it has higher C.V it means that the budgeted figure is more consistent a greater C.V is said to be more heterogeneous. The correlation between budgeted and actual NLA is denoted by r. The value of r is 1 so the relationship between budgeted and actual figure is perfectly correlated. The significance of r can be measured by the probable error here the  $r > 6PE$  so the r is significant.

#### 4.4.5 Actual Deposit and Outstanding LA of NIBL

Customer deposit and deployment in LA is major activities of NIBL. As it is understood the major source of resources mobilization of NIBL is the customer deposit and similarly the major outlet for deployment portfolio is for loan and advance and bills discount (LA). It is desirable to analyze the comparative status of the same of the study period. Following table shows actual balance of deposit and actual position of deployment toward LA.

**Table 4.14**  
**Status of LA VS Actual Deposit of NIBL**

**Figure in Rs, "000"**

Fiscal Year	Actual Deposit (Balance in Rs)	Actual O/S LA(Rs)	LA to Deposit Ratio
2062/063	18927306	13148152	69.96
2063/064	24488856	17769100	72.56
2064/065	34451726	27529305	79.90
2065/066	46698100	36827157	78.86
2066/067	50094725	40948440	81.74

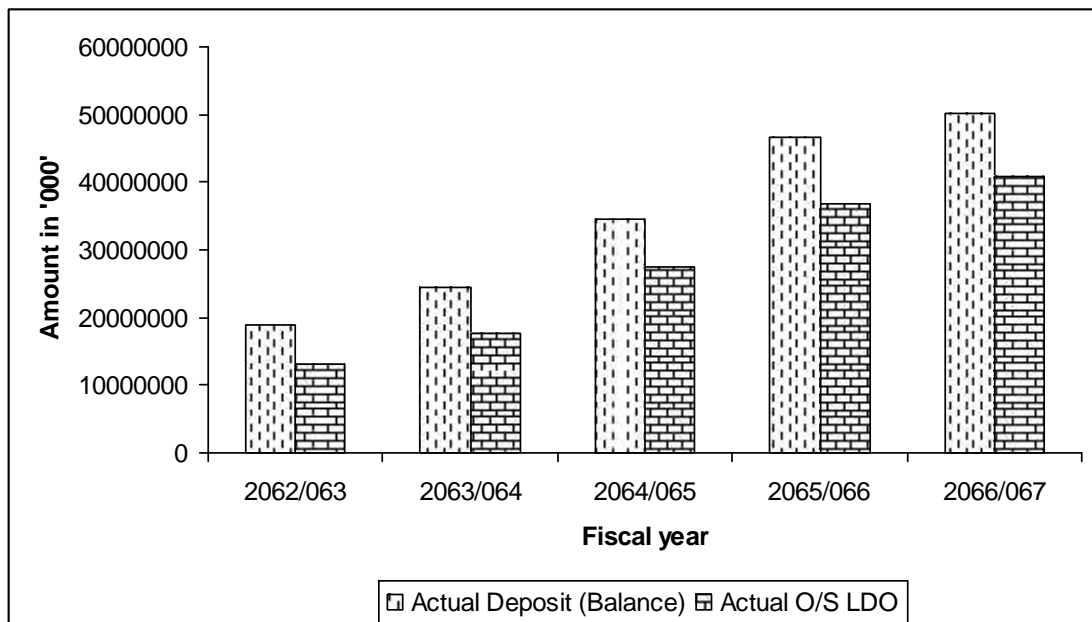
Source: Annual Reports of NIBL 2062/63 to 2066/67.

The above table shows the status of actual deposit balance and actual O/S LA. The actual deposit balance and actual O/S LA both are in increasing trend through out the study period. The utilization of deposit

collection in terms of LA is fluctuating trend in percentage. The range of LA to deposit ratio is 69.96% to 81.74%. This indicate that the bank invest in LA out of total deposit in the range of 69.96% to 81.74%. This indicate that the bank invest in LA out of total deposit in the range of 69.96% to 81.74%. This indicate that the bank invest in LA out of total deposit in the range of 69.96% to 81.74% over the five years time period. For the analysis purpose the figure of actual deposit balance and actual O/S LA is presenting in the charts.

**Figure 4.10**

**Bar Diagram Showing Actual Deposit and Actual LA of NIBL**



From the above table and figure it can be found that both the deposit and LA is in increasing trend over the period. The average ratio of LA to deposit is 76.60%. Now researcher is going to analyze by using some statistical tools to find the variability of deposit and LA. We have to calculate arithmetic mean, standard deviation, coefficient of variation, correlation of coefficient, probable error.

**Table 4.15**  
**Summary of Actual Deposit and Actual O/S LA**

**Figure in Rs. '000'**

Statistical Tools	Actual Deposit in Rs (X)	Actual O/S LA Deposit in Rs,(Y)
Mean (Rs.)	34932142.6	27244430.8
Standard Deviation ( $\sigma$ ) (Rs.)	13544274.51	11918437.74
C.V. (%)	38.7730998	43.74632683
r	0.998849512	
P.E	$r > 0.553801276$	

The above table shows that actual O/S LA is more variable than actual deposit since it has higher C.V. On the other hand actual deposit more consistent than outstanding LA it means the outstanding LA can be measured by co-relation between them. We can take the help of Karl Person's Co-efficient of correlation to find correlation between actual deposit and actual outstanding LA. The correlation r is 0.9988 this means it is perfectly correlated between actual deposit and actual outstanding LA. Significance of correlation r is tested with probable error (PE) here the  $6PE < r$  so the calculation or r is highly significance.

#### **4.4.6 Plans for Non Fund Consuming Business Activities (Off-Balance Sheet Items)**

The total income of bank can be generate by two form one is fund base another is non fund base. Advancing loan, overdraft, Bills discounting and investments are fund consuming income generative activities. Another activities performed by the bank which donot involve fund yet but they are income generative. Such transactions are called Non fund consuming business activities and off balance sheet items. These

types of income generative activities are L/C, Bank Guarantee, Foreign exchange, and others. NIBL Non-Fund consuming business activities (off-Balance sheet items) are summarized below for the study period.

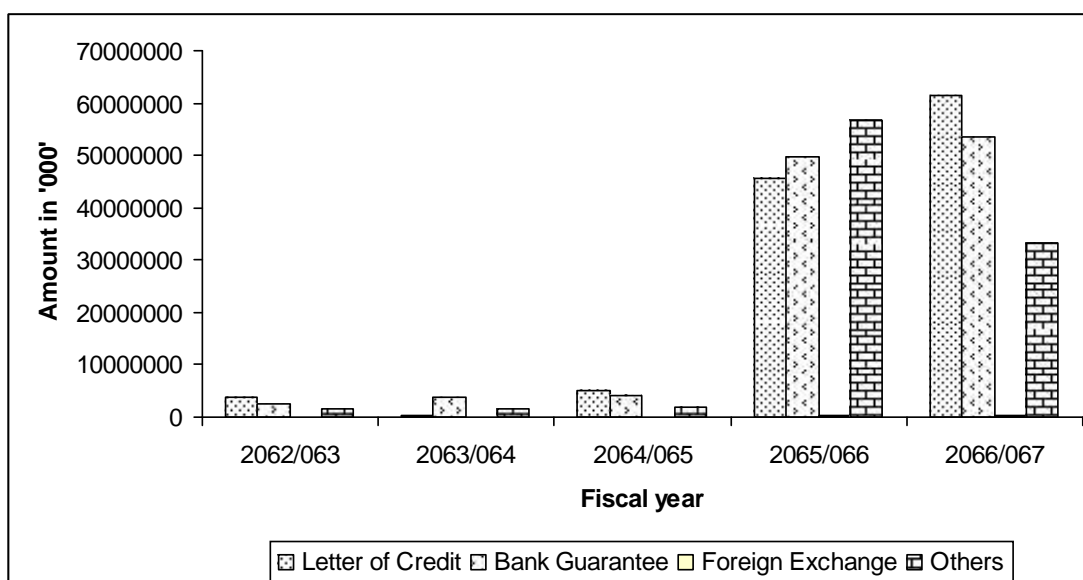
**Table 4.16**  
**Status of Non-Fund Consuming Business Activities: Off-Balance Sheet Items**

Figure in Rs '000'

Fiscal Year	Letter of Credit(Rs)	Bank Guarantee(Rs)	Foreign Exchange(Rs)	Others(Rs)
2062/063	3955491	2653473	15716	1738180
2063/064	463263	3656465	12723	1523162
2064/065	5163478	4102036	2170	1812190
2065/066	45478281	49833164	185327	56615175
2066/067	61527062	53463224	224056	33341192
Total	116587575	113708362	439992	95029899

**Figure 4.11**

**Bar Diagram Showing Non Fund Consuming Activities of NIBL**



Above bar diagram shows the status of non fund consuming business activities of NIBL through out the five years of study period. And chart shows that the major contribution in non-fund consuming

business of NIBL is LC. The overall non-funded business is increasing trend while the foreign exchange more fluctuating over the study period the contribution of foreign exchange is very nominal.

By the study of above table, pie chart and bar diagram researcher find that the major Non-Fund consuming items letter of credit and bank guarantee so researcher going to analyze about two items.

#### **4.4.6.1 Letter of Credit (LC) Business of NIBL**

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

**Table 4.17**  
**Movement of LC Business in NIBL**

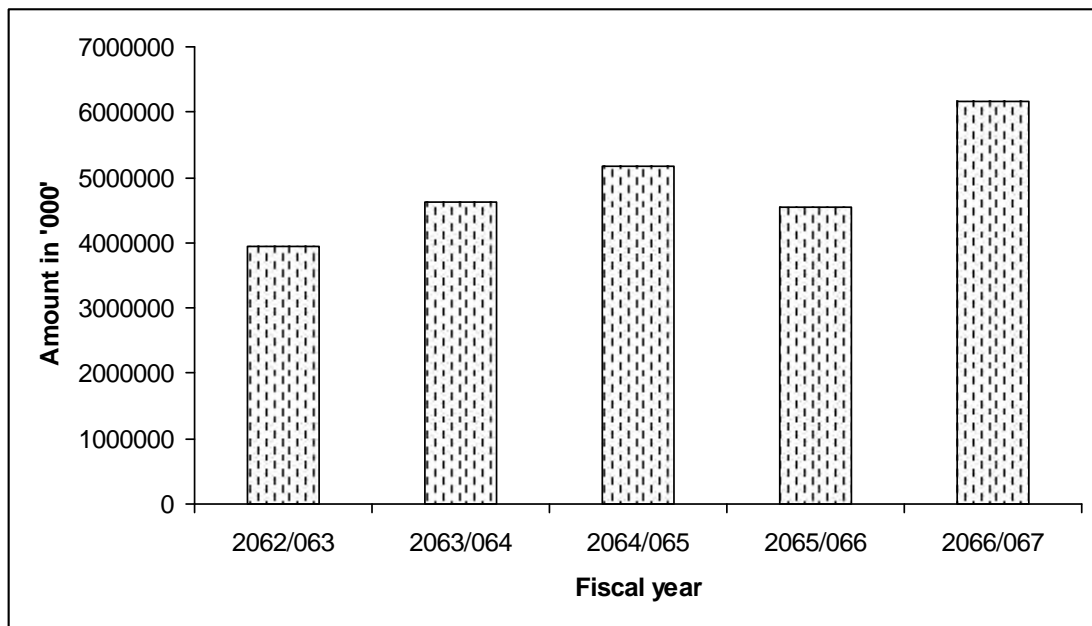
Figure in Rs, '000'

Fiscal Year	Letter of Credit(Rs)	Growth in Amount(Rs)	Growth in %
2062/063	3955491	-	-
2063/064	4632463	676972	17.11
2064/065	5163478	531015	11.46
2065/066	4547828	615650	11.92
2066/067	6152706	1604878	35.29

The above table shows the movement of letter of credit business of NIBL. The trend of such business is very fluctuating. The base year for the calculating of movement is F/Y 2062/63 the rate of growth of 17.11% in F/Y 2063/64 with the comparison of F/Y 2062/63. In F/Y 2062/63 LC business growth by 117.70% in comparison of F/Y 2063/64. Like wise the business growth by the 17.11% and 11.46% in F/Y 2063/64

and F/Y 2064/65 with comparison of year 2063/64 and 2065/66, 2066/67 respectively. for the more analysis researcher going to present the LC business in scatter bar diagram below.

