

**A COMPARATIVE STUDY ON PROFIT PLANNING PRACTICES  
OF NEPAL BANK LIMITED AND NABIL BANK LIMITED.**

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## RECOMMENDATION

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*Has been prepared as approved by this Department in the prescribed  
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## **VIVA – VOCE SHEET**

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## **ABBREVIATIONS**

&	And
A.D.	Anno Domini
A/C	Account
ATM	Automatic Teller Machine
B.S.	Bikram Sambat
C/D	Credit to Deposit
CDM	Central Department of Management
CEO	Chief Executive Officer
Co.	Company
C.V.	Coefficient of Variation
\$	Dollar
FIs	Financial Institutions
FY	Fiscal Year
GDP	Gross Domestic Product
Govt.	Government
HBL	Himalayan Bank Ltd.
JVB(s)	Joint Venture Banks
LC	Letter of Credit
LLP	Loan Loss Provision
Ltd	Limited
MBS	Master of Business Studies
MER	Management Efficiency Ratio
NABIL	Nepal Arab Bank Limited
NBL	Nepal Bank Limited
NPAT	Net Profit after Tax
NPL	Non-Performing Loan
NRB	Nepal Rastra Bank

MRP	Material Requirement Planning
OD	Overdraft
P.E	Probable Error
PEs	Public Enterprises
PP	Profit & Planning
PPC	Profit Planning & Control
Pvt.	Private
r	Correlation
RBB	Rastriya Banijya Bank
Rs.	Rupees
SCBL	Standard Chartered Bank ltd
S.D	Standard Deviation
SME	Small Medium Enterprise
T.A	Total Assets
T.U.	Tribhuvan University
UAE	United Arab Emirates
VC	Variable Cost
WTO	World Trade Organization

# CHAPTER - I

## INTRODUCTION

### 1.1 Background of the Study

Nepal is adopting a mixed economy where public and private sectors co-exist. It is a developing country. In any economy, the importance of financial sector in general and banking sector in particular cannot be underestimated. Banking sector definitely plays a vital role in the overall development of an economy. The Nepalese banking sector is at an exciting point in its development. The opportunities to enter new business and new markets and to deliver higher levels of customer services are immense important. As the Nepalese banks position themselves as financial service providers, banking business is getting refined. Technology is unsettling the earlier business process and customers' behavior is undergoing considerable changes. These have enhanced the forces of competition.

Bank is an institution which deals with money and credit. It means that a bank receives money in the form of deposits from the public and leads money for the development of trade and commerce. A bank performs several financial monetary and economic activities, which are essential for the economic development of a country. It works as a payment agent for customers and to borrow and lead money.

“Banking system is volatile and sensitive sector of national economy, which requires effective monitoring and efficient supervision. Smooth and effective regulation of banking activities is a must for sustainable economic growth of a country. The regulatory agency should always be watchful of banking activities carried out by governmental and financial institution.”(Gandhi, Pandit, 2002)

Profit planning is the heart of modern management. It is a primary measure of business success. Without profit any business organization cannot survive. It may be defined as the net income of a businessman after all the other cost. Such as: rent, wage and interest etc have been deducted from the total income. Planning is pre-determined future. It is the process of setting goal and choosing the action to achieve those goals. **Without plan, “No work can be done and nothing can be**

**achieved”**. It proves that it is only the planning in which the management process begins. So, every enterprise should systematically plan for profit in proper way. Various function of budgets are the basic tools for proper planning of profit and control over them. It is a formal statement policy, plan, objective and goal established by the top management in respect of some future period.

Banks plays a vital role in developing the economy of any country. The level of overall development of a country (i.e. social, cultural, political, technological or economical) is characterized by the level of economic growth and crux of the economic growth lies in the development of well managed and structured banking system. In order to contribute in the process of economic development of the country, banking industry has been established and operating to provide the financial resources to the economic activities. Hence, Banks can be considered as backbone of a country’s overall development or banks can be regarded as the pioneer to create and mobilize the capital, rendering various financial services. Banks have been contributing commendable efforts to establish and develop the industries, trade and commerce in the country.

It is said that the banking sector mirrors the large economy. Its linkage to all sectors makes it a proxy for what is happening in the economy as a whole. Indeed, the Nepalese banking sector today has the same sense of excitement and opportunity that is evident in the Nepalese economy. Nepal’s economic progress is being declined, political stability is not cleared and agriculture production is not sufficient, the number of financial institution is being increased day by day. Increasing financial institution has no harms for the country. This will help the nation’s economic growth. So, the FIs are developing their skills and products to attract the customers and increasing interest to saver and decreasing interest to creditors. In recent time, there are 29 commercial banks, 63 development banks, 77 finance companies, 15 micro-credit development Banks,16 saving and credit co-operatives (Limited Banks) (licensed by NRB), 45 Non-government organization’s (NGOs) (Licensed by NRB) in Nepali financial market. The numbers of co-operatives are uncountable and there are many more financial institutions in pipeline. ([www.nrb.org.com.np](http://www.nrb.org.com.np))

Integrated and speedy development of the country is possible only when competitive banking service reaches nooks and corners of the country because it is not possible to develop all the sectors by the investment of funds by the government alone. Commercial bank occupies quite an important place in the framework of every economy because it provides capital for the development of industry, trade and business by investing the saving collected as deposits from public. In this way, they contribute to the economic growth of the nation. Besides this, commercial banks render numerous services to their customer in view of facilitating their economic and social life. All the economic activities of each and every country are greatly influenced by the commercial banking business of that country. Commercial banks, by playing active roles, have changed the economic structure of the world. Thus commercial banks have become the heart of financial system.

Hence, increase in number of Bank and financial institution may have positive impact for the nation and its people. However, the tough competition among them with regard to management improvement, transparencies of transaction, globalization of marketing and compliance of NRB rules and regulation will make them hard to sustain with better performance.

This research has been conducted to know the profit planning of Nepal and Nabil Bank Ltd and to compares the system and practices of profit planning between these banks. Many industries and construction companies are emerging. For them a lot of fund is needed. So that banks provide loans with security. Banks are largely investing in hydro sector as well as construction, trade, business, education, health, sport etc. Their contribution is highly recognized. Especially, commercial banks that collect money from public giving low rate of interest and granting loan with high interest rate. The difference between interests is the profit along with commission and charge deducting all kinds of expenses.

## **Banking Industry in Nepal**

In the context of Nepal, the development of banking is relatively recent. The records of banking system in Nepal gives detail account of mixture of slow and steady evolution in the financial and global economy. Involvement of landlords, rich merchants, shopkeepers and other individual money lenders have acted as fence to institutional credit in the presence of unorganized money market.

In the Nepalese chronicle, it was recorded that the new era known as Nepal Sambat was introduced by Shankadhar, a Sudra merchant of kirtipur in 879 or 880 A.D. after having paid all the outstanding debts in the country. This shows the basic of money lending practice in Nepal. Towards the end of 18<sup>th</sup> century, during Malla regime there was in evidence of professional money lender and bankers. Jayasthiti Malla segregated the local domiciles into 64 different classes according to their profession. Thankadhari was one of the class which used to deal in coins and precious materials like gold. These Thankadharis were said to have carried out the borrowings and lending on money. Hence, Thankadharis can be regarded as the traditional bankers of Nepal.

It is further believed that money lending business, particularly for financing the foreign trade with Tibet become quite popular during regime of Mallas. However in the absence of any regulatory measures, the unscrupulous money lenders were known to have charged exorbitant rates of interest and other extra dues in loan advance. During the Rana regime, the Rana Prime Minister Ranodhip Singh Rana established a state owned lending institution called "Tejarath Adda" which would provide financial assistance in the form of loans to the government employees against their personal guarantee and deduction of the certain amount of their salary as installment charging 5% interest rate. In the overall development of banking system in Nepal, the "Tejarath Adda" may be regarded as the father of modern banking institution and for a quite long time it tendered a good service to the government employees.

Though Indigenous banking had started very early but the modern banking does not have such a long history. Modern banking started after the establishment of Nepal Bank Limited on 30<sup>th</sup> Kartik, 1994 B.S Under Nepal Bank act 1937A.D. In

the beginning, Nepal bank Ltd was given the authority and responsibility of central bank, but with change of time it was necessary to establish the central bank. Nepal Rastra bank was established in 2012B.S under the Nepal Rastra Bank act.2012 after its establishment it issued the Nepali notes. The first five year plan was introduced in the country. NRB helped to make banking system more systematic and dynamic. The existence of only one commercial bank was not sufficient for the overall economic growth of the country. Hence establishment of Rastriya Banijya Bank (RBB) had great significant. RBB was established on 10<sup>th</sup> Magh 2012B.S, a wholly owned government bank. It added new inputs to the expansion of the banking services in various parts of the country.

To encourage healthy competition in the Nepalese banking sector government introduced financial sector reform policy in 1980.This allowed the entry of foreign banks in the form of joint venture banks. In Nepal, Nabil was the first joint venture bank. It was established on 29<sup>th</sup> Asadh, 2041B.S.There after several joint venture banks have been established in Nepal. Nepal Rastra Bank has given approval to operate following 29 commercial bank in Nepal till now.

### **Commercial Banks in Nepal**

Commercial banks are the heart of the financial system. They hold the deposits of many persons, government establishment and business units. They make fund available through their lending and investing activities to borrowers, individuals, business firms and government establishments units

#### **LIST OF COMMERCIAL BANKS IN NEPAL**

Following is the Table that contains list of 'A' Graded Commercial Banks in Nepal. Nepal Rastra Bank is regulation them as being Central Bank. The Banks also have to follow all rules and regulation made by NRB. According to NRB there are 29 commercial banks which are operating in Nepal including 3 Government Bank.

**Table No-1.1**

## List of 'A' Graded Commercial Banks, Licensed by NRB

S.N.	Names	Operation Date(A.D.)	Head Office	Paid up Capital (Rs. In Million)
1.	Nepal Bank Limited	1937/11/15	Kathmandu	380.40
2.	Rastriya Banijya Bank	1966/01/23	Kathmandu	1172.30
3.	Agriculture Development Bank Ltd.	1968/10/19	Kathmandu	10777.50
4.	NABIL Bank Limited	1984/07/12	Kathmandu	965.75
5.	Nepal Investment Bank Limited	1986/02/27	Kathmandu	2407.10
6.	Standard Chartered Bank Ltd.	1987/01/30	Kathmandu	932.00
7.	Himalayan Bank Limited	1993/01/18	Kathmandu	1216.20
8.	Nepal SBI Bank Limited	1993/07/07	Kathmandu	874.50
9.	Nepal Bangladesh Bank Limited	1993/06/05	Kathmandu	1822.70
10.	Everest Bank Limited	1994/10/18	Kathmandu	838.80
11.	Bank of Kathmandu Limited	1995/03/12	Kathmandu	844.40
12.	Nepal Credit and Commerce Bank Limited	1996/10/14	Siddharthanagar	1399.50
13.	Lumbini Bank Limited	1998/07/17	Narayangadh	1096.10
14.	Nepal Industrial & Commercial Bank Limited	1998/07/21	Biratnagar	1140.50
15.	Machhapuchhre Bank Limited	2000/10/03	Pokhara	1479.10
16.	Kumari Bank Limited	2001/04/03	Kathmandu	1186.00
17.	Laxmi Bank Limited	2002/04/03	Birgunj, Parsa	1098.10
18.	Siddhartha Bank Limited	2002/12/24	Kathmandu	952.20
19.	Global Bank Ltd.	2007/01/02	Birgunj, Parsa	1000.00
20.	Citizens Bank International Ltd.	2007/6/21	Kathmandu	1000.00
21.	Prime Commercial Bank Ltd	2007/9/24	Kathmandu	700.00
22.	Sunrise Bank Ltd.	2007/10/12	Kathmandu	1337.50
23.	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu	1000.00
24.	Development Credit Bank Ltd.	2001/01/23	Kamaladi, Kathmandu	1655.30
25.	NMB Bank Ltd.	1996/11/26	Babarmahal, Kathmandu	1424.60
26.	Kist Bank Ltd.	2009/05/07	Kathmandu	2000.00
27.	Janata Bank Nepal Ltd.	2010	New baneshwor, Kathmandu	2000.00
28.	Mega Bank Nepal Ltd.	2010	Kantipath, Kathmandu	2350.00
29.	Commerce and trust Bank Nepal Ltd.	2010	Kathmandu	2000.00

Source: www.nrb.org

No matter what name has given to banks like Business Banks, Retail Banks, Clearing Banks, Joint Venture Banks, Merchant Banks, etc; they all perform the same basic function. Like other organization, **the main objective of the banking industries will be profit maximization and wealth maximization.** Many other financial activities were loans added over time. For example: banks are important players in financial markets and offer financial services such as investment funds. Banks have influence economics and politics for centuries. Historically, the primary purpose of a bank was to provide to trading companies.

The primary objective of this joint venture is always to earn profit by investing or granting loans and advances to people associated with trade, business and industry etc that means they are required to mobilize their resources properly to acquire profit. How well a bank manages its investment has a great deal to do with the economic health of the country because the bank loans support the growth of new business and trade empowering the economic activities of the country.

### **Types of Banks**

- Central Bank
- Commercial Bank
- Development Bank
- Micro Finance Institutions.

### **Function of commercial Banks**

Commercial banks are the heart of the financial system. The functions of commercial Banks are as follows:

1. Accepting Deposits: Fixed Deposit Account, Saving Deposit Account, Current Deposit Account and Home Saving Deposit Account, Recurring Deposit Account.
2. Advancing Loans: Term Loans, Cash Credit, Overdraft and Money at call.
3. General Utility function: Issue of letter of credit and traveler's cheques, Remittance of money, Discounting bills of exchange, locker

facilities, collecting trade information and banking statistics, Exchange foreign currency, Collection and payment of cheques, bills, promissory notes, etc.

4. Agency function: Collection of money from other banks to the customer, Receipt and payment of dividend, interest, etc, Financial adviser to the customer, Security brokerage service, Underwriting Securities of public and private sector.

### **Needs of Bank**

In the modern economy, banks are to be considered not merely as the dealers in money but also the leaders in development. Therefore, banking is a backbone of any countries Following are some of the needs of establishing and developing banks.

- Capital Formation
- Monetization of economy
- Economic Development
- Implementation of Monetary Policy
- Price stability
- Control Interest rate
- Credit creation
- Expansion of Business
- Underwriting operation
- Safe custody of wealth
- Promote saving
- Agency service
- Fund Transfer
- Boost of Trade and Industry
- Employment Generation
- Legal Entity and freedom from Exploitation
- Development of Agriculture and other neglected sectors etc.

## **Profile of the Concerned Bank**

Following two banks are selected to analyze the profit planning practices of Nepalese commercial banks. The brief introductions about these banks are as follows:

### **Nepal Bank Limited (NBL):**

Nepal Bank Limited, a pioneer commercial bank, oldest bank in the history of modern banking system of Nepal. The bank was established on 30<sup>th</sup> kartik, 1994 B.S (15<sup>th</sup> November 1937 A.D.) in the technical assistance of imperial bank of India under ‘Nepal Bank Act, 1937 A.D. It was inaugurated by His Majesty King Tribhuvan Bir Bikram Shah Dev. The establishment of NBL laid the foundation of institutional banking system in the country.’ Nepal Bank Limited has a Herculean responsibility of attracting people toward banking sector from the predominant money lenders’ net and of expanding banking services’. (Banking and Financial Statistics, 2003).

The bank has completed its 69 years of operation, it has challenged many circumstances in the field of banking. NBL taught the meaning of banking in Nepal. The significance of launching of this bank was highlighted in the speech by the late Prime Minister Juddha Shamsheer Junga Bahadur Rana on the occasion of its inauguration as ‘The work which is being done in the larger interest of the nation is a great moment for me’. Until today a bank could not be opened in Nepal. Therefore, this bank, which is being established under the name of Nepal Bank Limited to fill that need and to be inaugurated by His Majesty the king, is a moment of great joy and happiness. The bank’s objective to render service to the people whether rich or poor and to contribute to the nation’s development will also need support and encouragement from all.

At the establishment NBL had Rs 8 lakh 42 thousand paid up capital. Now this bank has Rs.1000 million authorized capital with 50 crore issued Capital and 38.14 crore paid up capital. Now, there are 2442 staffs working in the bank. Nepal Bank Limited was headquartered in Kathmandu and had altogether 98 branches spread in 51 districts of the country. Now the bank has been reducing its no of

branches to right size of the organization.NBL was established as a joint venture of government and private individuals. At first the government owned the majority of the share. Now the government owns only 40% share with the suggestion of World Bank to transfer the ownership to the private sector for better functioning of the financial sector. The present shareholding pattern is as follows.

**Share Holding pattern**

Nepalese Government	40.49 percent
Nepalese General Public	59.51 percent

Even being one of the largest and oldest banks of the country, the financial health of the banks was very bad. Due to its ill health, under financial sector reform program of NRB in technical assistance program of World Bank and DFID, a management team “ICCMT” consisting of international Bankers from Bank of Scotland (Ireland) has been appointed in NBL in July 22, 2002 to restructure the bank for two years contract. Recently NRB had renewed the contract for 6 month in 2007.Nepal Bank Limited has started its share with NCC Bank of 4.92 %.(www.nepalbank.com)

**Share Capital of Nepal Bank Limited**

**Table No- 1.2**

Share capital of NBL

S.N.	Particular	Fiscal Year 2008/09
1	Share Capital	
1.1	Authorized Capital	1,000,000,000
a)	1,00,00,000 Equity Shares of Rs. 100 each	1,000,000,000
1.2	Issued Capital	500,000,000
a)	50,00,000 Equity Shares of Rs. 100 each	500,000,000
1.3	Paid Up Capital	380,382,600
	38,03,826 Equity Shares of Rs. 100 each	380,382,600

**Source: Annual Report**

**Nabil Bank Ltd (NABIL):**

Altogether there are 29 commercial banks, 63 development banks, 77 financial institutions, 16 saving and credit co-operative and 45 non-government organizations as on December 2010. They all have got their own rules & regulations and own vision but ultimately they are all serving nation to build huge financial resources & mobilizing it in the best possible way. Among them, Nabil is one of the banks, which is mainly established for the purpose of modern banking services to various sectors of the society

Nabil bank ltd commenced its operation on 2041/03/29 (12<sup>th</sup> July 1984) as the first joint venture bank of the nation with an objective to introduce modern banking services with Rs. 28 million capital and around 50 staff. Dubai Bank Limited, Dubai was the first joint venture partner who extended Nabil a technical service agreement in the initial period which was later merged with Emirates Bank, UAE. Currently, NB (International) Limited, Ireland is the foreign partner. Nabil bank ltd had the official name Nepal Arab Bank Limited till 31<sup>st</sup> December 2001 and then after it is widely recognized as NABIL since 1<sup>st</sup> January 2002. Nabil bank ltd is facilitating its customers with quality service for 25 years. It has been awarded by the “BANK OF THE YEAR-2004” award which is published by Financial Times on the publication of “The Banker” magazine. This award is given to those banks which contribute its great effort to its customers providing quality services. Today Nabil stands in a position to claim that it is the “Bank of 1<sup>st</sup> Choice” to all its stakeholders. The bank is listed on the Nepal Stock Exchange limited.

Nabil has 39 branching network and a counter in all major cities. The corporate banking body, which is also the head office of this very prestigious bank, is in Kamaladi, Kathmandu. It is known by the name “NABIL HOUSE”. Nabil is the pioneer in introducing many innovative products and marketing concept in banking sector of Nepal. Its number of outlets in the country is the highest among the joint venture and private banks operating in Nepal. By this, it becomes the largest bank among the privately owned banks in Nepal. Moreover, Nabil has good name in the market for high quality services and products. Success of Nabil is a milestone in the banking history of Nepal as it paved the way for the establishment of many commercial banks and financial institutions. The bank is well known for

providing highly personalized service to its customers and has launched its operation with a market concept **“Customers is the king in the market”**. Nabil bank single-minded focuses on product quality and service excellence has helped it garner the appreciation of both national and international organizations.

The Bank is very successful as its slogan says ‘Your Bank at Your Service’ ***"Hajur ko Bank, Hajur kai Sewama"***. Today, among all private banks, Nabil has the largest Branch and ATM networks. It has 39 branches and 43 ATM's in the country. Nabil provides a full range of commercial banking services through its 19 points of representation across the kingdom and over 170 reputed correspondent banks across the globe. The bank is fully equipped with modern technology which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys, Technologies System, Bangalore (India) Internet banking system and Tele-banking system.([www.nabilbank.com](http://www.nabilbank.com))

Being a private commercial bank NABIL not always seeks profit only. From some valuable works we can say that it has felt responsible towards the betterment of the society and the community of which they are a part. In this regard, they have continued to join hand to hand with public in the field of; Education, Health and Sports. In Education the bank has been associated with the Mary Ward School and is sponsoring the education of less privileged girl (children) of grade 8, 9, and 10. In the field of Health they have partnership with the Glaucoma Eye Center at the Tilganga Eye Hospital. And in the field of sport public also are aware of the sponsorship for NABIL Three Star Football Club is growing from strength to strength.

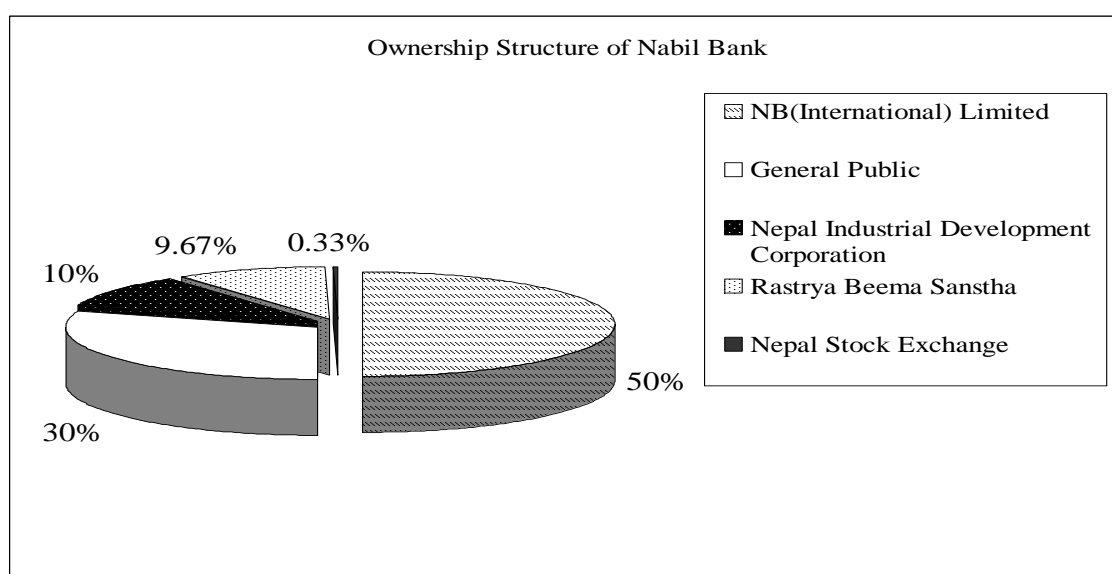
In present market there are so many banking and financial institutes. So, the competition is getting tougher. Among the institution Nabil is getting consistent achievements which were possible due to the team effort put by the all members of Nabil team. The team which, comprises of highly skilled and talented individuals across the bank. Recognizing this fact, Nabil today is among the highest paymasters and most preferred employers in not only the industry but in the nation. Hence, Nabil is among the most successful bank in Nepal registering strong growth in the balance sheet footing as well as profits year after year.

**Table No- 1.3**  
**Share Holding pattern**

Ser	Share Holding pattern	Percentage
1	NB(International) Limited	50 %
2	General Public	30 %
3	Nepal Industrial Development Corporation	10 %
4	Rastrya Beema Sanstha	9.67 %
5	Nepal Stock Exchange	0.33%
	<b>Total</b>	<b>100 %</b>

**Source: Annual Report**

**Figure-1.1: Ownership Structure of Nabil Bank**



**Share Capital and Ownership of Nabil Bank Limited**

**Table No- 1.3**

Share capital of Nabil

S.N.	Particular	Fiscal Year 2008/09
1	Share Capital	
1.1	Authorized Capital	1,600,000,000
a)	16,000,000 Equity Shares of Rs. 100 each	1,600,000,000
1.2	Issued Capital	9,657,4700
a)	9,657,470 Equity Shares of Rs. 100 each	9,657,4700
1.3	Paid Up Capital	9,657,4700
	9,657,470 Equity Shares of Rs. 100 each	9,657,4700

**Source: Annual Report**

## 1.2 Focus of the study

The study “profit planning practices of Nepal Bank Limited and Nabil Bank Limited” concentrates on the making profit and reducing costs by providing reliable services competing to joint venture banks according to directives of Nepal Rastra Bank. What and how changes in the banking operations are occurring in competitive banking environment in the present scenario. **Profit is the basic goal of any organization due to this reason without profit any organization cannot survive.** Therefore what are the strategies of NBL and NABIL to get huge profit? Are these Banks success to get profit? What are the control areas of operating costs? Are profits planning and control mechanisms of these banks are adoptable? The performances of these banks are evaluated along with the brief analysis of the state of the economy, which provides the opportunities as well as threats to the commercial banks. This study is basically focused on internal system of operating for reducing operating costs and faster services for attracting customers. To get profit and control costs, there should be department wise budget, transparency, internal auditing, ongoing monitoring, evaluation and feedback. So, focus of the study will be leadership of new management team of the organization to face the organizational culture and strategy in the context of changing banking business.

## 1.3 Statement of the Problem

Profit is the first key to measure the performance of business organization. It may be defined as the net income of a business after all the other cost. Such as rent, wage and interest etc have been deducted from total income. It is indicator to measure success or failure of business. It is the excess of income over sales. Simply profit is the difference between cost and revenue. It is the primary measure of business success.”Without profit organization can’t operate its functions”. At least normal profit is necessary for the operations of any kind of organization.

A sound banking system with wide spread of branches through out the country, availing varieties of banking services to fulfill commerce, industry, trade & agriculture needs of the country is of crucial important of Nepal. Making profit is not easy because “Profit do not just happen, profit are managed.” (R.M. Lynch, 1989)

The present study has tried to analyze and examine the profit planning and control side of Nepal Bank Limited and Nabil Bank Limited. Without proper profit planning any business organization can't run in a right way. The research questions of the study are as follows:

1. What is the profit planning and achievement of Nepal Bank and Nabil Bank Limited?
2. What are the different system and practice of profit planning between the two banks?
3. What step should be taken to improve the profit planning system in these banks?
4. How researcher can meets the issue of profit planning and management?

#### **1.4 Objective of the Study**

The main objective of this study is to examine the main approaches of profit planning and to test the extent of achievement of planning of Nepal Bank and Nabil Bank Limited. The present research is tried to meet the following objective:

1. To examine the profit planning and achievement of Nepal Bank and Nabil Bank Limited.
2. To compare the system and practice of profit planning between these banks.
3. To measure the improvement of the overall profitability of these banks.
4. To examine whether the Nabil Bank and Nepal Bank are applying the profit planning system properly or not.

#### **1.5 Signification of the Study**

Without its significance, the research task is useless. The present study is concerned with the comparative study of Nepal Bank and Nabil Bank Limited, which analyze the proper applicability of profit planning system in these banks. This study will be helpful to stakeholders, students, researchers' and concerned authority regarding the profit planning of their bank.

Profit planning process significantly contributes to improve the profitability as well as overall financial performance of an organization. By the help of the best utilization of resources, if the planning process of an organization is effective and result oriented the pace of development naturally steps forward.

This study is helpful to management of Nepal Bank and Nabil Bank Limited to go deep into the matters as why the performance of these banks is better or worse than their competitors? The management can identify its weak areas and can correct them. It will also help to know the real status of the bank in these major functions of profit planning .Such important aspect therefore will play a vital role to get through knowledge.

## **1.6 Limitations of the Study**

Every research has its own limitation. This study will be limited period of time in the partial fulfillment of the requirement of Master's Degree of Business study. This study assumes the following limitation,

- \* Among various commercial banks, only Nepal Bank and Nabil Bank Limited are taken into consideration in this research study.
- \* The period of the study is limited from mid-July 2004/05 to mid –July 2008/09. So; it covers only five years period up to mid-July 2008/09.
- \* The study is basically based on secondary data, which may or may not provide exact vision of the field. The data published in annual reports and websites of the respective banks and its websites, articles, publication, journals etc. have been taken into consideration. Any misrepresentation, mistakes, omission etc. may affect the outcome to the study. Thus, the reality of study depends on secondary sources of data and response given by the respondents.
- \* This study focuses only on the single area i.e. a comparative study on profit planning practice of Nepal Bank and Nabil Bank Limited.

- \* All the data and information are collected from the concerned banks & its websites and some required information is taken from the banks division chief.
- \* All the analysis in this study is based on the date as on the end of fiscal year i.e., mid- July of respective years. Any abnormality in this data may affect the conclusion of the study.

## **CHAPTER - II**

### **REVIEW OF LITERATURE**

The purpose of reviewing the literature is to develop some expertise in one's area to see what new contributions can be made and to receive some ideas for developing a research design. Thus the previous studies cannot be ignored as they provide the foundation to the present study.

This chapter provides knowledge about the development and progress made by the earlier scholars on the concerned field of study reviews existing books, published and unpublished articles, review of policy documents to provide readers background, familiarity in order to fill the gap of research. Review of literature is the process of learning and understanding the concept of related area thoroughly. It assures readers that they are familiar with important research that has been carried out in similar areas. Similarly, it also establishes that the study as a link in a chain of research that is developing and emerging knowledge about concerned field. In addition it also summarizes the findings of previous literature to provide knowledge about the background of the work done earlier research work and to step duplicate of the previous work. Thus, this work may be valuable component of research work.

#### **2.1 Conceptual/Theoretical review**

The effectiveness with which an entity is managed is usually recognized as the single most important factor in its long term success .The success is measured in terms of accomplishment of the entity's goals.

In the modern business world at present, management is indispensable for a business house. It is a universal process adopted everywhere at all the level of workings. As a saying goes:” without mind, the human body is nothing but a collection of flesh and bones, capable of achieving nothing” Management is getting the things done through the people. It is actually a practice. It can be defined as the

process of defining entire goals and implementing activities to attain those by efficient use of human, material and capital resources. The management process is a set of an organization to perform the functions of management such as planning, organizing, staffing, leading and controlling. (Welsch, 1986)

### **2.1.1 Concept of Profit**

Profit is a motivating factor behind many managerial activities. Profit is financial reward. Economics theories on profit may be put in three broad categories. The first theory looks upon profit as the reward for bearing risks. The second view, profit as the consequence of friction and imperfection in the competitive adjustment of the economy to dynamic changes. Third sees profit as the reward for successful innovation (Dean, 1982).

A business firm is an organization designed to make profit and profit is the primary measurement of its success. Social criteria of business performance usually related to quality of the desirability of the whole profit system with in which that system profit is the valid test of the individual firms' performance (Lynch & William, 1989).

No company can survive long time without profit. Profit is the ultimate measure of its effectiveness and in a capitalists society there is no future for a private enterprise which always incurs losses. The survival measure of the effective performance of a business is profit which really is a measure of how well a business performs economically. Profit is a signal for the allocation of resources of a business in view of the heavy investment, which is necessary for the success of most enterprises. "Profit is the accounting sense tends to become long range objectives, which measures not only the success of a product but also for the development of the market for it (Kulkarni, 1985).

### **2.1.2 Concept of Planning**

Planning is the basic foundation of profit planning and control. We should be clear in the concept of planning. According to Oxford Dictionary, planning means:

- (To do something) arrangement for doing or using something considered or workout in advance.
- Way of arrangement something especially when shown on a drawing scheme.
- Go according to plan.

Planning is deciding in advance what is to be done in future (Bhusan, 1976).

Planning is a method of a course of action to achieve a desired result and it is a method of thinking out acts and purpose before hand. Planning starts from forecasting and determining of future events. It is the first functions of management and all other functions are performed with the framework of planning.

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, 1999).

Management planning and control system proved the comprehensive framework within which organizing, staffing, leading and controlling process is carried out. Management planning and control begins with the establishment of the fundamental objectives of the organization and continues as the process by which necessary resources are provided and employed effectively and efficiently towards the achievement of goals (Lynch, 1989).

Planning is essential to accomplished goals. It reduces uncertainty and provides direction to the employees by determining the course of action in advance.

