

**A COMPARATIVES ANALYSIS OF PROFIT PLANNING
PRACTICE IN HIMALAYA BANK LTD AND
NEPAL INVESTMENT BANK LTD.**

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A Thesis Submitted to:

Office of the Dean
Faculty of Management
Tribhuvan University

In partial fulfilment of the requirements for the degree of
Master of Business Studies (M.B.S.)

Pokhara
August, 2010

RECOMMENDATION

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A COMPARATIVES ANALYSIS OF PROFIT PLANNING PRACTICE IN HIMALAYA BANK LTD AND NEPAL INVESTMENT BANK LTD.

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A COMPARATIVES ANALYSIS OF PROFIT PLANNING PRACTICE IN HIMALAYA BANK LTD AND NEPAL INVESTMENT BANK LTD.

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

Master of Business Studies (M.B.S.)

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ACKNOWLEDGEMENTS

The present study Comparative Analysis of Profit Planning Practice in Himalayan and Nepal Investment Bank Ltd. has been prepared for the partial fulfillment of the requirement for Master's Degree of Business Studies (M.B.S) from Tribhuvan University. The main contribution of this study lies in explaining and exploring the Profit planning practice in Himalayan and Nepal Investment Bank Ltd. as a tool of Profit Planning. This study will help to improve the skill for Profit planning and controlling. In addition, it is also useful for them who want to know about the practice of Profit planning in commercial bank.

I would like to express my sincere gratitude to my thesis advisors Mr. Dhurba Budhathoki who guided throughout research work with providing valuable suggestions, supports and supervision. Without these remarkable help and guidance, this thesis would not have come in this form.

I would like to express hearty thanks towards staff specially librarian and Concern Banks HR Staffs for providing required data for the analysis. I am also pleasant to express my thanks to staffs of libraries of Prithwi Naryan Campus. I would like to express my sincere thanks to all, who had supported me to complete this study.

Finally, debt of gratitude is to my family and colleagues for their outstanding encouragement to conduct this study.

August, 2010

Khim Giri
(Researcher)

TABLE OF CONTENTS

Acknowledgements

Chapter	Page
I. INTRODUCTION	1-25
General Background	1
History and development of bank	5
History of Banking	6
Importance of financial institutions (Bank)	7
Banking History of Nepal	7
Concept of Profit Planning	11
Profile of Himalayan Bank Limited	13
Profile of Nepal Investment Bank Ltd.	18
Statement of the Problems	23
Objective of the Study	24
Significance of the Study	24
Limitations of the Study	25
II. REVIEW OF LITERATURE	26-46
Meaning and Definition of Profit Planning	26
Origin of Comprehensive (Profit) Planning	29
Purpose of Comprehensive Profit Planning	30
The Basic Elements of Comprehensive Profit Planning	31
Application of Comprehensive Profit Plan	31
Advantages of comprehensive profit planning	32
Limitation of Comprehensive Profit Planning	34
Review of Journals	35
Review of the Previous Dissertations	38
Research Gap	46
III. RESEARCH METHODOLOGY	47-49
Introduction	47
Research Design	47
Population and Sample	48
Sources of Data	48
Research Variables	48
Tools and Techniques	49
IV. DATA PRESENTATION AND ANALYSIS	50-101
Introduction	50
Resources Deployment	58
Expenditure planning of HBL and NIBL	70

Revenue Planning of HBL and NIBL	77
Performance Evaluation of HBL and NIBL	86
Major findings of the study	99