**Figure 4.12**  
**Movement of LC Business in NIBL**



The above scatter diagram shows the position of letter of credit business of NBIL. Trend of business decreasing in F/Y 2063/64 then F/Y 2062/63. Again in F/Y 2064/65 it reached higher position like wise it is in slightly increasing trend with the coming two F/Y 2065/66 and 2066/67.

#### **4.4.6.2 Bank Guarantee Business of NIBL**

A bank guarantee is a definite and irrevocable understanding by a bank on behalf of its customer to make payment up to a specified sum of money to the beneficiary on demand in case of default by its customer. Bank issues the bank guarantee on behalf of their customer for bidding or performing activities by the latter in favor of the employer of the activities. The following table shows the status of bank guarantee

liabilities of NIBL and the increment amount and growth percentage of bank guarantee business of NIBL.

**Table 4.18**  
**Showing the Status of Bank Guarantee Business of NIBL**

Figure in Rs '000'

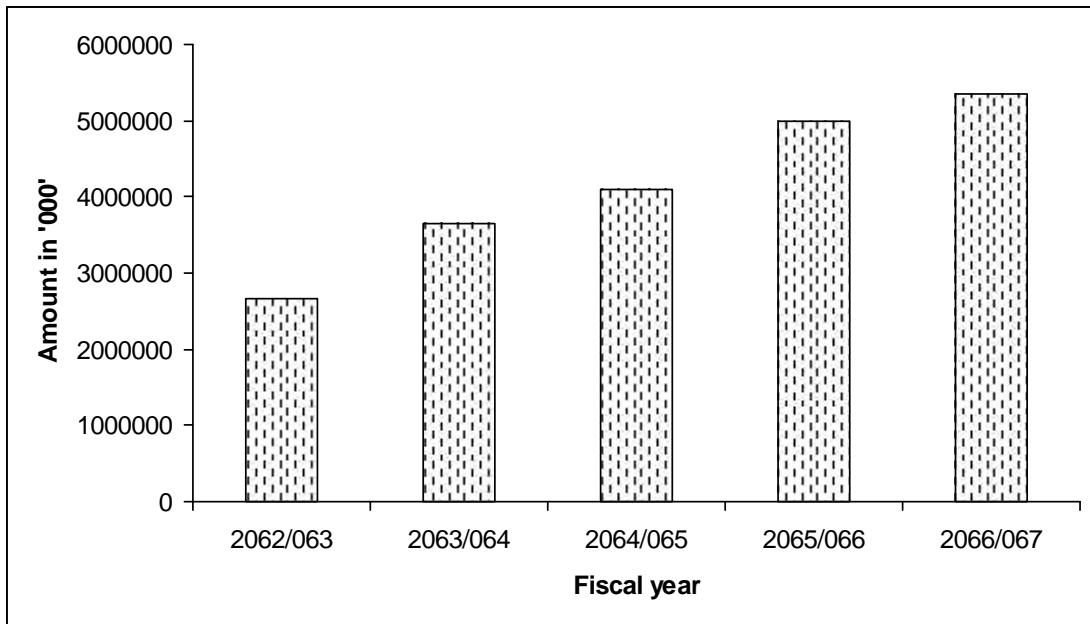
Fiscal Year	Bank Guarantee (Rs)	Increased Amount (Rs)	Growth in %
2062/063	2653473	-	-
2063/064	3656465	1002992	37.80
2064/065	4102036	445579	12.18
2065/066	4983316	881280	21.48
2066/067	5346322	363006	7.27

Sources: Annual Reports of NIBL 2062/63 to 2066/67.

The above table shows the status of bank guarantee business of NIBL. The amount of bank guarantee is in increasing trend every year. Whereas the growth rate is decreasing trend. The base year to calculate the growth rate is F/Y 2062/63. The bank guarantee business increased by 37.80% in year 2063/64 with comparison of the F/Y 2062/63. The rate of growth bank guarantee business is 12.18%, 21.48%, 7.29% with the comparison with F/Y 2064/65, 2065/66, 2066/67 respectively. The trend of bank guarantee business is increasing in terms of amount but the growth trend is in decreasing trend. For the analysis purpose we have plotted the data in diagram and some conclusion drawn below.

**Figure 4.13**

**Bar Diagram Showing Bank Guarantee Business of NIBL**



The bar diagram shows the status of bank guarantee business of NIBL. The trend of the business is slightly increasing over the five years.

#### **4.5 Planning for Expenditure of NIBL**

Expenditure planning is most essential to support the objectives and planned programs of the bank. Expenditure planning considered expenses and the benefits derived from this expenditure. The major concern of business is income; income is not possible without expenditure so expenditure is most crucial part of the business. Expenditure plan helps to organization to achieve the goal and objectives. The following table shows the status of expenditure incurred by the NIBL over the study period.

**Table 4.19**  
**Status of Expenditure of NIBL**

**Figure in Rs '000'**

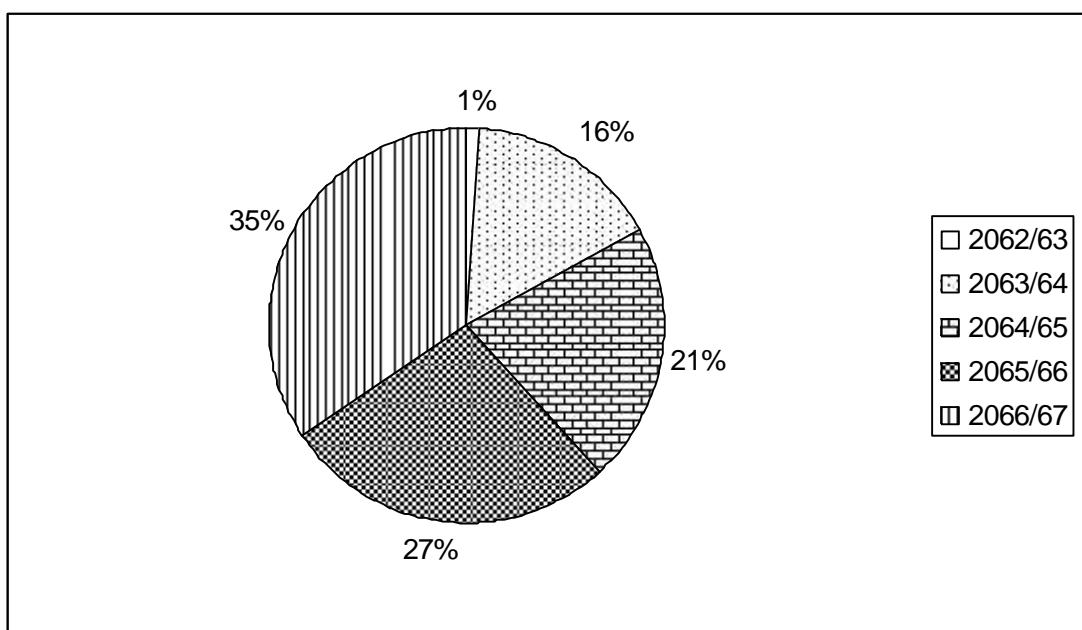
Expenditure	2062/063		2063/064		2064/065		2065/066		2066/067		Types wise Total	
	Amount(Rs)	%	Amount(Rs)	%	Amount(Rs)	%	Amount(Rs)	%	Amount(Rs)	%	Amount(Rs)	%
Interest on Deposit	490947	46.30	685530	48.07	992158	50.89	1686973	67.75	2553847	81.46	6409455	64
Employees Expenses	120664	11.38	145371	10.19	187150	9.60	225721	9.07	279851	8.93	958757	10
Employees Bonus	190605	17.79	243431	17.07	313154	16.06	12986	0.52	180818	5.77	940994	9
Provisions for Risk	103808	9.79	129719	9.09	135989	6.97	166201	6.68	93056	2.97	628773	6
Income Tax	154378	14.56	221977	15.58	321288	16.48	397982	15.58	27183	0.87	1122808	11
Year wise Total	106402		1426028		1949739		2489863		3134755		10060787	100

Sources: Annual Reports of NIBL 2062/63 to 2066/67.

The above table shows the total expenses of NIBL. The trend of all expenses is in increasing as per the overall volume of business increased. The major expense of bank is interest expenses it ranged 46.30% to 81.46% out of total expenses of NIBL though out the five years of time period. The another expenses of bank is employees expenses ranged between 8.38% to 11.38% the amount of employees expenses increasing every year likewise the employees bonus, provision for risk, and tax ranged between 0.52% to 16.06%, 2.97% to 9.79% and 0.87% to 14.56% respectively out of total expenses. The expenditure of NIBL has analyzed by the help of pie chart below.

**Figure 4.14**

**Pie Chart Showing Status of Total Expenses of NIBL**



By the above and pie chart the researcher can find out the major expenses of NIBL is Interest on Deposit it holds the 47% out of total expenditure. Like wise employees bonus, employees expenses, provision for risk, and income tax has 18%, 11%, 10%, 14% respectively. For the

analysis purpose we have divided the total expenses in two categories these are as follows:

- \* Interest expenses
- \* Other expenses (Expenses other than Interest)

#### 4.5.1 Interest Expenses

The bank collected from various sources. Among them some are non cost bearing and some cost bearing sources. Interest expenses incurred for making payment of cost of such deposit amount which are interest bearing deposit. The interest holds highest percentage of expenses amount because deposit holds highest portion of total available resources. The bank may have different interest rate in different types of account. Here, the researcher going to analyze the average cost of deposit through out the study period.