Three major function of management are planning, execution and control and these are the key elements of the management process. Business management must plan to its activities is in advance carryout the plan and institute appropriate technique of observation and reporting to insure that deviation from plans are properly analyzed and handled.

Planning is the feed forward process to reduce uncertainty about the future. The planning process is based on the conviction that the management can plan its

activities and condition, the state of the enterprises that determine its destiny (Pandey, 1991).

Planning is the mental process requiring the use of intellectual facilities, imagination, foresight sound judgment etc. whether the manager is of top level, medium level or lower level , s/he can't be separated from the planning task i.e. their commonality is planning differs as the level.

In planning the manager fixes the objectives of the organization as a whole and in the light of this, the goals of the various departments of the organization. Then, he proceeds to prepare a kind of blue print mapping out the ways of attaining these objectives naturally then all other functions of the manager depend upon planning. Planning is effective management tool for decision maker as well as manager to take the proper decision.

Planning is the backbone functions of the management. Hence, we can point out the nature of planning:

- Planning is an intellectual process.
- Planning is a goal-oriented task.
- Planning is a primary function of management
- Planning is directed towards efficiency.

Planning involves selecting mission and objectives and the action to achieve them, it required decision making that is choosing from among alternative future course of action (Koontz, 1995).

In sum planning is pre-determined course of action for achieving goals or objective effectively at a fluid environment within a certain time frame through the selection of best alternatives among the various alternatives. On the other hand, it holds accountability and responsibility about result to individual. Planning also states what, where and how things will be accomplished. An adequate planning is necessary for control of operations.

### **2.1.2.1 Concept of Strategic, Tactical & Corporate Planning**

Strategic planning is considered as a constituent of corporate planning. It is long range on its time perspective and complete in its breath of scope and depth of penetration.

Long range plans are usually from two to five years in length. Sometimes they are detailed and sometimes are not. Very often corporate planning is concerned with long range planning and it is interchangeable used. Corporate planning is concerned with objectives determination and developing means to achieve objectives. It may encompass short range as well as the long range plans depending on the requirement, capabilities of organizations.

Corporate planning is concerned with the factors, certainly all major factors that can influence the success of the business. It is concerned with policies, objectives, organization, methods and procedures and the other considerations that stem for them, e.g. standards of performance and controls (Richard, 1989).

Corporate planning means the systematic process of setting corporate objectives and making strategic decision and developing the plans necessary to achieve these objectives. It is one part of profit plan. It was first started in the USA in 1950, and it is however being used in one form or another in many companies there.

According to Andrew Robertson, Corporate planning is to determine the long-term goals of a company as a whole and then to generate plan designated to achieve these goals bearing in mind probable change in its environment. He pointed out the premises of the corporate planning are:

- Before drawing up a plan, which is designed to do something, decide what you want it to do.
- In these days of rapid change it is necessary to look ahead as far as possible to anticipate these changes.
- Instead of treating a company as a collection of department, treat it as a corporate whole.
- Take full account of the company's environment before doing up any plan. (Robertson A, 1968).

S. Bhattacharya makes a fair difference between corporate planning and tactical planning could be on the basis of following attributes:

- Corporate planning is comprehensive and embraces long and short terms where as tactical planning is fragmentary and tends to concentrate on short term basis.
- Corporate planning is systematic which covers the whole planning process logically and sequentially, where as tactical planning is ad-hoc.
- Corporate planning is formal in which the thinking process, the assumption and the reasons are set down in writing and figure where as tactical planning is informal often no more than idea (Bhattacharya, 1981).

The distinction between strategic and tactical planning is related to three dimensions, which are as follows:

**Table No. 2.1**

Distinction between Strategic & Tactical Planning

<b>Classification</b>	<b>Dimension Time</b>	<b>Scope of entity</b>	<b>Orientation of</b>
Strategic	Long term	Board views of activities	Objectives & Goals
Tactical	Short term	Detail view of activities	Means to achieve goals

Sources: Bhattacharya (1981)

Generally, strategic planning is viewed as planning beyond one year deals with the broad sub-division of the entity and focus on objectives and goals that extent over the long-term. Planning resets upon the belief that the future state of an entity can be enhanced by continuous management action. Formal planning is certainly better than informal planning. It should be realized that too much over formalization is also dangerous.

### **2.1.2.2 Planning Vs Forecasting**

Forecasting and planning is not same thing. A forecast is predication of future event condition or situation where as plans includes a program of intended future events, action and desired results. Forecasting predicts the future events in

such a way that the planning process can be formed more actually. Forecasting is our best thinking about what will happen to us in the future. In planning we correspondingly develop our objectives in practical detail to achieve these objectives.

A simple definition might be that a forecast is a prediction of future event condition where as a plan includes a program of intended future action and desired results. A forecast is not a plan rather it is a statement of future condition about a particular subject. A forecast should always state the assumptions upon which it is based and it is only input into the development of plans. Actually planning is usually an important part of the total procedures.

### **2.1.3 Concept of Control**

Control is the process of ensuring that actual activities confirm to plan activities. It helps in correlation between actual and planned performance. Therefore planning and controlling is major function of management.

Control provides timely information that may prompt the revision of goals. The purpose of control is achieved with setting standards, comparing predicted and actual results against these standards and taking corrective actions.

Controlling is the measurement and correction of performance in order to make sure that enterprise objective and the plans devised to attain them are accomplished (Koontz & Hein, 1999).

Planning and controlling are interdependent and closely related with each other because a manager can not control unless he has planned a course of action for effective and smooth managerial behaviors into proper profit and progress on behalf of company, firm or enterprise.

### **2.1.4 Concept of Profit Planning**

When management plans its profit performance, it is known as profit planning. The word profit planning is the combination of profit and planning. Profit is the primary measure of business success in any economy. It is exceed amount of a firm that investment. It is the acid test of the advance action. It is essentially a

decision making process that provides basic for economical and effective action in the future. Profit planning and control may be broadly defined as a systematic and formalized approach for accomplishing the planning co-ordination and control responsibilities of management (Welsch, 1986).

Profit planning is the heart of management. Without proper planning of profit, it will not just happen. So every enterprise should systematically plan for profit in proper way. Various function budgets are the basic tools for proper planning of profit and control over them. Profit planning in fact is a business operations with respect to a definite future period are included. It is a formal statement policy, plan, objective and goal established by the top management in respect of some future period.

Profit planning and control includes the following matters:

- The development and application of broad and long range objectives for the enterprises.
- The specification of enterprises goals.
- The development of strategic long range profit plan in broad terms.
- The specification of tactical short range profit plan detailed by assigned responsibility (division, products, projects)
- The establishment of a system of periodic performance reports detailed by assigned responsibility and follow up procedures. (Welsh, 1999)

The international management institutions conference on budgetary control held at Geneva in 1980 has defined 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 (Int'l mgmt institutions Geneva conference Doc, 1980).

Profit plan is estimation and predetermination of revenues and expenses that estimate 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 operations it presents a plan for spending income in a manner that does not result in a loss (Ninemeire & Schmidgall, 1984).

Profit plan represents an overall plan of operations, covers a definite period of time and formulates the planning decision of the management. It can be viewed as one of the major important approaches that have been developed to facilitate effective performance of the management process.

The broad concept of profit planning entail an integration of numerous managerial approaches and techniques that might be exploited such as sales forecasting, sales quota system, capital budgeting, cash flow analysis, cost volume profit analysis, variable budget time and motion study, standard costing accounting, strategic planning, production planning, management by objective, organizational planning, manpower planning and cost control(Welsch,1986).

Profit planning is one of the most important management tools to plan and control business operations. Budget or plans are financial plans prepared as guide to and control of future operations (Holmes, 1970).

Profit planning is a part of an overall planning process and is an area in which finance function plays a major role. The success of each enterprise in realizing its optimum profit in each year will be determined by the extent to which it establishes objectives develops coordinate plans to meet those objectives and exercise control of all facts of its activity so as to have actual results reach or exceed those planned. This entire process constitutes the budgetary planning and controlling program, he further stated that profit planning and control has ultimate objectives of attaining the optimum profit (Keller, 1966). The essence of profit planning is managerial determinations and control of the large range destine of the enterprise. The overriding concept implies that objective and responsibilities must be definitely determined, critically evaluated as to there potential impact on success of the enterprise and fully communicated to the various levels of management.

“Profit planning is out through well operational plan with its financial implication expressed a both long and short range projects plans and budget in the form of financial statements including balance sheet, income statement and cash and working capital projection (Matz. & Miltion, 1985).

Profit planning fits with the total systems concept that integration all the functional and operational aspects of an enterprise. Integrands and inter relationship of all areas in a business, production, finance, marketing, personnel and administration will be essential for effective management. Profit planning involves wide participation of all level of management from all the sub-division of the enterprise. It covers the entire organization from the chief executive officer-right up to front line supervisor (Welsch, 2000).

The profit planning and control is used for the development and acceptances of objectives and goals. It approaches the total systems concept that integrates all the functional and operational aspects of enterprises comprehensive profit planning and control does have a unique relationship to the accounting systems in the enterprises in the following aspects:

- Accounting provides inputs of historical data, which are particularly for analytical purpose in the development of enterprise plan.
- The financial competent of a profit plan generally is structured in an accounting format.
- Actual data utilized in the measurement of performance are provided in large measured by the accounting formats.

In general profit planning and control is a systematic and formalized approach for accomplishing planning co-ordination and controlling function of management. It is the most important approaches that have been developed to facilitate effective performance of the management process. Three most relevant aspects of the profit planning concept are:

- \* Profit planning requires major planning decision by management.
- \* Profit planning recognizes many of the critical behavior implication throughout the organizations.
- \* Profit planning entails pervasive management control activities (Welsch, 2000).

#### **2.1.4.1 Principles and Purpose of Profit Planning and Control**

A comprehensive profit planning and controlling is a systematic and formulize approach for stating and communication the firms expectation and accomplishing management in such a way as to maximize the use of profit plan is to achieve the maximum benefits from the resources available to an organization over a particular span of PPC is to assist in systematic planning and in control the operations of the enterprise. In fact, it is the best source of communication and important tool in the hand of management. The main principles and purpose of profit planning are as follows:

- To provide a realistic estimate of income and expenses for a period and of the financial position at the close of the period, detailed by areas of management responsibility.
- To provide a coordinated plan of action which is designed to achieve the estimates reflected in the budget.
- To provide a comparison of actual results with those budgeted and an analysis and interpretation of deviation by the areas of responsibility to indicate course of corrective action and to lead improvement in procedures in building future plans.
- To provide a guide for management decisions in adjusting plans and objectives as uncontrollable conditions change.
- To provide ready basis for making forecast during the budget period to guide management in making day to day decisions.

#### **2.1.4.2 Problems and Limitation of Profit Planning and Control**

PPC is not full proof: it suffers from certain problems and limitations. The major problems in developing profit plan are as follows:

1. Developing management sophistication in its application.
2. Developing a realistic plan, objectives and standards.
3. Adequate communication of the attitude, politics and guidelines by higher level of management.

4. Attaining managerial flexibility in application of the system.
5. Seeking the support and involvement of all levels of management.
6. Maintaining effective follow up procedures and adopting the budgeting system wherever the circumstances changes.

Management must consider the following limitation in using the PPC system as a device to solve managerial problems: (Welsch, 2000)

1. The profit plan is based on estimation: The strength or weakness of a profit planning program depends to a large degree of accuracy with which the basic estimates are made.
2. A PPC program must be continually adopted to fit changing circumstances.
3. Execution of a profit plan will not occur automatically: Once the profit plans are complete, they will be effective only if all responsible executives exert continuous and aggressive effort toward their accomplishment.
4. The profit plan will not take the place of management and administration: PPC does not take place of management; it is a tool that can aid in performing the management process in relevant ways.
5. Costly affairs: The installation of a PPC system is an elaborate process involving to much time and costs.
6. Lower mark and productivity: By setting unrealistic targets and used PPC as a pressure tactic, it will lower morale and productivity.

#### **2.1.4.3 Objectives of Profit Planning and Control**

The main objectives of the profit planning are as follows:

- To state the firms goal clearly formal terms to avoid confusion and facility their attainability.
- To avoid the detailed plan of action for reducing uncertainty and for its proper directions of individual and group effort to achieve goals.
- To communicate expectation to all concerned with management of the firms. So that they are understood, supported and implemented.

- To coordinate the activities and efforts in such a way that the use of resources is maximizes.
- To provide a coordinated plan of action which is designed to achieve the estimates reflected in the budget.
- To provide a guide for management decision in adjusting plan and objectives as uncontrollable conditions change.

#### **2.1.4.4 Importance of Profit Planning and Control**

The major importance of profit planning is as follows:

- It reduces cost by increasing the span of control because less supervision is needed.
- Profit planning pinpoints efficiency and inefficiency.
- It forces management to give adequate attention to the effect of general business conditions.
- Profit planning rewards high performance and seeks to correct unfavorable performance.
- Profit planning forces management top consider expected future trends and conditions.
- Profit plan compels management to plan for the most economical use of the labor, material and capital.
- Profit plan requires adequate and appropriates historical accounting data.
- It forces a periodic self analysis of the economy.
- It forces recognition and collective actions.
- It promotes understanding among members and management of their co-workers problems. (Welsch, 2000).

#### **2.1.4.5 Process of Profit Planning**

The planning process should involves periodic consistent and in depth re-planning so that all aspect of operation are carefully re-examined and re-evaluated. This prevents a budget planning approach that involves only justification of increases over the prior period. The concept of re-evaluation and necessary of

justify all aspect of the plants periodically. Find its strongest support in what has been called zero base budgeting,

The major processes of profit planning are: (Welsch 2000)

1. Identification and evaluation of internal variables: identification involves separate consideration of variable that are not controllable and those that are controllable. Management planning must focus on how to manipulate the controllable and non controllable variables.
2. Development of the broad objective of the enterprises: it is responsibility of executive management. The statement of broad objective should express the mission, vision and ethical character of the enterprises. Its purpose is to provide enterprises identity. Continuity of purpose and identification.
3. Development of specific goal for the enterprises: The purpose of the goal phase of the profit planning process is to bring the statement of broad objective into sharper focus and to move from the realms of general information to move specific planning information. Executive management should exercise leadership in this planning phase. So that there will be a realistic and clearly articulated framework with in which operations will be conducted toward common goal.
4. Development and evaluation of company strategies: Company's strategies are the basic thrusts ways and tactics that will be used to attain planned objectives and goals. A particular strategy may be short term and long term.
5. Executive management planning instruction: This phase involves communication of the substantive plan to middle and lower management levels. It explains the broad objectives, enterprises goals, enterprises strategies and tactical profit plans. It is also called the statement of planning premises of planning guidelines.
6. Preparation and evaluation of project: Project plans encompass such items as plan for improvement of present products, new industries exist from products and industries new technology and other major activities that can be separately identified for planning purpose.
7. Development and approval strategic and tactical profit plan: When the managers of the various responsibility kontras in the enterprises receive the executive

- management planning instructions and the project plans. They can begin intensive activities to develop their respective strategic and tactical profit plans.
8. **Implementation of Profit Plan:** Implementation of management that have been developed and improves in the planning process involves the management function of leading subordinates in attaining enterprises objectives and goals. Thus effective management at all levels requires that enterprises objectives, goals, strategies and policies should be communicated and understood by subordinates. There are many factors involved in management leadership. However, a comprehensive profit planning program may aid substantially in performing this functions. Plans, policies and strategies developed through significant participation establish the foundation for effective communication.
  9. **Use of periodic performance report:** As profit plans are being implemented during the period of time specified in the tactical plan, periodic performance reports are needed. These performance reports are prepared by the accounting departments on a monthly basis.
  10. **Use flexible budgets:** The flexible expenses budget is also referred to the variable budgets, sliding scale budgets; expenses control budgets and formula budget. The flexible budget concept applies only to expenses. This is completely separate from the profit plan, but it used to complement. Many companies do not use flexible budget procedure.

### **2.1.5 Profit Planning and Control in Nepalese Enterprises**

Planning comprises the whole field of deciding what you want human being accomplish. This involves that careful determination of needs the establishment of objectives and proper arrangement of responsibility to individual or group of individuals. If it is impossible to build a house without a blue print, without some indications of what the carpenters, electricians, masons, plumber and painters are to do, how can we expect to manufactures a product or render services without the some careful planning.

Most of the corporation in Nepal suffer from lack of corporate planning which renders them directionless and aimless and board of directors of the corporation are occupied with the routine work in minor day to day problems. Most

of the corporations do not perform their profit planning programmed settled by the short term and long term planning. It is to be seen in many corporate that annual targets were not fixed. On the basis of investment and achievement and so there is not relation between target and achievement. Nepalese enterprises are run without well determined strategies and programmers, in other words without any sound plan of action.

Corporate planning in enterprises in Nepal is a very sedimentary form and limited to annual program and budget, which is most cases are prepared without knowing the projected government product or services. The premises are not considered properly and in most cases they are not commander at all, long term strategic planning is missing. The report of auditor general of Nepal has mentioned that most of the corporations do not perform their PPC program. It is to be seen in many corporations that annual targets were not fixed on the basis of investment and achievement and by virtue of which there is not relationship between targets and achievement. In these corporations annual budget have become just formalities. (Shrestha, 2061)

There are many problems in the formulations of planning program in Nepalese PES in many management being unknown of enterprises situation. There is no system of describing business saturations formally and properly. And many Nepalese public enterprises management do not developed a long term perspective development plan. NEPs are not properly using PPC system. All these sort of problems are responsible for incurring losses to most of the PES so to give thrust top Nepalese PES, these problems need to be corrected by bringing into effect of the PPC system.

#### **2.1.6 Budgeting as Tools for PPC**

Budget planning is one of the methods used for planning, coordinating and control of activates of an enterprises. The budget is a technique for comparing various alternatives in terms of results and costs. It forces consideration of all compassing climbs as to the directions in which the effort of an organization should be applied. Budgeting is the heart of the cut of business decision. It involves objectives and compares the means of reaching them.

Budgeting has long been recognized as the accepted procedure for profit planning and many of the most successful companies have applied it to good effect over a period of years (Alpine, 1976). Budgeting as a tool of planning and control is closely related to the broader systems of planning and control in an organization. It serves as a guide to conduct operations and a basis for evaluating actual results. Budget as tools of management are an integral part of the broader system of planning and control. One of the primary objects of an annual budget is to measure the profit expectations for the next financial year with due regards to all the circumstances that can influence the trading prospects. Profits do not emerge of their own accord. They have to be influenced by management. The quality of management is often judged by the size of the profit figures at the end of the financial year. For its own protection and in the interest of business, management must plan to make profit and the accepted basis for this is the annual budget, properly supported by long-term strategic planning and operation planning (Welsch, 1986).

Profit planning is a heart of management and budgeting is sole appropriate technique for this most for the Nepalese PEC have been suffering the problem of poor performance and sometimes losses also. Functional budget are the tools for planning and controlling the profit of any enterprise. In budgeting, we plan the desired profit and in the time of execution the performance is verified and controlled by the budget. “Budgeting as a tool of planning and control is closely related to the broader system of planning in any organization will pursue and the fundamental policies that will guide it. In operational term budgeting involves four steps: (Khan & Jain, 2003)

1. Setting the objectives
2. Specify the goals
3. Laying down the strategies
4. Preparation of budgets & profit plans.

A budget is a realistic statement of income and cost objective for the year. It is a plan against which ensuring actual performance is compared to achievement and control by detecting and correcting off standards performance (Lawrence, 1977). A budget is a detailed quantitative plan to guide its operations in the

planning, organizing and controlling all the financial operating activities of the firms in the forthcoming period (Lynch & Williams, 1989). Thus, the primary purpose of budgeting is profit planning and control and in this connection it is concerned with every aspect and every activity of a business. The essence of the accurate budgeting is to be used to the events and for this reason it is unusual to operate through an annual budget as the ideal project. There is the further aspect that the performance of companies is judged by the annual accounts and it follows that management should focus its profit aims on the same period. There are two distinct stage of budgeting: first the formulation of the plan and the means of achieving them and second the translation of these plans into financial term and preparing a profit budget and balance sheet. Such that, the first stage is generally a function of line management and the second is an accounting function (Alpine, 1976).

#### **2.1.6.1 Objectives of Budget**

The main purpose of budget is to ensure the planned profit of the enterprise. So, it is considered as a tool for planning and controlling the profits on the primary objectives of an annual budget is to measure the profit expectations for the next financial year with due regard to all the circumstances favorable and unfavorable. They can influence the trading prospects. The main purpose of an operating budget can be shown as following:

- It is a plan, which reflects the policy of a business in financial terms.
- It is a control document by which management can monitor actual performance.
- It acts as a motivator of employees.
- It is a measure against which to evaluate the quality of management.
- It is a means of forecasting future financial positions.
- It is means of giving information in organizations future intensions.

The purpose of budgeting in a context of an annual budget is to projects an accurately as possible the sale incomes, expenditure and profit for the ensuring year.

This is the principle objectives and all other requirement of budgeting term from it (Welsch, 2000).

### **2.1.6.2 Budgets and Budgeting**

Budgeting is an amalgamation of managerial techniques and approaches whereas the budget is a financial expression for a certain period for certain areas. Budget is a formal statement policy plans, objective and goal established by the top management in respect of some future period. It is more numerical than theory. Budget provides media for self-discipline and control throughout the length, breadth and depth of the organization. We should consider the classification of budget. Nowadays, many types of budget are in use; mainly we can segregate the budget in four types:

1. Expenditure Budget
2. Financial Budget
3. Profits Budget
4. Capital Budget

All or a part of operating cost is expense budget. Financial budget is concerned with cash planning. To plan annual profit is profit budget. Capital budget covers the expenditure of fixed assets. So that some major budgets have been discusses below.

### **2.1.7 Sales Budget**

Sales plan presents sales unit and sales revenue to be sold in specific time period. It is the most important and most difficult task to prepare. Sales plan provides basic management decisions about marketing. “A comprehensive sales plan includes two separate but related plans- the strategic and tactical sales plan. A comprehensive sales plan incorporates such management decisions as objectives, goals, strategies and premises. So, the primary purpose of a sales plan is as follows:

- To reduce uncertainty about future revenues.
- To incorporate management, judgment and decisions into the planning processes.

- To provide necessary information for developing other elements of comprehensive profit plan.
- To facilitate management to control of sales activities (Bajarcharya Puskar, 2062).

The sales plan is the foundation for periodic planning in the firm because practically all other enterprises are built on it. The primary source of cash is sales; the need of capital addition, the plan of expenses, the manpower requirement, production level and other important operational aspects depends on the volume of sales (Welsch, 1986).

#### **2.1.7.1 Sales Forecasting and Sales Planning**

At first, people think the sales planning and sales forecasting are same. But the sales planning and forecasting are quite different. Sales forecasting is not a plan, rather it is a statement and or a quantified assessment of future conditions about a particular subject based on one or more explicit assumptions. A forecast should always state the assumption upon which it is based. A forecast should be viewed as only one input for the development of sales plan. The management of the company may accept, modify or reject the forecast. In contrast, a sales plan incorporates the management decisions that are based on the forecast, other inputs and management judgment about such related items as sales volume, prices, sales, efforts, production and financing. It is converted to a sales plan when management has brought to bear on its judgment, planned strategies, commitment of resources and the managerial commitment to aggressive action to attain sales goal (Bajarcharya Puskar, 2062).

#### **2.1.7.2 Types of Sales Plan**

Sales plan is the foundation of all the other plans. It forms a basis for production plan and marketing plan. Comprehensive sales plan includes two separate but related plans.

1. Long range (Strategic) sales plan
2. Short range (Tactical) sales plan

Strategic sales plan is known as long range sales plan. Usually, it covers 3 to 5 or 10 years. As a practical approach, a company may schedule completion of the strategic planning term sales plan as one of the first steps in the overall planning process. It is usually developed as annual amounts. The long term sales plan uses broad grouping of products (Product lines) with separate consideration of major and new products and services. Usually it requires depth analysis of future market potentials, which may be built up from a basic foundation such as population changes, state of economy, industry projections and finally company objectives. Long term management strategies would affect such areas as long term pricing, new directions in marketing efforts, expansion in distribution channels and cost patterns. The influence of managerial strategy decisions is explicitly brought to bear on the long term sales plan primarily on a judgment basis.

In planning short range or tactical sales plan are consider as long range plan. A general practice in planning for short term sale is to consider time period not more than 12 months future time period detailed by quarter and months for the first quarter. At the end of each months or quarter throughout the year the short term sales plan is revised or reconstructed base on past period performance. It includes a detailed plan for each major product a groupings of minor products. It is usually developed in terms of physical units and in sales and for service in dollars. Now, on the basis of long range sales plan and short range sales plan is prepared. A short range sales plan must take consideration of policies and strategies set by long range sales plan. Tactical plans are usually subject to review and revision on a periodical basis based on period completed immediately. A short range sales plan should be included considerable detail, where as long range plan should be included broad terms.

### **2.1.7.3 Developing of Sales Plan**

The developing of a comprehensive sales plan is exhibited in the following sequential steps:

Step-1: Guidelines or policies

Step-2: Marketing Plan

Step-3: Sales Forecast

Step-4: Assemble the relevant information such as production capacity, availability of raw material, workforce, funds, etc.

Step-5: Put above all steps in one and prepare sales plan.

Also the following factors should be considered when forecasting the sales:

- Past sales level and trends
- General economic trends
- Economic trends in company's industry
- Political and legal events
- Pricing policy of the company
- Planned advertising and promotion
- Market research studies (Bajracharya Puskar, 2062).

### **2.1.8 Cash Budget**

It is an effective way to plan and control the cash flows, assess cash needs and effectively lose excess cash. The planning and controlling of cash flows focused on cash inflows, cash outflow and the related financing. Cash budgeting is an attractive way to plan and control the cash flows assets, cash needs and effectively use excess with. Therefore, cash management is important in both large and small enterprises, planning and controlling of cash includes right quality of money, right source of money, right time for solve money, right quality for liquidity and right costs of capital.

A comprehensive PPC program establishes the foundation for a realistic budget. Cash budget shows the planned cash inflows, outflow and ending position by interim periods for a specific time span. Most companies should develop both long term and short term plans about their cash flows. A cash budget basically includes two parts:

1. The planned cash receipts(inflows) and,
2. The planned beginning and ending cash position for the budget period and this will indicate.

The need of financing probable cash deficits:

The need for investments planning is to put excess cash to profitable use.

The primary purpose of cash budgets are:

1. Give the probable cash position at the end of each period
2. Identify cash excess organization shortage by time periods.
3. Establish the need for financing and or the availability of idle cash for investment.
4. Establishing a sound basis for continuous monitoring of the cash position (Welsch, 1986).

Preparation of the cash budget should be the responsibility of the company treasurer. The cash budget is a forecast of expected cash receipts and payments for a future period. Cash forecast precedes a cash budget. The cash budget consists of three parts:

- Estimates of cash receipts
- Estimates of cash disbursement and
- Cash balances each month of budget periods

Cash budget may be done daily, weekly or monthly basis. The period and frequency of cash budget generally depends upon the size of the firms and philosophy of management. The cash budget can be prepared by two approaches (a) The cash receipt and cash disbursement approach organization (b) The financial accounting approach.

Now, the cash receipt and disbursement approach basically involves the use of detailed data from the budgeted cash amount. Financial statement approach states with net income, which is adjusted to a cash basis to compute cash flow from continuing operations. The remaining cash sources and uses must be determined by using data from various budgets already prepared. The cash receipt and disbursements approach is usually used for the tactical short term plan because it provides more details. The financial statement method is usually used for broad analysis of the cash position and for strategic long range planning.

### **2.1.9 Profit Budget**

The profit budget is decided and subtracting the budgeted costs from the budgeted revenue. The amount of investment is forecasted and a budget rate of return is developed for the annual management of profit plan. The development of annual profit plan ends with the planned income statement, the planned balance sheet and the planned of cash flows. These three statements summarize and integrate the detailed plans developed by management for the planning period. They also report the primary impacts of the detailed plans on the financial characteristics of the company.

At this point in profit planning the budget director has an important responsibility. Besides for designing and improving the overall system, the budget director has been described as an advisor to the various managers to help develop plans for each responsibility center. Now, the parts must be assembled into a complete profit plan. This is the reasonability of the budget directors (Welsch, 2000).

#### **2.1.10 Budget Variance**

Variance analysis is an important tool that can increase the usefulness of periodic performance reports. Rather than taking action only the basis of differences between actual and budgeted costs, variance analysis enables management to decompose such differences into smaller sub variances. It is the deviation between budgeted goals and actual result. As performance reports shows variances the next step is to analyze such variance and to determine the underlying causes for managerial planning and control purpose.

Variance analysis or comparison of actual results with budgeted goals has been emphasis as an integral part of control process. A basic feature of performance reports is the reporting of variances between actual and planned goals. If variance is significant a careful management study should be made to determine the underlying cause. There are numerous ways to investigate variances to determine the underlying cause (Welsch, 1986).

Some of the primary approaches are the following:

- Analysis of work situation including the flow of work coordination of activities effectiveness of supervision and other prevailing circumstance.
- Direct observations.
- On the spot investigation by the line managers.
- Investigation by staff group
- Internal audits.
- Special studies variances analysis has wide application in financial reporting.

It is frequently applied in the following situations.

- i Investigations of variances between actual results of current and prior period. The prior period is considered as the base.
- ii Investigations of variances between actual results and standard costs. The standard cost is used as the base.
- iii Investigation of the variances between actual results and budget goals reflected in the profit plans. The budget goals are used as the base.

### **2.1.11 Books, Journals and websites Review**

Commercial banks are the major component in the financial system of any country. They work as the intermediary role between depositors and the lenders and facilitate in overall development of the economy with the major thrust in industries. Meaning and function of commercial banks are described differently by different people.

- Banking is the business of accepting deposits and lending money.
- A bank is a business organization that receives and holds deposits of fund from other make loans or extends credit and transfer funds written order of deposit.
- Principally, commercial banks accept deposits and provide loan, primarily to business firms, there by facilitating the transfer of the fund in economy.
- Banking means the accepting for the purpose of lending and investing the deposit of public, repayable by cheques, drafts, and order or otherwise.

- Commercial bank is one which exchange money, deposit money, accept deposit, grants loan and perform commercial banking functions and which is not a bank meant for cooperative, agriculture, industries or for such specific purpose. (Commercial Bank Act.2031)
- Commercial banks came into the existence mainly with the objectives of collecting the idle funds mobilizing them into productive sector and causing an overall economic development. Any institution accepting deposits subject to withdrawal on the demand and granting loans to the different sector, creation of credit is done by a bank.

## 2.2 Review of Related Studies

Commercial banks are the major component in the financial system of any country. They work as the intermediary role between depositors and the lenders and facilitate in overall development of the economy with the major thrust in industries. Meaning and function of commercial banks are described differently by different people. Few researchers have been made in the areas of profit planning in Nepalese context in the fulfillment of Masters Degree of Business Studies. Of those researchers done in the past, this is based on joint venture commercial bank from the profit planning point of view. An attempt has been made to review journals and some dissertations submitted in the topics on profit planning of commercial banks.

**Khadka** (2002) has carried out research on “A Comparative study on Investment Policy of Commercial Banks” with an objective to find out the relationship between deposits, investment, loans and advances and net profit. She has made the following conclusion while comparing the performance of NBL with NABIL, SCBNL and NIBL.

She concludes “NRB is comparatively less successful in balance sheet as well as balance sheet operations than that of other CBs. It predicts that in the coming days if it could not mobilize and utilize its resources as efficiently as other CBs to maximize the returns, it would lag behind in the competitive market of banking. Profitability positions of NBL are comparatively worse than that of other

CBs. It predicts that NBL may not maintain the confidence of shareholders, depositors and its all customers if it cannot increase its volume even in future.”

As the banks experience many difficulties in recovering the loans and advances and their large amount is being blocked as non performing assets, she suggested that there is an urgent need to workout a suitable mechanism through which the overdue loan can be realized.

**Adhikari** (2002) of his study on “Evaluating the financial performance of Nepal Bank Limited”. The main objectives of the study are to examine the deposit trend, costs of deposits, mobilization, assess the investment portfolio of the bank, credit operation of the bank, liquidity and profitability, earning and dividend paying ability of the bank and finally provide suggestion based on the findings.

The major findings are, the fixed deposit had the highest share of deposit in the bank with the current deposit share remaining the lowest in share. The growth in total deposit, average growth in cost of deposit loans and advances share in the investment, investment portfolio on government securities increases (risk less asset portfolio) which is not principal of the commercial banks. Liquidity position of the bank is not so bad, return on capital, EPS is in declining trend.