IV. SUMMARY, CONCLUSIONS AND

RECOMMENDATIONS 102-106

Summary	102
Conclusions	103
Recommendations	105

BIBLIOGRAPHY

APPENDICES

LIST OF TABLES

Table	Page
1.1 Capital Structure of HBL	15
1.2 Shareholder structure of HBL	16
1.3 Shareholder structure of NIBL	19
1.4 Capital Structure of NIBL	19
1.5 Board of Director of NIBL	20
4.1 Status of Personnel in HBL and NIBL	50
4.2 Status of budgeted and actual deposit collection	53
4.3 Result of Statistical analysis of Deposit Collection	54
4.4 Movement of Deposit collection of HBL and NIBL	56
4.5 Other Resources of HBL and NIBL	57
4.6 Status of Resources Deployment of HBL and NIBL	60
4.7 Comparative Table showing Budgeted and Actual Loan, Discounted, Overdraft of HBL and NIBL	62
4.8 Summary of budgeted LDO and achievement	64
4.9 Status of Budgeted and Actual Deployment in other sector (NLDO)	65
4.10 Summary of NLDO of HBL and NIBL	67
4.11 Status of LDO VS Actual Deposit of HBL and NIBL	67
4.12 Summary of actual deposit and Actual O/S LDO	70
4.13 Status of Expenditure of HBL and NIBL	71
4.14 Status of Average cost of Deposit	74
4.15 Status of provision for Doubtful Debts to LABP	76
4.16 Income structure of HBL and NIBL	78
4.17 Status of Average Return of LABP	80
4.18 Result of statistical analysis of Interest Income to Total LABP.	81
4.19 Movement of Interest Margin of HBL and NIBL	82
4.20 Status of Burden of HBL &NIBL	84
4.21 Showing the status of Profit & Loss of HBL and NIBL	85
4.22 Current ratio of HBL and NIBL	88
4.23 Debt-Equity Ratio of HBL and NIBL	90
4.24 Calculation of Interest Coverage Ratio	91

4.25	Showing the activity ratio of HBL and NIBL	93
4.26	Profitability Ratio of HBL and NIBL	95
4.27	BEP in terms of Interest Margin	97
4.28	Showing the status of Margin of Safety of HBL and NIBL	98

LIST OF FIGURES

Figure	Page
1.1 Presentation of Capital Structure of HBL by Bar Diagram	16
1.2 Share holders Structure of HBL	17
1.3 Shareholders of NIBL	19
1.4 Presentation of Capital Structure of NIBL by Bar Diagram	20
4.1 Total Resources of HBL and NIBL	51
4.2 Budget and Actual Deposit Collection of HBL and NIBL	53
4.3 Multiple Bar diagram showing other Resources of HBL and NIBL	57
4.4 Line diagram showing other Resources of HBL and NIBL	58
4.5 Multiple Bar diagram showing Budget and Actual LDO of HBL and NIBL	63
4.6 Line diagram showing Budget and Actual LDO of HBL and NIBL	63
4.7 Multiple Bar diagram showing status of Budget and Actual NLDO of HBL and NIBL	66
4.8 Line diagram showing status of Budget and Actual NLDO of HBL and IBL	66
4.9 Multiple Bar diagram showing Actual Deposit and Actual LDO of HBL and NIBL	68
4.10 Line diagram showing Actual Deposit and Actual LDO of HBL and NIBL	69
4.11 Multiple Bar diagram showing Cost of Deposit	74
4.12 Status of provision of Doubtful Debts to Total LABP	77
4.13 Multiple Bar diagram showing status of Total interest income to Total LABP	81
4.14 Line diagram showing Interest Margin of HBL and NIBL	83
4.15 Line diagram showing the Burden of HBL and NIBL	84
4.16 Multiple Bar diagram showing the Net profit and Loss of HBL and NIBL	86
4.17 Multiple Bar diagram showing Current Assets and Current Liabilities	88
4.18 Line diagram showing Working Capital of HBL and NIBL	89
4.19 Multiple Bar diagram showing the Borrowing and Share Holder's Equity of HBL and NIBL	91
4.20 Trend Line showing Interest Coverage Ratio of HBL and NIBL	92
4.21 Multiple Bar diagram showing Margin of safety of HBL and NIBL	99