**Table 4.20**  
**Status of Average Cost of Deposit**

**Figure in Rs '000'**

Fiscal Year	Interest Expenses(Rs)	Total Deposit(Rs)	Cost of Deposit (%)
2062/063	490947	18927306	2.59
2063/064	685530	24488856	2.80
2064/065	992158	34451726	2.88
2065/066	1686973	46698100	3.61
2066/067	2553847	50094725	5.09

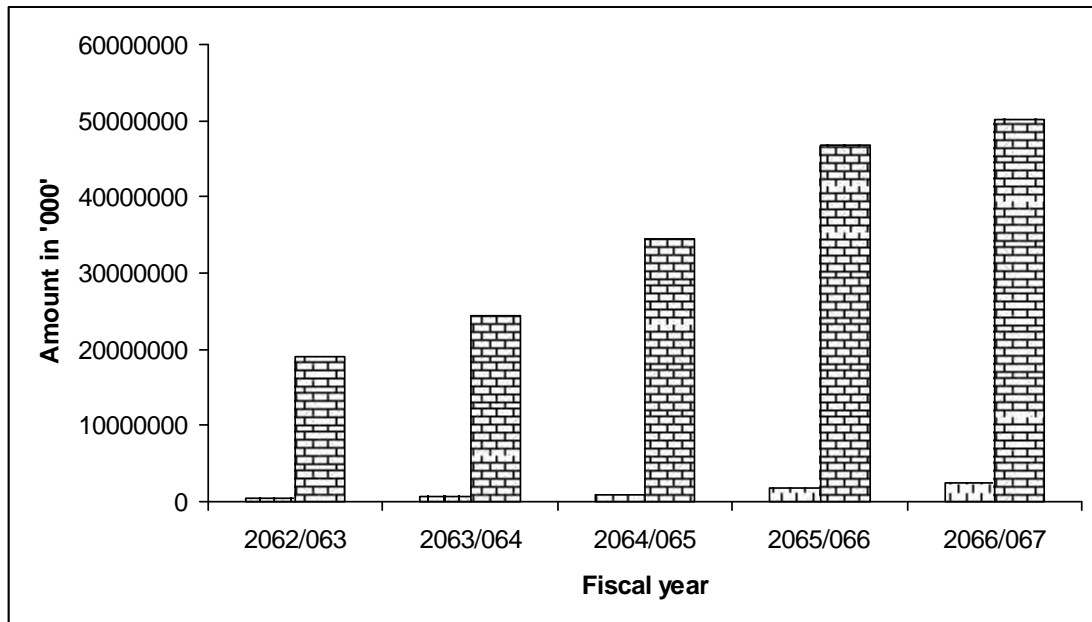
Sources: Annual Reports of NIBL 2062/063 to 2066/067.

The above table shows the total deposit and interest expenses of respective year. The deposit amount is increasing trend likewise the interest too. The table shows the cost of deposit in percentage. The NIBL cost of deposit (interest) range between 2.59% to 5.09% over the study period. The COD of the bank is slightly fluctuating trend the highest cost

of deposit is 5.09% in the year 2066/67. The relation between COD and total deposit can be shown on the bar diagram below.

**Figure 4.15**

**Bar Diagram Showing Average Cost of Deposit**



The bar diagram shows the status of interest expenses and total deposit in respective fiscal year. The amount of total deposit is in increasing trend like wise interest is changing trend accordingly. The amount of interest expenses is increasing every year.

#### **4.5.2 Non-Interest Expenses:**

Interest is major expenses for a bank it also treat as direct expenses other than interest bank needs some of administrative and operational expenses such expenses are:

- Employees Expenses
- Operational Expenses
- Non-Operating expenses

The following table shows the non interest expenses (Expenses other than interest) Out of these expenses staff bonus and income tax also included in other expenses.

**Table 4.21**  
**Status of Non-Interest Expenses of NIBL**

Figure in Rs '000'

Expenses	2062/063		2063/064		2064/065		2065/066		2066/067	
	Amount(Rs)	%	Amount(Rs)	%	Amount(Rs)	%	Amount(Rs)	%	Amount(Rs)	%
Employees Expenses	120664	19	145371	18	187150	18	187149	14	225721	23
Operational Expenses	190605	31	243431	30	313154	30	413884	32	433596	45
Non-Operational Expenses	-	-	-	-	-	-				
Provision for Risky Loan	103808	17	129719	16	135989	12	166201	13	93056	10
Employees Bonus	50491	8	72338	9	101996	10	129860	10	180818	19
Income Tax	154378	25	221977	27	321288	30	397982	31	27183	3
Total	619946		812836		1059577		1295076		960374	

Sources: Annual Reports of NIBL 2062/063 to 2066/067.

The above table shows the non interest expenses of NIBL over the five year period. Employees expenses is in fluctuation trend and constant in 2066 to 2067. The range of operational expenses is in decreasing trend. The trend of provision for risky loan is fluctuation in the F/Y 2063/64, F/Y2066/67. This indicate that the bank has high risk loan.

The trend of bonus to employees is also fluctuating but increasing 2065/66. This means the bank paying bonus to employees in increasing current year. The trend of tax is also increasing trend since it indicated the bank's overall profitability is increasing trend because income tax pays form the profit.

#### **4.5.3 LA Verses Loan Loss Provision of NIBL**

The central bank of Nepal (NRB) has directed from mandatory provision of loan as per their loan time period. The percentage of loan loss provision is based on the loan classification. As per the current rules of NRB classified to their O/S loan in four groups.

Group	Criteria	Provision(%)
Pass Loan	Principal Overdue up to 3 Months	1
Substandard Loan	Principal Overdue up to 6 Months	25
Doubtful Loan	Principle Overdue up to 1 Year	50
Bad Loan	Principle Overdue above 1 Year	100

The loan falls in above group called Non-Performing loan except the pass loan. These types of loan affect the overall profitability of bank so bank needs to pay more attention for repayment of such loan or renewal of loan. Provision for such loan deducts the profit of the bank here researcher going to analyze total LA and Provision for LA by the help of table and diagram.

**Table 4.22**

**Status of Loan Loss Provision of Total LA of NIBL**

**Figure in Rs, '000'**

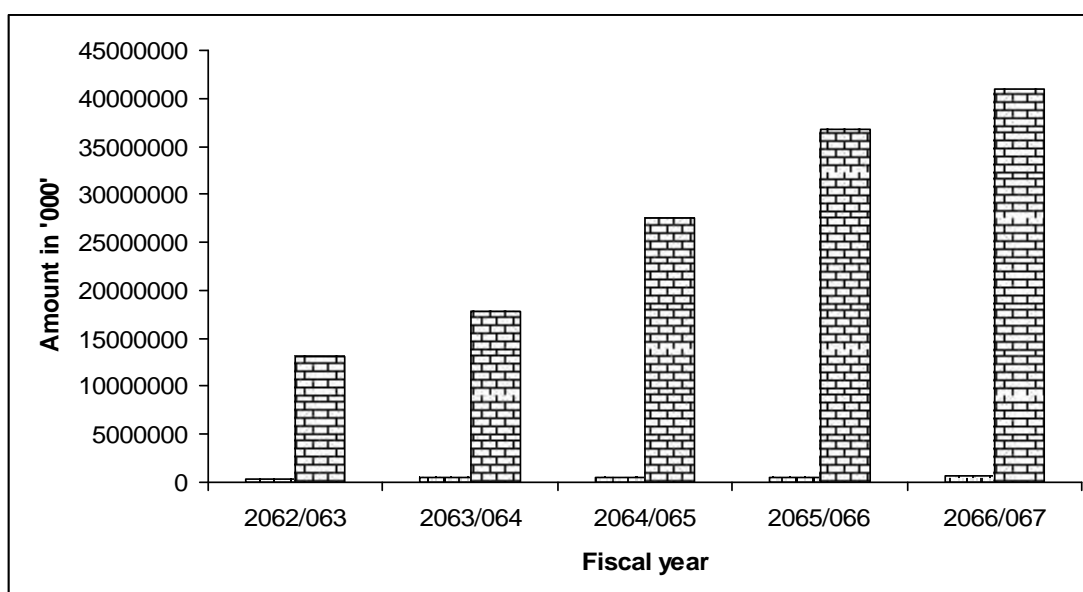
Fiscal Year	Loan Loss Provision(Rs)	O/S LA(Rs)	Loan Loss Provision to LA
2062/063	401944	13178152	3.05
2063/064	482673	17769100	2.72
2064/065	532652	27529305	1.93
2065/066	585951	36827157	1.59
2066/067	630132	40948440	1.54

Source: Annual report of NIBL, 2062/63 to 2066/67.

The above table shows the loan loss provision ratio with the total o/s LA of NIBL. The trend for loan loss provision is fluctuating it ranged between 1.54% to 3.05% over the five years study period. The trend in terms of amount is increasing of total loan loss provision and o/s loan. The bank has 3.05% loan loss provision in F/Y 2062/63. In F/Y 2063/64 in decreased to 2.72% like wise the trend is decreasing up to F/Y 2066/67. It means that the bank has good recovery condition since the trend of loan loss provision is in decreasing trend. For the analysis purpose researcher going to plot the figure of loan loss provision and outstanding LA in bar diagram.

**Figure 4.16**

**Status of Loan Loss Provision of Total LA of NIBL**



The above bar diagram shows the relationship between outstanding LA and loan loss provision in related year of NIBL. Diagram representing o/s loan is increasing trend and loan loss provision increases accordingly. Here researcher going to present year wise loan loss provision in pie chart for the more analysis purpose.

The total amount of loan loss provision is increasing trend of NIBL. Whereas the percentage of Provision is in decreasing trend it means this is a good indication because there is decreasing in time crossed loan. The provision of loss decreases the profitability of the bank. The loan loss provision ranges between 1.93 to 3.05% the average loan loss provision of NIBL is 2.07% over the study period.

#### **4.6 Revenue Planning of NIBL**

The major objective of every business concerns is revenue. NIBL Generates its revenue from its income earning activities. Such activities are mostly fund-based, that is generated out of the deployment of fund and some portion from non-fund based business activities. The major contribution in revenue of bank is interest income. So NIBL income categorized in to two types interest income and other income.

##### **4.6.1 Interest Income**

Interest income also called return of LA contributes major portion of total revenue mix. Now, researcher going to analyze the comparative status of total on LA with the help of table and diagrams.

**Table 4.23**  
**Status of Average Return of LA**

**Figure in Rs."000"**

Fiscal Year	Interest Income(Rs)	Total O/S LA(Rs)	Average Rate of Return (%)
2062/063	1172742	13178152	8.90
2063/064	1584987	17769100	8.92
2064/065	2194275	27529305	7.97
2065/066	3267941	36827157	8.87
2066/067	4653521	40948440	11.36

Sources: Annual Reports of NIBL (2062/63 to 2066/67).