**Pradhan** (1980): A study on resource mobilization and utilization of Nepal Bank Limited,” He finds the efficiency in mobilization of resources. In the utilization side, he finds enough possibility of increasing current utilization of resources. He concludes the level of resource mobilization and utilization of bank was not satisfactorily maintained. Finally suggests that in order to contribute in nation’s economic development the bank needs to extend credit policy for the long-term period also, pay more attention on priority sector investment, expand branch, pay attention on publicity, encourage customers etc.

**Adhikari** (1993): A comparative analysis of investment structure of Rastriya Banijya Bank and Nepal Bank Limited,” he finds the liquidity diversification and profitability of Nepal Bank Limited is better than that of Rastriya Banijya Bank. The main source of fund of Nepal bank Limited as indicated by him is fixed deposit of customers. He also finds high degree of correlation between deposit and

investment of Nepal Bank Limited. In the process of study he has found the bank to replace the traditional and limited banking activities. Finally, he suggested the bank to replace the traditional methods of carrying out activities with scientific ones and to expand the scope of its activities.

**Bhattarai** (2004) in her study “Implementation of Directives Issued by Nepal Rastra Bank: A Comparative Study of Nepal SBI Bank Limited and Nepal Bangladesh Bank Limited” has made an attempt to analyze various aspects of NRB Directives with respect to Capital adequacy and Loan Classification and Provisioning. As per her view the process of continual review and classification of loans and advances enables banks to monitor the quality of their loan portfolios and to take remedial action to counter deterioration in the credit quality of their portfolios.

She concluded that with the new provisions the banks will have its provision amount increasing in coming years and subsequently profitability of the banks will also come down. However, the true picture of the quality of the assets will be painted in the coming years to come. She recommends, “The banks should be very careful while analyzing the paying capacity of its credit clients. With longer period of past due, the bank is not careful.

**Karki** (2000) has carried out a research in the topic “*A comparative study on profit planning of Rastriya Banijya Bank Ltd (RBB) and Himalayan Bank Ltd (HBL).*” The time period covered by this research was five years.i.e FY 1993/94 to FY 1999/00.The data and other necessary information were collected by using secondary as well as primary sources. In this research she has carried out some findings and recommendations. The following are important findings and recommendations.

1. Volume of loans and advances is increasing every year in both the banks and provision for bad debts are higher in RBB than in HBL.
2. Ratio of interest income to total income is almost more than 86% in RBB and more than 80% in HBL. It shows that RBB is more dependent in interest income than HBL.

3. Return on paid up capital is always negative in RBB. Net profits are also negative in RBB.
4. Ratio of loans and advances to customers deposit shows that more than 60% of customers deposit in utilized in RBB where as in HBL it is around 50%.
5. Interest spread is higher in RBB than in HBL.
6. Regression analysis showed that volume of profit is directly related with the size of loans and advances. There is only 0.5% profit in every loan of NPR 100 in RBB and 3.7% in HBL.
7. Interest coverage ratio of both banks is more than 1 except in the FY 1995/96 of RBB. It shows that interest paying capacity of both the banks is sound but the ratio of HBL is higher than the ratio of RBB. It means HBL is stronger to pay interest liability.
8. No proper planning strategy seems to be developed. Although HBL is operating at profit but RBB is running with heavy cumulative loss.
9. As the accounting system of RBB is careless that it has not been audited from the FY1993/94 and it is difficult to take decision about data analysis.
10. In case of RBB, its deposit, total revenue, loan and advances are increasing every year whereas the profits are negative or highly fluctuating, which is mainly due to high fluctuating in cost.
11. Analysis of profit planning and control is basically an internal affair. It needs to analyze the insight positions. As insight is not flashed out due to the cause of secrecy attempt is made to analyze on the basis of data published.
12. Government seems less conscious in the present situation of RBB.

**Lamsal** (1999) has conducted a research in the topic “*A comparative financial statement analysis of HBL and SCBL*”. This research of Mr. Lamsal was mainly centered in financial analysis of both the banks. The main objectives of his research were to highlight the financial position of both the banks.

The data and other necessary information were collected by using secondary data. In this research, he has pointed various findings and recommendations. Some remarkable findings and recommendation are as follows:

1. HBL is recommended to raise its amount of shareholders fund for recommended to maintain its present position.
2. Profitability position of SCBL is comparatively better than the same of HBL. So, HBL is recommended to utilize its resources more effectively for generating more profit margins.
3. Reports of HBL shows that it is not involved in social activities. Therefore it is suggested that HBL should involve or contribute for such social programs to maintain favorable public image.
4. Both banks should fulfill some social obligation by extending their resources to rural areas and promote development of poor and disadvantaged groups. In order to do so, they should open branches in the remote areas with the objectives of providing cheaper banking services. The minimum amount to open account should be reduced.

**Dhungana** (1984) "*A study of joint venture banks profitability.*", with main objectives of assessing the profitability of joint venture bank in Nepal during the period of five years i.e. form FY 1987/88 to 1991/92. The major findings, he had presented were as follows:

1. Interest income of NIBL (Nepal Investment Bank Ltd) was highest.
2. SCBL's commission and discount earning and foreign exchange income were higher than both of NIBL and Nabil were.
3. Nabil other operating income was appeared higher than other banks.
4. NIBL had paid highest tax per share than other banks and SCBL paid the same least.
5. In average, Nabil, NIBL, and SCBL had highest personnel expenses, interest expenses on deposits and operating expenses respectively.

**Shakya** (2005) "*Financial Analysis of Joint Venture Banks*", this thesis was submitted to IOM, TU, with main objectives of evaluation of financial performance of Nabil and SCBL comparatively. The study covered six financial years beginning from 2000/01 to 2004/05. In this thesis work he had presented so many findings (about 32 in numbers), among them some major finding he had presented are as follows:

1. Loan and advances as well as total deposits of Nabil are increasing each year.
2. There exists highly positive correlation between total deposits and loan and advances of Nabil during the study period.
3. There exist highly positive correlation between total deposit and loan and advances of SCBL.
4. Average cash and bank balance to current deposit ratio of SCBL is higher than that of Nabil.
5. Nabil's fixed deposit ratio is in increasing trend but the same of SCBL is in declining trend.
6. Saving deposit to total deposit is in increasing trend for both SCBL and Nabil.
7. NRB balance to total deposit ratio is in highly fluctuating trend for the both banks.
8. SCBL's liquidity position is comparatively better than Nabil.
9. Investment to total deposit ratio is fluctuating trend for Nabil and increasing trend for SCBL.

### **2.3 Research Gap**

The research carried out by the previous researchers in the subject "Profit Planning and control" of commercial banks are practically useful and appreciation by various related persons including academicians, bankers, shareholders and general public. Some researchers have been successful in highlighting the strengths and weakness of NBL and RBB. The recommendations and suggestions given by them to improve the financial position of NBL have provided some guidelines in decision-making process.

All the above mentioned research studies are related to profit planning of public enterprises and to the commercial banks. The study have pointed out that there is no proper profit planning system in these banks. Decision making, policy formation and strategy formulation are made by executive directors. Participation of lower level managers is not allowed. Also, found that actual achievements are lower than budgeted. So, the researchers have suggested and recommended to implement

effective and appropriate profit planning system. This may help this organization to achieve their goal and objectives. And, also help to reduce the variance between actual and budgeted data. But this study is different from the previous studies.

The study aims to access the profit planning system of Nepal and Nabil Bank Ltd. This study tried to indicate the role of profit planning to increase its profit. This study attempts to analyze the financial position of the bank by using various statistical and financial tools. It also concludes the various findings of the research and recommendation for immediate and long term improvement and corrections.

Hence, this research includes the last 5 years information and data regarding commercial banks and especially of Nepal Bank Limited and Nabil Bank Limited will be able to deliver some of the present issues regarding financial performance and profit plan of these banks in the most presentable and effective way.

## **CHAPTER - III**

### **RESEARCH METHODOLOGY**

This Chapter mainly focuses on the research methodology adopted in the previous two chapters. This chapter consists of research design, the collection of data, tools and techniques to be applied to analyze and precisely this chapter outlines the methods followed in the process of analyzing the profit planning at Nepal and Nabil Bank Ltd.

#### **3.1 Introduction**

Research methodology is the process of reaching to the solution of the problem through planned and systematic dealing with the collection, analysis and interpretation of facts and figures. For the proper evaluation of the research problem, research methodology is very essential to any researcher. It is the guideline to research works. Research methodology generalizes the way of solving the research problem thoroughly and systematically. Therefore, research methodology is used for the achievement of objectives of the study.

This study mainly concentrated on the profit planning of Nepal and Nabil Bank Ltd. Research methodology, therefore, is designed and implemented to study about the sources, causes and methods of profit planning. The analysis is income, expenses, loan, deposit, employee status of Nepal and Nabil Bank Ltd. For the achievement of the objectives, the research methodology has been designed including research design, sources, nature and procedure of data collection, data presentation and analysis.

The main objective of this study is to analysis, examine and interpret the application of profit planning in Nepal Bank Ltd and Nabil Bank Ltd and its effectiveness to public. The research methodology is followed to achieve the basic objective and goals of research work. The major components of research methodology followed in this research study as follows.

### **3.2 Research Design:**

Research design is a planned, structure and strategy of investigation conceived to obtain answer to research objective through analysis of collecting data. The first step of the study is to collect necessary information and data concerning the study. Research design means the definite procedure and technique which guides the study and propounds ways or doing research. The research of this study is descriptive as well as analytical. Analytical method is used to present information and data. A part from this, there is also qualitative aspect and these aspects are described in word detail wherever it is necessary.

The research has its basic objective to examine the degree of application of profit planning concept in Nepal Bank Ltd and Nabil Bank Ltd with respect to planned prediction and actual production, degree of sales realization in respect to budgeted figures and examine the cost structure. This study is an examination and evaluation of the budget process of profit planning program of NBL & Nabil various related information. Functional budget and statement of Nepal and Nabil Bank are tools to analysis and evaluated the profit planning system of Nepal and Nabil. Also to figure out the problem there in and provides them with some recommendation. The data for the research are of secondary type.

### **3.3 Population and Sample**

A list of licensed commercial banks in Nepal was obtained from NRB. The commercial bank of Nepal can be categorized into two types namely: public and private sector. Public sector banks include three old banks (NBL, RBB, and ADB/N) and private sector banks comprise remaining commercial banks. There are altogether 29 commercial banks which are operating in Nepal. Out of the total population following 2 commercial banks were selected as sample for the study by using Judgmental sampling method.

- i) Nepal Bank Limited (NBL)
- ii) Nabil Bank Limited (NABIL)

Nepal Bank Limited was selected from public sector commercial banks and Nabil Bank Limited was selected from private sector commercial banks. So, that the study could represent the picture of commercial banks.

### **3.4 Nature and Source of Data**

Mostly secondary data has been used in the study. It has been collected from the following sources:

1. Published annual accounting and financial report of Nepal and Nabil & its websites.
2. Publication of Nepal Rastra Bank, publication of National Planning Commission Central Bureau of Statistics and related publication.
3. Books, booklets, articles, magazines and official records of Nepal and Nabil Bank.
4. Published and Unpublished document related to Nepal and Nabil Bank Limited.
5. It has been directly collected from its central office of Nepal Bank Ltd and corporate office of Nabil which are located in Kathmandu.

### **3.5 Data Collection Procedure**

Data gathering and recording which is the most important part of the research is consists of obtaining information from some body's hand. It is therefore, very difficult activity of the whole research process. Researcher had made frequent visits to central office of Nepal and Nabil bank in order to collect the required data from official published book, articles, magazines and the official records are the main source of secondary information.

### **3.6 Research Variables**

Research variables play vital role in developing profit plan. In this research, focus has been given to profit of these banks for only five years. Research variables to be considered customer deposit, loan, investment, profit, interest, staff of Nepal and Nabil Bank Ltd etc.

### **3.7 Data Analysis Techniques (Research Tools)**

The collected data and information from different sources are analyzed, presented in proper table, chart and format. The available information is grouped as per the need of the research work in order to meet research objection. Various financial and statistical tools have been used with a view of making the study reliable, concise and clear.

In this study, we have been taken to analysis the collected data. Financial and statistical tools are used to analyze data. Financial tools mainly used are financial ratio. Similarly, the statistical tools are used correlation, regression line, trend analysis, time series and SPSS etc. Further to represent the data in simple form diagrams and graphs have also been used.

#### **3.7.1 Financial Tools**

“Financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account.”(I.M. Pandey, 1999).

Financial analysis is the use of financial position and performance and to assess future financial performance.” (Wild, Subramanyam, and Halsey, 2003).

The following financial tools & techniques are used in this study.

##### **3.7.1.1 Ratio Analysis**

A ratio is defined as “The indicated quotient of two mathematics expression” and as the relationship between two or more things. (Spring mass and Merriam, 1975)

A widely used tool of financial analysis is ratio analysis. It refers to the numerical or quantitative relationship between two items or variables. It is the expression of the relationship between two items either from balance sheet or from income statement or from both statements.

A ratio helps to the researcher to make quantitative judgment about the firm’s financial position and performance. A ratio is calculated by dividing one item of the relationship with the other even though there are many ratios, only those ratios have

been calculated which are related to the subject matter. Following ratios have been computed and analyzed in this study.

### **A. Assets Management Ratio**

In case of commercial banks, loan is one of the most important assets on its balance sheet besides investments, money at call and balances with other banks. Generally, it is more than 60% of the total assets. Consequently, this major asset also possesses much higher risks in comparison to other assets. There is greater chance of default and in order to safe-guard against such losses a bank set aside certain percent of reserves and provisions from profit. There are generally two types of loan – performing and non-performing. Performing loans are those that provide consistent and equal amount of installment/income to any bank. They are graded as 'Good'. Negligible provisions are required for such loans. Whereas, NPL loans are those that has crossed their expiry period as well as due period and there is a rare possibility of getting principal and interest amount back. Those NPL are graded as sub-standard, doubtful and bad. While determining assets quality, we will concern our self with NPL to know the assets quality of any bank.

Now, question can be raised, why NPL and why not PL part is taken into consideration for this purpose. This is because PL part is already providing a bank agreed and consistent return. So, studying this part would not give us more insight to formulate control measures. On the other hand, if we know how much % of the loans are NPL then we can construct effective plans and preventive measures to mitigate NPL. Therefore, we measure assets quality on the basis of the following three ratios:

#### **(i) Non-Performing Loans (NPL) Ratio:**

This ratio measures the relationship between total non-performing loans against total loans and advances. Since, non-performing loans have more chances of becoming sub-standard to doubtful and eventually bad, this ratio is used to know how much of such loans represent as NPL in relation to total loans and advances. This ratio is calculated as under:

$$\text{Total Non-performing loan (NPL in \%)} = \frac{\text{Total NPL}}{\text{Total Loans and Advances}} \times 100$$

This ratio affects the profitability of any bank. The higher the percentage of NPL the higher a bank needs to maintain provisions so as to avoid losses. A constant rise in NPL % would definitely affect the future of a bank if the bank is unable to check it on time. Therefore, the lesser the percent of total NPL the better it is for a bank. Every bank would put their best effort to control this ratio so as to maintain their credibility in the banking industry. As per international standard only 5% NPL is allowed but in the context of Nepal 10% NPL is acceptable.

**(ii) Loan Loss Provision (LLP) Ratio:**

This ratio is used to measure relationship between total loan loss provision and total loans and advances. A bank maintains certain portion of profit in provisions to cover for any losses against issued loans. Such portion or percent holds how much of total loans and advances are shown by this ratio. It is calculated as follows:

$$\text{Loan Loss Provision (\%)} = \frac{\text{Total LLP}}{\text{Total Loans \& Advances}} \times 100$$

Low ratio indicates that a bank has issued loans to productive sectors, which is making profit and growing every year. Whereas higher ratio points out the effectiveness on its lending operation. The bank needs to reconsider its lending activities and improve strategies so as to reduce this ratio.

**(iii) Loans and Advances to Total Deposit Ratio (C/D Ratio):**

This ratio is calculated to find out how successfully the banks are utilizing their total deposits on credit or loans and advances for profit generating purpose as loans and advances yield high rate of return. Greater C/D ratio implies the better utilization of total deposits and better earning, however, liquidity requirements also needs due consideration. Hence, 70% - 80% C/D ratio is considered as appropriate. This ratio is calculated by dividing total credit by total deposit of the bank. It shows bank's efficiency in investing its deposit in terms of credit, it is computed as:

$$\text{C/D Ratio (\%)} = \frac{\text{Credit}}{\text{Total Deposit}} \times 100$$

## **B Management Efficiency Ratio**

(This ratio is mainly used for internal assessment by management only)

As mentioned earlier in the beginning of this chapter to do any activity social or profit oriented there always requires 5 Ms – men, money, material, machine and method. Men or human resource are the most important of all. Banking institutions are no exceptions. So, how efficiently and effectively management of a bank manages its resources using human resource is measured by this ratio. Although the topic management is subjective in nature and to measure it there could be many areas. But as we know that bank is a limited company and is established with the main purpose to earn profit. Hence, profitability is used as a benchmark to know the quality of management of a bank. The formula to calculate this ratio is given below:

$$\text{Management Efficiency Ratio (MER in \%)} = \frac{\text{Net Profit after Tax}}{\text{Total number of staffs}} \times 100$$

This ratio helps in deciding whether management is able to use its human resource in a better way or are there any issues – such as overstaffing, training required on new techniques, better motivation and others – that needs management attention. The higher the MER the better it is for banks.

## **C. Liquidity Ratio**

It is mainly concerned with meeting regular demands of money for its various customers. A bank collects money to meet its working capital requirement through various interests and non-interest bearing accounts and becomes liable to those depositors to pay them the needed money when they present cheque or withdrawal from over the counter. So, to meet these kind of immediate needs, a bank maintain a certain level of money as cash balance in its own vault, central bank and with other "A" classed FIs, this level of cash maintenance is known as liquidity. A bank is said to be in liquidity position when it is prompt in matching various payments to the depositors or other commitments based on its business operations. There are mainly two ratios that are checked to determine the liquidity position of a bank and these are as follows:

**(i) Cash & Bank Balance Ratio:**

Cash and bank balance are the most liquid current assets of a firm. A bank does not lend or invest all its deposit but maintains a certain level to fulfill its day to day needs. These are generally met by cash holdings and balances maintained at other Therefore, this ratio measures the percentage of most liquid assets to pay depositors immediately or the relationship between cash & bank balance available with bank and total deposits. The formula to calculate this ratio is given below:

$$\text{Cash \& Bank Balance Ratio (\%)} = \frac{\text{Cash \& Bank Balance}}{\text{Total Deposits}} \times 100$$

Where,

$$\text{Cash \& Bank Balance} = \text{Cash balance in vault} + \text{Balance with Central Bank} \\ + \text{Balance with other "A" class FIs}$$

Maintaining this ratio very high or high would not be a good idea. The value of money today is not the same in future i.e. present value (PV) of money is always greater than future value (FV) of money. Therefore, a bank should assess the need and on that basis lend or invest remaining money on productive sectors. This will help not only the bank but also, in large, the economy as a whole.

**(ii) Government Securities to Total Deposit:**

Just like lending, a bank uses its funds for investment purposes also. These could be on corporate shares, debentures and bonds, Licensed FIs, government securities, etc. So, here we will concern our self with measuring the relationship between investment in Govt. securities and total deposits. The formula is as shown below.

$$\text{Investment in Govt. Securities (\%)} = \frac{\text{Total Investment in Govt. Securities}}{\text{Total Deposits}} \times 100$$

Government securities are the most risk free securities since government used it as a tool to control money supply in an economy. Thus, investing into it would ensure a steady return. However, investing into it a huge percent would significantly affect the return and profit. The percent which the bank could utilize into some other productive sectors would get engaged in government securities. Therefore, a strike must be balance between investment in government securities and others.

## **D. Profitability Ratio**

Profitability ratios are calculated to measure the efficiency of operation of a firm on term of profit. Everyone expects return from their investment and they always expect it to go up. The shareholders or the owner of banks also anticipate their banking business to do well. However, in today's globalization world, where globalization has also taken place, it is critical to operate in a stable way. So, how the management is managing the various activities to earn good return is all about earning analysis. There are mainly three ratios that fall under this heading, which is as follows:

### **(i) Return on Total Assets Ratio:**

In order to conduct various financial activities, a bank purchase and hold different assets. These could be for long-term or short-term. Assets generate income and hence ROA is used to measure the impact on return. It shows relationship between NPAT and total assets. It is calculated as shown below:

$$\text{Return on assets (ROA in \%)} = \frac{\text{NPAT}}{\text{Total Assets}} \times 100$$

Where,

$$\text{Total Assets (TA)} = \text{Fixed Assets (FA)} + \text{Current Assets (CA)}$$

Higher return is preferable. This shows a bank's total assets are used efficiently in contributing towards earning profit. On the contrary, a lower return indicates that the bank has purchased assets, which is providing liability to earn profit. In such a case, it could prove fatal to the bank, its industry and in adverse scenario to the economy as a whole. Therefore, this ratio needs to be checked early so as to get a suitable return.

### **(ii) Return on Loans and Advances**

This ratio indicates how efficiently of the bank and finance companies have utilized their resources to earn good return from provided loans and advances. This ratio is computed to divide net profit/loss by the total amount of loans and advances. Net profit refers to that profit which is obtained after all types of deduction like

employee bonus, tax, provision etc. Hence, this ratio measures bank's profitability with respect to loans and advances. Higher the ratio better is the performance of the bank. It is calculated as below:

$$\text{Return on loans and advances (\%)} = \frac{\text{Net Profit}}{\text{Total Loans and Advances}} \times 100$$

**(iii) Interest Income to Total Income**

This ratio shows the relationship between Interests Income and total Income. Total interest earned is that amount which is earned investing in different sectors by the Bank in an accounting year. This ratio is calculated as follows;

$$\text{Interest Income to Total Income (\%)} = \frac{\text{Interest Income}}{\text{Total Income}} \times 100$$

**(iv) Net Profit Ratio**

The net profit ratio indicates the quantum of profit available for the owners. This ratio establishes a relationship between net profit to total income and shows the efficiency of management to earn net profit through sales. The ratio helps to determine the operational efficiency of the management. Higher the ratio shows the higher efficiency of the management and vice versa. It can be mentioned as;

$$\text{Net Profit Ratio (\%)} = \frac{\text{Net Profit after Tax}}{\text{Total income}} \times 100$$

Hence, higher net profit ratio indicates that the profitability of the concern bank is good. On the other hand a low net profit ratio indicates that the profitability of the enterprise is poor.

**3.7.2 Statistical Tools**

Statistical tools are the mathematical techniques used to facilitate the analysis and interpretation of numerical data.” Statistical Analysis is one particular language, which describes the data and makes possible to talk about the relations and the difference of the variables. Following statistical tools are used in this study.

### **3.7.2.1 Percentages**

A Percent is a number of hundredth parts one numbers to another. Uses of percentages make the data much simpler and grasp. It is the simplest statistical device used in interpretation of phenomenon. It can reduce everything to a common base used for comparison, B represent the given data to be compared with the base, then the percentage of given number in the base may be calculated as

$$\text{Percentage (P \%)} = \frac{B}{A} \times 100$$

### **3.7.2.2 Measures of Central Tendency**

Measures of central value are simple statistical treatments of distribution that attempts to find the single figure to describe the entire distribution. It is the best possible value of a group of variables that singly represents to whole group. In the statistical analysis the central value falls within the approximately middle value of the whole data. Among the several tools of measuring central value, the mean has been used in this analysis where and when necessary. The mean is the arithmetic average of a variable.

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N}$$

### **3.7.2.3 Measure of Dispersion**

Dispersion measures the variation of the data from the central value. The central value alone is not enough to analyze the quality of data regarding its variability. With the light of dispersion, an average becomes more powerful and meaningful. Following tools of measuring dispersion has been used in this study.

#### **3.7.2.3.1 Standard Deviation**

Standard Deviation (S.D.) is the most popular and the most useful measure of dispersion. It indicates the ranges and size of deviance from the middle or mean. It measures the absolute dispersion. Higher the value of standard deviation higher is the variability and vice versa. It is the positive square root of average sum of

squares of deviations of observations from the arithmetic mean of the distribution. It can be calculated as follows:

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{N}}$$

### 3.7.2.3.2 Coefficient of Variation

The risk per unit of expected return can be measured by the coefficient of variation, which is computed as follows:

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

### 3.7.2.4 Karl Pearson's Correlation Coefficient :( By Direct Method)

It is used to see whether there is significant relationship between interest income to loans & advances, interest expense to total deposit, net profit to total assets, net profit to loans & advances and deposit to loans and advances..

Karl Pearson's Correlation Coefficient denoted by r measures the intensity or magnitude or degree of relationship between the two variables and is given by the formula.

$$r_{xy} = \frac{N\sum xy - \sum x. \sum y}{\sqrt{N\sum x^2 - (\sum x)^2} \sqrt{\sum y^2 - (\sum y)^2}}$$

Where,

$r_{xy}$  = coefficient of correlation

x = dependent variable

y = independent variable

Following rates are used to describe the relationship between variables:

**Table No-3.1**  
**Interpretation of Correlation Coefficient**

If r is	Value of r
-1	Perfect negative
-0.75 to -1	Significant negative(very high)
-0.50 to -0.75	High negative
-0.25 to -0.50	Low negative
0 to -0.25	Insignificant (very low) negative
0	Independent(absent)
+1	Perfect Positive
+0.75 to +1	Significant(very high) negative
+0.50 to +0.75	High Positive
+0.25 to +0.50	Low Positive
0 to + 0.25	Insignificant(very low) Positive

Sources: Sthapit, Dr. A.B., H. Gautam, Joshi, P.R. & Dongol, P.M. (2005)

### **Coefficient of Determination ( $r^2$ )**

The coefficient of determination is the measure of the degree of linear association or correlation between two variables, one of which happens to be independent and the other dependent variable. It measures the percentage of total variation in dependent variable explained by independent variables. The coefficient of determination can have a value ranging from 0 to 1.

$$r^2 = \frac{\text{Explained Variation}}{\text{Total Variation}}$$

### **Probable Error (PE)**

The Probable error is used to measure the reliability and test of significance of Correlation coefficient. With the help of probable error it is possible to determine the reliability of the values of the coefficient in so far it depends on the condition of random sampling. It is calculated by the following formula.

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

Where,  $r^2$  = Coefficient of Determination

$r$  = the value of correlation coefficient

$n$  = number of pairs of observations

P.E. is used in interpretation whether the calculation value of  $r$  is significant or not.

- i) If  $r < P.E.$ , it is insignificant, i.e. there is no evidence of correlation.
- ii) If  $r > 6P.E.$ , it is significant.
- iii) If  $PE < r < 6PE$  nothing can be concluded.
- iv) By adding and subtracting the value of probable error from the coefficient of correlation we get the upper and lower limits respectively within which correlation coefficient in the population can be expected to lie. Symbolically, correlation in the population =  $r \pm P.E.$

### 3.7.2.5 Trend Analysis

Trend Analysis is one of the statistical tools, which is used to determine the improvement or deterioration of its financial situation. Trend Analysis informs about the expected future value of various variables. The Least square method has been adopted to measure the trend behaviors of these selected banks. The formula of least square method is represented by the following formula.

$$Y = a + bX$$

Where,  $Y$  = Trend values

$a$  =  $Y$  intercept or the computed trend figure of the  $Y$  variable, when  $X = 0$

$b$  = Slope of the trend line of the amount of change in  $Y$  variable that is associated with change in 1 unit in  $X$  variable.

$X$  = Variable that represent time i.e. time variable.

The value of the constant  $a$  and  $b$  can be determined by solving the following two normal equations.

$$\Sigma Y = Na + b\Sigma X \dots\dots\dots (i)$$

$$\Sigma XY = a\Sigma X + b \Sigma X^2 \dots\dots\dots (ii)$$

Where,  $N$  = Number of years.

But for simplification, if the time variable is measured as a deviation from its mean i.e. mid point is taken as the origin, the negative value in the first half of the series balance out the positive values in the second half so that ( $\Sigma X = 0$ ). The value of constant a and b can easily be determined by using following formula.

$$a = \frac{\Sigma y}{N} \qquad b = \frac{\Sigma xy}{\Sigma x^2}$$

Trend analysis is a very useful and commonly applied tool to see in which direction; on the basis of the tendencies is the dependent variable in the past period. So, it has been done by using the above specified variables' relationship to get the expected result.

### **3.7.2.6 Diagrammatic and graphical Representation**

Diagrams and graphs are visual aids that give a bird eye view of a given set of numerical data. They represent the data in simple and readily comprehensive form. Hence various bar diagrams and graph have been used for presentation and analysis of data.

### **1.7.2.7 Regression Analysis**

The literal or dictionary meaning of the word regression is stepping back or returning to the average value. It is used to estimate or predict the value of one variable when the value of other variable is known.

### **Simple Regression Equation**

Simple Regression Analysis has been used to study the influence of independent variables on dependent variables in this study. The simple regression analysis has helped in studying the effect and magnitude of the effect of a simple independent variable on the dependent variables. Regression analysis has been developed to study and measure the statistical relationship between two variables only then the process is known as the simple regression analysis. (Sthapit, A.B., 2003). The regression equation of y on x axis is:

$$y = a + bx + U$$

$$a = \frac{\Sigma Y^2 \Sigma X - \Sigma Y \Sigma XY}{N \Sigma Y^2 - (\Sigma Y)^2}$$

$$b = \frac{\Sigma XY - \Sigma X \Sigma Y}{N \Sigma Y^2 - (\Sigma Y)^2}$$

Where,

y = Dependent variable

x = Independent variable

a = Intercept

b = coefficient of independent variables or it measures the rate of relationship and

U = Residual value.

The above symbols indicate for this study purpose as:

y = dependent variable like Net Profit

a = intercept

b = coefficient of independent variables

x = Loan and advances

The simple regression analysis has been done by using the above specified variables' relationship to get the expected result.

### **Hypothesis Testing**

To test the set hypotheses, t-test has been employed. Under Null Hypothesis ( $H_0$ ), t-test statistics is:

$$t = \frac{\bar{X} - \mu}{S/\sqrt{n}}$$

where,  $\bar{X}$  = average return of the common stock of sample under study

$\mu$  = average market return (assumed as population)

S = sample standard deviation

n = number of observation

- **SPSS** also used for data analysis.( *Appendix - VIII*)

### **3.8 Limitation of the Research Methodology**

This research couldn't beyond the limitation. To carry out the Research work, various percentages, statistical and financial tools are used. Similarly,

descriptive as well as analytical of profit plan has been carried out however these tools and techniques have been some limitation.

- For research purpose, the five years (FY 2004/05 to FY 2008/09) research data are used in analyzing the financial and statistical tools, which may mislead the research work, as it is not sufficient to make projections for future regarding the performance of the bank.
- The findings of the Study, Summary and Conclusion are drawn on the basis of use of such financial and Statistical data analysis tools.
- Time constraint and the Study being based on the secondary data the result of this study resides on the accuracy of the sources.

## **CHAPTER - IV**

### **PRESENTATION & ANALYSIS OF DATA**

#### **4.1 Introduction**

This chapter is the main context of the study. Efforts have been made to present and analyze the collected data. Data collected from various sources are classified and tabulated as requirement of the study and in accordance to the nature of collected data. Data collected from various sources are changed into an understandable presentation using financial as well as statistical tools supported by diagrams and graphs as mentioned in the previous chapter. This chapter is the heart of the study as all the findings, conclusion and recommendations are going to be derived from the calculations and analysis done in this section.

The main purposes of the research paper are to examine the profit planning system in these (NBL and Nabil) banks. This chapter of the paper will analyze the various aspects of profit planning and their accomplishment.

Profit planning is one of the most important approaches that have been developing to facilitate effective performance of management process and it is systematic approach for attaining effective management process. Profit planning is the formal expression of the enterprise plans, goals and objectives stated in financial term for specific future elements of successful business enterprise. If firm makes inadequate profit, it can not survive and becomes a social economic disaster to the every society in which it is expected to support. The primary purpose of profit planning in business is to increase the chance of making profit. PP involves the control and manipulation of relevant variable i.e. controllable and non controllable and reduces the impact of uncertainty. So that the enterprise could save from the chances of making losses. It is the estimation and predetermination of revenue and expenses that estimate how much income will be generated and how it should be spend in order to meet investment and profit requirement.