ABBREVIATIONS

ATM	:	Automatic Teller Machine
B.S/BS	:	Bikram Sambat
BOD	:	Board of Directors
C/D Ratio	:	Credit Deposit Ratio
CA	:	Current Assets
CL	:	Current Liabilities
COD	:	Cost of Deposit
CRR	:	Cash Reserve Ratio
EPS	:	Earning Per Share
F.Y/FY	:	Fiscal Year
GDP	:	Gross Domestic Product
HBL	:	Himalayan Bank Limited
HRD	:	Human Resource Department
LABP	:	Loan, Allowances and Bills Purchased
LDO	:	Loan, Discount and Overdraft
MBS	:	Master of Business Studies
MOF	:	Ministry of Finance
MPS	:	Market Price per Share
NIBL	:	Nepal Investment Bank Limited
NRB	:	Nepal Rastra Bank
O/S	:	Outstanding
PA	:	Performance Appraisal
PPC	:	Profit Planning and Control
RMOD	:	Resource Mobilize other than Deposit
ROA	:	Return on Assets
ROE	:	Return on Equity
YOF	:	Yield of Fund

CHAPTER I

INTRODUCTION

1.1 General Background

Profit is ultimate goal of every business organization. People involve in business for making profit. Profit is the planned and controlled output of management. By element profit is the difference of revenue and planning of cost. So, we can call it the comprehensive planning process. Profit also measures the success of business in any economy. If a firm cannot make profit, it cannot obtain or hold capital for very long period and it cannot secure and retain other resources, such as, materials, machines, manpower etc. In other words, the more profitable enterprises are more attractive to the holders of the available capital they have the money to buy the other needed resources. The point is that capital and other resources are scarce, they are allocated to the profit makers in roughly descending order of their profit potential. Our economy performs this allocation function through a relatively free and open market system.

The excess of income over expenditure is called profit. The word profit is brings for vision of reserves "Profit does not just happen, profits are managed"(Lynch a Williamson, 1992:125) the concept of profit is not new but the concept of planning and control is new word in business literature we can define profit planning and control is a tool of management used in profit making organization. The managerial skill which increase revenues and minimize the cost is called profit planning and control, profit planning and control involves long term commitment waiting for a reward which comes in future and always remains uncertain. Therefore, every planning entails some degree of uncertainty. So we can conclude profit planning and control is as an

organized and formal approach for realize the planning, synchronization and control responsibilities of management which provides guidelines to the overall managerial task.

Sound-controlled profit planning and control programs facilities the management to keep a level of profits which will make certain the continuation of the business and the accomplished of organization responsibilities. Profit planning is defined as an estimation and predetermination of revenue and expenses that estimates how much income will generate and how it should be spent in order to meet investment and profit requirements.

In non-manufacturing concerns like banks and financial institutions that provide service mostly accepting deposits and providing loans, they take the concept of profit planning and control as a new concept. PP is the priority area for decision making of every commercial bank. Good profit planning, if properly formulated and implemented in commercial banks, ensure the guarantee of successful financial results. So, success or failure depends upon proper formulation and implementation of PP.

There is wide deal of controversy about profit among the different sector experts. Some hold the view that entrepreneur is a special type of labour and profit is the special forms of wage. The entrepreneurs earn profit for organizing and coordinating the different factor of production for the purpose of production of goods and services. Profits are excess of income over cost of production. According to economist profit is business profit minus implicit costs. It means profit is the excess of revenues over the cost of doing business on the other hand, the definition given by accounting experts; profit is the residual of sales revenue minus explicit or accounting cost of doing business. This profit is the amount available for ownership or equity after payments are made to all other factors used by the firm.

Every business or institution is established on the definite goals and objectives. All the tasks performed by company according to their objectives. Mainly two types of institutions are established one is profit oriented and

another is service oriented. The financial institutions act as mediators by transferring the resources from the surplus to the deficits, which provides fuel to economic development of the country. Economic activities of a nation can't be carried forward without support of the financial institutions.

The descriptive term comprehensive profit planning and control can be used in the same context as: business budgeting, managerial budgeting and budgeting. The term comprehensive profit planning and control is defined as systematic and formalized approach for performing significant phases of management planning and control functions, specially, it includes:

1. The development and application of the broad and long range objectives for the enterprises.
2. The specification of enterprise goals.
3. A long range profit plan developed in broad terms.
4. A short range profit plan detailed by assigned responsibilities.
5. A system of periodic performance report detailed by assigned responsibilities follow-up procedure.