The above table shows the comparative status of interest income with the o/s LA and the return on same LA. The interest income is in increasing trend as the LA has increased where as the rate of return on LA is fluctuating trend. The range of rate of return lies between 7.9, 7% to 11.36% over the five year period. It is effective to analyze the relationship between o/s LA and interest income by using the statistical tools to find out the variability actual LA and actual income of different years we have to calculate arithmetic mean, standard deviation coefficient of variation, coefficient of determination and correlation of coefficient. The detail calculations of these statistical tools are presented in appendix no 6 now summary of calculation listed below:

**Table 4.24**  
**Summary of Actual LA and Interest Income**

**Figure in Rs, '000'**

Statistical Tools	Actual Deposit in	Actual O/S LA Deposit (Y)
Mean (Rs.)	2574693.2	27250430.8
Standard Deviation ( $\sigma$ ) (Rs.)	1404619.261	11909571.53
Coefficient of Variation (%)	54.55482077	43.70415872
Correlation of Coefficient (r)	0.958266869	
Probable Error (PE)	$r > 0.589322276$	

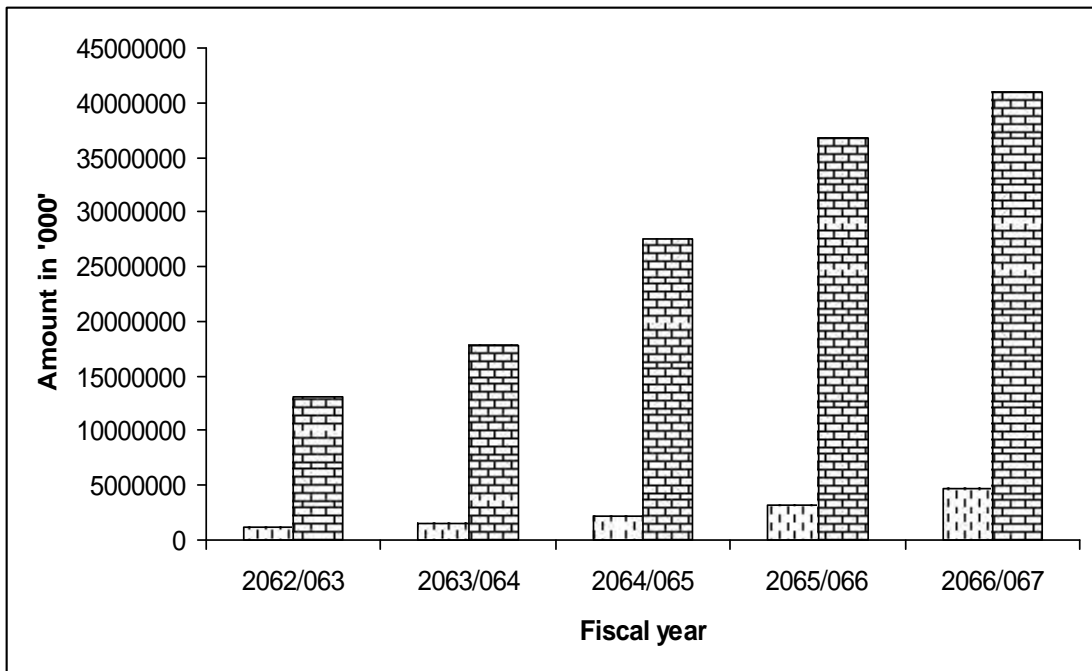
The above result shows that actual o/s LA is more variable than interest income since CV of LA is higher than of interest. There should be positive correlation between O/S, LA and interest income. In other words the interest income increases as the o/s LA increase or vice versa. To find the correlation between interest income and actual o/s LA we can take the help of Karl person's coefficient of correlation and it is denoted by 'r' we can examine whether there is positive correlation between interest income and actual LA. The actual LA (X) is assumed as independent in LA will support to increase in interest income and vice versa. After this significance of 'r' is tested with the probable error of 'r'. The value of r is 0.9582 and PE is 0.5893 since  $r > 6PE$  the value of r is significant. From the calculation shown in appendix no 6 the value of r is 0.9582. Now the coefficient of determination which explains the change in Y variable i.e. interest income by x variable i.e. LA can be calculated as the  $r^2$ .

$$r^2 = (0.9582)^2 = 0.9181$$

For the more analysis purpose the data of interest income and o/s LA presenting in bar diagram.

**Figure 4.17**

**Bar Diagram Showing Interest Income and Total O/S LA**



From the chart researcher can find that the yearly interest income is in increasing trend in amount as per the O/S LA is also increasing. In the term of average rate of return is fluctuating trend.

#### **4.6.2 Income Other Than Interest**

The major income of bank is interest where as bank earns some of other income other than interest. Then income earned by NIBL other than interest is presented below:

**Table 4.25**  
**Showing Income Other than Interest**

**Figure in Rs, '000'**

Incomes	2062/063		2063/064		2064/065		2065/066		2066/067	
	Amount(Rs)	%	Amount(Rs)	%	Amount(Rs)	%	Amount(Rs)	%	Amount(Rs)	%
Exchange Income	125747	43.56	135355	32.63	165839	29.82	185327	28.36	224057	43.69
Commission Income	115942	40.16	163899	39.52	215292	38.71	262792	40.22	242886	37.61
Other Operational Income	46607	16.14	114096	27.51	167953	30.20	202228	30.95	168313	26.06
Non-Operational Income	391	0.14	1426	0.34	7048	1.27	2953	0.45	10606	1.64
Total	288687		414776		556132		653300		645862	

Source: Annual report of NIBL (2062/63 to 2066/67).

The above table shows the other income and its trend in terms of percentage of NIBL. The range of exchange is 28.36% to 43.56%. The trend is fluctuating over the five year the exchange income is highest source of income over the period. Commission income ranged 37.61% to 40.22% over the five years. This income is in fluctuating trend like wise other operational income ranged between 16.14% to 30.95% the trend of this income increasing except the F/Y 2064/65. Non operational income is 0.45% to 2.39% the trend of non operational income is fluctuating tend over the five year period.

#### 4.6.3 Interest Margin

The difference between interest income and interest expenses is called interest margin. Following table shows the movement in interest margin through out the study period of NIBL.

**Table 4.26**  
**Movements in Interest Margin of NIBL**

Figure in Rs, '000'

Fiscal Year	Interest Income(Rs) (X)	Interest Expenses(Rs) (Y)	Interest Margin(Rs) (X-Y)	Growth in Interest Margin
2062/063	1172742	490947	681795	-
2063/064	1584987	685530	899457	32
2064/065	2194275	992158	1202117	34
2065/066	3267941	1686973	1580968	32
2066/067	4653521	2553847	2099674	33

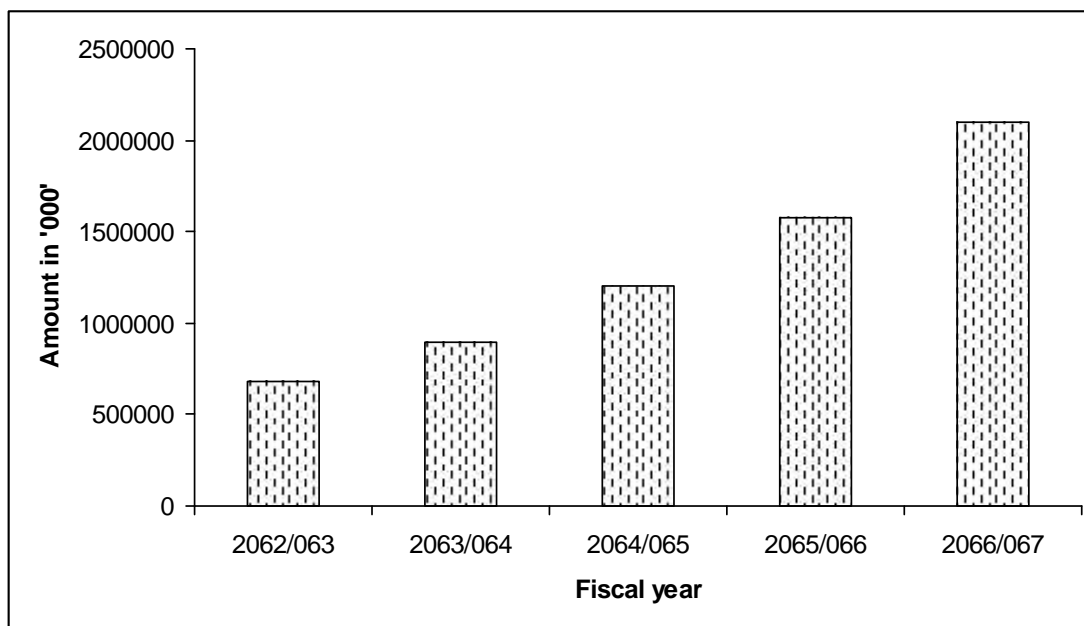
Sources: Annual Reports of NIBL (2062/063 to 2066/067).

The above table shows the position of interest margin and its growth through out the study period. The figure of interest margin is increasing trend every year. The base year to calculate the interest margin is F/Y 2062/63. The rate of growth is 32% in F/Y 2063/64 the it increased

to 34% in the year 2064/65 like wise it decrease to 33% and 32% in F/Y 2065/66 and 2066/67 respectively. The position of interest income, interest expenses and interest margin is presenting in the bar diagram.

**Figure 4.18**

**Bar Diagram Showing Interest Margin of NIBL**



The above bar diagram is showing the status of interest margin with comparison with interest income and interest expenses of NIBL. The fundamental purpose of this diagram is to show the relationship of interest margin so the trend of interest margin through out the five years period is increasing.

#### **4.7 Burden of NIBL**

The burden is the difference amount between other expenses and other income or the overall expenses of the bank excepting interest expenses for deposit is called burden. The table below presenting the burden of NIBL.