Dr.Chalise puts some view on PP department and says, there should be a separate planning department in each of the commercial banks and this department should be entrusted with the task of budget preparation in addition to the preparation of five years plans and annual programmes. Planning should cover deposit, credit, investment, profit and loan recovery.

Profit planning is the development and acceptance objectives and goals and moving an organization efficiently to achieve the objectives and goals. It is a managerial tool which is applied every business organization. It is clear that profit planning exploits the opportunities by using the limited resources. So that the heart of management use of limited resources.

**Nepal and Nabil bank Ltd.** is a public and private joint venture bank with 98 and 39 branches and professional employees who are applying PP that's why banks are very respectful in the market. Even with the political instability, strict, shortage of fuel, load shading, insecurity these banks are running smoothly and providing all commercial services to the doorsteps of customer with high value.

## **4.2 Commercial Banking Activities**

### **4.2.1 Customer Deposit**

NBL is accepting deposit from its customer since 69 years and number of branches is almost 98 spread in 51 districts in the country. NBL is a first commercial bank of the country. There are no satisfactory developments in banking and financial sector up to 1980s A.D. NABIL is accepting deposit from its customer since 25 years. In this journey it accepts deposit as saving, fixed and current and provides certain percent of interest. Nabil, with its risk management skills, service, excellence, varieties of tailored solutions, competitive price and financial stability in terms of sound assets quality adequacy, is today a preferred bank of individual and institutional depositors. Nabil offers a wide range of deposit products to suit various needs of customers from all strata. Now equipped with several distribution channels like cards, internet banking and ATM network, its depositors enjoy the freedom of '24 hours a day, 365 days a year' access to their deposit accounts.

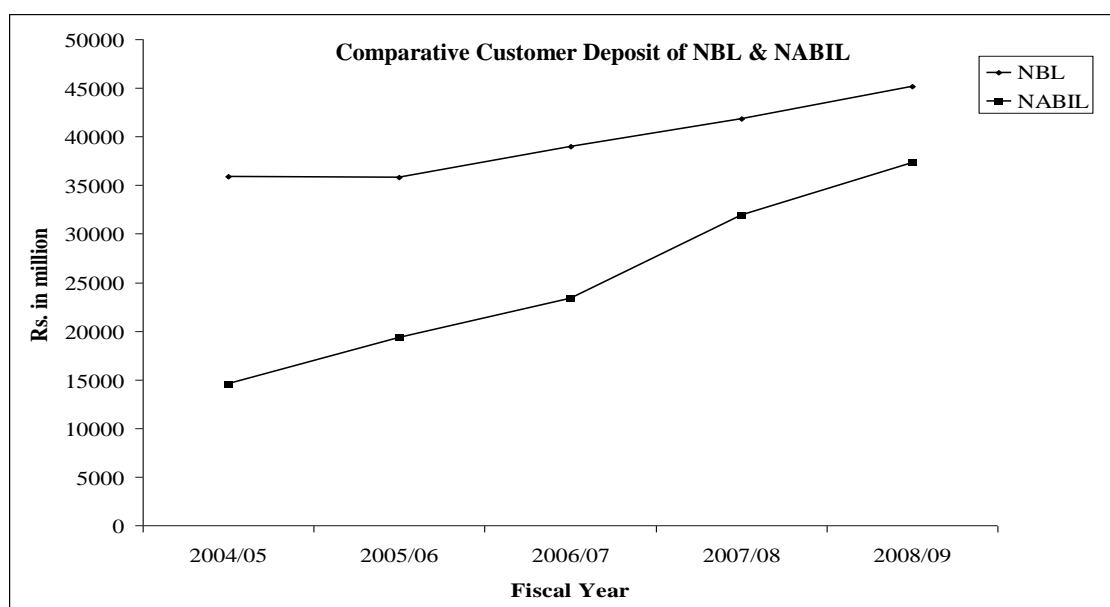
Besides the regular deposit accounts like current, saving and fixed term deposits in local currency as well as in a range of other major foreign currencies. Nabil also offers many other special deposit schemes. Such as: Nabil Bachat, call deposit, Nabil BAL Bachat etc. The numbers of branches, almost 39, provide full range of customer oriented, fast and reliable banking services through Mechi to Mahakali. Despite increasing inflation, decreasing remittance & economic growth rate, political instability, Nabil makes its unique position in the market. Recently it becomes only one recognized bank of Australia because of its reliability. The bank places high priority on deposit acceptance as major source of its funding. These banks provide service to its customers of urban as well as rural areas. The following table shows the deposit of these banks from FY 2004/2005 to 2008/2009

**Table-4.1**

Nepal & Nabil Bank Ltd.  
Statement of Changes in Deposit (Rs in million)

Deposit		Fiscal Year				
		2004/05	2005/06	2006/07	2007/08	2008/09
A	NBL	35934	35830	39014	41829	45194
	Change in Volume	199	-104	3184	2815	3365
	Change in Percentage	0.56	-0.29	8.89	7.22	8.04
B	NABIL	14587	19347	23342	31945	37348
	Change in Volume	468	4760	3995	8573	5433
	Change in Percentage	3.31	32.63	20.65	36.73	17.02

Sources: Annual Reports of the concerned banks



**Figure 4.1: Comparative customer Deposit of NBL & NABIL**

The table 4.1 and figure 4.1, we can easily see the difference between the two commercial banks. NBL has high deposit rate in comparison to NABIL. In year 2005/06, NBL has negative percent and later it is increased by 8.89% in the year 2006/07. Again in year 2008/09, it is increased by 8.04% and reached to Rs.45194 million. In NABIL, it shows that deposit is increasing from five years continuously by certain percent. In the FY 2008/09 total deposit is increased by 17.02% and reached to Rs.37348 million. It shows that NABIL has increasing trend of deposit.

#### 4.2.2 Investment

The bank provides a complete range of consumer, retail, SME and corporate banking services through its offices spread across the country. Its main investment areas are Nepal government treasury bills, securities, local licensed institutions, foreign banks, shares, bonds & debentures, SWIFT investment. Investments are valued at lower of cost or market value.

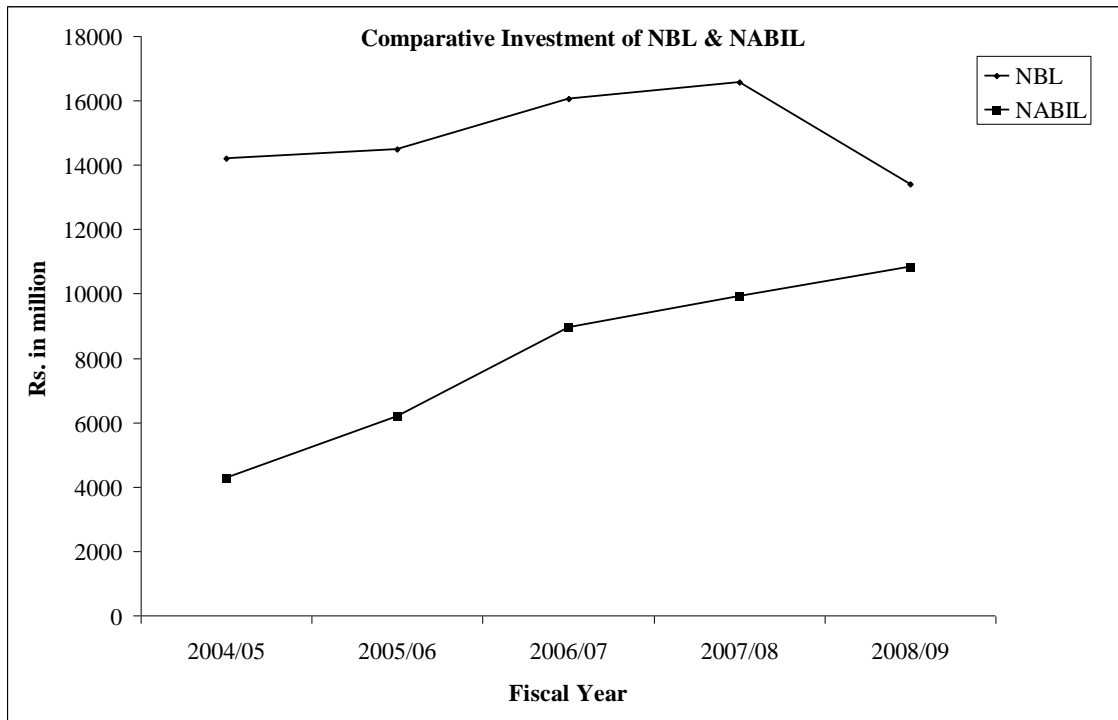
**Table-4.2**

Nepal & Nabil Bank Ltd.

Statement of Changes in Investment (Rs in million)

Investment		Fiscal Year				
		2004/05	2005/06	2006/07	2007/08	2008/09
A	NBL	14199	14490	16072	16571	13398
	Change in Volume	3194	291	1582	499	-3173
	Change in Percentage	29.02	2.06	10.92	3.1	-19.15
B	NABIL	4267	6178	8945	9940	10826
	Change in Volume	1568	1911	2767	995	886
	Change in Percentage	-26.87	121.88	44.79	11.12	8.91

Source: Annual Report of NBL and NABIL



**Figure-4.2 Investment of NBL and NABIL**

The table 4.2 and figure 4.2, shows the five year investment from FY 2004/05 to 2008/09. It is clearly shows that the investment pattern of NBL and NABIL are increasing every year except in FY 2008/09 which is decreased by 19.15% in NBL. Large amount of investment is invested in government treasury and securities because it is risk free investment and change in cash whenever needed. It also gives certain percent of interest income.

Hence, in FY 2008/09 NBL has negative percent. It means bank is diverting its funds towards loans and advances to the customers by reducing its investments in year 2008/09 in NBL. But rate of investment in NBL is more than NABIL. NABIL has increasing trend of investment.

### 4.2.3 Loan Disbursement

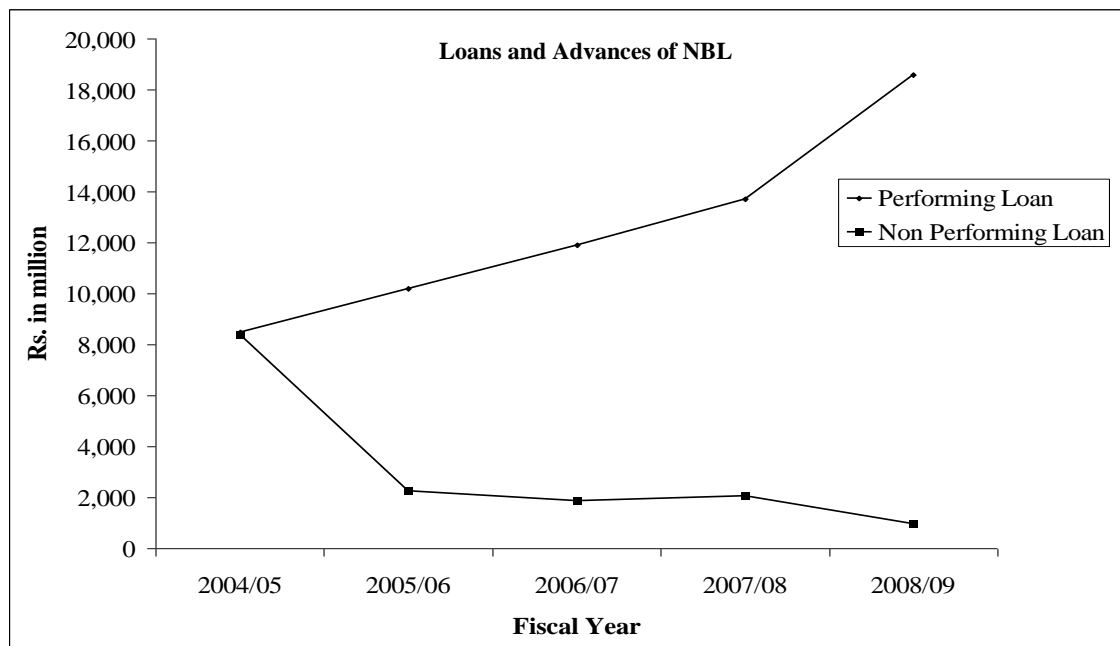
According to the new directive issued in 2001 regarding the classification of loan, loans are classified into four categories, namely: pass, substandard, doubtful and loss with respective provisioning 1%, 25%, 50% and 100% respective on the basis of period of past dues. It can be mainly classified into performing loan and non-performing loan. These banks provide loans & advances; overdrafts and bills purchased facilities which are direct finance to customers. These include short term

loans, long term loans, customer loans and loans given to priority and deprived sectors. Loan and advances including bills purchased are shown net off loan loss provision.

**Table-4.3**  
Nepal Bank Ltd.  
Loan Disbursement (Rs in million)

Loan & Advances		Fiscal Year				
		2004/05	2005/06	2006/07	2007/08	2008/09
1	Performing Loan	8,494	10,179	11,901	13,698	18,593
1.1	Pass	8,494	9,547	11,180	13,698	18,074
1.2	Restructured		632	720		518
2	Non Performing Loan	8,373	2,262	1,856	2,067	967
2.1	Substandard	128	47	17	64	65
2.2	Doubtful	234	88	30	20	18
2.3	Loss	8,011	2,128	1,809	1,983	884
	Total	16,867	12,442	13,757	15,765	19,560
	Change in Volume	(1,071)	(4,425)	1,315	2,008	3,795
	Change in Percentage	(5.97)	(26.23)	10.57	14.60	24.07

Source: Annual Report and website of NBL



**Figure 4.3: Loans and advances of NBL**

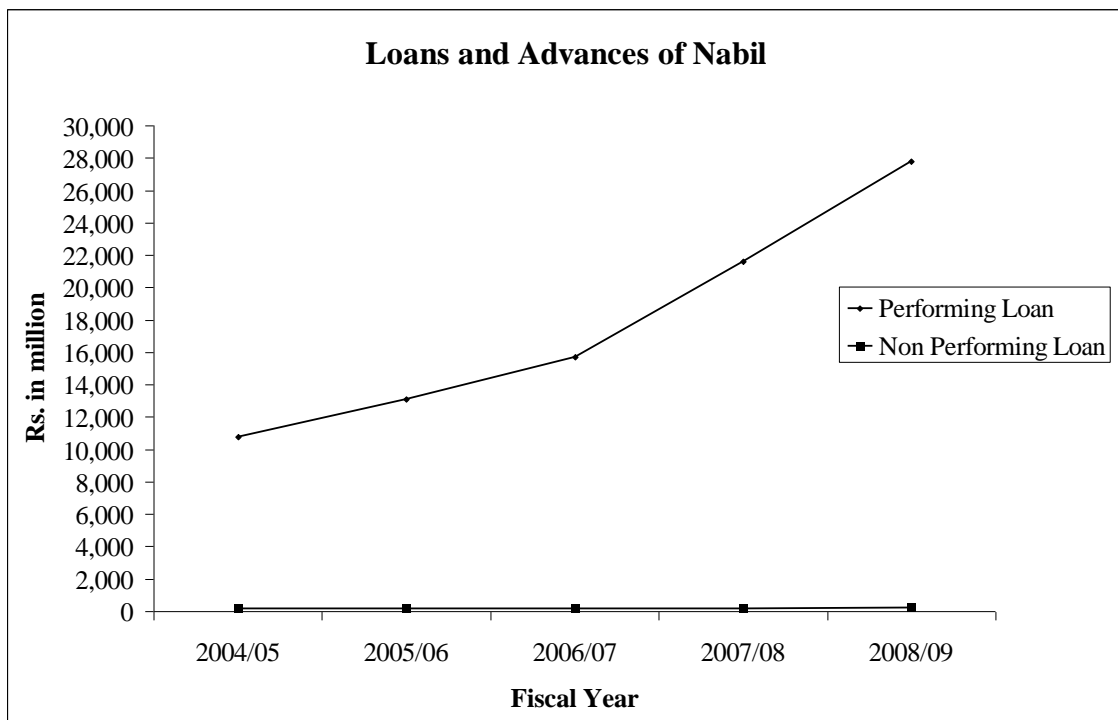
The table 4.3 and figure 4.3 shows different categories of loans & advances of NBL from the fiscal year 2004/05 to 2008/09.

Total loan and advances has been decreased and has negative percent for first two years by 5.97%, 26.23%, and then increased till last year and has increasing trend. In FY 2008/09 it is increased by 24.07% and reached to Rs 19560 million respectively Data in amount shows that performing loan is much higher than non-performing loan.

**Table-4.4**  
Nabil Bank Ltd.  
Loan Disbursement (Rs in million)

Loan & Advances		Fiscal Year				
		2004/05	2005/06	2006/07	2007/08	2008/09
<b>1</b>	<b>Performing Loan</b>	10,802	13,096	15,725	21,598	27,774
1.1	Pass	10,668	13,011	15,639	21,587	27,767
1.2	Restructured	134	85	86	11	7
<b>2</b>	<b>Non Performing Loan</b>	145	183	178	161	225
2.1	Substandard	22	63	120	66	113
2.2	Doubtful	2	30	14	43	46
2.3	Loss	121	90	44	52	66
	<b>Total</b>	10,947	13,279	15,903	21,759	27,999
	Change in Volume	2,398	2,332	2,624	5,856	6,240
	Change in Percentage	28.05	21.30	19.76	36.82	28.68

Source: Annual Report of Nabil



**Figure 4.4: Loans and advances of Nabil**

The table 4.4 and figure 4.4 shows clearly that NABIL is increasing its investment in loans and advances every year. Data in amount shows the total amount of loans and advances and bills discounting which is increasing every year. In FY 2004/05, total loan and advances was Rs.10947 million which increase to Rs.27999 million in F.Y 2008/09. It shows the increasing trend from the year 2004/05 to 2008/09. Its performing loan is much higher than non-performing loan. In the FY 2007/08 and 2008/09, it increases heavily.

Hence, loans and advances is more in NABIL in comparison to NBL from FY 2004/05 to FY 2008/09. Loan and advances in NABIL is increasing every year and has increasing trend.

#### 4.2.4 Revenue Collection of Nepal and Nabil Bank Ltd

The main sources of revenue collection of Nepal and Nabil is interest income from loans, advances and overdraft, investment, government securities, agency balances, money at call and short notice. But these banks also earn from bills discount, commission from letter of credit, guarantees, collection fees, remittance fees, credit card, telex, service charge and foreign exchange gain.

##### 4.2.4.1 Interest Income

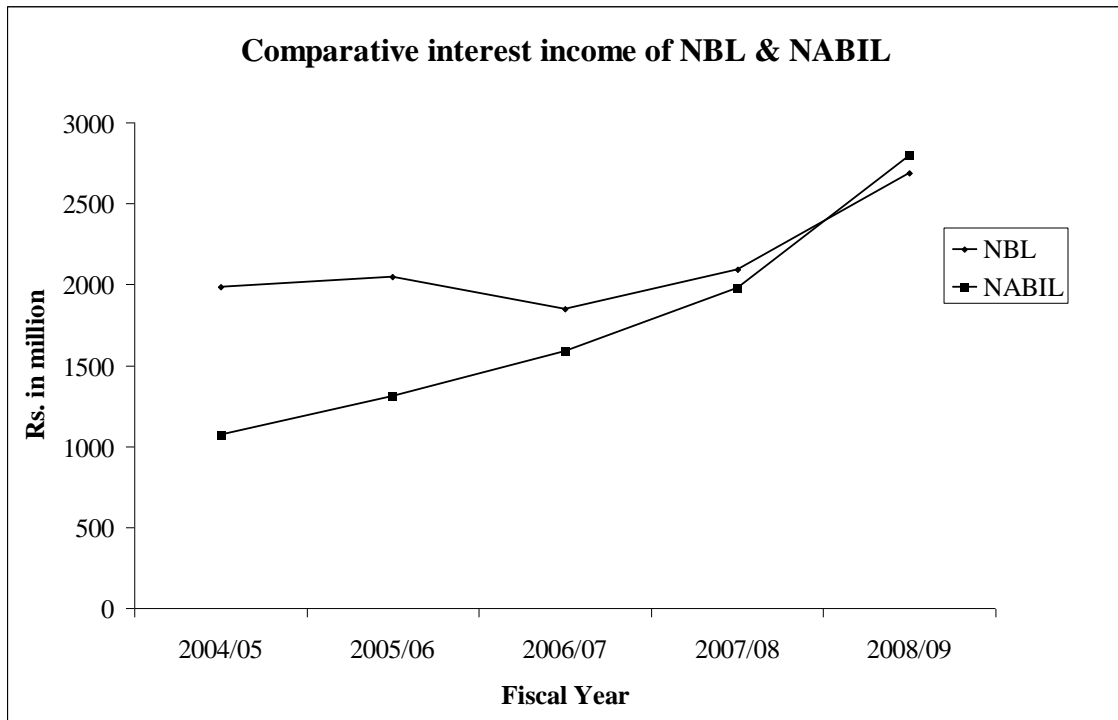
The bank earns income from interest which is the large source of revenue. But NABIL gives loans and advance to the needy people in higher rate of interest which is the major source of revenue.

**Table-4.5**

Nepal & Nabil Bank Ltd.  
Interest Income Statement (Rs in millions)

Interest Expenses		Fiscal Year				
		2004/05	2005/06	2006/07	2007/08	2008/09
A	NBL	1987	2049	1849	2095	2690
	Change in Volume	162	62	-200	246	595
	Change in Percentage	9	3	-9.76	13	28.4
B	NABIL	1069	1310	1588	1979	2798
	Change in Volume	67	241	278	391	819
	Change in Percentage	6.69	22.54	21.22	24.62	41.38

Source: Annual Reports and websites of concerned banks



**Figure 4.5: Comparative Interest Income of NBL & Nabil**

The table 4.5 and figure 4.5, shows the five year interest income from FY 2004/05 to 2008/09. It is clearly shows that the large amounts of interest income collects from loans, advances and overdraft which are increasing every year except in FY 2006/07 which is decreased by 9.76% in NBL.

Hence, in FY 2008/09 NABIL has higher interest income in comparison to its competitor NABIL. Due to large expansion of loan and advance to diversify sectors with proper evaluation and study of loan disbursement and collection, it is able to increase its interest income which covers large revenue collection of these banks.

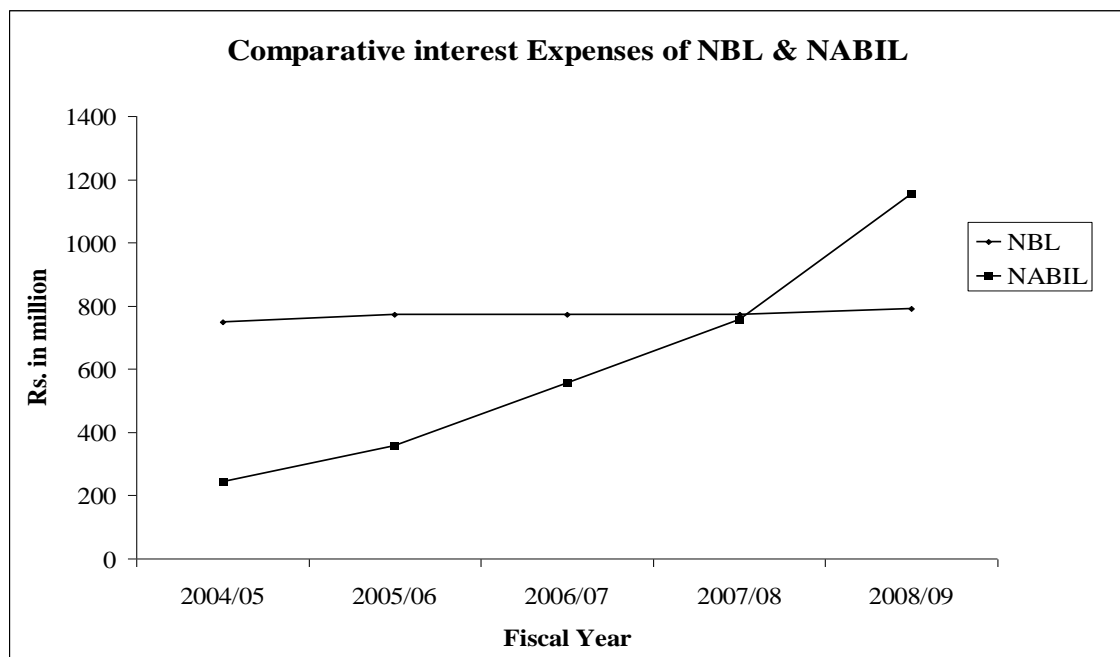
#### **4.2.5 Interest Expenditure**

The Bank gives certain percent of interest to its depositors who deposit amount in saving, fixed deposit account. It also gives interest for borrowings like loan from Nepal Rastra Bank, inter bank/financial institutions. The following table shows the detail of interest expenses of NBL & NABIL from FY 2004/05 to 2008/09.

**Table-4.6**  
Nepal and Nabil Bank Ltd.  
Interest Expenditure Statement (Rs in millions)

Interest Expenses		Fiscal Year				
		2004/05	2005/06	2006/07	2007/08	2008/09
A	NBL	749	774	773	773	792
	Change in Volume	-277	25	-1	0	19
	Change in Percentage	-27	3.34	-0.13	0	2.46
B	NABIL	244	357	556	758	1153
	Change in Volume	-39	113	199	202	395
	Change in Percentage	-13.78	46.31	55.74	36.33	52.11

Source: Annual Reports and Websites of concerned Banks



**Figure 4.6: Interest expenses of NBL & Nabil**

Looking at the table 4.6 and figure 4.6, we can easily see the difference between two commercial banks. NBL has higher interest expenses in first four financial years in comparison to its competitor NABIL. But in year 2008/09 NABIL has higher interest expenses than NBL. It shows that the large amount is paid to its customer which is increasing every year in NABIL. But in NBL interest expenses are decreasing in FY 2004/05 and 2006/07 and has negative percent in that year by -27% and -0.13% respectively. It increases in FY 2008/09 by 2.46% and reached to Rs 792 million in NBL. But in NABIL it increases in FY 2008/09 by 52.11% and reached to Rs 1153.

#### 4.2.6 Net Profit

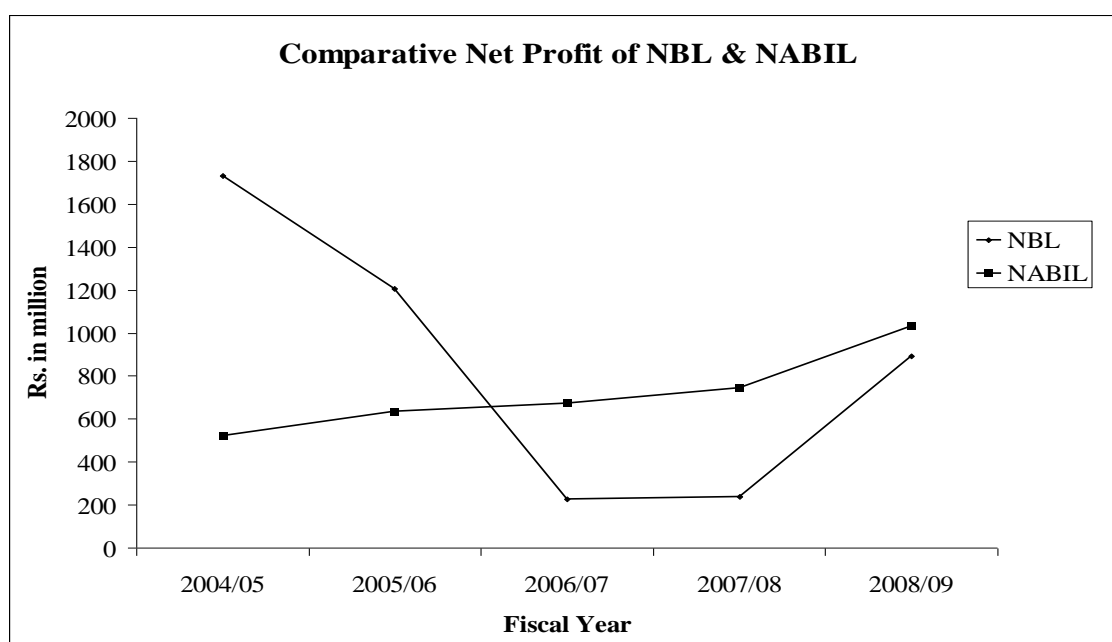
NBL is one of the largest and oldest commercial bank in Nepal. NBL got a huge lost for last few years till year 2002/03. And thereafter it gradually regain but its profit is much lesser than NABIL.

For NABIL every year is an exceptional year as it always crossed huge profit. This achievement is a reflection of success in continuously striving to surge ahead to be the 'Bank of 1<sup>st</sup> Choice' of all stakeholders even amidst the uncertainty and instability that prevailed in the nation. The following table shows the trend analysis of profit increase rate from 2004/05 to 2008/09

**Table-4.7**  
Nepal and Nabil Bank Ltd  
Net Profit Statement (Rs in millions)

Net Profit		Fiscal Year				
		2004/05	2005/06	2006/07	2007/08	2008/09
A	NBL	1730	1207	227	239	894
	Change in Volume	1020	-523	-980	12	655
	Change in Percentage	143.66	-30.23	-81.19	5.29	274.06
B	NABIL	520	635	674	746	1031
	Change in Volume	65	115	39	72	285
	Change in Percentage	14.29	22.12	6.14	10.68	38.2

Source: Annual Reports and Websites of concerned Banks



**Figure 4.7: Comparative Net profit of NBL & Nabil**

The table 4.7 and figure 4.7 clearly shows the net profit of NBL and NABIL over five year's period. The growth rate of net profit of NBL has followed decreasing trend from FY 2005/06 to FY 2006/07 and has negative percent by -30.23% and 81.19 %.But it increases in 2007/08 and 2008/09 by 5.29% and 274.06% respectively.

Also the above table 4.7 shows the increasing trend of net profit from the fiscal year 2004/05 to 2008/09 of NABIL. In FY 2008/09, it is increased by 38.20% and reached to Rs 1031.Nabil is able to earn such a good profit from its establishment but in recent year it is able to increase its net profit growth. That's why NABIL is running as one of the best bank of Nepal.

- Hence, NABIL got a huge profit as compared to NBL.

### 4.3 Trend Analysis

It is a statistical tool, which helps to forecast the future value of the different variables on the basis of past tendencies of variable. Trend analysis in forms about the expected future value of various variables. Among the various methods to determine the trend, the least square method is widely used in practices. Hence; in this study also least square method has been adopted to measure the trend behavior of these selected banks. However trend analysis is based on the assumption that past tendencies continues in the future.

#### 4.3.1 Trend Analysis of Deposit

The calculated value of average deposit is denoted by 'a' and rate of change of deposit denoted by 'b'. Trend value of deposit of two banks for 10 years from mid- July 2005 to mid- July 2014 are as follows

**Table No 4.8**  
**Trend Value of Deposit of NBL and NABIL** (Rs in million)

Banks	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>NBL</b> <b>a= 39560.2</b> <b>b=2451.9</b>	34656.4	37108.3	39560.2	42012.1	44464	46915.9	49367.8	51819.7	54271.6	56723.5
<b>NABIL</b> <b>a=25307.8</b> <b>b=5809</b>	13689.8	19498.8	25307.8	31116.8	36925.8	42734.8	48543.8	54352.8	60161.8	65970.8

Sources: Appendix IV (i)

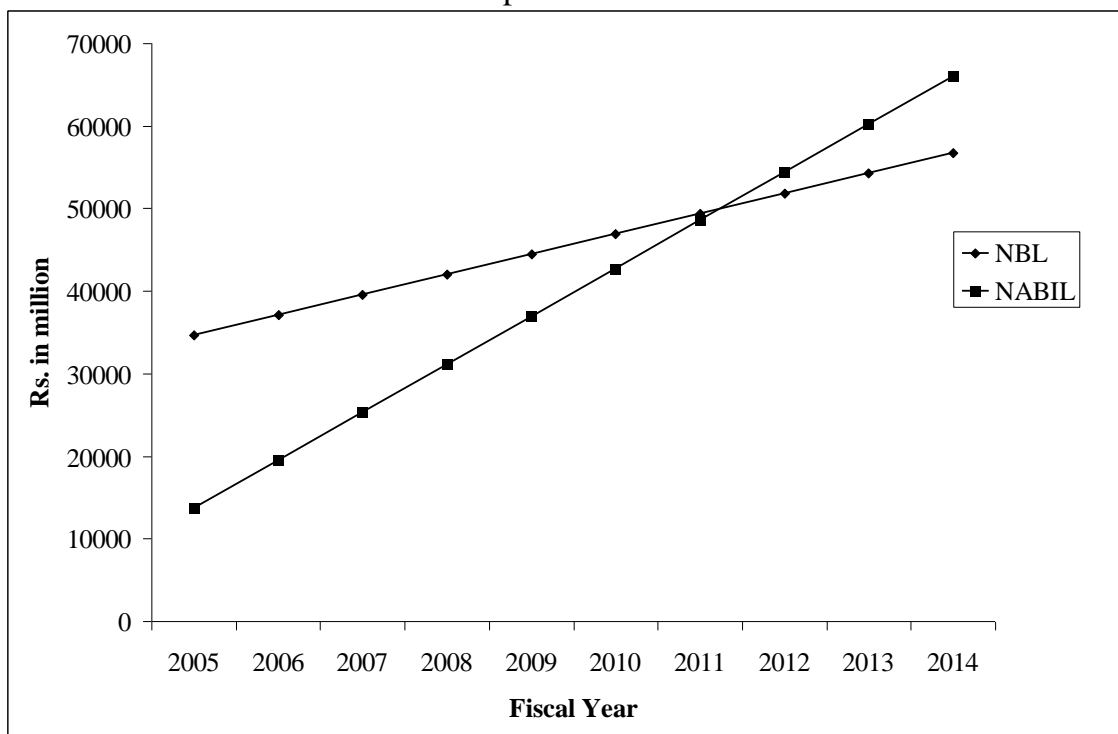
The table no.4.8 shows that NBL and NABIL have increasing trend of deposit. The average deposit of NBL is Rs 39560.2 million, which is increasing at the rate of Rs 2451.9 million every year. Deposits are expected to increase from Rs 46915.9 million in the year 2010 to Rs 56723.5 million in the year 2014.