Planning is the first essence of management and all other functions are performed within the framework of planning, planning means deciding in advanced what is to be done in future. Planning starts from forecasting and predetermination of future events. Planning is the process of developing enterprise objectives and selecting future courses of action to accomplish them. It includes (Welsch, Hilton and Gordon, 2000, 4-5):

1. Establishing enterprise objectives.
2. Developing premier about the environment in which they are to be accomplished.
3. Selecting a course of action for accomplishing the objectives.
4. Initiating activities necessary to translate plans into action.
5. Current re-planning to correct current deficiencies.

Controlling is the process of assuring efficient performance to attain the enterprise objectives. It includes:

1. Establishing goals and standards.

2. Comparing measured performance against the established goals and standards.
3. Reinforcing successes and correcting shortcoming.

Profit plans are based upon estimates. Inevitably, many conditions you expected when the plan was prepared will change. Crystal balls are often cloudy. The further down the road one attempts to forecast the cloudier they become. In a year, any number of factors can change many of them beyond the control of the company. Customers economic fortunes may decline, suppliers prices may increase or supplier's inability to deliver may disrupt your plan.

The profit plan requires the support of all responsible parties. Sales quotas must be agreed upon with those responsible for meeting them. Expense budgets must be agreed upon with the people who must live with them. Without mutual agreement on objectives and budgets, they will quickly be ignored and serve no useful purpose. Finally, profit plans must be changed from time to time to meet changing conditions. There is no point in trying to operate a business according to a plan that is no longer realistic because conditions have changed.

Since, profit plan is flexible and depends upon the size of the firm so that the formats and rules regarding profit plans also vary according to the nature of business organizations. Profit plan is prepared within the environment of relevant variables and strengths and weaknesses. Organizational broad objectives are defined and these are specified in particular goals. Basic strategies are communicated to the line and staff managers. Time dimension is another important consideration on budgeting. Strategic long-range budget is prepared for more than a year, generally for five to ten years. Tactical short-range budget is usually prepared for one year, classified months or quarters. Difference between actual results and the budget may arise to indicate the necessity for corrective action, so as to assure the realization or the forward plan. Generally, two types of profit plans are generated conclusion is that for long-range objectives, strategic plans are

prepared and for short-range objectives. Tactical plans are developed. The types of budget or profit plans depend upon the nature of business entity, generally, for a manufacturing enterprise following plans are prepared:

1. Sales planning or sales budget.
2. Production plan or production budget.
3. Raw material purchase budget/
4. Inventory budget.
5. Labor budget.
6. Manufacturing overhead budget.
7. Selling and administrative expenses budget.
8. Cash budget
9. Capital expenditure budget.
10. Flexible budget.
11. Projected income statement.
12. Projected balance sheet.

1.2 History and development of bank

A Bank is an organization, the major function of which is to deal in money and credit. The main business of a bank is to pool the scattered idle deposits in the public and channel it for productive use. It collects deposits and invests or lends to those who stand in need of money. Bank, in other words, is a custodian of money received from the depositors. Hence, its responsibility towards the general public is pretty different than those who are involved in other types of trades and services. Modern day banks exhibit the trait more of a department with a wide range of financial products to offer.

Bank can be a person, a company or a firm, with a place of business, and must be involved in credit creation. The business of a modern day bank is not confined in borrowing deposits and lending advances only, it performs a host of other financial activities which has immensely contributed to achieve industrial and commercial progress of every country.

As per R.S. Sayers, "A bank is an institution whose debts are widely accepted in settlement of other people's debts."

As per Kent, "A bank is an organization whose principal operations are concerned with the accumulation of the temporarily idle money of the general public for the purpose of advancing to others for expenditure."

1.3 History of Banking

In the east, it is believed that banking was practiced at the time of "Manu" as it is referred in Manusmriti. There is an opinion that it was practiced during Chanakya's too, as banking has been mentioned in "Kautilya's Arthashastra", which is the first book on economics.