**Table 4.27**  
**Status of Burden of NIBL**

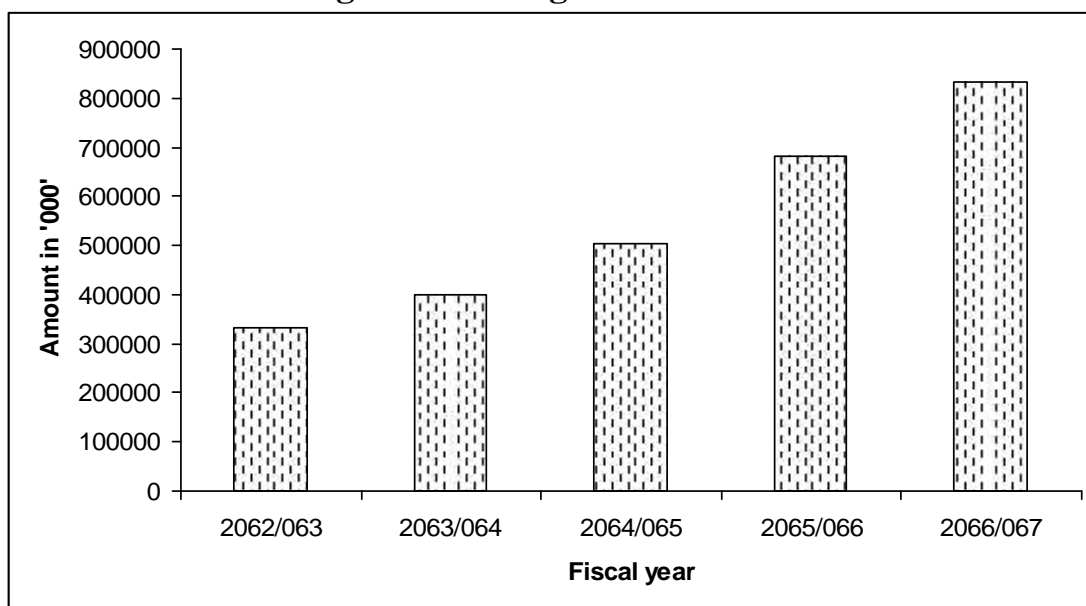
**Figure in Rs, '000'**

Fiscal Year	Other Expenses(Rs)	Other Income(Rs)	Burden(Rs)
2062/063	619946	288687	331259
2063/064	812836	414776	398060
2064/065	1059577	551632	503445
2065/066	1298901	718552	680349
2066/067	1626889	793165	833724

Sources: Annual Reports of NIBL (2062/63 to 2066/67).

The above table shows the status of other expenses other income the difference between them also called burden of NIBL. The figure of burden in increasing every year since the other expenses and other income also increasing trend. This table showing that the total other expenses can't cover by the other income since all of burden amount is in positive figure through out the five years. To know the relationship between other expenses, other income and the burden researcher going to plot the data in bar diagram below.

**Figure 4.19**  
**Bar Diagram Showing the Burden of NIBL**



The above bar diagram shows the position of other expenses, other income and burden of the NIBL. The purpose of the diagram is to show the relationship of burden amount with other expenses and the other income. The other expenses are in the higher position in bar diagram through out the five years of time period. The other income is in second position this result of diagram shows that other expenses is higher than other income every year. The burden is the difference between other expenses and other income. Since other income can't lead to other expenses the burden is in positive form every year. The trend of burden is increasing every year.

#### **4.8 Net Profit and Loss of NIBL**

Profit is excess income over expenditure like wise loss incurred by excess expenditure over the income. The researcher has calculated above the interest margin and burden so the difference between interest margin and burden is called net profit and Loss.

Following table shows the status of interest margin, Burden and Net Profit of NIBL through out the study period.

**Table 4.28**  
**Showing the Status of Profit and Loss of NIBL**

**Figure in Rs, '000'**

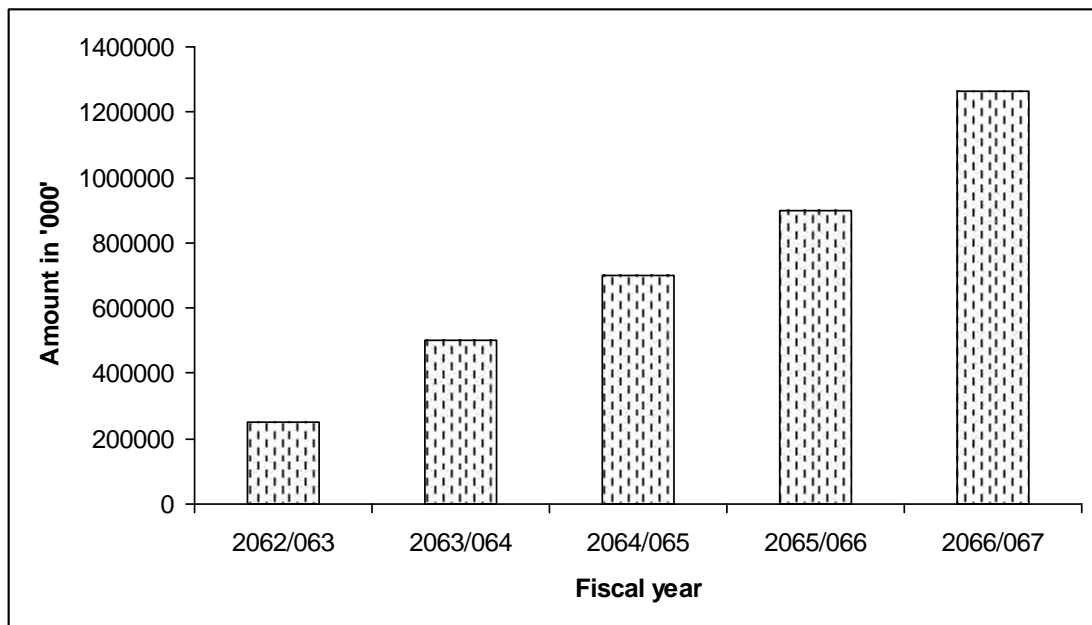
Fiscal Year	Interest Margin(Rs)	Burden(Rs)	Net Profit and Loss(Rs)	Growth Rate (%)
2062/063	681795	331259	250536	-
2063/064	899457	398060	501397	43
2064/065	1202117	503445	698672	39
2065/066	1580968	680349	900619	29
2066/067	2099674	833724	1265950	41

Sources: Annual Reports of NIBL (2062/63 to 2066/67).

The above table shows the status of net profit and loss of NIBL since the figure in P/L column are positive form the NIBL is in profit zone every year. The trend of net profit is increasing every year where as the growth rate of profit is decreasing trend. The rate of growth in F/Y 2063/64 is 43% in comparison with the F/Y 2062/63 the rate decreased by 4% in F/Y 2063/64 and it decreased to 39% and 29% in F/Y 2064/65 and F/Y 2066/67 respectively. For the more analysis purpose the status of net profit presenting in the bar diagram below.

**Figure 4.20**

**Bar Diagram Showing the Net Profit and Loss of NIBL**



By the above bar diagram researcher can find that the relationship of net profit with interest margin, Burden, of NIBL the main purpose of the bar diagram is to represent the status of net profit of NIBL. Since the bar diagram shows the position of net profit is above the base line it is in profit zone every year. The position of Net profit is in increasing trend every year. The interest margin has higher rank over the five year and burden has lower rank so there is profit in every year. The net profit is

higher than burden amount but in the F/Y 2063/64 net profit is slightly lower than burden.

#### **4.9 Performance Evaluation of NIBL**

Performance evaluation can help to outline the strength and weakness of management and help to improve the weakness of management and to energize to accomplishment of organizational goal. Here researcher going to analyze by using various technique and criteria to evaluate performance of NIBL some financial tools is as follows:

- Ratio Analysis
- Cost Volume Profit Analysis

##### **4.9.1 Ratio Analysis**

"Ratio refers to the numerical relation of component parts of financial statement to each other. Ratio relationships are computed to obtain information about various characteristics and conditions of firm" (Bagavati and Pillai, 2000, p. 1339).

Ratio analysis is a technique of analysis and interpretation of financial statement through mathematical expression. It may be defined as the mathematical expression of the relationship between two accounting figures. To evaluate the different performance of an organization by creating the rations from the figures of different accounts is termed as ratio analysis. Ratio used for financial analysis of business can be classified in to four categories.

- Liquidity Ratio
- Leverage Ratio
- Activity Ratio
- Profitability Ratio

### 4.9.1.1 Liquidity Ratio

Liquidity Ratio is ability of a firm to pay short term liabilities. Liquidity ratio reflects the short term financial strength of a firm. This ratio is calculated by the help of current assets and current liabilities. Here the researcher is going to calculate the current ratio of NIBL. Current ratio is calculated dividing current assets by current liabilities.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

**Table 4.29**

#### **Current Ratio of NIBL**

Figure in Rs, '000'

Fiscal Year	Current Assets(Rs) (X)	Current Liabilities(Rs) (Y)	Current Ratio (X/Y)
2062/063	2536611	987392	2.57:1
2063/064	2676311	1223866	2.19:1
2064/065	4032539	1732853	2.33:1
2065/066	44095727	42449147	1.04:1
2066/067	46211873	42053175	1.10:1

Sources: Annual Reports of NIBL 2062/063 to 2066/067 & Appendix no.7.

The above table shows the liquidity position of NIBL. Higher the current ratio better the liquidity position, for the many types of business 2:1 is considered to be an adequate ratio. If the current ratio of a firm is less than 2:1, it means the firm has difficulty in meeting its current obligation. If the current ratio is more than 2:1 the company may have an excessive investment in current assets that do not produce satisfied return.

The current ratio of NIBL has met the standard of 2:1 except the

year 2062/63 though it has sufficient to pay current obligation. The trend of current ratio is slightly fluctuating the range of current ratio through out the five years period is 1.04:1 to 2.57:1. NIBL has higher current assets than current liabilities over the study period so NIBL has utilized their und in maximum level because there is no higher liquidity. The relationship between current assets and current liabilities presenting in the bar diagram for the analysis purpose.

#### **4.9.1.2 Leverage Ratio**

The leverage ratio also called capital structure ratio. The leverage ratio calculated to judge the long term financial position of a firm. These ratio measure the firm's ability to pay the interest regularly and to pay the principal on maturity. The following ratios are included in leverage ratio.

- Debt-Equity Ratio
- Interest Coverage Ratio

#### **4.9.1.3 Debt-Equity Ratio**

The relationship between long term debt and share holder's equity is called debt equity ratio. Debt-Equity ratio measures the long-term financial solvency of a business concern. It is calculated by dividing to long term debt by Share holder's equity. The Debt-Equity Ratio can be calculated dividing to borrowing by share holder equity the details of borrowings and share holders equity shown on appendix no. 8.

$$\text{Debt Equity Ratio} = \frac{\text{Borrowings}}{\text{Shareholder's Equity}}$$

**Table 4.30**  
**Debt-Equity Ratio of NIBL**

figure in Rs, '000'

Fiscal Year	Borrowings(Rs) (X)	Share Holder Equity(Rs)(Y)	Debt-Equity Ratio (X/Y)
2062/063	550000	1415440	0.39:1
2063/064	800000	1878124	0.43:1
2064/065	1050000	2688727	0.39:1
2065/066	3880000	3907840	0.99:1
2066/067	3731482	4585393	0.81:1

Sources: Annual Reports of NIBL (2062/063 to 2066/067).