The average deposit of NABIL is Rs 25307.8 million, which is increasing at the rate of Rs 5809 million every year. Deposits are expected to increase from Rs 42734.8 million in year 2010 to Rs 65970.8 million in the year 2014.

Hence, both banks show increasing trend of deposit but NABIL is expected to increase more in near future in comparison to its competitor NBL.

Following figure no.4.8 represents the trend line of deposit of two banks for 10 respective years.

**Figure No. 4.8**  
Trend line of Deposit of NBL and NABIL



#### 4.3.2 Trend Analysis of Investment

The calculated value of average investment is denoted by 'a' and rate of change of investment denoted by 'b'. Trend value of Investment of two banks for 10 years from mid- July 2005 to mid- July 2014 are as follows:

**Table No 4.9**  
**Trend Value of Investment of NBL and NABIL**

(Rs in million)

Banks	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>NBL</b> <b>a= 14946</b> <b>b= 47.9</b>	14850.2	14898.1	14946	14993.9	15041.8	15089.7	15137.6	15185.5	15233.4	15281.3
<b>NABIL</b> <b>a=8031.2</b> <b>b= 1688</b>	4655.2	6343.2	8031.2	9719.2	11407.2	13095.2	14783.2	16471.2	18159.2	19847.2

Sources: Appendix IV (ii)

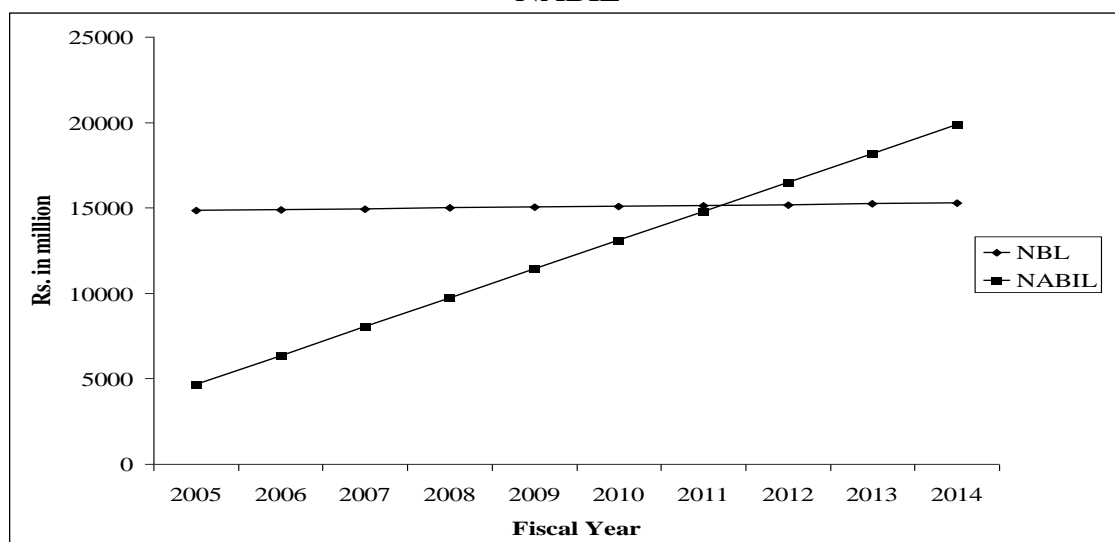
The table no.4.9 shows that NBL and NABIL have increasing trend of investment. The average investment of NBL is Rs 14946 million, which is increasing at the rate of Rs 47.9 million every year. Investment is expected to increase from Rs15089.7 million in the year 2010 to Rs 15281.3 million in the year 2014.

The average Investment of NABIL is Rs 8031.2 million, which is increasing at the rate of Rs 1688 million every year. Investment is expected to increase from Rs 13095.2 million in year 2010 to Rs 19847.2 million in the year 2014.

Hence, both banks show increasing trend of investment but NABIL is expected to increase more in near future in comparison to its competitor NBL.

Following figure no.4.9 represents the trend line of investment of two banks for 10 respective years.

**Figure No. 4.9**  
**Trend line of investment of NBL and NABIL**



### 4.3.3 Trend Analysis of Loans and advances

The calculated value of average loans and advances is denoted by 'a' and rate of change of loans and advances denoted by 'b'. Trend value of loans and advances of two banks for 10 years from mid- July 2005 to mid- July 2014 are as follows:

**Table No 4.10**  
**Trend Value of Loans and Advances of NBL and NABIL**  
(Rs in million)

Banks	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>NBL</b> <b>a= 15678.2</b> <b>b= 870.9</b>	13936.4	14807.3	15678.2	16549.1	17420	18290.9	19161.8	20032.7	20903.6	21774.5
<b>NABIL</b> <b>a=17977.4</b> <b>b= 4258.4</b>	9460.6	13719	17977.4	22235.8	26494.2	30752.6	35011	39269.4	43527.8	47786.2

Sources: Appendix IV (iii)

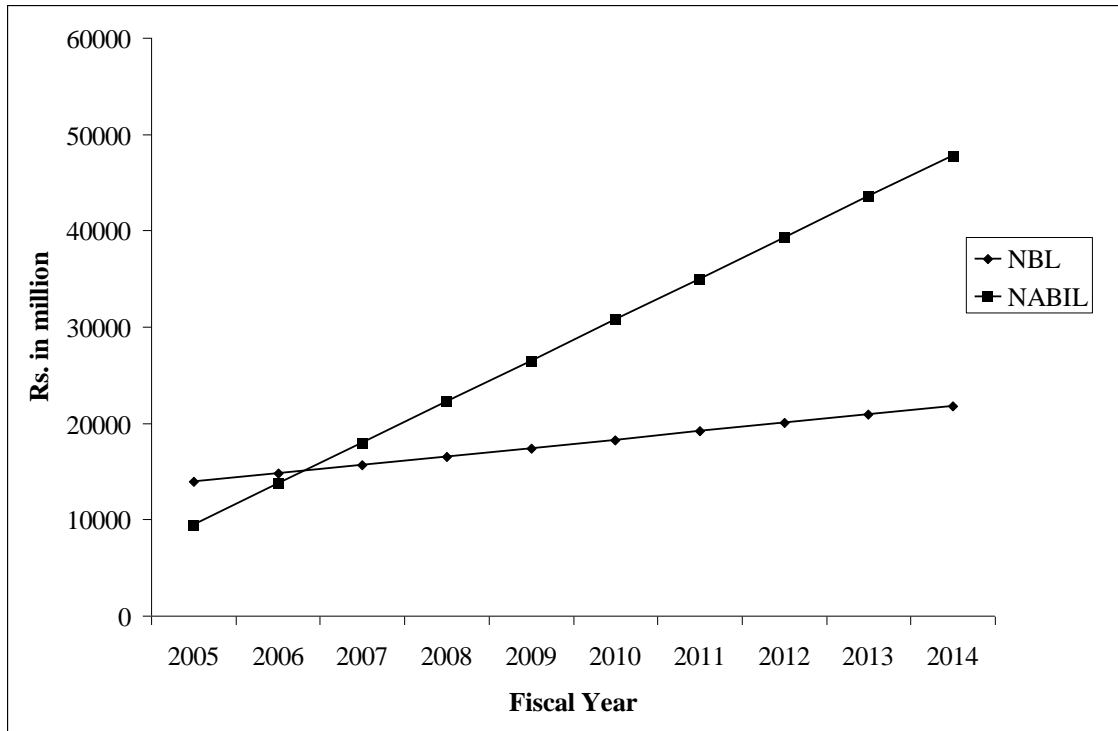
The table no.4.10 shows that NBL and NABIL have increasing trend of deposit. The average loans and advances of NBL is Rs 15678.2 million, which is increasing at the rate of Rs 870.9 million every year. Loans and advances are expected to increase from Rs 18290.9 million in the year 2010 to Rs 21774.5 million in the year 2014.

The average loans and advances of NABIL is Rs 17977.4 million, which is increasing at the rate of Rs 4258.4 million every year. Loans and advances are expected to increase from Rs 30752.6 million in year 2010 to Rs 47786.2 million in the year 2014.

Earlier NBL is suffering from the problem of NPL, they are concentrating more on recovering bad debts and there was no further investment in the form of loans and advances. Hence, its loans and advances show decreasing trend. Now both (NBL & NABIL) banks shows increasing trend and it can be interpreted that there was further investment in the form of loans and advances in these banks.

Following figure no.4.10 represents the trend line of loans and advances of two banks for 10 respective years.

**Figure No. 4.10**  
Trend line of Loans and Advances of NBL and NABIL



#### 4.3.4 Trend Analysis of Interest Income

The calculated value of average interest income is denoted by ‘a’ and rate of change of interest income denoted by ‘b’. Trend value of interest income of two banks for 10 years from mid- July 2005 to mid- July 2014 are as follows:

**Table No 4.11**  
**Trend Value of Interest Income of NBL and NABIL**

(Rs in million)

Banks	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>NBL</b> a= 2134 b= 145.2	1843.6	1988.8	2134	2279.2	2424.4	2569.6	2714.8	2860	3005.2	3150.4
<b>NABIL</b> a= 1748.8 b= 412.7	923.4	1336.1	1748.8	2161.5	2574.2	2986.9	3399.6	3812.3	4225	4637.7

Sources: Appendix IV (iv)

The table no.4.11 shows that NBL and NABIL have increasing trend of interest income. NBL's trend shows increment of interest income at the rate of Rs 145.2 million each year. The average interest income of NBL is Rs 2134 million. Interest incomes are expected to increase from Rs 2569.6 million in the year 2010 to Rs 3150.4 million in the year 2014.

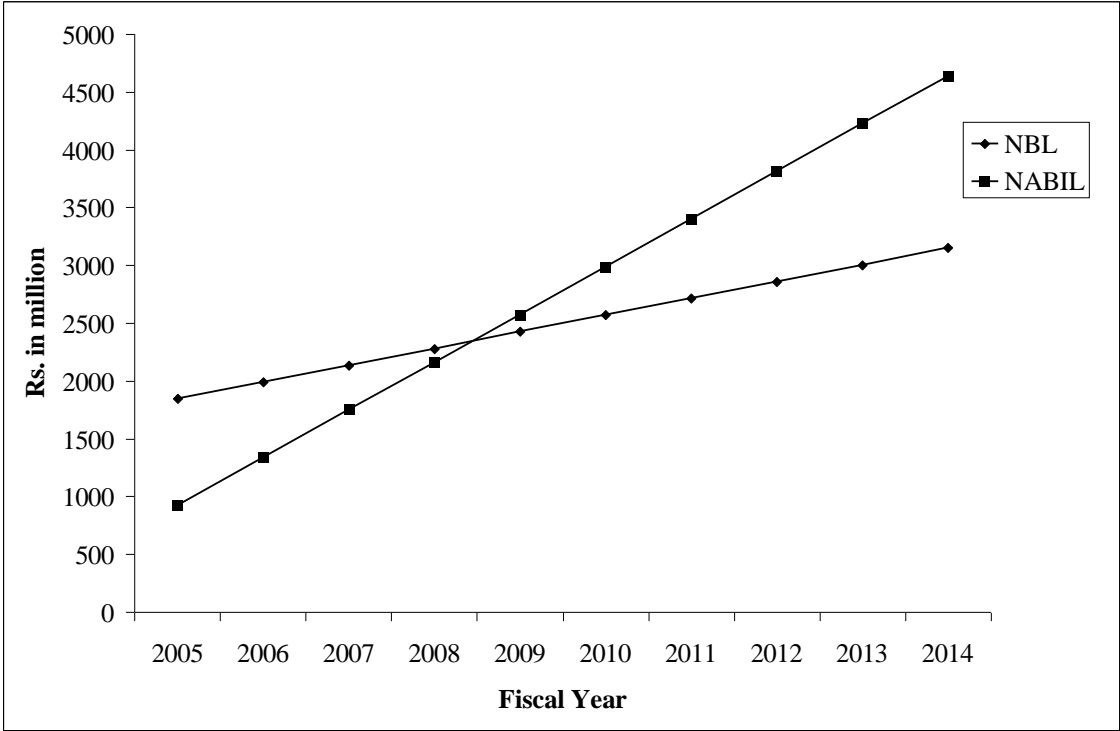
The average interest income of NABIL is Rs 1748.8 million, which is increasing at the rate of Rs 412.7 million every year. Interest income of NABIL is expected to increase from Rs 2986.9 million in year 2010 to Rs 4637.7 million in the year 2014.

Hence, both banks show increasing trend of deposit but NABIL is expected to increase more in the near future in comparison to NBL.

Following figure no.4.11 represents the trend line of deposit of two banks for 10 respective years.

**Figure No. 4.11**

**Trend line of Interest Income of NBL and NABIL**



#### 4.3.5 Trend Analysis of Interest Expenditure

The calculated value of average interest expenditure is denoted by 'a' and rate of change of interest expenditure denoted by 'b'. Trend values of interest expenses of two banks for 10 years from mid- July 2005 to mid- July 2014 are as follows:

**Table No 4.12**  
**Trend Value of Interest Expenses of NBL and NABIL**

(Rs in million)

Banks	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>NBL</b> <b>a= 772.2</b> <b>b= 8.5</b>	755.2	763.7	772.2	780.7	789.2	797.7	806.2	814.7	823.2	831.7
<b>NABIL</b> <b>a= 613.6</b> <b>b= 221.9</b>	169.8	391.7	613.6	835.5	1057.4	1279.3	1501.2	1723.1	1945	2166.9

Sources: Appendix IV (v)

The table no.4.12 shows that NBL and NABIL have increasing trend of interest expenses. The average interest expense of NBL is Rs 772.2 million, which is increasing at the rate of Rs 8.5 million every year. Interest expenses are expected to increase from Rs 797.7 million in the year 2010 to Rs 831.7 million in the year 2014.

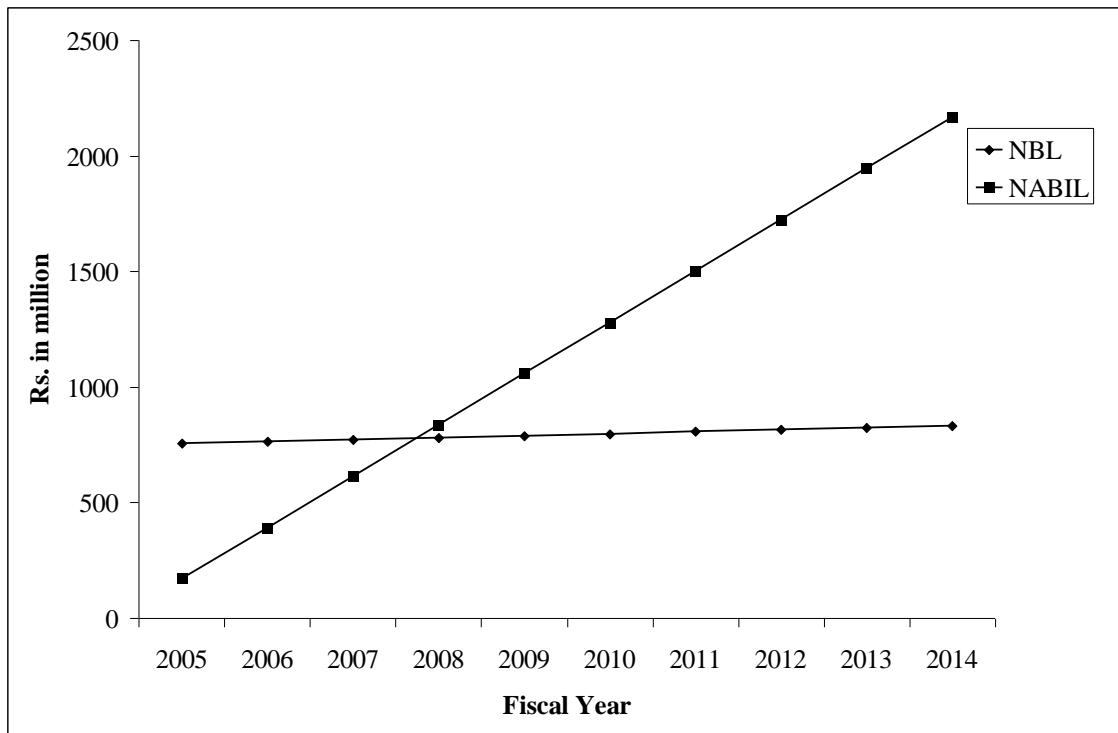
The average interest expense of NABIL is Rs 613.6 million, which is increasing at the rate of Rs 221.9 million every year. Interest expenses are expected to increase from Rs 1279.3 million in year 2010 to Rs 2166.9 million in the year 2014.

Hence, both banks show the increasing trend of deposit but NABIL is expected to increase more in near future in comparison to NBL.

Following figure no.4 represents the trend line of interest expenses of two banks for 10 respective years.

**Figure No. 4.12**

Trend line of Interest Expenses of NBL and NABIL



#### 4.3.6 Trend Analysis of Net Profit

The calculated value of average net profit is denoted by 'a' and rate of change of net profit denoted by 'b'. Trend values of net profit of two banks for 10 years from mid- July 2005 to mid- July 2014 are as follows:

**Table No 4.13**  
Trend Value of Net Profit of NBL and NABIL (Rs in million)

Banks	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>NBL</b> <b>a= 859.4</b> <b>b= - 264</b>	1387.4	1123.4	859.4	595.4	331.4	67.4	-196.6	-460.6	-724.6	-988.6
<b>NABIL</b> <b>a= 721.2</b> <b>b= 113.3</b>	494.6	607.9	721.2	834.5	947.8	1061.1	1174.4	1287.7	1401	1514.3

Sources: Appendix IV (vi)

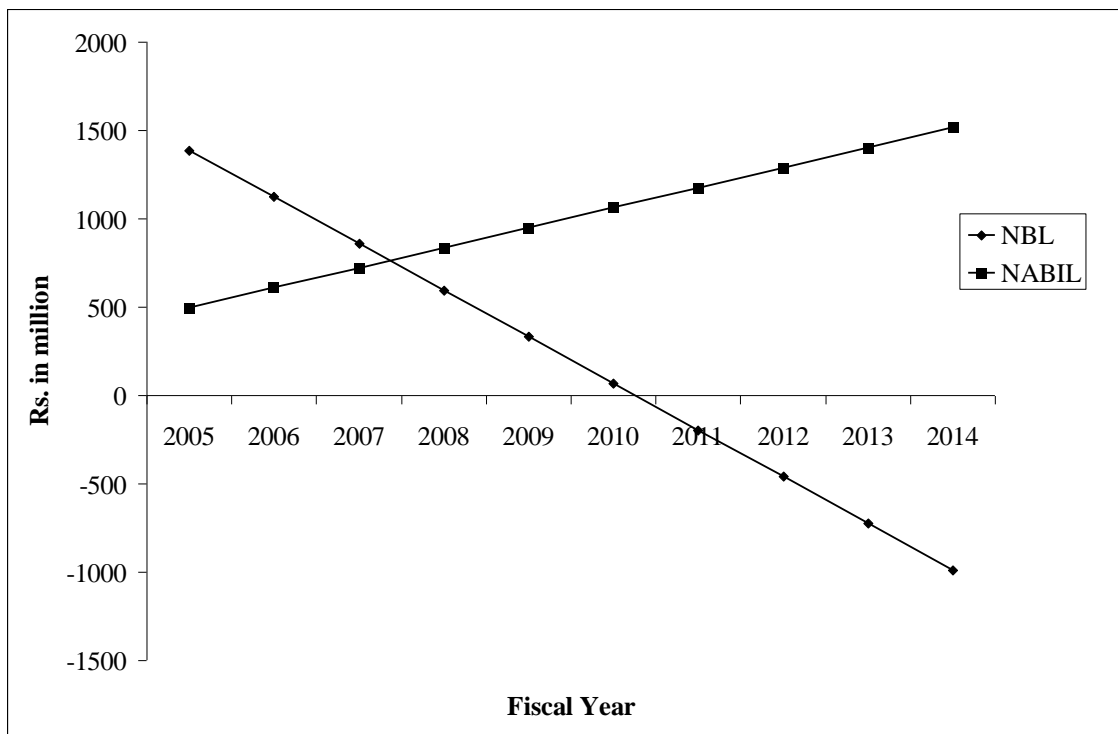
The table no.4.13 shows that NBL has decreasing trend but NABIL has increasing trend of net profit. The average net profit of NBL is Rs 859.4 million, which is decreasing at the rate of Rs 264 million every year. Net profit are expected to decrease from Rs 67.4 million in the year 2010 to Rs -988.6 million in the year 2014.

The average net profit of NABIL is Rs 721.2 million, which is increasing at the rate of Rs 113.3 million every year. Net profits are expected to increase from Rs 1061.1 million in year 2010 to Rs 1514.3 million in the year 2014.

Hence, it shows that there is decreasing trend of net profit in NBL and increasing trend of net profit in NABIL.

Following figure no.5 represents the trend line of net profit of two banks for 10 respective years.

**Figure No. 4.13**  
**Trend line of Net Profit of NBL and NABIL**



#### 4.4 Ratio Analysis

Ratio analysis is a widely used tool of financial analysis. Financial analysis is the act of identifying the financial strength and weakness of the organization presenting the relationship between the items of Profit & loss a/c and balance sheet.

Various financial ratios are presented and discussed to evaluate and analyze to the performance of NBL and NABIL. The ratios are designed and calculated to highlight the relationship between the items of Profit & loss a/c and balance sheet. It is a kind of mathematical relationship and procedure dividing one item by another. All these calculations are based on financial statements of the concerned banks. The important and needed financial ratios, which are to be calculated for the purpose of this study as mention in objective no. 1, are mentioned below:

- a) Assets management Ratio
- b) Management Efficiency Ratio
- c) Liquidity Ratio
- d) Profitability Ratio

#### **4.4.1. Assets Management Ratio**

Assets management ratio measures the efficiency of the bank to manage its assets in profitable and satisfactory manner.

Assets are the most vital factors in determining the strength of the bank .The major asset for the bank is loan and advances. This is the most risky assets item that needs crucial assessment. Banks collect funds in the form of capital, deposits, borrowing, etc. It mobilizes these funds to generate certain returns by giving loans and advances to the users of money to invest in various alternatives. Bank gives loan and advances in high volume from which higher interest is generated as well as there is high risk. **A significant part of the banks income is generated from the lending activities.** Basically there are two types of loan:

Performing Loan (PL): Performing loan is the loan in which the interest is paid timely or overdue up to 90 days. It is also known as good loan or pass loan.

Non-performing Loan (NPL): The loan which goes beyond the due date of 3 months falls under NPL. There are three types of NPL:

- Sub-standard NPL: Loans overdue by more than 3 months up to 6 months.
- Doubtful NPL: Loans overdue by more than 6 months up to 1 year.
- Bad Loan: Loans overdue by more than 1 year.

**Table-4.14**

## Classification of Loans and Provision

Classification of Loans	Provision Required
Good	1%
Sub-Standard	25%
Doubtful	50%
Bad loan	100%

Source: www.nrb.org.np

If loan is provided against personal guarantee only need to add 20% extra loan loss provision on previous category. If loan is swap than loan loss provision need to maintain according to previous categories. There are mainly three ratios that are checked to determine the quality of assets of these banks and these are as follows:

**4.4.1.1 Non-Performing Loan Ratio**

Non-performing loans to total loans and advances ratio determines the proportion of non-performing loans in the total loan portfolio. As per NRB directives the loan falling under category of substandard, doubtful and loss are regarded as non-performing loan. Higher ratio implies the bad quality of assets of banks in the form of loans and advances. Hence lower NPL to total credit ratio is preferred.

Non-performing loan consists of sub-standard, doubtful and bad loan. Higher NPL ratio shows bad management of assets. If the ratio is low it indicates a favorable credit management position.

$$\text{Total Non-performing loan (NPL in \%)} = \frac{\text{Total NPL}}{\text{Total Loans and Advances}} \times 100$$

**Table-4.15**Nepal & Nabil Bank Ltd.  
Non-Performing Loan Ratio

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2004/05	2005/06	2006/07	2007/08	2008/09			
<b>NBL</b>	49.64	18.18	13.49	13.11	4.94	19.87	15.48	77.91
<b>NABIL</b>	1.32	1.38	1.12	0.74	0.80	1.07	0.26	24.48

Sources: Appendix V (i)

The table 4.15 shows the ratio of non-performing loan to loan and advance of NBL and Nabil for five consecutive years. The figure represented in the above table no 4.15 shows that NBL has the highest ratio throughout the study period and also shows decreasing trend. NABIL shows the least ratio throughout the study period and shows fluctuating trend. Decreasing trend of NPL is the result of effective credit management of bank and its efforts of recovering bad debts through establishment recovery cell. The overall ratio has been ranged from 0.74% of NABIL in year 2007/08 to 49.64% of NBL in year 2004/05.

The average non-performing loan to total loan ratio of NBL and NABIL are 19.87% and 1.07%. The ratio of NBL is significantly high in comparison to NABIL and portrays the critical condition of the banks. It shows that NBL should manage to reduce this ratio in near future for the better performance of this bank. The average percentage of NPL to total loans and advances of NABIL is very low in comparison to NBL. It shows that NABIL's management is very good.

The standard deviation of NBL and NABIL are 15.48% and 0.26% and Coefficient of Variation (C.V.) is 77.91% and 24.48% respectively. Thus it signifies that NABIL has the least deviation as well as least degree of variation in comparison to NBL. Lower ratio indicates a favorable credit management policy. So, NABIL is more favorable than NBL because NABIL has least deviation and least variation of the ratio during the study period in comparison to NBL. Since NPL is one of the causes of banking crises, NBL and NABIL should give serious attention to this matter. NABIL shows most efficiently and effectively to manage its loan and advance. So the management of these banks should be serious to reduce the NPL.

#### **4.4.1.2 Loan Loss Provision Ratio:**

There is risk inherent in loans and advances, NBL has directed commercial banks to classify its loans into different categories and accordingly to make provision for possible loss. This ratio describes the quality of assets in the form of loans and advances that a bank is holding. Loan loss provision signifies the cushion against future contingency created by the default of the borrower in payment of loans and ensures the continued solvency of the banks. Since high provision has to

be made for non-performing loan, higher provision for loan loss reflects increasing non-performing loan in volume of total loans and advances. The low ratio signifies the good quality of assets in the volume of loans and advances. Higher ratio implies, higher portion of NPL in the total loan portfolio. This ratio indicates how efficiently it manages loan and advances and makes efforts to cope with probable loan loss.

So, this ratio depicts how much provision a bank has to create for its loan provided. It is the ability of the management to have sufficient provision for the non-performing loans. Lower the rates better the financial position and vice versa.

$$\text{Loan Loss Coverage Ratio (\%)} = \frac{\text{Total Loan Loss Provision}}{\text{Total Loan \& Advance}} \times 100$$

**Table-4.16**  
Nepal & Nabil Bank Ltd.  
Loan Loss Provision Ratio

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2004/05	2005/06	2006/07	2007/08	2008/09			
<b>NBL</b>	48.18	21.58	19.61	15.94	9.94	23.05	13.18	57.18
<b>NABIL</b>	3.30	2.68	2.24	1.81	1.46	2.30	0.65	28.26

Sources: Appendix V (ii)

The table no- 4.16 shows the ratio of loan loss provision to loans and advances of NBL and NABIL for five consecutive years. The figure represented in the above table 4.16 shows that NBL has the highest ratio throughout the study period and also shows the decreasing trend. NABIL has least ratio throughout the study period and this ratio shows decreasing trend. The overall ratio has been ranged from 1.46% of NABIL in FY 2008/09 to 48.18% of NBL in FY 2004/05.

The average loan loss ratio of NBL and NABIL are 23.05% and 2.30% respectively. The ratio of NBL is significantly high in comparison to NABIL. Higher LLP is indicative of poor and ineffective credit policy, higher proportion of non-performing assets and poor performance of the economy. Hence, the greater ratio of NBL suggests that there is high proportion of NPL in the total loans and advances. Decreasing trends of NABIL explains that the bank has been successful to reduce its non-performing loan resulting to decreasing LLP. NBL trend is also decreasing. So, NBL is improving to reduce its NPL and LLP.

The standard deviation of NBL and NABIL are 13.18% and 0.65% and C.V.S are 57.18% and 28.26% respectively. Thus it signifies that NBL has higher deviation as well as variation in this ratio in comparison to NABIL. It shows that NABIL has a better quality of loan in comparison to its competitor NBL.

#### 4.4.1.3 Loans and Advances to Total Deposit Ratio (C/D Ratio):

The ratio of loans and advances to total deposit measures the volume of loans and advances in the structure of total deposit. This ratio is calculated to find out how successfully the banks are utilizing their deposits on credit or loans and advances for profit generating purpose as loans and advances yield high rate of return. Greater loans and advances to total deposit ratio implies the better utilization of total deposits and better earning. It present the percentage of the credit disburses by the bank in respect to the deposit collected.

It is calculated as:

$$\text{C/D Ratio (\%)} = \frac{\text{Credit}}{\text{Total Deposit}} \times 100$$

**Table-4.17**  
Nepal & Nabil Bank Ltd.  
Credit to Deposit Ratio

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2004/05	2005/06	2006/07	2007/08	2008/09			
<b>NBL</b>	46.94	34.73	35.26	37.69	43.28	39.58	4.77	12.05
<b>NABIL</b>	75.05	68.64	68.13	68.18	74.97	70.99	3.28	4.62

Sources: Appendix V (iii)

The table no- 4.17 shows the loans and advances to total deposit of NBL and NABIL for five respective years. In FY 2005/06 the ratio of NBL has fallen by 12.21% from 46.94% in FY 2004/05 to 34.73% in FY 2005/06 and then increased to till last year and shows increasing trend. NABIL has decreasing trend from 2004/05 to 2006/07 and then slightly increased to till last year. The overall ratio of these banks has been ranged from 34.73% of NBL in 2005/06 to 75.05% of NABIL in 2004/05. NABIL has the highest ratio for the whole period in comparison to NBL

The mean ratio of NBL and NABIL are 39.58% and 70.99% respectively. Hence among these two banks NABIL has higher proportion of loans and advances

to total deposit in comparison to NBL. It signifies that NABIL has been ahead than NBL in utilizing depositor's money on loans & advances with the objectives to earn profit. This refers that NBL has low investment in the form of loan and advances. The standard deviation of NBL and NABIL are 4.77% and 3.28% and C.V.S. are 12.05% and 4.62% respectively. Thus it signifies that NBL has higher deviation with higher degree of variation in this ratio in comparison to NABIL. NABIL has higher C/D ratio than NBL which indicates that it has utilized most of its deposits. It has maintained its loans & advances more effectively and efficiently too so that its NPL is also very low. Lower C/D ratio is good from the depositors' side but bad from the perspective of bank.