In the west, the history of banking begins in ancient Greece, Rome and Mesopotamia. The Lombards, who were originally from the plains of Lombardy of Northern Italy, introduced banking practice to England. These lombards brought this business to the city of London and their home, the Lombard street, is still the centre of British Banking. The Lombards, after a century or so of business in London, were eventually bankrupted because they lent money to kings who did not repay them.

After the Lombards, the goldsmiths practiced banking as a sideline to their normal activities in the bullion and jewellery fields. The early goldsmiths used to have large vaults, which were soundly built and heavily guarded. The person who deposited his surplus funds with the goldsmith became as a 'Depositor' and naturally paid for the privilege of having his money defended this way. These payments were called 'Bank charges'. The depositors who needed funds to pay wages or debts, could call at the bank and collect such surus as required.

Modern banks history begins from Bank of Venice established in 1157 A.D., Bank of Barcelona established in 1401, Bank of Genoa established in 1407, Bank of Amsterdam established in 1609 and Bank of England, which was established in 1964.

The ancestors of Modern day banks have been attributed to the merchants, the goldsmiths and the money-lenders.

1.4 Importance of financial institutions (Bank)

- Banks port the scattered deposits across the country and channel it is un productive use.
- Bank deposits are with draw able by cheque. Hence, it constitutes on important part of the total volume of money supply.
- Second banking system helps in flourishing healthy commercial and industrial activities of every country.
- Banks offer different types of loans and advances enabling manufactures to undertake new ventures, adopt new techniques, and introduce new means of production
- Banks actively participate in credit expansion and contraction which immensely influence the economy of a country.
- Banks transfer fund within and outside the country without any risks.
- Banks provide letter of credit and Guarantee facilities, which contribute in booting international trade to a great extent.
- Money lenders (sahu, mahajan, shroffs etc.) and Usurers charge heavy in a rents and cheat people, but bank being a legal entity, can be considered free from such exploitations.
- Banks provide lockers on rent for safe keeping of valuable documents and precious articles.
- Banks provide various card services, which have eliminated the difficulties and risks if carrying money.
- Banks offer services like collection of standing instructions, and various other agency functions.

1.5 Banking History of Nepal

Although the first step towards the establishment of a modern bank was taken as late as in 1937 A.D., it does not that banking in Nepal is of

recent origin. "Historically the banking system is traceable for back into dim ages of the past although the old chronicles contain at place obscure details, inaccurate figures and even impossible facts"(Panta, 1980, 117). However, "the history of banking and currency in the country becomes definite only from the fifth century that is in the Lichhavi period, when the first coins were minted"(Panta, 1980, 940)

In the history of Nepal, banking activities in ancient time can be inferred. Guna Kam Dev did rebuilding of Kathmandu in 723 from borrowing. In the Nepalese chronicle, it was recorded that Shankhadhar and Sudra merchant of Kathmandu introduced a new era known as Nepal Sambat in 879 or 880 A.D. after having paid all the outstanding debts in the country. This is considered to be an adequate basis for a logical inference that the money lending operations were in practice during that period.

The reign of Jayasthiti Malla is recognized as the glorious age for codifying the law relating to commercial transaction and immovable property. This reform "has left a lasting impression upon the Nepalese Nation of even today; and it is from about Raja Jayasthiti Malla reign onward that the granting of loans against immovable property must have more commonly, if not newly, practiced in the country" (Panta, 1964, 8). He also classified the people in 64 classes on the basis of their occupations, which included a class called "Tanka dhari" Meaning money dealers. This is lenders and bankers during the medieval period of Nepal. It is believed that money lending business, particularly for financing the foreign trade with Tibet, become quite popular during the reign of mallas, Advance for commercial transactions against personal security or merchandise, remittance service for foreign trade (with India and Tibet) and loans for personal use were common with the increases in demand for these services. A large number of personal talking to this business, demoralization crept in the profession and consequently, several type of malpractice becomes their favorable technique. Thus, cheating and fraud were common n the absence of any regular measure during the Malla period and onward. The unscrupulous money was known to have change

exorbitant rates of interest and other extra dues on loans advanced. Also people were facing great inconveniences in obtaining loans at reasonable terms.