The above table shows the debt equity ratio of NIBL. The column X shows the figure of borrowings and column Y shows the figure of share holder's equity. By dividing to Column X by Y is the result of debt equity ratio. Here the range of debt equity ratio of NIBL is 0.39:1 to 0.99:1. The trend of debt equity than long term obligation but in above analysis researcher have calculated only borrowings as long term obligation but in above analysis researcher have calculated only borrowings as long term debt. The above table and chart shows that NIBL's financial strength is very strong because it has more internal fund to repay the borrowing capital. The figure of long term debt and share term debt and share holder's equity is presenting in the bar diagram below.

From the table shows the status of long term debt and share holder's equity. The long terms debt is slightly increasing trend like wise the shareholder equity increasing rapidly over the five year's period. The position of share holder equity is higher than the long term debt this indicate that the bank use more internal fund than external fund.

#### 4.9.1.4 Interest Coverage Ratio (ICR)

ICR measures the capacity to pay interest expenses. This ratio is calculated by dividing Net Profit before Interest and Tax (EBIT) by Interest cost amount.

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

**Table 4.31**

#### Calculation of Interest Coverage Ratio

Figure in Rs, '000'

Fiscal Year	EBIT in Rs(X)	Interest Expenses in Rs (Y)	Times
2062/063	1099669	490947	2.24
2063/064	1538624	685530	2.24
2064/065	2148108	992158	2.17
2065/066	3728210	1686973	2.24
2066/067	6231386	2553847	2.44

Sources: Annual Reports of NIBL (2062/63 to 2066/67).

The above table shows the position of interest coverage ratio (ICR) of NIBL. The ICR is 2.24 times in F/Y 2062/63 this means EBIT is 2.24 times more than interest expenses. Likewise the ICR reached to 2.44 times in F/Y 2066/67 this results represents the NIBL increased it's EBIT. The rate is 2.24 in F/Y 2062/63 and 2063/64 then the rate decreased to 2.17 in F/Y 2064/65. The interest coverage ratio of NIBL ranges between 2.17 to 2.34 times. It means that the bank sufficiently capable to pay the interest expenses.

#### 4.9.1.5 Activity Ratio

The relationship between activity of bank and human resources is called activity ratio. These ratios reflect how efficiently the organization is utilizing their employees. The major activity of a bank is collection deposit, LA, and Non-fund business so researcher going to show the relationship with these items and number of employees of NIBL.

$$\text{Deposit per Employees} = \frac{\text{Deposit collected}}{\text{No. of employees}}$$

$$\text{LA per Employees} = \frac{\text{LA Deployed}}{\text{No. of employees}}$$

$$\text{Non-Fund Business per Employees} = \frac{\text{Non – Fund Business}}{\text{No. of employees}}$$

**Table 4.32**

#### Showing the Activity Ratio of NIBL

Figure in Rs, '000'

F/Y	Deposit Collected (A)	LA Deployed (B)	Non-Funded Business (C)	No of Employees (D)	Deposit per Employee (E)=A/D	LA Per employee (F)=B/D	Non-Funded Business per employee(G) =C/D
2062/063	18927306	13178152	8365860	390	48532	33790	21451
2063/064	24488856	17769100	8365860	514	47644	34570	16276
2064/065	34451726	27529305	11079883	622	55389	44259	17813
2065/066	46698100	36827157	152111947	766	60964	48077	198570
2066/067	50094725	40948440	148555534	877	57121	46691	169391

Sources: Annual Reports of NIBL (2062/63 to 2066/67).

The above table shows the relationship of major activities of bank with its human resources. The number of employees increasing every year like wise the major activities of NIBL is increasing trend except non fund activities. In the above table column A,B,C,D shows deposit collection, LA deployed, Non-fund business and No. of employees. The

relationship with such activities is calculated dividing to column A,B,C by Column D.

#### 4.9.1.6 Profitability Ratio

Profitability ratio is related to profit. It shows the overall efficiency of the business concern. The earning capacity of a business is measured by profitability ratio.

Maximization of profit is the main objectives of each and every business concern. It is very necessary to earn maximum profit for the successful running of a business concern. Here this researcher going to measure of NIBL profitability by total assets and total capital fund to Net profit. It is computed by dividing to Net Profit by Total Assets and Net Profit to total capital fund.

**Table 4.33**  
**Profitability Ratio of NIBL**

Figure in Rs, '000'

F/Y	Net Profit after tax(A)	Total Assets (B)	Return on Assets(C)=A/B	Total Capital Fund(D)	Return on Capital (E=A/D) (%)
2062/063	350536	21732018	1.61	1415440	24.77
2063/064	501399	28073517	1.79	1878124	26.70
2064/065	698673	39405959	1.77	2688727	25.99
2065/066	900619	53596754	1.68	1509535	17.68
2066/067	1265950	57305413	1.2.21	5651045	22.40

Sources: Annual Reports of NIBL (2062/63 to 2066/67).

The above table shows the status of return on assets and return on capital employed of NIBL. The ratio shows the relation of net profit after tax with the total assets and total capital employed. The rate of return of on assets is increasing trend it is ranged between 1.61% to 2.21% and

average return on assets 1.7% through out the five years period. Like wise the return on capital ratio presenting the relation of net profit with the capital employed. The range of return on capital employed is 17.68% to 22.40% it is fluctuating trend and the average rate of return of capital is 23.5% through five year of the study period.

#### **4.9.2 Cost Volume Profit Analysis**

Relationship between cost, volume and profit is called cost volume profit (CVP) analysis. The CVP analysis is a tool of profit planning used by management. The three component of CVP analysis is interrelate each other. Profit depends on Sales. Sales price depends on volume of production. CVP analysis helps to management for decision making about the cost control. CVP analysis of NIBL based on the assumption of fixed cost is taken for burden amount which is calculated from difference between other expenses and other income. The CVP analysis is analyzed by using the help of financial tool of break even point analysis in terms of interest margin, deposit collection, outstanding LA.

##### **4.9.2.1 BEP in terms of Interest Margin**

Following table shows the BEP in Rs and percentage in terms of interest margin of NIBL.

$$\text{BEP}(\%) = \frac{\text{Net Burden}}{\text{Interest M arg in}}$$

$$\text{BEP Amount} = \text{BEP}(\%) \times \text{Interest Income}$$

Status of BEP in percentage and in amount of NIBL

**Table 4.34**

**BEP in Terms of Interest Margin**

Figure in Rs '000'

Fiscal Year	Net Burden (A)	Interest Margin (B)	Interest Income (C)	BEP In % D=(A/B)	BEP in Rs (C×D)
2062/063	331259	681795	1172742	48.59	569835
2063/064	398060	899457	1584987	44.26	701515
2064/065	503445	1202117	2194275	41.88	918962
2065/066	680349	1580968	3267941	43.3	1415018
2066/067	833724	2099674	4653521	39.71	184778

Sources: Annual Reports of NIBL (2062/63 to 2066/67).

From the above table researcher can find the BEP percentage and BEP amount of NIBL in terms of interest margin. The percentage of BEP is in fluctuating trend it means the burden and interest margin is not in increasing as same ratio where as the BEP in Rs is in increasing trend over the period. So NIBL is in over the BEP level in terms of interest margin. The BEP range over the study period is 39.71% to 48.59%.

**4.9.2.2 Margin of Safety of NIBL**

The margin of safety is also called profit zone. It derived from the deducting BEP interest from total interest income. The following table showing the margin of safety of NIBL.

Margin of Safety (MOS) =Total Interest Income- BEP Interest

**Table 4.35**

**Showing the Status of Margin of Safety of NIBL**

**Figure in Rs, '000'**

Fiscal Year	Total Interest Income (A)	BEP Interest (B)	Margin of Safety (A-B)	Growth%
2062/063	1172742	569835	602907	-
2063/064	1584987	701515	883472	46.54
2064/065	2194275	918962	1275313	44.36
2065/066	3267941	1415018	1852223	45.29
2066/067	4653521	184778	4468743	14.13

Sources: Annual Reports of NIBL (2062/63 to 2066/67).

The above table shows the status of margin of safety and the growth rate over the five years of time period. The trend of MOS is increasing except the F/Y 2063/64. The base year to calculate the growth of MOS is F/Y 2063/64 the rate of growth is in F/Y 2063/64 in comparison with the F/Y 202/63. In f/y 2063/64 it increased to 46.54% then after up to 2066/67 it is in decreasing trend.

**4.9.2.4 BEP in terms of Volume of O/S LA**

BEP in terms of volume of o/s LA is calculated on the based on BEP interest and return on LA. Here the following table represents BEP in terms of LA of NIBL.

$$\text{BEP in terms of LA} = \frac{\text{BEPI interest Income}}{\text{Return on LA}}$$

**Table 4.36****BEP in Terms of Volume of O/S LA**

Figure in Rs, '000'

Fiscal Year	BEP Interest Income (X)	Return on LA (Y)	BEP (LA) (X/Y)
2062/063	569835	8.90%	6402640
2063/064	701515	8.92%	7864518
2064/065	918962	7.97%	11530263
2065/066	1415018	8.87%	12551209
2066/067	184778	11.36%	2099078

Source: Table No 4.25 and 4.37.

The above table shows the status of BEP in terms of outstanding loan. The actual figure of LA is greater than the BEP figure so the NIBL is in the profit zone. The figure of BEP LA is increasing every year through out the five years of study period.

**4.9.2.5 BEP in terms of Volume of Deposit**

The following table shows the BEP in terms of Deposit which is derived from BEP LA divided by the LA to Deposit Ratio.

$$\text{BEP Deposit} = \frac{\text{BEP LA}}{\text{LA to Deposit Ratio}}$$

**Table 4.37****Showing in BEP in Terms of Volume of Deposit**

Figure in Rs, '000'

Fiscal Year	BEP (LA) (X)	LA to Deposit Ratio (Y)	BEP (Deposit) (X/Y)
2062/063	6402640	69.96%	9151858
2063/064	7864518	72.56%	10838641
2064/065	11530263	79.9%	14430867
2065/066	12551209	78.86%	15915811
2066/067	2099078	81.74%	2567993

Source: Table No 4.16 and 4.38.

The above table shows the status of BEP in terms of deposit collection. The deposit collection of NIBL is higher than the BEP Deposit every year.

#### **4.10 Major Findings of the Study**

On the basis of analysis of secondary data and their interpretation the major findings of the study are summarized below:

1. The Bank is awarded "bank of the year 2003, 2005, and 2008" by the London-based Financial Times Group's, The Banker (See p. 59, 60).
2. The bank has awarded by "Best Presented Accounts Award 2006" by the Institute of Chartered Accountants of Nepal (ICAN) (See p. 60).
3. The bank has 88% average contribution of customer deposit in the resources mobilization as per the data F/Y 2062/63 to 2066/67 and uses the other resources 12% in average (See p. 64, 70).
4. NIBL is well performing in the deposit collection sector. Budgeted figure is higher than the actual deposit. The researcher have find (r) is 0.9907 and PE is 0.5610. The figure of 'r' shows that there is positive perfect correlation between budgeted deposit and actual deposit. The relation of PE with r is  $r > 6PE$ . It is significant so the actual deposit going on same direction. The relationship between budgeted and actual amount deposit remains same the amount of deposit in F/Y 2067/68 will be Rs 272020140 thousand stated by the regression line (See p. 68, 69).
5. The deployment of Banks available resources at various portfolios among which LA hold the highest percentage in average out of total deployment amount through out the five years of study period (See p. 75).