In conclusion, NABIL has strong position regarding the mobilization of total deposit on loan ad advances and acquiring higher profit with compare to NBL. It states that NABIL is better in this regard.

#### **4.4.2 Management Efficiency Ratio:**

Management is the core part of any business or organization. The success of any institution depends on the competency of its management. It is a set of activities including planning, organization, and leading, staffing and controlling human resources, physical information with the aim of achieving an organization goal, efficiently and effectively in a changing environment. It is evaluated by checking the effectiveness of the board of directors, the management, manpower and the official operating expenditure, customer relation with the officials and institution management information system, organization and working method, internal control system, power concentration, monitoring, decision making process policies

An institution can take a desire momentum only when the management is capable of strong and long term vision. For the proper and efficient management, the banks have to possess the following qualities:

- Structure of management team should be sound and perfect
- Efficient & qualitative manpower and its productivity
- Healthy relationship between customers and organization
- Adequate management expenses
- Internal management should be perfect

- Fair decision making capability
- Proper communication system
- Working environment should be perfect.

Higher management efficiency of Nepal Bank Ltd. And Nabil Bank Ltd. shows more effectiveness of work in own organization and vice versa. Nabil, as the largest private bank in the country in terms of branch, ATM network, stands in a position to claim that it is the ‘Bank of 1<sup>st</sup> Choice’ to all its stakeholders due to its professional, highly educated and experienced, innovative, creative employee who always think to provide better services to their customers. Nepal Starting with 50 staff and now 2442 staff, Nabil has today 505 permanent employees due to its expansion of operation size and broad responsibilities of providing maximum services down to the grass-root levels.

$$\text{Management Efficiency Ratio (\%)} = \frac{\text{Net Profit after tax}}{\text{Total no. of Staff}} \times 100$$

**Table-4.18**

Nepal & Nabil Bank Ltd.  
Management Efficiency Ratio

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2004/05	2005/06	2006/07	2007/08	2008/09			
<b>NBL</b>	59.41	40.78	7.73	8.28	36.61	30.56	19.95	65.28
<b>NABIL</b>	122.07	143.99	157.85	179.33	204.16	161.48	28.33	17.54

Sources: Appendix V (iv)

Looking at the table-4.18, we can clearly see the difference between NBL and NABIL. NABIL staffs are earning significantly higher profit with much lesser number of staffs than NBL. In FY 2004/05 the ratio of NBL is 59.41% and has decreases in FY 2005/06 & 2006/07 and then increased to till the last year. In FY 2008/09 the ratio of NBL is increased to 36.61%. Nabil has increasing trend and reached to 204.16% in F.Y 2008/09 which shows employee contribution on net profit is the highest. Management efficiency ratio of Nabil is receptively much

higher than NBL. The overall ratio has been ranged from 7.73% of NBL in 2006/07 to 204.16% of NABIL in 2008/09

The average ratio of NBL and NABIL are 30.56% and 161.48% respectively. Since NABIL's net profit is the highest among all the banks. So, its average is much higher than NBL. The standard deviation of NBL and NABIL are 19.95% and 28.33% and C.V. are 65.28% and 17.54% respectively. Hence NBL has lesser deviation and much higher C.V. degree of variation in comparison to its competitor NABIL.

We can safely conclude that management of Nabil has been able to increase its net profit in a constant and sustainable manner over a period of time and considered as efficient and successful. In management analysis corporate governance factor also plays a vital role in management efficiency. Management must work to maximize shareholders' value in any organization. There must be a clear line between management and shareholders in terms of authority, responsibility and accountability level.

#### **4.4.3 Liquidity Ratio**

Liquidity ratio measures the ability of the firm to meet its current obligations. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community. Demand for the deposits, with draws, pay maturity in time and convert non-cash assets into cash to satisfy immediate need without loss to bank and consequent impact or long run profit. These banks are said to be in liquidity position when it is prompt in matching various payments to the depositors or other commitments based on its business operations. There are mainly two ratios that are checked to determine the liquidity position of these banks and these are as follows:

##### **4.4.3.1 Cash & Bank Balance to Total Deposit**

Cash and bank balance is said to be the first defense of every banks. The ratio shows the percentage of deposit maintained as liquid assets. This ratio is maintained to meet any unexpected demand of the depositors. A higher ratio represents a greater ability to meet any unexpected demand made by the depositors.

If the bank is not able to maintain adequate amount of deposit it cannot operate the day to day transactions. Keeping idle cash is not desirable as it blocks the capital. Therefore, this ratio is designed to measure the banks ability to meet the immediate obligation.

It is calculated as:

$$\text{Cash and bank balance to total deposit ratio (\%)} = \frac{\text{Cash \& Bank Balance}}{\text{Total Deposit}}$$

**Table-4.19**

Nepal & Nabil Bank Ltd.  
Ratio of Cash & Bank Balance to Total Deposit

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2004/05	2005/06	2006/07	2007/08	2008/09			
<b>NBL</b>	17.14	20.02	18.24	15.82	20.29	18.30	1.70	9.29
<b>NABIL</b>	3.83	3.26	5.99	8.37	9.03	6.10	2.32	37.03

Sources: Appendix V (v)

With the table no-4.19, it is apparent that NBL has high cash & bank balance ratio than NABIL. The cash & bank balance ratio of NBL has increases from FY 2004/05 to 2005/06 and decreases from FY 2005/06 to 2007/08 and again increases to 20.29% in FY 2008/09..NABIL has increasing trend till last year. But in FY 2005/06 it has slightly decreased and then increased to till last year. The cash and bank balance of NABIL with Nepal Rastra Bank and other banks & financial institutions is increasing. It increases to 9.03% in year 2008/09 to meet the demand of depositors. The overall ratio has been ranged from 3.26% of NABIL in year 2005/06 to 20.29% of NBL in the FY 2008/09.

In average, NABIL has maintained lower cash & bank balance to total deposit ratio than NBL i.e. 6.10% < 18.30% respectively. It states that cash and bank balance in liquidity position of NABIL is lower than NBL. The standard deviation of NBL and NABIL are 1.70% and 2.32% and C.V. are 9.29% and 37.03% respectively. Thus it signifies that NABIL has higher deviation as well as variation in comparison to NBL. So that NABIL shows the less consistent than that of its competitor NBL. However, it also points out that NABIL has used its funds on lending activities instead of keeping it in vault.

Comparatively NABIL has maintained low ratios, it shows some difficulties to meet the demand of its customers on their deposit to pay at any time but it may be earning more by investing cash to different sectors. But it should ensure to have enough liquid funds to serve its customer.

#### 4.4.3.2 Government Securities to Total Deposit

Government security is a risk free security. All the resources of a bank are not used as loan and advances. Banks mobilize its fund in various ways. To some extent commercial bank seems to utilize its fund by purchasing government securities. The banks instead of keeping their funds idle invest in various government securities such as Treasury bill and Bonds that are liquid in nature as they are easily convertible into cash anytime.

A government security is a safe medium of investment though it is not liquid as cash and bank balance. This ratio is very important to know the extent to which the banks are successful in mobilizing their total fund or different types of government securities to maximize its income. A high ratio indicates better mobilization of funds as investment on government securities is a current asset which is invested by external parties. These types of securities can be sold in the market.

Investment in government securities to total deposit ratio (%)

$$= \frac{\text{Total Investment in Govt. Securities}}{\text{Total Deposits}} \times 100$$

**Table-4.20**

Nepal & Nabil Bank Ltd.

Ratio of Govt. Securities to Total Deposit

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2004/05	2005/06	2006/07	2007/08	2008/09			
<b>NBL</b>	31.39	32.87	33.90	30.88	23.45	30.50	3.68	12.07
<b>NABIL</b>	16.58	11.89	20.60	14.56	9.92	14.71	3.72	25.29

Sources: Appendix V (vi)

From the table no- 4.20, it is obvious that NBL is making significantly large investments in Govt. securities than NABIL. In case of NBL, it has followed increasing trend from FY 2004/05 to 2006/07. Thereafter it has decreasing trend till the last year. On the other hand, NABIL has decreased its investment from FY 2004/05 to 2005/06 and increases from FY 2005/06 to 2006/07 and again decreases from FY 2006/07 to 2008/09 and has fluctuating trend. The overall ratio has been ranged from 9.92% of NABIL in year 2008/09 to 33.90% in the year 2006/07.

The mean ratio of NBL and NABIL are 30.50% and 14.71% respectively. Since NBL has higher ratio than NABIL. The standard deviation of NBL and NABIL are 3.68% and 3.72% and C.V. is 12.07% and 25.29% respectively. Thus it signifies that NBL has the least deviation with the least degree of variation in this ratio than NABIL. The investment of deposit in Government securities is fluctuating in NABIL. In FY 2008/09, the ratio is decreased to 9.92% in NABIL which shows the low liquidity position. Nabil invests its deposit in risky sector to earn more profit.

From the analysis, it can be concluded that fund mobilization in terms of government securities with respect of total deposit of NBL is more satisfactory and consistent than that of NABIL. And NABIL is less satisfactory and less homogeneous.

#### **4.4.4 Profitability Ratio**

Profit is the back bone of the financial institutions and commercial banks. The main objective of a commercial bank is to earn profit providing different types of banking services to its customers. To meet various objectives like to have a good liquidity position, meet fixed internal obligation, overcome the future contingencies, grab hidden investment opportunities, expand banking transactions in different places and finance government in need of development funds etc, a commercial bank must earn sufficient profit.

Profitability ratios are the best indicators of overall efficiency. Here mainly those ratios are presented and analyzed which are related with profit as well as investments. An effort has been made to measure the profit earning capacity of NBL and NABIL through the following ratios.

#### 4.4.4.1 Return on Assets (ROA):

It measures the productivity of the assets. It measures how efficiently the assets are utilized and mobilized to earn profit. This ratio judges the effectiveness in using the total fund supplied by the owners and creditors. This ratio measures the bank's profitability with respect to total assets. Return will be higher if the banks working fund is well managed and are efficiently utilized, maximizing taxes with in legal options available will also improve the return. Higher ratio shows the higher return on the assets used in the bank thereby indicating effective use of the resources available and vice versa. It is calculated in terms of relationship between net profit and assets.

$$\text{ROA (\%)} = \frac{\text{Net Profit after tax}}{\text{Total Assets}} \times 100$$

**Table –4.21**  
Nepal & Nabil Bank Ltd.  
Return on Assets

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2004/05	2005/06	2006/07	2007/08	2008/09			
<b>NBL</b>	3.68	3.36	0.58	0.57	1.88	2.01	1.32	65.67
<b>NABIL</b>	3.05	2.84	2.47	2.01	2.35	2.54	0.37	14.57

Sources: Appendix V (vii)

The table- 4.21 shows the ratio of return on total assets of NBL and NABIL for five consecutive years. The figure represented in the above table no 4.21 shows that NBL has the highest and lowest ratio through out the study period. NBL has decreasing trend from FY 2004/05 to 2007/08 and then increased to 1.88% in FY 2008/09 .NABIL has followed decreasing trend from FY 2004/05 to 2007/08 and it increases in FY 2008/09. The overall ratio has been ranged from 0.57% of NBL in year 2007/08 to 3.68% of NBL in the year 2004/05.

The mean ratio of NBL and NABIL are 2.01% and 2.54%. Since Nabil's net profit is much higher than NBL. So, NABIL is highly efficient to earn net profit and return as well. The standard deviation of NBL and NABIL are 1.32% and 0.37% and C.V.S. is 65.67% and 14.57% respectively. NABIL has the least deviation with the least degree of variation in this ratio than NBL. In F.Y 2008/09,

ratio of NBL and NABIL are increasing to 1.88% and 2.35%. It shows that it is effectively mobilizing its assets.

From the above analysis it can be concluded that NABIL is in strong position in the earning capacity by utilizing available resources than NBL. It's more consistent and homogeneous than NBL.

#### 4.4.4.2 Return on Loans and Advances

Return on loan & advances ratio measures the earning capacity of a commercial bank on its mobilized fund based loan and advances. This ratio indicates how efficiently the bank has employed its resources in the form of loans and advances. A high ratio indicates a greater success to mobilize fund and vice versa.

$$\text{Return on Loan \& Advances Ratio (\%)} = \frac{\text{Net Profit}}{\text{Loan \& Advances}}$$

**Table-4.22**  
Nepal & Nabil Bank Ltd.  
Return on Loans and Advances (%)

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2004/05	2005/06	2006/07	2007/08	2008/09			
<b>NBL</b>	10.26	9.70	1.65	1.52	4.57	5.54	3.79	68.41
<b>NABIL</b>	4.75	4.78	4.24	3.43	3.68	4.18	0.55	13.16

Sources: Appendix V (viii)

The table no- 4.22, shows the ratio of return on loans and advances on NBL and NABIL for five consecutive years. The figure represented in the above table no- 4.22 shows that NBL has followed decreasing trend from FY 2004/05 to 2007/08 and it increases in FY 2008/09. NABIL has increases from FY 2004/05 to 2005/06 and decreases from FY 2005/06 to 2007/08 and again increases in 2008/09 and has fluctuating trend. NBL has the highest and lowest ratio throughout the study period. The overall ratio has been ranged from 1.52% of NBL in 2008 to 10.26% of NBL in 2005.

The mean ratio of NBL and NABIL are 5.54% and 4.18% respectively. Since NBL has higher mean ratio in comparison to NABIL. The standard deviation of NBL and NABIL are 3.79% and 0.55% and C.V.S. are 68.41% and 13.16%

respectively. Thus it signifies that .NBL has the higher deviation with higher variability during the study period in comparison to NABIL.

Thus it can be concluded that even though NBL has the highest exposure on loans and advances, the bank’s management is very weak to earn return on loans and advances. C.V of NABIL is less than that of NBL. So NABIL has maintained high return with variability ratios. Hence, NABIL is significantly able to earn high return on its loan and advances in comparison to NBL is point of view of average mean & low C.V ratio.

#### 4.4.4.3 Interest Income to Total Income

It reflects that the extent to which the bank is successful to earn interests as major income on Total Income Higher the ratio higher will be the earning power of total Income. This is the ratio that shows the relation between Interest Income to Total Income.

$$\text{Interest Income to Total Income (\%)} = \frac{\text{Interest Income}}{\text{Total Income}} \times 100$$

**Table-4.23**  
Nepal & Nabil Bank Ltd.  
Ratio of Interest Income to Total Income

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2004/05	2005/06	2006/07	2007/08	2008/09			
<b>NBL</b>	47.64	47.38	71.01	70.23	65.48	60.35	10.65	17.65
<b>NABIL</b>	72.13	74.81	75.91	79.07	81.55	76.69	3.29	4.,29

Sources: Appendix V (ix)

The comparative table- 4.23 reveals that NBL has fluctuating trend and NABIL has increasing trend during the study period. . It shows in every fiscal year interest income cover the large amount of revenue. It is in increasing trend which shows that the interest charge by Nabil is increasing for loan and advances.

On the basis of mean ratios NBL is less than NABIL i.e. 60.35<76.69 in respect to interest income to total income. On the other hand, C.V of NABIL is less than that of NBL.

From the above analysis, it can be concluded the NABIL is in strong position is earning high interest income from its total income in comparison to NBL

is view point of mean & C.V ratio. Moreover, NABIL is comparatively efficient to earn high interest income from total income than NBL.

#### 4.4.4.4 Net Profit Ratio

This ratio establishes a relationship between net profits to total income and shows the efficiency of management to earn net profit through income. The ratio helps to determine the operational efficiency of the management. Higher the ratio shows the higher efficiency of the management and vice versa.

$$\text{Net Profit Ratio (\%)} = \frac{\text{Net Profit after Tax}}{\text{Total Income}} \times 100$$

**Table-4.24**  
Nepal & Nabil Bank Ltd.  
Net Profit Ratio

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2004/05	2005/06	2006/07	2007/08	2008/09			
<b>NBL</b>	41.48	27.91	8.72	8.01	21.71	21.58	12.53	58.06
<b>NABIL</b>	35.09	36.26	32.22	29.80	30.05	32.68	2.61	7.99

Sources: Appendix V (x)

The table no- 4.24 shows the ratio of net profit on total revenue of NBL and NABIL for five consecutive years. The figure represented in the table no- 4.24 shows that NBL has followed decreasing trend from FY 2004/05 to 2007/08 and it increases in year 2008/09. NBL has the highest and lowest ratio through out the study period. NABIL has increases from FY 2004/05 to 2005/06 and decreases from FY 2005/06 to 2007/08 and again increases in 2008/09 and has a fluctuating trend. The overall ratio has been ranged from 8.01% of NBL in 2007/08 to 41.48 % of NBL in 2004/05.

The mean ratio of NBL and NABIL are 21.58% and 32.68% respectively. Since the Nabil has higher mean ratio in comparison to NBL. The standard deviation of NBL and NABIL are 12.53% and 2.61% and C.V. is 58.06% and 7.99% respectively. Thus it signifies that NBL has higher deviation as well as variation in comparison to NABIL. In the F.Y 2008/09, net profit ratio of NBL is increased by 21.71% in NBL and 30.05% in NABIL. The net profit should be

capable for covering all the operating expenses and also should leave sufficient amount of profit for the owners that has been fulfilled by the these banks performance.

Hence, net profit ratio of NABIL is much better than NBL. Higher net profit ratio of NABIL indicates that the profitability of NABIL is good or higher the ratio shows the higher efficiency of the management and vice versa.

## 4.5 Correlation Analysis

### 4.5.1 Correlation between Interest Income and Loans & advances

Correlation measures the relationship between two dependent and independent variable. The correlation between interest income and loans & advances shows the degree of relationship between these two items. How a unit increases in loans & advances impact the volume of interest income is measured by this correlation. Here loans & advances is independent variable and interest income is dependent variables.

**Table-4.25**  
Correlation between Interest Income and Loan & Advances

S.No	Name of company	Correlation Coefficient (r)	Probable Error (P.E)	6P.E.
1	Nepal Bank Ltd.	0.78	0.1181	0.7086
2	Nabil Bank Ltd	0.99	0.0060	0.036

Sources: Appendix VII (i)

The table no-4.25 shows the relationship between interest income and loans & advances. Here correlation coefficient of NBL and NABIL are 0.78 and 0.99, shows that there is significant (very high) positive correlation between interest income and loans & advances. The respective value of correlation coefficient of NBL and NABIL, which are greater than 6 times the value of their respective probable error. Thus, it can be interpreted that the correlation between these two variables in NBL and NABIL are certain and significant. That means an increase in volume of interest income leads to increment in loans & advances of NBL and NABIL. Again, a lower and upper limit of population correlation coefficient of NBL is 0.6619 & 0.8981 and NABIL is 0.984 and 0.996 respectively.

Hence, correlation coefficient of NABIL is higher than NBL but there is significant (very high) positive correlation between interest income and loan & advances or interest income and loans and advances are strongly correlated to each other in NBL & NABIL. So, if loan & advance is increased then interest income is also increased. To increase the interest income, it is necessary to increase loan & advance.

#### 4.5.2 Correlation between Interest Expenses and Deposit

Here Deposit is independent variable and interest expenses are dependent variable. The correlation between interest expenses and deposit describes the degree of relationship between these two variables. Hence how a unit increases in deposit impact in the interest expenses is measured by this correlation coefficient.

**Table-4.26**  
Correlation between Interest Expenses and Deposit

S.No	Name of company	Correlation Coefficient (r)	Probable Error (P.E)	6P.E.
1	Nepal Bank Ltd.	0.78	0.1181	0.7086
2	Nabil Bank Ltd	0.98	0.0119	0.0714

Sources: Appendix VII (ii)

The statistical table 4.26 clearly demonstrates that the degree of relationship between Interest Expenses and Deposit seems to be significant in NBL and NABIL. We can clearly see that the correlation coefficient of NBL and NABIL are 0.78 and 0.98 respectively. Therefore,  $r = 0.78$  of NBL and  $0.98$  of NABIL shows that there is significant (very high) positive correlation between interest expenses and deposit. Which is greater than 6 times the value of their respective probable error. Thus it can be interpreted that the correlation between these two variables in these banks is certain and significant. So, if deposit is increased then interest expenses also increase. Which it shows that the increase in the value of deposit by 0.78 unit in NBL and 0.98 unit in NABIL causes to increase 1 unit value of Interest expenses. Hence, there exists high degree of positive correlation in NBL and NABIL. Such an increasing value of interest expenses with deposit is healthy indicator of the financial activities of companies in the least developed countries like Nepal.

In other words, if independent variables (Deposit) increase then it causes to increase dependent variable (Interest Expenses) by 1 unit and vice-versa in case of positive correlation. Again if independent variable (Deposit) decreases then it causes to decrease dependent variable (Interest expenses) by 1 unit and vice-versa in case of negative correlation.

#### 4.5.3 Correlation between Net Profit and Total Assets

Correlation between net profit and total assets shows the degree of relationship between these two variables. Here total asset is independent variable and net profit is dependent variable. How a unit increases in total assets impact in net profit is measured by this correlation coefficient.

**Table-4.27**

Correlation between Net Profit and Total Assets

S.No	Name of company	Correlation Coefficient (r)	Probable Error (P.E)	6P.E.
1	Nepal Bank Ltd.	0.32	0.2708	1.6248
2	Nabil Bank Ltd	0.95	0.0294	0.1764

Sources: Appendix VII (iii)

The table no 4.27 shows the relationship between net profit and total assets. Here both banks have positive correlation between net profit and total assets. That means increment in total assets leads to increment in net profit. The correlation coefficient of NBL and NABIL are 0.32 and 0.95 respectively. The correlation coefficient of NBL is 0.32 shows that there is low positive correlation between net profit and total assets. It is less than six times the value of P.E. but higher than the value of P.E. Hence there is low positive correlation between net profit and total assets of NBL but the correlation coefficient is not significant.

The correlation coefficient of NABIL is 0.95. shows that there is significant (very high) positive correlation between net profit and total assets. Since correlation coefficient (r) is greater than 6 times the value P.E, the correlation coefficient is significant and reliable. In other words, the net profit of this bank is highly correlated with total Assets during the study period and the increase in net profit of these banks is due to increase in total Assets of NABIL. Again, lower and upper limit of NBL is 0.0492 and 0.5908 and that of NABIL is 0.9206 and 0.9794 respectively.

Hence, there is low positive correlation between net profit and total asset in NBL and there is significant (very high) positive correlation between net profit and total asset in NABIL. So it is necessary to utilize its total Assets more effectively and efficiently to increase net profit.

#### 4.5.4 Correlation between Loans & Advances and Deposits

The correlation between deposit and loans and advances shows the degree of relationship between these two variables. How a unit increases in deposit impact in the volume of Loans and Advances is measured by this correlation. Here deposits are independent variable and loans and advances are dependent variables.

**Table-4.28**

Correlation between Loans & advances and deposits

S.No	Name of company	Correlation Coefficient (r)	Probable Error (P.E)	6P.E.
1	Nepal Bank Ltd.	0.70	0.1538	0.9228
2	Nabil Bank Ltd	0.99	0.0060	0.036

Source: Appendix VII (iv)

The table no 4.28 shows the relationship between loans and advances and deposit. Here both banks have positive correlation between deposit and loans & advances. That means increment in deposits leads to increment in loans & advances. The correlation coefficient of NBL and NABIL are 0.70 and 0.99. The correlation coefficient of NBL is 0.70. It is less than six times the value of P.E. but higher than the value of P.E. Since  $P.E. < r < 6 P.E.$ , nothing can be concluded.

The respective value of correlation coefficient of NABIL is 0.99 which is greater than 6 times the value of their respective probable error. Hence it can be interpreted that the correlation between these two variables in NABIL is certain and significant. That means increase in volume of deposits leads to increment in loans and advances of NABIL. Again, lower and upper limit of correlation coefficient of NBL are 0.5462 and 0.8538 and that of NABIL are 0.984 and 0.996 respectively.

Hence, there is high positive correlation between loans and deposits in NBL and significant (very high) positive correlation between loans and deposits in NABIL. So if bank collects high deposit then only it can grant loan.

#### 4.5.5 Correlation between Net Profit and Loans & Advances

Here loans and advances is independent variable and net profit is dependent variable. The correlation coefficient between net profit and loan & advances describes the degree of relationship between these two variables. Hence how a unit increases in loan and advances impact in the net profit is measured by this correlation coefficient.

**Table-4.29**

Correlation between Net Profit and Loan & Advance

S.No	Name of company	Correlation Coefficient (r)	Probable Error (P.E)	6P.E.
1	Nepal Bank Ltd.	0.16	0.2939	1.7634
2	Nabil Bank Ltd	0.97	0.0178	0.1068

Sources: Appendix VII (v)

The table no 4.29 clearly shows the relationship between net profit and loans & advances. Here both banks have positive correlation between net profit and loans & advances. That means increment in loans and advances leads to increment in net profit .The correlation coefficient of NBL and NABIL are 0.16 and 0.97 respectively. The correlation coefficient of NBL is 0.16 shows that there is insignificant (very low) positive correlation between Net Profit and loan & advances in Nepal Bank Ltd. It is less than six times the value of P.E. but lesser than the value of P.E. we conclude that r is insignificant no matter how high r value is. Hence there is positive correlation between net profit and loans & advances, but the correlation coefficient is not significant.

The correlation coefficient of NABIL is 0.97 shows that there is significant (Very high) positive correlation between Net Profit and loan & advances in Nabil Bank ltd. Since correlation coefficient (r) is greater than 6 times the value of P.E, the correlation coefficient is significant and reliable. In other words, the net profit of this bank is highly correlated with the total loans and advances during the study period and the increase in net profit of this bank is due to increase in total loans and advances of NABIL. Again, lower and upper limit of correlation coefficient are -0.1839 and 0.4039 in NBL and that of NABIL is 0.9522 and 0.9878 respectively.

Hence, there is no evidence of correlation between Net profit and loan & advances in Nepal Bank Ltd and significant (very high) positive correlation between Net Profit and loans & advances in Nabil Bank Ltd. In other words, the net profit of NABIL is highly correlated with the loans & advances during the study period and the increase in net profit of this bank is due to increase in loans and advances of this bank.

#### 4.4 Regression Analysis

Simple regression analysis of Net profit on loans and advances of NBL and NABIL by Using the Method of t-Test:

Regression Equation of Net profit = a + b Loans & Advances

Null Hypothesis ( $H_0$ ):  $\rho = 0$  that is population correlation coefficient is zero. In other words, the variable are insignificantly correlated in the population i.e. 'r' is not significant of correlation in the population.

Alternative Hypothesis ( $H_1$ ):  $\rho \neq 0$  that is population correlation coefficient is not zero. In other words, the variable are significantly correlated in the population i.e. 'r' is significant of correlation in the population.

**Table No: - 4.30** Simple Regression Analysis of Net Profit on loans & advances.

Banks	Regression Coefficient		$R^2$	F- Value	t- value	Tabulated Value (t)	Result
	Intercept (a)	Slope (b)					
NBL	242.825	.039	0.028	.088	.297	3.182	Insignificant
NABIL	238.510	.027	0.936	43.981	6.632	3.182	Significant

Source: SPSS program / Appendix VIII (i-ii)

The table 4.30 depicts the major output of simple regression between net profit and loans and advances of the sampled companies by using the method of t-test. The regression coefficient (b) of NBL and NABIL are positive of 0.039 and 0.027 respectively. They indicate that there exists positive relationship between net

profit and loans & advances which demonstrate that if loans and advances (independent variable) increase by 0.039 and 0.027 units then it leads to increase net profit by 100% and vice-versa. In case of slope if one variable increase than other variable also increase.

The prediction of Net Profit is weak for NBL & strong for NABIL because the respective coefficient of determination ( $r^2$ ) is 0.028 and 0.936 which indicates that the change in net profit is due to change of loans & advances are 0.028 and 0.936 units respectively and the remaining variables are due to the effect of other factor. Similarly the coefficient of determination ( $R^2$ ) of NBL is low and NABIL is high, it shows that high and low variables. The F-values and t-values is insignificant in NBL indicating the regression equation is unsatisfied explanation of variation but that of NABIL is significant indicating the regression equation is satisfied explanation of variation

In case of t-test, the calculated value of  $t <$  tabulated value of  $t$  in case of NBL which indicates that the relationship is not statistically significant of  $t$  at 0.05 level of significance and their  $H_0$  is accepted. The acceptance of Null Hypothesis shows that net profit and loans and advances are not significantly correlated such a situation is not a healthy indicator for the entire sector in the country.

An exceptional case is recorded in the case of NABIL where the calculated value  $t >$  tabulated value of  $t$  at 0.05 level of significance and their  $H_1$  (Alternative Hypothesis) is accepted in this case of NABIL. It shows that net profit and loans and advances are significantly correlated which can be recognized as a positive indicator of the development of the entire sector in the country.

#### **4.7 Major Findings of the Study**

Having completed the basic analysis required for this study, the final and the most important task of the researcher is to enlist the findings. This will give meaning to the desired result. A comprehensive summary of the major findings of this study is presented below;

## Commercial Banking Activities

- Customers' deposit is the most important financial source of NBL and NABIL to provide the continued credit service. It is an increasing trend except in the fiscal year 2005/06 of NBL. In the FY 2008/09, it has Rs 45194 million in NBL and Rs. 37348 million in NABIL that is increased by 8.04% and 17.02% respectively. So, NBL has higher customer deposit in comparison to NABIL. Hence percentage of change in both banks are in increasing trend except in year 2005/06 of NBL.
- Investment pattern of NBL and NABIL are increasing every year except in FY 2008/09 which is decreased by 19.15% in NBL. It means bank is diverting its funds towards loans and advances to the customers by reducing its investments in year 2008/09 of NBL. But rate of investment in NBL is more than NABIL. NABIL has increasing trend of investment
- Loans and advances are increasing every year in NABIL. NBL is also increasing except in F.Y. 2005/06 which is decreased by 26.23%. In FY 2008/09, it is increased by 24.07% in NBL and 28.68% increased by in NABIL. The decreasing trend of NPL is due to its efforts towards recovering bad debts. Hence, percentage of change in loans and advances of both banks are in increasing trend except in year 2005/06 of NBL. This indicates that bank's application of funds is done mainly as advances to the customers, which in turn results in higher interest earnings to the bank.
- Interest is main source of revenue. NABIL has higher interest income in year 2008/09 in comparison to NABIL. Due to large expansion of loans and advances to diversify sectors with proper evaluation and study of loan disbursement and collection; it is able to increase its interest income which covers large revenue collection of these banks. It is in increasing trend except 2006/07 of NBL. In the FY 2008/09, NBL and NABIL are increased by 28.40% & 41.38 % and reached to Rs.2690 million in NBL and 2798 million in NABIL. Hence,

percentage change of NBL & NABIL has increasing trend except in year 2006/07 of NBL.

- NBL has higher interest expenses in first four financial years in comparison to NABIL. But in the FY 2008/09 NABIL have higher interest expenses than NBL. It shows that the large amount is paid to customer that is increasing every year in NABIL but an interest expense of NBL has increasing trend except 2006/07. It shows Interest Expenses has the major expenditure of Profit and Loss account and this was the directly effect to the Net Profit of the P&L account. In the FY 2008/09 its expenses on interest is Rs.792 million in NBL & 1153 million in NABIL which is increased by 2.46% in NBL & 52.11% in NABIL. Hence percentage change in interest expenses of both banks has increasing trend except 2006/07 of NBL.
- Net profit of Nabil bank ltd is always increasing due to its efficiency of management, innovative products and fast, trusted services. Percentage change in net profit of NABIL is in increasing trend in all the study period and that of NBL is in increasing trend except in year 2006 & 2007. Decreasing Net Profit trend arises due to increasing Interest Expenses. It shows Interest Expenses is directly influence on Net Profit. In FY 2008/09, it is increased by 274.06% in NBL and 38.20% in NABIL and reached to Rs.894 million and 1031 million. Hence, Nabil got a huge profit as compared to its competitor NBL.

### **Trend Analysis**

- Calculating the trend analysis is based on the data of five years and forecast was made for next five years. The trend analysis of Deposit is expected to increase in coming years of the two banks. Deposit of the NBL and NABIL is increasing every year by Rs 2451.9 and Rs 5809 million respectively. Among them, NABIL has higher rate of increment in comparison to NBL.