Ranodip Singh, the prime minister for 8 years from 1877-1885, took a concrete step by establishing a government institution called “Tejarath” for supplying easy and cheap credit 5% interest to the public on the security of gold and silver ornaments. At the same time government servants also the privilege of taking loans from this newly established office, repayable in investment from their salaries at source.

In the overall development of banking system in Nepal, the “Tejarath Adda” may be regarded as the father of modern banking institutions, and for quite a long time it rendered a good service to general public as well as to the government servants. Later on, with the evolution of some kind of systematic banking the government's cashier office had the primary responsibility of handling government accounts but not the public account.

Only in 1937, during the time of Juddha Shamsher, even with the non-existence of a central bank, the first commercial bank of the country, Nepal Bank Limited (NBL) was established on November 15 (Kartik 30, 1994 B.S.). This marked the beginning of an era of formal banking in Nepal, thus “Tejarath” was replaced by a commercial bank. The establishment of NBL solved to the great extent the problem of commercial banking in Nepal. It made available facilities for depositing and borrowing money for commercial and agricultural pursuits. It also provided remittance facilities for settling internal and external transaction to create banking habit of the people, widening monished area and helped the government and business community in various ways.

Despite the above fact, the loan NBL was not in opposition to cope with all problems due to its limitation in respect of financial position and scope of business. “The credit needs of the people are still predominantly met by in dangerous money lenders and a very large portion of the productive activity of the community banking system” (Pant, cit. 115). In order to

overcome these difficulties the government establishment in 1956, the first Central Bank, “Nepal Rastra Bank” under the NRB Act of 1954. The setting up to this Central Bank marked another milestone in the history of growth of banking.

While the Nepal Bank Ltd. was facing the problem of utilization funds mobilized by it, the government came forward with a proposal to set a new commercial bank in public sector. Accordingly, to spread banking habits and to fulfill the growing credit requirements, state commercial bank, known as Rastriya Banijya Bank was set up on July 23, 1966. It contributes to the development of banking system, particularly in the remote areas lying in the hilly regions.

But these institutions could not properly fulfill the demand of public. There is a great needed of other commercial banks. So, Nepal has adopted the policy of economic liberalization to develop the economic condition through the participation of private sector equally on in the market on the area of industry, trade, business and banking. The government did amend the commercial banking Act 1974 in 1984 to increase competition between commercial banks, to develop their working capacity and also to open the foreign joint-venture banks. As per the provision made in this act, private sector, including foreign investor was given freedom in opening commercial banks.

S.N	Commercial Banks	Operation Date(A.D)
1	Nepal Bank Limited	November 15,1937
2	Rastriya Banijya Bank	January 23,1996
3	agriculture Development Bank Ltd	January 2,1968
4	NABIL Bank Limited	July 16,1984
5	Nepal Investment Bank Ltd.	February 27,1986
6	Standard Charted Bank Nepal Limited	January 30,1987
7	Himalayan Bank Limited	January 18,1993
8	Nepal SBI Bank Limited	July 7,1993
9	Nepal Bangladesh Bank Limited	June 5,1993
10	Everest Bank Limited	October 18,1993
11	Bank of Kathmandu Limited	March 12.1995
12	Nepal credit and Commerce Bank Limited	October 14,1996
13	Lumbini Bank Limited	July 17,1998
14	Nepal Industrial & Commercial Bank Limited	July 21,1998
15	Machhapuchhre Bank Limited	October 3,2000
16	kumari Bank Limited	April 3,2001
17	Laxmi Bank Limited	April 3,2002
18	Siddhartha Bank Limited	December 24,2002
19	Global Bank Limited	January 21,2007
20	Citizens Bank International Ltd.	June 21,2007
21	Prime bank Limited	September 24,2007
22	Sunrise Bank Limited	October 12,2007
23	Bank of Asia Nepal Ltd.	October 12,2007
24	Development credit Bank Limited	Upgraded in 2007
25	NMB Bank Limited	Upgraded in 2007
26	Kist Bank Limited	Upgraded in 2007

(Source: Nepal Rastra Bank)

1.6 Concept of Profit Planning

Profit is the reward for entrepreneurship for risk taking. Manager may say it is the return of good management profit created only by excising revege over the cost. Without sufficient amount of profit any firm cannot operate for a long period and cannot active it's objectives. It cannot secure and retain other reserves such as man, materials machine etc. So it is the lifeblood for any firm.