6. The statistical tool CV represents that NIBL's actual LA is the variable nature than budgeted LA. The correlation between budgeted and actual LA is 0.9699 it means the relation between budgeted and actual LA are perfectly co-related. Significance of r is tested with PE there is  $r > 6PE$  this means the value of r is more significant. So it is no doubtful that actual LA will go on same direction that of budgeted LA. The regression line shows the expected LA for the F/Y 2067/68 will be 635058370 thousand (See p. 81, 82).
7. LA is in increasing trend over the period. The average ratio of LA to deposit is 76.60% (See p. 82).
8. The researcher find that the 100% of achievement of targets in deployment of resources other than LA i.e. NLA (See p. 83).
9. The relationship between actual deposit and actual O/S LA is in increasing trend over the period (See p. 84).
10. The non-fund consuming business activities like LC, Bank Guarantee, Foreign exchange, others are adopted by NIBL. These types of business activities reduced the burden of expenses. The non fund consuming business increasing every year but the Foreign exchange in fluctuating trend and very nominal figure over the period (See p. 88).
11. The interest holds highest percentage of expenses amount s deposit is the major resources of the loan. The COD OF NIBL is in the range of 2.59% to 5.09% it means the bank pays the interest 3.39% in average over the period (See p. 94).
12. The loan loss provision ranges between 1.54% to 3.05% the average loan loss provision of NIBL is 2.06% over the study period (See p. 99).

13. The yearly interest income is in increasing trend amount as per the O/S LA is also increasing. In the term of average rate of return is fluctuating trend it is ranges of 7.97% to 11.36% the average rate of return over the study period is 9.20% (See p. 101).
14. The amount of interest margin of NIBL is in increasing trend where as the increment percentage is fluctuating trend over the study period (See p. 104).
15. The interest margin has higher rank over the five year and burden has lower rank so there is profit in every year. The net profit is higher than burden amount but in the F/Y 2062/63 net profit is slightly lower than burden (See p. 107).
16. The current ratio of NIBL has met the standard of 2:1 except the year 2062/63 (See p. 108).
17. Debt-Equity ratio shows that the NIBL's financial strength is very strong because it has more internal fund to repay the borrowing capital (See p. 112).
18. The interest coverage ratio of NIBL ranges between 2.17% to 2.44% times (See p. 113).
19. The range of return on total assets is 1.61% to 2.21 % and range of return of total capital fund is 17.68% to 26.70% over the period (See p. 116).
20. The percentage of BEP is in fluctuating trend it means the burden and interest margin is not in increasing as same ratio where as the BEP in Rs. is in increasing trend over the period so NIBL is in over the BEP level in terms of interest margin. The BEP range over the study period is 39.71% to 48.59% (See p. 117).

## **CHAPTER-V**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

This chapter is focused on the findings and conclusions obtained from the study of “Profit Planning in commercial banks: A case Study of Nepal Investment Bank Limited” This chapter is comprised of three sections, the first section deals with the summary of the study, the second section draws the conclusions of the study. Lastly, the third section proposes the suggestions to the problems observed on the basis of the findings.

#### **5.1 Summary**

Nepal is a developing country, which started its economic development plans and policies more than four decades ago and has adopted the economic development plans through liberalization recently. The policy of liberalization that the government adopted after restoration of democracy in 1990 calls for primitive and facilitative role of the government together with its strict regulatory functions. The subject matter of economic development has been limited due to variety of geographical structural and economic constraints.

The economic growth of a country can't imagine with out financial institutions. Commercial banks play a vital role as a financial institution which plays a quite important role of every economy by providing capital for the development of industry trade and business. Commercial bank pools between savers and users thereby raising employment opportunity. Besides the economic contribution commercial banks are also recognizes its social responsibilities by contributed to various social and welfare organization.

The major income source of bank is interest margin which depends upon the deployment of available resources. The bank generally deployed their resources for the purpose of liquidity, lending and investing in securities. So the overall profitability of bank depends on lending procedure, lending policy and investment policy. The main objective of the study is to evaluate the budgeting and profit planning system of NIBL. The study is mostly based on secondary data and required data have been collected by using various sources. There are 31 commercial banks operating in Nepal which are taken as population of the study among them NIBL has been taken as a sample of the study and collected data has been analyzed by using various statistical and financial tools.

NIBL is one of the well established commercial bank in Nepal. NIBL is able to maintain its position as a market leader in the banking sector and there is on going effort and commitment in enhancing its financial position.

## **5.2 Conclusions**

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

1. NIBL inbeing its internal fund by increasing capital year by year this means strengthen their capability internally. NIBL is able to meet its targeted deposit collection, deployment of LA. The relationship between budgeted and actual figure is positively correlated. The liquidity position of NIBL is better position bank has maintained the cash and bank balance to meet the current obligations.
2. The relationship between loan and loss provision and O/S LA shows that the doubtful debt is decreasing trend. The major income source

is interest. The trend of interest margin is increasing trend every year. The average cost of deposit of bank is normal. It means the bank is able to collect cost deposit.

3. The financial capacity of NIBL is strong since debt equity ratio shows that the NIBL to use more internal fund to repay its borrowings. The return on assets and return of capacity is satisfactory of NIBL, it shows that the good earning capacity of the NIBIL. The result of the study shows that the overall performance of NIBL is more satisfactory and progressive.

### **5.3 Recommendation**

This researcher would like to provide some suggestion for the better improvement of bank in future. This recommendation based on the study on profit planning of NIBL these is as follows:

- Nepal's accession to the WTO would permit international banks to operate in Nepal so NIBL need to make their business plan and strategy accordingly which can convert challenges in to opportunities.
- Financial institutions increasing day by day in Nepal it grows the competition with the banks so NIBL should make some policy to keep its position as before among the Nepalese financial institutions.
- NIBL should be conscious about the factors affecting the business like Global economic crisis, existing abnormal situation, political uncertainty etc.
- NIBL should pay more attention about the changing technological environment and need to provide innovative products and services that reduce the cost of fund it give more growth and profitability.

- Every business concerns have one another obligation i.e corporate social responsibility so NIBL needs more involvement in social activities in the coming days.
- NIBL's major source of resources collection is deposit since this is the cost bearing sources the bank is suggest increasing cost free resources too, and reducing the burden of the bank.
- NIBL invest in LA, to overcome from the situation it is recommended to follow liberal lending policy and invest more in secured loan and advances and maintain stability on the investment policy.
- The bank need to put more focus on the non fund consuming business activities like LC, Bank guarantee , foreign exchange and other . It supports in the overall profitability of the bank.
- Expenses grow as the volume of activities increases so it can't be avoided but can be controlled. The bank can minimize those expenses not related for income generating activities so the bank enhances its profitability.
- People in rural area of Nepal still out of banking services so NIBL is suggested to take bold steps to expand and upgrade its network to reach such area with their products and services.
- The 'Global Economic Crisis 2008' started from banking sector of USA this crisis may affects to Nepalese financial sectors too so the NIBL suggested to make some policy to be safe from this crisis.

The size of Nepali banking market is increasing day by day. The increase in number of financial institutions indicates the increasing competition in financial market. To monitor with proper regulation this even more, the government had to bring new strategies. Moreover, foreign banks are allowed to operate in Nepal from 2010 A.D there will

be more challenge for Nepalese financial institutions. The central bank of Nepal (NRB) should make some policies toward the banking sector to comfort and able to compete with this ever increasing financial institutions.

The research report is concluded with the above mentioned major findings, summary, conclusions, and recommendations.

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## APPENDIX-I

### Deposit Collection Budget of NIBL

Rs. in '0000000'

Year	X	Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	xy	$x^2$	$y^2$
2062/063	180	189	-110	-160.4	17644	12100	25728.16
2063/064	220	245	-70	-104.4	7308	4900	10899.36
2064/065	800	345	10	-4.4	44	100	19.36
2065/066	350	467	60	117.6	7056	3600	13829.76
2066/067	400	501	140	151.6	16676	12100	22982.56
n = 5	$\Sigma x =$ 1450	$\Sigma y =$ 1747	$\Sigma x = 0$	$\Sigma y = 0$	$\Sigma xy =$ 46728	$\Sigma x^2 =$ 32800	$\Sigma y^2 =$ 73459.2

$$\bar{X} = \frac{\Sigma x}{n} = \frac{1450}{5} = 290$$

$$\bar{Y} = \frac{\Sigma y}{n} = \frac{1747}{5} = 349.4$$

$$\sigma_x = \sqrt{\frac{\Sigma x^2}{n} - \left(\frac{\Sigma x}{n}\right)^2}$$

$$\sigma_y = \sqrt{\frac{\Sigma y^2}{n} - \left(\frac{\Sigma y}{n}\right)^2}$$

$$= \sqrt{\frac{32800}{5} - \left(\frac{0}{5}\right)^2}$$

$$= \sqrt{\frac{73459.2}{5} - \left(\frac{0}{5}\right)^2}$$

$$= 90.55$$

$$= 13.54$$

$$C.V.x = \frac{\sigma_x}{\bar{X}} \times 100\%$$

$$C.V.y = \frac{\sigma_y}{\bar{Y}} \times 100\%$$

$$= \frac{90.55}{290} \times 100\% = 31.23\%$$

$$= \frac{13.54}{349.4} \times 100\% = 38.77\%$$

$$\sigma_{xy} = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \sqrt{\Sigma y^2}}$$

$$= \frac{46728}{\sqrt{32800} \sqrt{73459.2}}$$

$$0.99075$$

$$PE = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1 - 0.99075^2}{\sqrt{5}}$$

$$= 0.561$$

**APPENDIX-II**  
**Other Sources of NIBL**

**Rs. in '0000000'**

Year	X	Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	xy	$x^2$	$y^2$
2062/063	15	24	-24	-22.8	547.2	576	519.84
2063/064	25	31	-14	-15.8	221.2	196	249.64
2064/065	40	44	1	-2.8	2.8	1	7.84
2065/066	50	63	11	16.2	178.2	121	262.44
2066/067	65	72	26	25.2	655	676	635.04
n = 5	$\Sigma x = 195$	$\Sigma y = 234$	$\Sigma x = 0$	$\Sigma y = 0$	$\Sigma xy = 1599.4$	$\Sigma x^2 = 2246$	$\Sigma y^2 = 1674.8$

$$\bar{X} = \frac{\Sigma x}{n} = \frac{195}{5} = 39$$

$$\bar{Y} = \frac{\Sigma y}{n} = \frac{234}{5} = 46.8$$

$$\sigma_x = \sqrt{\frac{\Sigma x^2}{n} - \left(\frac{\Sigma x}{n}\right)^2}$$

$$\sigma_y = \sqrt{\frac{\Sigma y^2}{n} - \left(\frac{\Sigma y}{n}\right)^2}$$

$$= \sqrt{\frac{2246}{5} - \left(\frac{0}{5}\right)^2}$$

$$= \sqrt{\frac{1674.8}{5} - \left(\frac{0}{5}\right)^2}$$

$$= 19.81$$

$$= 20.50$$

$$C.V.x = \frac{\sigma_x}{\bar{X}} \times 100\%$$

$$C.V.y = \frac{\sigma_y}{\bar{Y}} \times 100\%$$

$$= \frac{19.81}{39} \times 100\% = 50.79\%$$

$$= \frac{20.50}{46.8} \times 100\% = 41.71\%$$

$$\sigma_{xy} = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \sqrt{\Sigma y^2}}$$

$$= \frac{1599.4}{\sqrt{2246} \sqrt{1674.8}}$$

$$0.9863$$

$$PE = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1 - 0.9863^2}{\sqrt{5}}$$

$$= 0.5649$$

### APPENDIX-III

#### Budgeted and Actual LA

Rs. in '0000000'