- From the trend analysis of investment, it is found that investment is expected to increase in coming years of the two banks. Investment of the NBL and NABIL is increasing every year by Rs 47.9 million and Rs 1688 million respectively. So, we can clearly see that NABIL has higher rate of increment in comparison to NBL.
- From the trend analysis of loans and advances, it is found that loans and advances shows increasing trend in regards to NBL & NABIL. The loans and advances of NBL is increasing at the rate of Rs 870.9 million each year and of NABIL is increasing at the rate of Rs 4258.4 million and there was further investment in the form of loans and advances. Hence its loans & advances shows increasing trend.
- From the trend analysis of interest income, it is found that interest income is expected to increase in coming years of the two banks. Interest Income of the NBL and NABIL is increasing every year by Rs 145.2 million and Rs 412.7 million respectively. So, we can clearly see that NABIL has higher rate of increment in comparison to NBL.
- From the trend analysis of interest expenses, it is found that interest expenses are expected to increase in coming years of the two banks. Interest expenses of the NBL and NABIL is increasing every year by Rs 8.5 million and Rs 221.9 million respectively. So, we can clearly see that NABIL has higher rate of increment in comparison to NBL.
- From the trend analysis of net profit, it is found that net profit is expected to decrease and increase in coming years of NBL and NABIL. Net profit of the NBL is decreasing every year by Rs 264 million and NABIL is increasing every year by Rs 113.3 million. Hence, NABIL got a huge profit in comparison to NBL. Management of NBL must be careful in near future to increase its profit because it has decreasing trend of net profit.

## **Ratio Analysis**

### **Assets Management Ratio (Activity Ratio)**

The major asset for the bank is loan and advances. A significant part of the banks income is generated from the lending activities. The assets management ratio of NBL and NABIL reveals that.

- From the analysis of non-performing loan ratio it is found that the average ratio, co-efficient of variation of provision held to NPL of NBL has the significantly higher ratio in comparison to NABIL, which portrays that the bank has adequate provision against NPL but this ratio of NABIL is comparatively lower. NBL has provided required provision on each category of NPL as per NRB directive, it has not enough provision against NPL if all the NPL goes default. The average rate of NPL to total loan and advances is very low in NABIL. It shows that NABIL management is very good.
- Loan loss provision ratio of NBL and NABIL are in decreasing trend because of granting good loan. Average ratio and co-efficient of variation of NBL is higher than NABIL. So the greater ratio of NBL suggests that there is high proportion of NPL in the total loans and advances. Decreasing trend of NABIL explain that the bank has been successful to reduce its non-performing loan resulting to decreasing LLP.NBL trend is also decreasing .So NBL is also improving to reduce its NPL & LLP.
- In over all mean ratio of loan & advances to total deposit of NABIL is higher than that of NBL. In case of co-efficient of variation of these banks, NABIL has 4.62%, which is comparatively lower than NBL i.e. 12.05%. It signifies that NABIL has been ahead than NBL in utilizing depositor's money on loan & advances with the objectives to earn profit.
- From the above findings it helps to conclude that NABIL is comparatively successful on its balance sheet operation as compared to NBL. It predicts that NABIL has successfully maintained and managed its assets towards different income generating activities.

### **Management efficiency Ratio**

- NABIL shareholders are earning significantly higher profit with much lesser number of staffs than NBL.NABIL net profit is the highest among all banks.

So; its mean deviation is much higher than NBL. A staff contribution of NABIL in net profit is increasing trend due to experienced, trained and highly educated employees. Co-efficient variation of NBL is higher than NABIL. So low –management must work hard to maximize shareholders value in any organization.

### **Liquidity Ratio**

The liquidity position of NBL and NABIL reveals that:

- The mean ratio of cash and bank balance to total deposits of NABIL is lower than NBL. It states that cash and bank balance in liquidity position of NABIL is lower than NBL. But NABIL has higher deviation as well as variability than NBL. Ratio of NABIL shows is less consistent than that of NBL. The ratio also reflects NBL liquidity position, which is stronger in comparison to NABIL. However, it also point out that NABIL has used its funds on lending activities instead of keeping it in vault.
- The mean ratio of investment in government securities to total deposit of NBL is higher than NABIL. The variability of ratios is lower than that of NABIL. However NABIL seems to have more variable ratios than that of NBL.

### **Profitability Ratio**

The profitability ratio of NBL and NABIL, reveal that:

- Return on asset ratio measures the bank profitability with respect to total assets. Average ratio of NABIL is higher in comparison to NBL. But NBL has higher deviation as well as variability than NABIL. Ratio of NABIL shows that it is effectively mobilizing its assets. On the other hand NABIL is more consistent and homogeneous than NBL.

A return of 10% is normally considered an ideal ratio. As the return is less than 10%, it indicates lower productivity of resources.

- The mean ratio of return on loans and advances of NBL is higher than NABIL and NABIL is more consistent than NBL.
- The mean ratio of Interest Income to Total Income of NABIL is higher than NBL. The variability of the ratio of NABIL is higher in comparison to NBL. It is an increasing trend which shows that the interest charge by Nabil is

increasing for loan and advances. On the other hand, C.V of NABIL is less than that of NBL. it can be concluded the NABIL is in strong position in earning high interest income from its total income in comparison to NBL is view point of mean & C.V ratio. So, large amount of total income is covered by only interest income. Moreover, NABIL is comparatively efficient to earn high interest income from total income than NBL.

- Net profit ratio of Nabil bank ltd is always increasing rate due to its efficiency of management, innovative products and fast, trusted services. Nabil got a huge profit as compared to NBL. The mean ratio of NBL and NABIL are 21.58% and 32.68% respectively. Since the Nabil has higher mean ratio in comparison to NBL. The standard deviation of NBL and NABIL are 12.53% and 2.61% and C.V. is 58.06% and 7.99% respectively. Thus it signifies that NBL has higher deviation as well as variation in comparison to NABIL. In the F.Y 2008/09, net profit ratio of NBL is increased by 21.71% and 30.05% in NABIL. So, net profit ratio of NABIL is much better than NBL. The increasing trend in the Net Profit Ratio indicates increasing profitability of the bank. Therefore, bank should try to increase its Net Profit as much as possible.
- From the above findings of profitability ratios, it can be concluded that the NABIL is comparatively in higher position than that of NBL. So; the profit earning capacity of NABIL is high in comparison to NBL.

### **Correlation and Regression Analysis**

- While analyzing correlation between interest income and loans and advances, there exists very high degree of positive correlation between these two variables in NBL and NABIL. These are significant and reliable. In other words, if independent variables (loans & advances) increase then it causes to increase dependent variable (interest income) by 100% and vice-versa in case of positive correlation. Again if independent variable (loans & advances) decrease then it causes to decrease dependent variable (interest income) by 100% and vice-versa in case of negative correlation.
- Correlation coefficient between Interest expenses and total deposit of NBL and NABIL is more than 6 times the value of their respective probable error. So Interest expenses of NBL and NABIL is highly correlated with total

deposit and its correlation coefficient is significant and reliable. If deposit increase then it causes to increase Interest expenses.

- The correlation coefficient between Net profit and total assets revealed that there is positive correlation between net profit and total assets. The correlation coefficient of NBL ( $r=0.32$ ) is less than 6 times the value of P.E. but higher than the value of P.E. Hence, there is low positive correlation between net profit and total assets of NBL but the correlation coefficient is not significant, but that of NABIL( $r=0.95$ ) is significant and reliable. In other words, the net profit of this NABIL is highly correlated with the total assets during the study period and the increase in net profit of this bank is due to increase in total assets of this bank.
- Correlation coefficient between loans and advances and Deposit of NBL and NABIL are greater than the value of 6 times of P.E, it is certain and significant and there is evidence of correlation between deposit and loans and advances. But correlation coefficient of NABIL (i.e 0.99) is higher than NBL (i.e 0.70). This implies that there is high positive correlation between loan and deposit in NBL and significant (very high) positive correlation between loan and deposit in NABIL. So if bank collects high deposit then only it can grant loan.
- The correlation coefficient between net profit and loans & advances revealed that there is positive correlation between net profit and loans & advances. That means increment in loans & advances leads to increment in net profit. The correlation coefficient of NBL is less than P.E. and lesser than the value of 6 times of P.E. hence, there is very low positive correlation between net profit and loans & advances but the correlation coefficient is not significant. But that of NABIL is significant and reliable. In other words, the net profit of NABIL is highly correlated with the loans & advances during the study period and the increase in net profit of this bank is due to increase in loans and advances of this bank.
- The regression coefficient (b) of NBL and NABIL are positive. Which indicate that there exist positive relationship between net profit and loans and advances and. In case of slope if one variable increase than other

variable decreases. In case of t-test, the calculated value of  $t <$  tabulated value of  $t$  in case of NBL, which indicates that the relationship is not statistically significant of  $t$  at 0.05 level of significance. Alternative Hypothesis is accepted in case of NABIL. It shows that net profit and loans and advances are significantly correlated.

## **CHAPTER – V**

### **SUMMARY CONCLUSIONS & RECOMMENDATIONS**

This is the final chapter that involves summary, conclusions and recommendations of the research work. The facts and findings from secondary data analysis are presented in this chapter. Besides summarizing and concluding research work, recommendations are made to concerned persons and organizations.

#### **5.1 Summary**

Bank and financial institution play an important role in the economic development of the country as the issue of development always rests up on the mobilization of resources. The prosperity of every developing country can only be ensured by its economic growth. To remain as the major contributing factor to the growth of the nation's economy, the bank also have sustainable existence and growth of themselves. For the suitable existence and growth of bank, it must ensure reasonable profitability. A profit earning organization can better feed to their employees, thereby enhancing the morale of the employees and motivate them for better performances. Profit satisfies the shareholders and other stakeholder of any organization. Therefore, profit for commercial organizations has been defined as the life-blood for them. Bank earns profit from two aspects: major income from interest and other from services.

Commercial banks are the heart of financial system. The role of commercial banks in the economic growth of the nation can be fairly estimated to be very prominent. The mobilization of the scattered idle resources of the savers is main task of commercial banks. Commercial banks pool the fund in a sizable volume in order to feed to the fund requirement of productive sector of the economy. Such investments in the productive sector promote trade and industrialization in the country, which raises the employment opportunities and earning to the labors and materials. Also service providers to such industries and trades, which as a chain

effect, promotes saving into banks and more saving drags more fund available in the bank for further investment. Hence, as the chain moves rolling on, the economy of the nation also grows. This chain in other way directly affects the profitability of the bank. A commercial bank also, being a commercial institution has to plan for the reasonable profit earnings. There is not so long history of commercial bank in Nepal. NBL was established on 15th November 1937 A.D. as a first commercial bank of the country. But now there are 26 commercial banks have been extending their service in different part of the country.

Profit planning is the planning of activities in such a way that it helps in increasing the income at a minimum possible cost or at optimum cost. PPC can be used an effective remedy for the organization running in loss and maintain same or high level profit. It is combination of various financial and physical techniques, which not only helps on increasing profit but also to reduce unnecessary cost and utilize the expenses in the best manner.

The main objective of the study is to examine the application of profit planning in commercial banks, with a specific case study of Nepal and Nabil Bank Ltd. For this purpose, descriptive and analytical research design has adopted. This study has tried to cover the various aspects of profit planning in these banks from the time of fiscal year 2004/05 to the mid-July of fiscal year 2008/09. Out of the total population of 29 commercial banks. NBL was selected from Public sector banks and NABIL was selected from private sector banks.

**Nepal Bank Limited** is a historical bank in Nepal established in the year 15<sup>th</sup> November 1937 A.D. (30<sup>th</sup> Kartik, 1994BS).The Bank has completed its 69 years of operation; it has challenged many circumstances in the field of banking. NBL taught the meaning of banking in Nepal. Not only that NBL worked as the central bank of Nepal till 2013BS (establishment of NRB) since its establishment. The bank was earning good profit till the decade of 2050s. But after 2050BS the bank's negative net worth was around Rs.11 Arabs. NRB took over the management of NBL because of high negative net worth on 2060 B.S. After the taken over of management of NRB, with help of foreign management team ICCMT, and some Nepalese experts the bank's management is being handled yet. In F.Y

2004 A.D. net profit of the NBL is gradually regain and reached to Rs 710 million. In year 2005 A.D., it was increased to Rs 1,730 million and thereafter it was decreased for last two years. In F.Y. 2009 A.D. net profit of NBL reached to Rs 894 million, which is increased by 274.06% but its net profit is low in comparison to NABIL.

**Nabil Bank Limited** commenced its operation on 2041/03/29 (12<sup>th</sup> July 1984) as the first joint venture bank of the nation. When the nation is passing through a phase of transition, NABIL believe that just registering higher profits, yielding higher returns, strengthening the financial and enhancing the books of accounts, is not enough to achieve its mission to be Nepal's Bank of 1<sup>st</sup> choice. Therefore beyond these traditional parameters, the bank has imparked on a journey to surge a head together with people of Nepal across the Nation building new relationships of mutual benefit and playing the role of a catalyst in the economic growth of the nation. Even this lot of obstacles, Nabil generates Rs. 1031 million profits after tax and bonus in FY 2008/09 which is very appreciable. It has 39 braches all over the country to facilitate public and to provide modern products and services to their door steps. Now, there is 31 ATM machine operating 24 hours all over the country. Nabil today is a full service bank in every sense, able to meet the entire range of financial requirements of its customers. The technology of bank plays a key role in enhancing ability to deliver service of the highest quality that benchmark with international standard. The renowned core banking system has made it possible for the bank to offer many innovative products like Nabil Net; Internet Banking etc. Nabil has seen the implementation of PPC system or process properly. It has applied PPC in all sectors.

This study mainly concentrated on the profit planning of Nepal and Nabil Bank Ltd. Research methodology, therefore, is designed and implemented to study about the sources, causes and methods of profit planning. The analysis is income, expenses, loan, deposit, investment and employee status of Nepal and Nabil Bank Ltd. For the achievement of the objectives, the research methodology has been designed including research design, sources, nature and procedure of data collection, data presentation and analysis and limitation of the methodology.

Data are then analyzed applying various financial, mathematical and statistical tools have been listed in a systematic manner. The data has covered a five year period starting from 2004/05 to 2008/09. First of all statistical analysis using trend analysis, correlation analysis and regression analysis has been calculated. At the end significance test using 't' test statistics has been done to test the significance of the study.

Total revenue and total cost of NBL is higher than NABIL but its profits are lower. Customers' deposit is the most important financial source of NBL and NABIL to provide the continued credit service. NBL has higher customer deposit in comparison to NABIL. Percentage of change in both banks are in increasing trend except in year 2005/06 of NBL. Investment pattern of NBL and NABIL are increasing every year except in FY 2008/09 of NBL. It means bank is diverting its funds towards loans and advances to the customers by reducing its investments in year 2008/09 of NBL. But rate of investment in NBL is more than NABIL. Volume of loan and advances of NABIL is higher than NBL and increasing every year in NABIL. NBL is also increasing except in F.Y. 2005/06. The decreasing trend of NPL is due to its efforts towards recovering bad debts. This indicates that bank's application of funds is done mainly as advances to the customers, which in turn results in higher interest earnings to the bank.

Interest is main source of revenue. NABIL has higher interest income in year 2008/09 in comparison to NABIL. Due to large expansion of loans and advances to diversify sectors with proper evaluation and study of loan disbursement and collection; it is able to increase its interest income which covers large revenue collection of these banks. It is in increasing trend except 2006/07 of NBL. NBL has higher interest expenses in first four financial years in comparison to NABIL. But in the FY 2008/09 NABIL has higher interest expenses than NBL. It shows that the large amount is paid to customer that is increasing every year in NABIL but an interest expense of NBL has increasing trend except 2006/07. Net profit of Nabil bank ltd is always increasing due to its efficiency of management, innovative products and fast, trusted services. Percentage change in net profit of NABIL is in increasing trend in all the study

period and that of NBL is in increasing trend except in year 2006 & 2007. Decreasing Net Profit trend arises due to increasing Interest Expenses. It shows Interest Expenses is directly influence on Net Profit. In FY 2008/09, it is increased by 274.06% in NBL and 38.20% in NABIL and reached to Rs.894 million and 1031 million. Hence, Nabil got a huge profit as compared to its competitor NBL.

Calculating the trend analysis is based on the data of five years and forecast was made for next five years. The trend analysis of Deposit, Investment, loans and advances, Interest Income, interest expenses are expected to increase in coming years of the two banks. So, we can clearly see that NABIL has higher rate of increment in comparison to NBL. From the trend analysis of net profit, it is found that net profit is expected to decrease and increase in coming years of NBL and NABIL. Net profit of the NBL is decreasing every year by Rs 264 million and NABIL is increasing every year by Rs 113.3 million. Hence, NABIL got a huge profit in comparison to NBL. Management of NBL must be careful in coming future to increase its profit because it has got decreasing trend of net profit.

From the analysis of non-performing loan ratio it is found that the provision held to NPL of NBL has the significantly higher ratio in comparison to NABIL, which portrays that the bank has adequate provision against NPL but this ratio of NABIL is comparatively lower. It shows that NABIL management is very good. Loan loss provision ratio of NBL and NABIL are in decreasing trend because of granting good loan. Average ratio and co-efficient of variation of NBL is higher than NABIL. So the greater ratio of NBL suggests that there is high proportion of NPL in the total loan and advances. Decreasing trend of NABIL explain that the bank has been successful to reduce its non-performing loan resulting to decreasing LLP. NBL trend is also decreasing .So NBL is also improving to reduce its NPL & LLP. Ratio of loan and advances to deposit shows that more than 68% of deposit in utilized in NABIL where as in NBL it is more than 34%. In over all mean ratio of loan & advances to total deposit of NABIL is higher than that of NBL. It signifies that NABIL has been ahead than NBL in utilizing depositor's money on loans & advance with the objectives to earn profit.

The mean ratio of cash and bank balance to total deposits of NABIL is lower than NBL. It states that cash and bank balance in liquidity position of NABIL is lower than NBL. The ratio also reflects NBL liquidity position, which is stronger in comparison to NABIL. However, it also point out that NABIL has used its funds on lending activities instead of keeping it in vault. The mean ratio of investment in government securities to total deposit of NBL is higher than NABIL. The variability of ratios is lower than that of NABIL. However NABIL seems to have more variable ratios than that of NBL. Management efficiency ratio, NABIL shareholders are earning significantly higher profit with much lesser number of staffs than NBL. NABIL net profit is the highest among all banks. So; its mean deviation is much higher than NBL. A staff contribution of NABIL in net profit is increasing trend due to experienced, trained and highly educated employees. Co-efficient variation of NBL is higher than NABIL.

The profitability ratio of NBL and NABIL, reveal that: Return on asset ratio measures the bank profitability with respect to total assets. Average ratio of NABIL is higher in comparison to NBL. Ratio of NABIL shows that it is effectively mobilizing its assets. On the other hand NABIL is more consistent and homogeneous than NBL. The mean ratio of return on loans and advances of NBL is higher than NABIL and NABIL is more consistent than NBL. Ratio of interest income to total income is almost more than 47% in NBL and more than 72% in NABIL. It shows that NABIL is more dependent in interest income than NBL. The mean ratio of Interest Income to Total Income of NABIL is higher than NBL. It is an increasing trend which shows that the interest charge by Nabil is increasing for loan and advances. So, large amount of total income is covered by only interest income. Moreover, NABIL is comparatively efficient to earn high interest income from total income than NBL.

Net profit ratio of Nabil bank ltd is always increasing rate due to its efficiency of management, innovative products and fast, trusted services. Nabil got a huge profit as compared to NBL. The mean ratio of NBL and NABIL are 21.58% and 32.68% respectively. Since the Nabil has higher mean ratio in comparison to NBL. In the F.Y 2008/09, net profit ratio of NBL is increased by 21.71% and 30.05% in NABIL. So, net profit ratio of NABIL is much better than NBL. The increasing trend in the Net Profit Ratio indicates increasing profitability

of the bank. Therefore, bank should try to increase its Net Profit as much as possible. From the above findings of profitability ratios, it can be concluded that the NABIL is comparatively in higher position than that of NBL. So; the profit earning capacity of NABIL is high in comparison to NBL.

Correlation coefficient between interest income and loan, Interest expenses and total deposit, there exists very high degree of positive correlation between these two variables in NBL and NABIL. So Interest income and expenses of NBL and NABIL are highly correlated with loan and total deposit and its correlation coefficient is significant and reliable. The correlation coefficient between Net profit and total assets revealed that there is positive correlation between net profit and total assets. The correlation coefficient of NBL ( $r=0.32$ ) is less than 6 times the value of P.E. but higher than the value of P.E. Hence, there is low positive correlation between net profit and total assets of NBL and its correlation coefficient is not significant, but that of NABIL( $r=0.95$ ) is significant and reliable. In other words, the net profit of NABIL is highly correlated with the total assets during the study period and the increase in net profit of this bank is due to increase in total assets of this bank. Correlation coefficient between loans and advances and Deposit of NBL and NABIL are certain and significant and there is evidence of correlation between loans and advances and deposit. But correlation coefficient of NABIL (i.e 0.99) is higher than NBL (i.e 0.70). This implies that there is high positive correlation between loan and deposit in NBL and significant (very high) positive correlation between loan and deposit in NABIL. So if bank collects high deposit then only it can grant loan.

The correlation coefficient between net profit and loans & advances revealed that there is positive correlation between net profit and loans & advances. That means increment in loans & advances leads to increment in net profit. The correlation coefficient of NBL is less than P.E. and lesser than the value of 6 times of P.E. hence, there is very low positive correlation between net profit and loans & advances but the correlation coefficient is not significant. But that of NABIL is significant and reliable. In other words, the net profit of NABIL is highly correlated with the loans & advances during the study period and the increase in net profit of

this bank is due to increase in loans and advances of this bank. The regression coefficient (b) of NBL and NABIL are positive. Which indicate that there exist positive relationship between net profit and loans and advances and. In case of slope if one variable increase than other variable decreases. In case of t-test, the calculated value of  $t <$  tabulated value of t in case of NBL, which indicates that the relationship is not statistically significant of t at 0.05 level of significance. .Alternative Hypothesis is accepted in case of NABIL. It shows that net profit and loans and advances are significantly correlated.

## **5.2 Conclusion**

Profit planning is the development and acceptance objectives and goals and moving an organization efficiently to achieve the objectives and goals. It is a managerial tool which is applied every business organization. In the Nepalese prospective since the establishment of banks and financial institution have played progressive role for the economical development of the country. So far commercial banks have been proved as prime movers of the economical development in Nepalese scenario.

As a developing country, Nepal needs to strengthen its economical structure to achieve rapid overall development due to the problems of fund mobilization and investment. Similarly, Nepalese banks are still stuck to traditional approaches for fund utilization and management. From the analysis of this research work, following conclusion can be drawn.

- Both banks have made favorable progress in all fields viz: deposits, investment, loans and advances, interest income and expenses, net profits etc in year 2008/09 and all staff members actively support and coordinate the activities especially in NABIL in comparison to its competitor NBL. Total revenue and total cost of NBL is higher than NABIL but its profits are lower.
- From the analysis of assets management ratio, the assets quality for both banks is almost controlled. However; NABIL is successful in reducing its NPL than NBL and at the same time increasing its total loan and advances. The average rate of NPL to total loan and advances is very low in NABIL in

comparison to NBL. NABIL has succeeded to invest its fund in loan and advances in comparison to NBL. It shows that NABIL management is very good. But NPL is slightly increased in year 2009 in NABIL which is not appreciable and it is slightly decreased in NBL which is appreciable.

- Loan loss provision ratio of NABIL is in decreasing trend because of granting good loan. NBL trend is also decreasing .So NBL is improving to reduce its NPL & LLP.
- NABIL has strong position regarding the mobilization on loans and advances to the total deposit and acquiring higher profit as compare to NBL. It signifies that NABIL has been ahead than NBL in utilizing depositor's money on loans & advances with the objectives to earn profit. NABIL is in weak condition to mobilize its deposits by investing in different sectors in comparison of NBL. So that NABIL fund mobilization in terms of loans & advances with respect of total deposit is more satisfactory than that of NBL.
- The liquidity position of NBL and NABIL reveals that the cash and bank balance in liquidity position of NBL is stronger in comparison to NABIL. However, it also point out that NABIL has used its funds on lending activities instead of keeping it in vault.
- NABIL's fund mobilization in terms of government securities with respect of total deposit is not more satisfactory than that of NBL. And NABIL is not satisfactory of ratios point of view is fund mobilizing term and less homogeneous. NABIL has invested more portion of its total working fund on shares & debentures than NBL. And also NABIL is more consistent and homogeneous than NBL.
- NABIL shareholders are earning significantly higher profit with much lesser number of staffs than NBL. A staff contribution of NABIL in net profit is increasing trend due to experienced, trained and highly educated employees.
- In profitability ratio, it can be concluded that NABIL is strong position in earning high interest income from its total Income in comparison to NBL is view point of mean & C.V ratio. Moreover, NABIL is comparatively efficient to earn high interest income from total income than NBL which is the main source of revenue.

- Return on asset ratio measures the bank profitability with respect to total assets. Its average ratio of NABIL is higher in comparison to NBL. Ratio of NABIL shows that it is effectively mobilizing its assets.
- The mean ratio of return on loans and advances of NBL is higher than NABIL and NABIL is more consistent than NBL.
- Net profit ratio of Nabil bank ltd is always increasing rate due to its efficiency of management, innovative products and fast, trusted services. Nabil got a huge profit as compared to NBL. The mean ratio of NBL and NABIL are 21.58% and 32.68% respectively. Since the Nabil has higher mean ratio in comparison to NBL. So, net profit ratio of NABIL is much better than NBL. The increasing trend in the Net Profit Ratio indicates increasing profitability of the bank. Therefore, bank should try to increase its Net Profit as much as possible.
- From the above findings of profitability ratios, it can be concluded that the NABIL is comparatively in higher position than that of NBL. So; the profit earning capacity of NABIL is high in comparison to NBL.
- Most of the correlation shows positive correlation in NABIL and NBL, there exists very high degree of positive correlation between these two variables in NBL and NABIL. So, its correlation coefficient is significant and reliable except the correlation coefficient between net profit and total assets of NBL ( $r=0.32$ ) which is less than 6 times the value of P.E. but higher than the value of P.E. Hence, there is low positive correlation between net profit and total assets of NBL and its correlation coefficient is not significant.
- The regression coefficient (b) of NBL and NABIL are positive. They indicate that there exists positive relationship between net profit and loans & advances which demonstrate that if loans and advances (independent variable) increase then it leads to increase net profit by 100% and vice-versa. In case of slope if one variable increase than other variable also increase. In case of t-test, the calculated value of  $t <$  tabulated value of  $t$  in case of NBL which indicates that the relationship is not statistically significant of  $t$  at 0.05 level of significance and  $H_0$  is accepted. The acceptance of Null Hypothesis shows that net profit and loans and advances are not significantly correlated

such a situation is not a healthy indicator for the entire sector in the country. An exceptional case is recorded in the case of NABIL where the calculated value  $t >$  tabulated value of  $t$  at 0.05 level of significance and their  $H_1$  (Alternative Hypothesis) is accepted in this case of NABIL. It shows that net profit and loans and advances are significantly correlated which can be recognized as a positive indicator of the development of the entire sector in the country.

- Both bank's team are doing good and earning good return in FY 2008/09. However, NABIL net profit is increasing every year and is much better in terms of getting high return, which also indicates that management is more competent and capable.
- NABIL has been providing various useful services to the society through its favorable programs, procedures and policies. The result of which is satisfactory solvency position increased interest expenses or operating expenses and increasing trend of profitability. But NBL has fluctuating interest expenses or operating expenses and fluctuating trend of profitability.
- The over all performance of these banks are satisfactory, company utilizes its available funds effectively. The aggressiveness shown by the bank in its financial operations helped it to maximize its profit. NABIL got huge profit and NBL got huge loss in last few years. Later it gradually regains but there might be fear of getting loss in near future because trend analysis of net profit of NBL is in decreasing rate.
- NABIL has seen the implementation of PPC system or process properly. It has applied PPC in all sectors. From the analysis of data, it is found that there is increment of deposits, investment, loan and advances, interest income and expenses, net profits etc. NBL is also improving in FY 2008/09 in comparison to the past four years. So, NBL has also seen the implementation of PPC system or process properly.

To conclude, it can be stated that the bank is bound to have very prosperous years to come in the future in NABIL. But in NBL management must take care about the future because its net profit is expected to decrease in coming years.

### 5.3 Recommendations

Based on the research work, the researcher has reached the following recommendations. It will help management to take the quick, rational and effective decision.

- NABIL got huge profit as compared to NBL. NBL got huge loss in last few years. Later it gradually regains but there might be fear of getting loss in near future because trend analysis of net profit of NBL is in decreasing rate. So, the government has to be conscious about the present situations for the development of the nation economic. As bank are playing with public money it is recommended for the banks to check out target of return every year and on the basis of which the bank should plans of profit by linking its activities with income generating program.
- As the accounting system of NBL seems to be careless that it has been audited so late in comparison to NABIL. Therefore it is difficult to take decision about data analysis in time. Accounting systems should be systematic so that proper strategy can be applied in the case of NBL and auditing of accounts should be done in time.
- NPL is slightly increased in year 2009 in NABIL which is not appreciable and it is slightly decreased in NBL which is appreciable. So, NABIL need to reduce its NPL. The NPL amount of NBL is comparatively large in comparison to NABIL. Therefore, NBL needs to reduce the NPL% out of its total loans and advances for the better income of the business in near future.
- NBL should find ways to better utilize its human resources to achieve high return. At present, the situation looks over-staffed in comparison to NABIL. In FY 2008/09, NBL has 2442 staffs and 1937 staffs more than NABIL.
- Liquidity and profitability is inversely related. NBL has high liquidity of cash and bank balance to total deposit ratio in comparison to NABIL. So, NBL needs to be utilized in lending or investing activities. Though there is lesser scope, but tourism industry is still contributing good percent to nation's national income. So, NBL including NABIL should develop

strategies to use this industry for the well being of their business or development of the nation in the coming future.

- The ROA ratio of NBL was also found lesser than the benchmark value of 1% in FY 2006 and 2007. This indicated inefficient utilization of the assets for attaining enough net income. But in FY 2008/09 its ROA is more than 1%. The mgmt of the bank can further emphasize for the effective use of its assets to achieve higher ROA in future.
- The position of Interest Income to Total Income is increasing drastically. It is suggested to accelerate the interest collection process and then advance the same so as to increase the profitability.
- NBL should try to control the fluctuations in revenue, cost and net profit in order to lessen the chance of uncertainty.
- NBL is advised to increase the investment of deposit. It is investing almost 40% of its deposit on loan and advances.
- For the survival of the bank and to maintain the present market share, NBL should increase their commercial activities and also it should not forget the public responsibilities being government owned bank. Similarly NABIL should adapt to innovation to increase the present market share.
- The management of both banks should have more interaction with the shareholders. Good management uplifted the performance of company. Shareholders are the owner but neither can take part actively in the management nor can control the management of the company. Management is answerable to shareholder through directors. Hence for the best performance board should design appropriate policies and monitor the performance of the managers in implementing them.
- Loan should be mobilized to other sectors like Hydro sector with proper study of project to solve the recent problem of electricity.
- Both banks should give continuity in providing both conceptual and practical training to the staff to enhance their knowledge, skill and competency level.

- Banks have to provide effective services to customers for maintaining and building the brand image that helps the banks to have a competitive edge even with other banks. Local experts should be involved more in top level of management of NBL so that they can run the bank easily in future. Both banks should try for proper image building from international perspectives.
- Business expansion is needed; both banks can enter into the wide rural market where it has wide scope for business.
- Only performing well is not an end, in an efficient market the basic goal is to make the market aware of the performance. So, certain steps which can bring their performance idea in the investors or managerial mind are very necessary.
- It is suggested to concentrate more on their performance, business growth rate, assets quality and good governance practices. Apart from these, market reputation, diversified service range should also be taken into account by the banks so that it not only be benefited for the bank but also will play a vital criteria or tool in regarding a reward of the best bank of the nation.
- Proper planning strategy seems to be developed in these banks in FY 2008/09 as compared to past. Proper Profit planning, a research is the major means to achieve the desired objectives and constant growth from its focused activities so that banks advised to prepare better plans. As a result, there would not be highly fluctuating increments.

Finally, it is universal that banks are the heart of our financial system. Because of global integration and liberalization of the economy, banking sector is likely to face various challenges. So, it is high time to Nepalese banks and financial institution to strengthen their competitiveness by introducing innovative, value added products. They have to follow the guidelines issued by NRB that controls their operations.

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## APPENDICES

### APPENDIX – I

Nepal Bank Ltd.

Profit and Loss Account

From Fiscal Year 2004/05 to 2008/09 (Rs. In million)

Particulars		2004/05	2005/06	2006/07	2007/08	2008/09
1	Interest Income	1987	2049	1849	2095	2690
2	Interest Expenses	749	774	773	773	792
	Net Interest Income	1238	1275	1076	1322	1898
3	Commission & Discount	188	177	181	230	273
4	Other Operating Income	543	141	288	157	157
5	Exchange Income	1	121		119	89
	Total Operating Income	1970	1714	1545	1828	2417
6	Staff Expenses	1305	1068	1125	1347	1641
7	Other Operating Expenses	383	548	330	259	297
8	Exchange Loss			46		
	Operating profit before Provision Losses	282	98	44	222	479
9	Provision for Possible Losses	4	607	80	259	334
	Operating Profit	278	-509	-36	-37	145
10	Non-operating Income/Expenses	1452	23	50	68	58
11	loan loss provision written back		1814		134	676
	Profit from Regular Activities	1730	1328	14	165	879
12	P/L from Extra-Ordinary Activities			236	180	165
	Net Profit after considering all activities	1730	1328	250	345	1044
13	Provision for Staff Bonus		121	23	31	94
14	Provision for Income Tax				75	56
	Net Profit	1730	1207	227	239	894

Nabil Bank Ltd.

Profit and Loss Account

From Fiscal Year 2004/05 to 2008/09 (Rs. In million)

Particulars		2004/05	2005/06	2006/07	2007/08	2008/09
1	Interest Income	1069	1310	1588	1979	2798
2	Interest Expenses	244	357	556	758	1153
	Net Interest Income	825	953	1032	1221	1645
3	Commission & Discount	128	138	151	159	180
4	Other Operating Income	56	83	87	94	144
5	Exchange Income	184	185	210	196	252
	Total Operating Income	1193	1359	1480	1670	2221
6	Staff Expenses	199	220	240	263	340
7	Other Operating Expenses	190	183	188	221	265
8	Exchange Loss					
	Operating profit before Provision Losses	804	956	1052	1186	1616
9	Provision for Possible Losses	8	4	14	64	46
	Operating Profit	796	952	1038	1122	1570
10	Non-operating Income/Expenses		1	5	24	2
11	Provision for possible	4	8	10	11	11
	Profit from Regular Activities	800	961	1053	1157	1583
12	Income/Expense from Extra ordinary Activities	41	26	41	40	44
	Profit from all Activities	841	987	1094	1197	1627
13	Provision for Staff Bonus	84	89	99	109	148
14	Provision for Income Tax	237	263	321	342	448
	Net Profit	520	635	674	746	1031

## APPENDIX – II

Nepal Bank Ltd.

Balance Sheet

From Fiscal Year 2004/05 to 2008/09

(Rs. In million)

<b>Capital &amp; Liabilities</b>		<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
1	Share Capital	380	380	380	380	380
2	Reserve & Surplus	-7806	-6682	-6628	-6388	-5234
3	Debenture & Bonds					
4	Borrowings	1247	1717	1605	1820	1971
5	Deposits	35934	35830	39014	41829	45194
6	Bills Payable	418	101	61	52	12
7	Proposed & Undistributed Dividend		1	2	2	2
8	Income Tax Liability					
9	Other liability	16872	4571	4824	4358	5234
	<b>Total</b>	47045	35918	39,258	42053	47559

<b>Assets</b>		<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
1	Cash Balance	1070	1111	1086	1182	1516
2	Balance with NRB	5090	5354	5225	4431	6620
3	Balance with Bank/Financial Institution		709	806	1004	1036
4	Money at Call & Short Notice	550		200		400
5	Investment	14199	14,490	16072	16571	13,398
6	Loans, Advances and Bills Purchase	8218	9756	11058	13252	17,615
7	Fixed Assets	187	191	206	207	249
8	Non Banking Assets					
9	Other Assets	17731	4307	4605	5406	6725
	<b>Total</b>	47045	35918	39258	42053	47559

Nabil Bank Ltd.

Balance Sheet

From Fiscal Year 2004/05 to 2008/09

(Rs. In million)

<b>Capital &amp; Liabilities</b>		<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
1	Share Capital	491	491	492	689	966
2	Reserve & Surplus	1166	1383	1565	1748	2165
3	Debenture & Bonds				240	300
4	Borrowings	17	173	883	1360	1681
5	Deposits	14587	19347	23342	31915	37348
6	Bills Payable	86	113	83	238	463
7	Proposed & Undistributed Dividend	361	435	509	437	361
8	Income Tax Liability	15	35		39	80
9	Other liability	341	352	379	466	503
	<b>Total</b>	17064	22329	27253	37132	43867

<b>Assets</b>		<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
1	Cash Balance	146	238	270	511	674
2	Balance with NRB	390	318	1113	1830	2649
3	Balance with Bank/Financial Institution	23	74	16	330	50
4	Money at Call & Short Notice	869	1735	564	1952	553
5	Investment	4276	6178	8945	9940	10826
6	Loans, Advances and Bills Purchase	10586	12922	15546	21365	27589
7	Fixed Assets	361	319	287	598	661
8	Non Banking Assets					
9	Other Assets	413	545	512	606	865
	<b>Total</b>	17064	22329	27253	37132	43867

## APPENDIX – III

Nepal Bank Ltd.

Loan and Advances

From Fiscal Year 2004/05 to 2008/09

(Rs. In million)

S.N.	Loans & Advances	2004/05	2005/06	2006/07	2007/08	2008/09
1	Performing Loan					
1.1	Pass Loan	8,494	9,547	11,180	13,698	18,074
1.2	Acceptable Loan	-	-	-	-	-
1.3	Restructuring	-	632	720	-	518
A	Total Performing Loan	8,494	10,179	11,901	13,698	18,593
2	Non – Performing Loan					
2.1	Indication of Substandard	-	-	-	-	-
2.2	Sub-standard	128	47	17	64	65
2.3	Doubtful	234	88	30	20	18
2.4	Loss(Bad loan)	8,011	2,128	1,809	1,983	884
B	Total Non-Performing Loan	8,373	2,262	1,856	2,067	967
	<b>Total Loan(A+B)</b>	<b>16,867</b>	<b>12,442</b>	<b>13,757</b>	<b>15,765</b>	<b>19,560</b>

Nabil Bank Ltd.  
 Loan and Advances  
 From Fiscal Year 2004/05 to 2008/09

(Rs. In million)

S.N.	Loans & Advances	2004/05	2005/06	2006/07	2007/08	2008/09
1	Performing Loan					
1.1	Pass Loan	10,668	13,011	15,639	21,587	27,767
1.2	Acceptable Loan	-	-	-	-	-
1.3	Restructuring	134	85	86	11	7
<b>A</b>	<b>Total Performing Loan</b>	<b>10,802</b>	<b>13,096</b>	<b>15,725</b>	<b>21,598</b>	<b>27,774</b>
2	Non – Performing Loan					
2.1	Indication of Substandard	-	-	-	-	-
2.2	Sub-standard	22	63	120	66	113
2.3	Doubtful	2	30	14	43	46
2.4	Loss(Bad loan)	121	90	44	52	66
<b>B</b>	<b>Total Non-Performing Loan</b>	<b>145</b>	<b>183</b>	<b>178</b>	<b>161</b>	<b>225</b>
	<b>Total Loan(A+B)</b>	<b>10,947</b>	<b>13,279</b>	<b>15,903</b>	<b>21,759</b>	<b>27,999</b>

## APPENDIX – IV

### i) Calculation of Trend Values of Deposit of NBL (Sample Calculation)

(Rs. In million)

Year (X)	Deposit (y)	Deviation from mid-July 2005 (x)	X <sup>2</sup>	Xy	y=a +bx y=39560.2 + 2451.9 * x
2005	35934	-2	4	-71868	34656.4
2006	35830	-1	1	-35830	37108.3
2007	39014	0	0	0	39560.2
2008	41829	1	1	41829	42012.1
2009	45194	2	4	90388	44464
N = 5	Ey =197801	Ex = 0	Ex2 = 10	Exy =24519	

Here,

When,  $E_x = 0$  from two normal equations.

$$a = \frac{\sum y}{N} = \frac{197801}{5} = 39560.2$$

$$b = \frac{\sum xy}{N} = \frac{24519}{10} = 2451.9$$

Thus,

Average Deposit (a) = Rs 39560.2

Rate of change of Deposit (b) = Rs 2451.9 (increase)

Hence, the equation of straight-line trend is  $y = a + bx$

Or,  $y = 39560.2 + 2451.9 * x$

Expected Trend Values of Deposit (2005 – 2014)

(Rs. In million)

Years ( Asadh-End)	Deviation from mid- July 2005 (x)	y = a + bx y =
2010	3	46915.9
2011	4	49367.8
2012	5	51819.7
2013	6	54271.6
2014	7	56723.5

Calculation of Trend Values of Deposit of **NABIL** (Sample Calculation)

(Rs. In million)

Year (X)	Deposit (y)	Deviation from mid-July 2005 (x)	X <sup>2</sup>	Xy	y=a +bx y=25307.8 +5809 * x
2005	14587	-2	4	-29174	13689.8
2006	19347	-1	1	-19347	19498.8
2007	23342	0	0	0	25307.8
2008	31915	1	1	31915	31116.8
2009	37348	2	4	74696	36925.8
N = 5	Σy = 126539	Σx = 0	Σx <sup>2</sup> = 10	Σxy = 58090	

Here,

When,  $\Sigma x = 0$  from two normal equations.

$$a = \frac{\Sigma y}{N} = \frac{12639}{5} = 25307.8$$

$$b = \frac{\Sigma xy}{N} = \frac{58090}{10} = 5809$$

Thus,

Average Deposit (a) = Rs 25307.8

Rate of change of Deposit (b) = Rs 5809 (increase)

Hence, the equation of straight-line trend is  $y = a + bx$

Or,  $y = 25307.8 + 5809 * x$

Expected Trend Values of Deposit (2005 – 2014) (Rs. In million)

Years (mid- July )	Deviation from mid- July 2005 (x)	$y = a + bx$ $y = 25307.8 + 5809 * x$
2010	3	42734.8
2011	4	48543.8
2012	5	54352.8
2013	6	60161.8
2014	7	65970.8

ii) Calculation of Trend Values of Investment of NBL

(Rs. In million)

Year (X)	Investment (y)	Deviation from mid- July 2005 (x)	X <sup>2</sup>	Xy	$y = a + bx$ $y = 14946 +$ $47.9 * x$
2005	14199	-2	4	-28398	14898.1
2006	14490	-1	1	-14490	14898.1
2007	16072	0	0	0	14946
2008	16571	1	1	16571	14993.9
2009	13398	2	4	26796	15041.8
N = 5	Ey = 74730	Ex = 0	Ex <sup>2</sup> = 10	Exy = 479	

Expected Trend Values of Investment (2005 – 2014)

(Rs. In million)

Years (mid- July)	Deviation from mid- July 2005 (x)	$y = a + bx$ $y = 14946 + 47.9 * x$
2010	3	15089.7
2011	4	15137.6
2012	5	15185.5
2013	6	15233.4
2014	7	15281.3

Calculation of Trend Values of Investment of **NABIL**

(Rs. In million)

Year (X)	Investment (y)	Deviation from mid-July 2005 (x)	X <sup>2</sup>	Xy	$y = a + bx$ $y = 8031.2 + 1688 * x$
2005	14199	-2	4	-28398	4655.2
2006	14490	-1	1	-14490	6343.2
2007	16072	0	0	0	8031.2
2008	16571	1	1	16571	9719.2
2009	13398	2	4	26796	11407.2
N = 5	$E_y = 74730$	$E_x = 0$	$E_{x^2} = 10$	$E_{xy} = 479$	

Expected Trend Values of Investment (2005 – 2014)

(Rs. In million)

Years (mid- July )	Deviation from mid- July 2005 (x)	$y = a + bx$ $y = 8031.2 + 1688 * x$
2010	3	13095.2
2011	4	14783.2
2012	5	16471.2
2013	6	18159.2
2014	7	19847.2

iii) **Calculation of Trend Values of Loans and Advances of NBL**

(Rs. In million)

Year (X)	Loans and Advances (y)	Deviation from mid-July 2005 (x)	X <sup>2</sup>	Xy	y=a +bx y=15678.2+870.9*x
2005	16867	-2	4	-33734	13936.4
2006	12442	-1	1	-12442	14807.3
2007	13757	0	0	0	15678.2
2008	15765	1	1	15765	16549.1
2009	19560	2	4	39120	17420
N = 5	Ey = 78391	Ex = 0	Ex <sup>2</sup> = 10	Exy = 8709	

Expected Trend Values of Loans and Advances (2005 – 2014) (Rs. In million)

Years (mid- July)	Deviation from mid- July 2005 (x)	y = a + bx y = 15678.2+870.9*x
2010	3	18290.9
2011	4	19161.8
2012	5	20032.7
2013	6	20903.6
2014	7	21774.5

Calculation of Trend Values of Loans and Advances of **NABIL** (Rs. In million)

Year (X)	Loans and Advances (y)	Deviation from mid-July 2005 (x)	X <sup>2</sup>	Xy	y=a +bx y=17977.4+4258.4*x
2005	10947	-2	4	-21894	9460.6
2006	13279	-1	1	-13279	13719
2007	15903	0	0	0	17977.4
2008	21759	1	1	21759	22235.8
2009	27999	2	4	55998	26494.2
N = 5	Ey = 89887	Ex = 0	Ex <sup>2</sup> = 10	Exy = 42584	

Expected Trend Values of Loans and Advances (2005 – 2014) (Rs. In million)

Years (mid- July )	Deviation from mid- July 2005 (x)	$y = a + bx$ $y = 17977.4 + 4258.4 * x$
2010	3	30752.6
2011	4	35011
2012	5	39269.4
2013	6	43527.8
2014	7	47786.2

iv) Calculation of Trend Values of Interest Income of NBL

(Rs. In million)

Year (X)	Interest Income (y)	Deviation from mid- July 2005 (x)	X <sup>2</sup>	Xy	$y = a + bx$ $y = 2134 + 145.2 * x$
2005	1987	-2	4	-3974	1843.6
2006	2049	-1	1	-2049	1988.8
2007	1849	0	0	0	2134
2008	2095	1	1	2095	2279.2
2009	2690	2	4	5380	2424.4
N = 5	Ey = 10670	Ex = 0	Ex <sup>2</sup> = 10	Exy = 1452	

Expected Trend Values of Interest Income (2005 – 2014)

(Rs. In million)

Years (mid- July )	Deviation from mid- July 2005 (x)	$y = a + bx$ $y = 2134 + 145.2 * x$
2010	3	2569.6
2011	4	2714.8
2012	5	2860
2013	6	3005.2
2014	7	3150.4

Calculation of Trend Values of Interest Income of **NABIL** (Rs. In million)

Year (X)	Interest Income (y)	Deviation from mid-July 2005 (x)	X <sup>2</sup>	Xy	y=a +bx y=1748.8+412.7*x
2005	1069	-2	4	-2138	923.4
2006	1310	-1	1	-1310	1336.1
2007	1588	0	0	0	1748.8
2008	1979	1	1	1979	2161.5
2009	2798	2	4	5596	2574.2
N = 5	Ey = 8744	Ex = 0	Ex <sup>2</sup> = 10	Exy = 4127	

Expected Trend Values of Interest Income (2005 – 2014) (Rs. In million)

Years (mid- July )	Deviation from mid- July 2005 (x)	y = a + bx y = 1748.8+412.7*x
2010	3	2986.9
2011	4	3399.6
2012	5	3812.3
2013	6	4225
2014	7	4637.7

v) Calculation of Trend Values of Interest Expenses of **NBL**

(Rs. In million)

Year (X)	Interest Expenses (y)	Deviation from mid-July 2005 (x)	X <sup>2</sup>	Xy	y=a +bx y=772.2+8.5*x
2005	749	-2	4	-1498	755.2
2006	774	-1	1	-774	763.7
2007	773	0	0	0	772.2
2008	773	1	1	773	780.7
2009	792	2	4	1584	789.2
N = 5	Ey =3861	Ex = 0	Ex <sup>2</sup> = 10	Exy = 85	

Expected Trend Values of Interest Expenses (2005 – 2014) (Rs. In million)

Years (mid- July )	Deviation from mid- July 2005 (x)	$y = a + bx$ $y = 772.2+8.5*x$
2010	3	797.7
2011	4	806.2
2012	5	814.7
2013	6	823.2
2014	7	831.7

Calculation of Trend Values of Interest Expenses of **NABIL**

(Rs. In million)

Year (X)	Interest Expenses (y)	Deviation from mid- July 2005 (x)	X <sup>2</sup>	Xy	$y=a +bx$ $y=613.6 + 221.9*x$
2005	244	-2	4	-488	169.8
2006	357	-1	1	-357	391.7
2007	556	0	0	0	613.6
2008	758	1	1	758	835.5
2009	1153	2	4	2306	1057.4
N = 5	Ey = 3068	Ex = 0	Ex <sup>2</sup> = 10	Exy = 2219	

Expected Trend Values of Interest Expenses (2005 – 2014)

(Rs. In million)

Years (mid- July )	Deviation from mid- July 2005 (x)	$y = a + bx$ $y = 613.6+221.9*x$
2010	3	1279.3
2011	4	1501.2
2012	5	1723.1
2013	6	1945
2014	7	2166.9

**vi) Calculation of Trend Values of Net Profit of NBL (Sample Calculation)**  
(Rs. In million)

Year (X)	Net Profit(y)	Deviation from mid-July 2005 (x)	X <sup>2</sup>	Xy	y=a +bx y=859.4 – 264 *x
2005	1730	-2	4	-3460	1387.4
2006	1207	-1	1	-1207	1123.4
2007	227	0	0	0	859.4
2008	239	1	1	239	595.4
2009	894	2	4	1788	331.4
N = 5	Ey = 4297	Ex = 0	Ex <sup>2</sup> = 10	Exy = -2640	

Here,

When, Ex = 0 from two normal equations.

$$a = \frac{\sum y}{N} = \frac{4297}{5} = 859.4$$

$$b = \frac{\sum xy}{N} = \frac{-2640}{10} = -264$$

Thus,

Average Net Profit (a) = Rs 859.4

Rate of change of Net Profit (b) = Rs 264 (decrease)

Hence, the equation of straight-line trend is  $y = a + bx$

Or,  $y = 859.4 - 264 * x$

Expected Trend Values of Net Profit (2005 – 2014)

(Rs. In million)

Years (mid- July)	Deviation from mid- July 2005 (x)	$y = a + bx$ $y = 859.4 - 264 * x$
2010	3	67.4
2011	4	-196.6
2012	5	-460.6
2013	6	-724.6
2014	7	-988.6

Calculation of Trend Values of Net Profit of **NABIL**

(Rs. In million)

Year (X)	Net Profit (y)	Deviation from mid- July 2005 (x)	X <sup>2</sup>	Xy	$y = a + bx$ $y = 721.2$ + $113.3 * x$
2005	520	-2	4	-1040	494.6
2006	635	-1	1	-635	607.9
2007	674	0	0	0	721.2
2008	746	1	1	746	834.5
2009	1031	2	4	2062	947.8
N = 5	$Ey = 3606$	$Ex = 0$	$Ex^2 = 10$	$Exy = 1133$	

Expected Trend Values of Net Profit (2005 – 2014)

(Rs. In million)

Years (mid- July)	Deviation from mid- July 2005 (x)	$y = a + bx$ $y = 721.2 + 113.3 * x$
2010	3	1061.1
2011	4	1174.4
2012	5	1287.7
2013	6	1401
2014	7	1514.3

## APPENDIX – V

### i. Non – Performing Loan Ratio (%)

#### NBL

<b>Fiscal year</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
<b>Non Performing Loan</b>	8373	2262	1856	2067	967
<b>Total Loan</b>	16867	12442	13757	15765	19560
<b>Ratio</b>	<b>49.64</b>	<b>18.18</b>	<b>13.49</b>	<b>13.11</b>	<b>4.94</b>

#### NABIL

<b>Fiscal year</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
<b>Non Performing Loan</b>	145	183	178	161	225
<b>Total Loan</b>	10947	13279	15903	21759	27999
<b>Ratio</b>	<b>1.32</b>	<b>1.38</b>	<b>1.12</b>	<b>0.74</b>	<b>0.80</b>

### ii. Loan Loss Provision Ratio (%)

#### NBL

<b>Fiscal year</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
<b>Loan Loss Provision</b>	8127	2685	2698	2513	1945
<b>Total Loan</b>	16867	12442	13757	15765	19560
<b>Ratio</b>	<b>48.18</b>	<b>21.58</b>	<b>19.61</b>	<b>15.94</b>	<b>9.94</b>

#### NABIL

<b>Fiscal year</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
<b>Loan Loss Provision</b>	361	356	357	394	409
<b>Total Loan</b>	10947	13279	15903	21759	27999
<b>Ratio</b>	<b>3.30</b>	<b>2.68</b>	<b>2.24</b>	<b>1.81</b>	<b>1.46</b>

### iii. Loans & Advances to Total Deposit Ratio (%)

#### NBL

<b>Fiscal year</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
<b>Loans &amp; Advances</b>	16867	12442	13757	15765	19560
<b>Deposit</b>	35934	35830	39014	41829	45194
<b>Ratio</b>	<b>46.94</b>	<b>34.73</b>	<b>35.26</b>	<b>37.69</b>	<b>43.28</b>

**NABIL**

<b>Fiscal year</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
<b>Loans &amp; Advances</b>	10947	13279	15903	21759	27999
<b>Deposit</b>	14587	19347	23342	31915	37348
<b>Ratio</b>	<b>75.05</b>	<b>68.64</b>	<b>68.13</b>	<b>68.18</b>	<b>74.97</b>

**iv. Management Efficiency Ratio (%)****NBL**

<b>Fiscal year</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
<b>Net Profit after Tax</b>	1730	1207	227	239	894
<b>Total No. of staff</b>	2912	2960	2937	2885	2442
<b>Ratio</b>	<b>59.41</b>	<b>40.78</b>	<b>7.73</b>	<b>8.28</b>	<b>36.61</b>

**NABIL**

<b>Fiscal year</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
<b>Net Profit after Tax</b>	520	635	674	746	1031
<b>Total No. of staff</b>	4226	441	427	416	505
<b>Ratio</b>	<b>122.07</b>	<b>143.99</b>	<b>157.85</b>	<b>179.33</b>	<b>204.16</b>

**v. Cash & Bank Balance to Total Deposit Ratio (%)****NBL**

<b>Fiscal year</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
<b>Cash &amp; Bank Balance</b>	6160	7174	7117	6617	9172
<b>Total Deposit</b>	35934	35830	39014	41829	45194
<b>Ratio</b>	<b>17.14</b>	<b>20.02</b>	<b>18.24</b>	<b>15.82</b>	<b>20.29</b>

**NABIL**

<b>Fiscal year</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
<b>Cash &amp; Bank Balance</b>	559	630	1399	2671	3373
<b>Total Deposit</b>	14587	19347	23342	31915	37348
<b>Ratio</b>	<b>3.83</b>	<b>3.26</b>	<b>5.99</b>	<b>8.37</b>	<b>9.03</b>

**vi. Investment in Government Securities to Total Deposit Ratio (%)****NBL**

<b>Fiscal year</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
<b>Government Securities</b>	11278	11777	13226	12918	10598
<b>Total Deposit</b>	35934	35830	39014	41829	45194
<b>Ratio</b>	<b>31.39</b>	<b>32.87</b>	<b>33.90</b>	<b>30.88</b>	<b>23.45</b>

**NABIL**

<b>Fiscal year</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
<b>Government Securities</b>	2418	2301	4808	4646	3706
<b>Total Deposit</b>	14587	19347	23342	31915	37348
<b>Ratio</b>	<b>16.58</b>	<b>11.89</b>	<b>20.60</b>	<b>14.56</b>	<b>9.92</b>

**vii. Return on Assets Ratio (%)****NBL**

<b>Fiscal year</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
<b>Net Profit after Tax</b>	1730	1207	227	239	894
<b>Total Assets</b>	47045	35918	39258	42053	47559
<b>Ratio</b>	<b>3.68</b>	<b>3.36</b>	<b>0.58</b>	<b>0.57</b>	<b>1.88</b>

**NABIL**

<b>Fiscal year</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
<b>Net Profit after Tax</b>	520	635	674	746	1031
<b>Total Assets</b>	17064	22329	27253	37132	43867
<b>Ratio</b>	<b>3.05</b>	<b>2.84</b>	<b>2.47</b>	<b>2.01</b>	<b>2.35</b>

**viii. Return on Loans & Advances (%)****NBL**

<b>Fiscal year</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
<b>Net Profit</b>	1730	1207	227	239	894
<b>Loans &amp; Advances</b>	16867	12442	13757	15765	19560
<b>Ratio</b>	<b>10.26</b>	<b>9.70</b>	<b>1.65</b>	<b>1.52</b>	<b>4.57</b>

**NABIL**

<b>Fiscal year</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
<b>Net Profit</b>	520	635	674	746	1031
<b>Loans &amp; Advances</b>	10947	13279	15903	21759	27999
<b>Ratio</b>	<b>4.75</b>	<b>4.78</b>	<b>4.24</b>	<b>3.43</b>	<b>3.68</b>

**ix. Interest Income to Total Income (%)****NBL**

<b>Fiscal year</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
<b>Interest Income</b>	1987	2049	1849	2095	2690
<b>Total Income</b>	4171	4325	2604	2983	4108
<b>Ratio</b>	<b>47.64</b>	<b>47.38</b>	<b>71.01</b>	<b>70.23</b>	<b>65.48</b>

**NABIL**

<b>Fiscal year</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
<b>Interest Income</b>	1069	1310	1588	1979	2798
<b>Total Income</b>	1482	1751	2092	2503	3431
<b>Ratio</b>	<b>72.13</b>	<b>74.81</b>	<b>75.91</b>	<b>79.07</b>	<b>81.55</b>

**x. Net Profit Ratio (%)****NBL**

<b>Fiscal year</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
<b>Net profit</b>	1730	1207	227	239	894
<b>Total revenue</b>	4171	4325	2604	2983	4108
<b>Ratio</b>	<b>41.48</b>	<b>27.91</b>	<b>8.72</b>	<b>8.01</b>	<b>21.76</b>

**NABIL**

<b>Fiscal year</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
<b>Net profit</b>	520	635	674	746	1031
<b>Total revenue</b>	1482	1751	2092	2503	3431
<b>Ratio</b>	<b>35.09</b>	<b>36.26</b>	<b>32.22</b>	<b>29.80</b>	<b>30.05</b>

Source: Annual report of related banks. (2004/05-2008/09)

## APPENDIX – VI

### Calculation of Mean, S.D, and C.V. of Net Profit to total Asset Ratio or Return on Assets (ROA) of NBL (Sample Calculation)

(Rs. In million)

Year (End-Ashadh)	Ratio% (X)	$X - \bar{X}$	$(X - \bar{X})^2$
2061	3.68	1.67	2.7889
2062	3.36	1.35	1.8225
2063	0.58	-1.43	2.0449
2064	0.57	-1.44	2.0736
2065	1.88	-0.13	0.0169
N = 5	10.07		$E(X - \bar{X})^2 = 8.7468$

$$\begin{aligned} \text{Mean } (\bar{X}) &= \frac{\sum X}{N} \\ &= 2.01 \end{aligned}$$

$$\begin{aligned} \text{Standard Deviation } (\sigma) &= \sqrt{\frac{\sum (X - \bar{X})^2}{N}} \\ &= 1.32 \end{aligned}$$

$$\begin{aligned} \text{Coefficient of Variation (C.V.)} &= \frac{\sigma}{\bar{X}} \times 100 \\ &= 65.67 \end{aligned}$$

Similarity ( $\bar{X}$ ,  $\sigma$  and C.V.) to the other ratio of the two banks.

## APPENDIX – VII

### i. Correlation between Interest Income and Loans & advances

Fiscal Year	NBL		NABIL	
	Interest Income	Loans & advances	Interest Income	Loans & advances
2004/05	1987	16867	1069	10947
2005/06	2049	12442	1310	13279
2006/07	1849	13757	1588	15903
2007/08	2095	15765	1979	21759
2008/09	2690	19560	2798	27999
<b>R</b>		0.78		0.99
<b>r<sup>2</sup></b>		0.6084		0.9801
<b>P.E.</b>		0.1181		0.0060
<b>6P.E.</b>		0.7086		0.0360

### ii. Correlation between Interest Expenses and Deposit

Fiscal Year	NBL		NABIL	
	Interest Expenses	Deposit	Interest Expenses	Deposit
2004/05	749	35934	244	14587
2005/06	774	35830	357	19347
2006/07	773	39014	556	23342
2007/08	773	41829	758	31915
2008/09	792	45194	1153	37348
<b>R</b>		0.78		0.98
<b>r<sup>2</sup></b>		0.6084		0.9604
<b>P.E.</b>		0.1181		0.0119
<b>6P.E.</b>		0.7086		0.0714

### iii. Correlation between Net Profit and Total Assets

Fiscal Year	NBL		NABIL	
	Net Profit	Total Assets	Net Profit	Total Assets
2004/05	1730	47045	520	17185
2005/06	1207	35918	635	22329
2006/07	227	39258	674	27253
2007/08	239	42053	746	37132
2008/09	894	47559	1031	43867
<b>R</b>		0.32		0.95
<b>r<sup>2</sup></b>		0.1024		0.9025
<b>P.E.</b>		0.2708		0.0294
<b>6P.E.</b>		1.6248		0.1764

iv. **Correlation between Loans & advances and Deposits**

Fiscal Year	NBL		NABIL	
	Loans & advances	Deposits	Loans & advances	Deposits
2004/05	16867	35934	10947	14587
2005/06	12442	35830	13279	19347
2006/07	13757	39014	15903	23342
2007/08	15765	41829	21759	31915
2008/09	19560	45194	27999	37348
	<b>R</b>	0.70		0.99
	<b>r<sup>2</sup></b>	0.49		0.9801
	<b>P.E.</b>	0.1538		0.0060
	<b>6P.E.</b>	0.9228		0.036

v. **Correlation between Net Profit and Loans & Advances**

Fiscal Year	NBL		NABIL	
	Net Profit	Loans & Advances	Net Profit	Loans & Advances
2004/05	1730	16867	520	10947
2005/06	1207	12442	635	13279
2006/07	227	13757	674	15903
2007/08	239	15765	746	21759
2008/09	894	19560	1031	27999
	<b>R</b>	0.16		0.97
	<b>r<sup>2</sup></b>	0.0256		0.9409
	<b>P.E.</b>	0.2939		0.0178
	<b>6P.E.</b>	1.7634		0.1068

## APPENDIX – VIII

### i. Regression Equation of Net Profit on Loans and Advances of NBL

#### Variables Entered/Removed<sup>b</sup>

Model	Variables Entered	Variables Removed	Method
1	Loans and Advances <sup>a</sup>		Enter

a All requested variables entered.

b Dependent Variable: Net Profit

#### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.169 <sup>a</sup>	.028	.295	734.25358

a Predictors: (Constant), Loans and advances

#### ANOVA<sup>b</sup>

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	47408.256	1	47408.256	.088	.786 <sup>a</sup>
	Residual	1617384.944	3	539128.315	.786	
	Total	1664793.200	4			

a Predictors: (Constant), Loans and Advances

b Dependent Variable: Net Profit

#### Coefficients<sup>a</sup>

Model		Un standardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	242.825	2105.010		.115	.915
	Loans and Advances	.039	.133	.169	.297	.786

a Dependent Variable: Net profit

ii. **Regression Equation of Net Profit on Loans and Advances of NABIL**

**Variables Entered/Removed<sup>b</sup>**

Model	Variables Entered	Variables Removed	Method
1	Loans and Advances <sup>a</sup>	.	Enter

a All requested variables entered.

b Dependent Variable: Net Profit

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.968 <sup>a</sup>	.936	.915	55.88531

a Predictors: (Constant), Loans and Advances

**ANOVA<sup>b</sup>**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	137361.297	1	137361.297	43.981	.007 <sup>a</sup>
	Residual	9369.503	3	3123.168		
	Total	146730.800	4			

a Predictors: (Constant), Loans and Advances

b Dependent Variable: Net Profit

**Coefficients<sup>a</sup>**

Model		Un standardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	238.510	76.955		3.099	.053
	Loans and Advances	.027	.004	.968	6.632	.007

a Dependent Variable: Net Profit