Year	X	Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	xy	$x^2$	$y^2$
2062/063	100	132	-98	-140.4	13759.52	9604	19712.16
2063/064	140	178	-58	-94.4	5475.2	3364	8911.36
2064/065	200	275	2	2.6	5.2	4	6.76
2065/066	250	368	52	95.6	4971.2	2704	9139.36
2066/067	300	409	102	136.6	13933.2	10404	18659.56
n = 5	$\Sigma x = 990$	$\Sigma y = 1362$	$\Sigma x = 0$	$\Sigma y = 0$	$\Sigma xy = 38144$	$\Sigma x^2 = 26080$	$\Sigma y^2 = 56429.2$

$$\bar{X} = \frac{\Sigma x}{n} = \frac{990}{5} = 198$$

$$\bar{Y} = \frac{\Sigma y}{n} = \frac{1362}{5} = 272.4$$

$$\sigma_x = \sqrt{\frac{\Sigma x^2}{n} - \left(\frac{\Sigma x}{n}\right)^2}$$

$$\sigma_y = \sqrt{\frac{\Sigma y^2}{n} - \left(\frac{\Sigma y}{n}\right)^2}$$

$$= \sqrt{\frac{26085}{5} - \left(\frac{0}{5}\right)^2}$$

$$= \sqrt{\frac{56429.2}{5} - \left(\frac{0}{5}\right)^2}$$

$$= 80.74$$

$$= 159.91$$

$$C.V.x = \frac{\sigma_x}{\bar{X}} \times 100\%$$

$$C.V.y = \frac{\sigma_y}{\bar{Y}} \times 100\%$$

$$= \frac{80.74}{198} \times 100\% = 40.78\%$$

$$= \frac{159.91}{272.4} \times 100\% = 63.98\%$$

$$\sigma_{xy} = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \sqrt{\Sigma y^2}}$$

$$= \frac{38144}{\sqrt{26085} \sqrt{56429.2}}$$

$$= 0.9699$$

$$PE = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1 - 0.9699^2}{\sqrt{5}}$$

$$= 0.5793$$

## APPENDIX-IV

### Budgeted and Actual NLA of NIBL

Rs. in '0000000'

Year	X	Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	xy	$x^2$	$y^2$
2062/063	65	86	-31.2	-43.2	1347.84	973.44	1866.24
2063/064	80	103	-16.2	-26.2	424.44	262.44	686.44
2064/065	90	119	-6.2	-10.2	63.24	38.44	104.04
2065/066	116	168	19.8	38.8	768.24	392.04	1505.44
2066/067	130	170	73.8	40.8	3011.04	5446.44	1664.64
n = 5	$\Sigma x = 481$	$\Sigma y = 646$	$\Sigma x = 0$	$\Sigma y = 0$	$\Sigma xy =$ 5614.8	$\Sigma x^2 =$ 7112.8	$\Sigma y^2 =$ 5826.8

$$\bar{X} = \frac{\Sigma x}{n} = \frac{481}{5} = 96.2$$

$$\bar{Y} = \frac{\Sigma y}{n} = \frac{664}{5} = 129.2$$

$$\sigma_x = \sqrt{\frac{\Sigma x^2}{n} - \left(\frac{\Sigma x}{n}\right)^2}$$

$$\sigma_y = \sqrt{\frac{\Sigma y^2}{n} - \left(\frac{\Sigma y}{n}\right)^2}$$

$$= \sqrt{\frac{7112.8}{5} - \left(\frac{0}{5}\right)^2}$$

$$= \sqrt{\frac{5826.8}{5} - \left(\frac{0}{5}\right)^2}$$

$$= 25.49$$

$$= 38.19$$

$$C.V.x = \frac{\sigma_x}{\bar{X}} \times 100\%$$

$$C.V.y = \frac{\sigma_y}{\bar{Y}} \times 100\%$$

$$= \frac{25.49}{96.2} \times 100\% = 26.84\%$$

$$= \frac{38.19}{129.2} \times 100\% = 29.61\%$$

$$\sigma_{xy} = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \sqrt{\Sigma y^2}}$$

$$= \frac{5614.8}{\sqrt{7112.8} \sqrt{5826.8}}$$

$$= 0.9641$$

$$PE = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1 - 0.9641^2}{\sqrt{5}}$$

$$= 0.5842$$

## APPENDIX-V

### Actual Deposit and O/S LA of NIBL

Rs. in '0000000'

Year	X	Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	xy	$x^2$	$y^2$
2062/063	189	131	-156.4	-141.2	22083.68	24460.96	19937.44
2063/064	245	178	-100.4	-94.2	9457.68	10080.16	8873.64
2064/065	345	275	-0.4	2.8	-1.12	0.16	7.84
2065/066	447	368	101.6	95.8	9733.28	10322.56	9177.64
2066/067	501	409	155.6	136.8	21286.08	24211.36	18714.24
n = 5	$\Sigma x =$ 1727	$\Sigma y =$ 1361	$\Sigma x = 0$	$\Sigma y = 0$	$\Sigma xy =$ 62559.6	$\Sigma x^2 =$ 69075.2	$\Sigma y^2 =$ 5671.08

$$\bar{X} = \frac{\Sigma x}{n} = \frac{1727}{5} = 349.32$$

$$\bar{Y} = \frac{\Sigma y}{n} = \frac{1361}{5} = 272.44$$

$$\sigma_x = \sqrt{\frac{\Sigma x^2}{n} - \left(\frac{\Sigma x}{n}\right)^2}$$

$$\sigma_y = \sqrt{\frac{\Sigma y^2}{n} - \left(\frac{\Sigma y}{n}\right)^2}$$

$$= \sqrt{\frac{69075.2}{5} - \left(\frac{0}{5}\right)^2}$$

$$= \sqrt{\frac{5671.08}{5} - \left(\frac{0}{5}\right)^2}$$

$$= 13.51$$

$$= 11.92$$

$$C.V.x = \frac{\sigma_x}{\bar{X}} \times 100\%$$

$$C.V.y = \frac{\sigma_y}{\bar{Y}} \times 100\%$$

$$= \frac{13.51}{349.32} \times 100\% = 38.77\%$$

$$= \frac{11.92}{272.44} \times 100\% = 48.71\%$$

$$\sigma_{xy} = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \sqrt{\Sigma y^2}}$$

$$= \frac{62559.6}{\sqrt{69075.2} \sqrt{5671.08}}$$

$$= 0.9988$$

$$PE = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1 - 0.9988^2}{\sqrt{5}}$$

$$= 0.5538$$

## APPENDIX-VI

### Actual O/S LA and Interest Income of NIBL

Rs. in '0000000'

Year	X	Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	xy	$x^2$	$y^2$
2062/063	131.78	11.72	-14.026	-140.722	1973.77	196.73	19802.68
2063/064	177.69	15.85	-9.896	-94.812	938.26	97.93	8989.31
2064/065	275.29	21.94	-3.806	2.788	-10.61	14.49	7.77
2065/066	368.27	32.68	6.934	95.786	664.06	48.08	9171.51
2066/067	409.48	46.54	20.794	136.978	2848.32	432.39	1876.2
n = 5	$\Sigma x =$ 1362.51	$\Sigma y =$ 128.73	$\Sigma x = 0$	$\Sigma y = 0$	$\Sigma xy =$ 6413.8	$\Sigma x^2 =$ 789.62	$\Sigma y^2 =$ 56734.24

$$\bar{X} = \frac{\Sigma x}{n} = \frac{1362.51}{5} = 272.502$$

$$\bar{Y} = \frac{\Sigma y}{n} = \frac{128.73}{5} = 25.746$$

$$\sigma_x = \sqrt{\frac{\Sigma x^2}{n} - \left(\frac{\Sigma x}{n}\right)^2}$$

$$\sigma_y = \sqrt{\frac{\Sigma y^2}{n} - \left(\frac{\Sigma y}{n}\right)^2}$$

$$= \sqrt{\frac{789.62}{5} - \left(\frac{0}{5}\right)^2}$$

$$= \sqrt{\frac{56734.24}{5} - \left(\frac{0}{5}\right)^2}$$

$$= 14.046$$

$$= 11.91$$

$$C.V.x = \frac{\sigma_x}{\bar{X}} \times 100\%$$

$$C.V.y = \frac{\sigma_y}{\bar{Y}} \times 100\%$$

$$= \frac{14.046}{272.502} \times 100\% = 5.15\%$$

$$= \frac{11.91}{25.746} \times 100\% = 46.26\%$$

$$\sigma_{xy} = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \sqrt{\Sigma y^2}}$$

$$= \frac{6413.8}{\sqrt{789.62} \sqrt{56734.24}}$$

$$= 0.9582$$

$$PE = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1 - 0.9582^2}{\sqrt{5}}$$

$$= 0.05893$$

## APPENDIX-VII

### Calculation of Current Assets and Current Liabilities

Fiscal year	Cash and bank balance	Other current assets	Total current assets	Borrowing	Other current liabilities
2062/063	2335521	201090	2536611	550000	437392
2063/064	2441514	234797	2676311	80000	423866
2064/065	3754942	277597	4032539	1050000	682853
2065/066	7918003	391028	44095727	38800000	1316063
2066/067	6815890	399438	46211873	3731482	1537979

### Calculation of Borrowing and Shareholder's Equity of NIBL

Fiscal year	Borrowings	Paid-up capital (X)	Retain earnings	P/L account (Z)
2062/063	550000	590586	778904	45950
2063/064	800000	801353	955417	121354
2064/065	1050000	1203915	1415392	69420
2065/066	38800000	2407069	1344213	156558
2066/067	37314826	2409098	1454215	413613