But profit does not just happen; it should be managed or planned. The technique of managing profit is called profit planning. Planning is the primary

function of managerial activity and it is a path to achieve the goal of any business organization. When management plans for profit for a certain period of time, it is called a profit planning. Profit planning is defined as an estimation and predetermination of revenue and expenses that estimates how much income will generate and how it should be spent in order to meet investment and profit requirements.

In non-manufacturing concerns like banks and financial institutions that provide service mostly accepting deposits and providing loans, they take the concept of profit planning and control as a new concept. PP is the priority area for decision making of every commercial bank. Good profits planning, if properly formulated and implemented in commercial banks, ensure the guarantee of successful financial results. So, successes or failure depends upon proper formulation and implementation of PP.

The main objective of the business firm is to maximize its profit as well as render service; profit plays the key role for achieving the objective of the organization. It is the main test of the individual firm's performance.

There is wide deal of controversy about profit among the different sector experts. Some hold the view that entrepreneur is a special type of labour and profit is the special forms of wage. The entrepreneurs earn profit for organizing and coordinating the different factor for the purpose of production of goods and services. Profits are excess of income over cost of production. According to economist profit is business profit minus implicit costs. It means profit is the excess of revenues over the cost of doing business. On the other hand, the definition given by accounting experts, profit is the residual of sales revenue minus explicit or accounting cost of doing business. This profit is the amount available for ownership or equity after payments are made to all other factors used by the firm.

Profit planning is also important aspect for the banking sector to increase their profitability situation. Commercial banks are profit-oriented institutions, their main function is to collect money, deposit from general public and lend it on profitable sector as a short-term loan. They also provide

long-term loan if parties are in good financial position. But sometime they failed to achieve their goal. This study is presenting the comparative analysis of profitability situation of Himalayan Bank Limited and Nepal Investment Bank Limited.

1.7 Profile of Himalayan Bank Limited

HBL is also one of the leading commercial banks of Nepal. It is the first commercial bank of Nepal with maximum share holding by the Nepalese private sector. Himalayan bank's head office is located in Tourist Centre of city, Thamel. The Bank at present has 10 branches in Kathmandu Valley, New Road, Maharajgunj, Bhaktapur, Patan, Banepa, Teku, Chahabil, Swoyambhu, and New Baneshwor. Besides 17 branches outside Kathmandu respectively in Hetauda, Bhairawa, Birgunj, Tandi, Biratnagar, Pokhara, Chitwan, Parsa, Dharan, Butwal, Nepalgunj, Ithari, Palpa, Dang, Trisuli, Baglung, Damak.

The Bank is also operating a counter in the premise of the royal palace. The bank has a very aggressive plan of establishing more branches in different parts of the country in the near future.

Himalayan Bank Limited (HBL) is celebrating its seventeenth anniversary since January 18, 2010. During last seventeen years, the bank has confronted various banking scenarios which are ever changing. The bank has been a pioneer in several banking innovations. "Power to lead" has been the slogan and this has truly been implemented when it came to serving the valued customers keeping in view their comfort, time and effort.

Himalayan Bank's Policy is to extend quality and personalized service to its customers as promptly as possible. All customers are treated with utmost courtesy as valued clients. The bank, as far as possible, offers tailor-made facilities to its clients to its customers, Himalayan Bank has been adopting innovative and latest banking technology. This has not only helped the Bank to constantly improve its service level but has also kept it prepared for future adoption of new technology.

Products and Services of HBL

Though Himalayan Bank is fairly young in terms of tenure of its operation, it has been the innovator in introducing many new products. To illustrate, the Bank has implemented up till the following new products now.

1. Deposits

The Bank has introduced a rich variety of deposit products that are designed to suit the needs of varied scale of customers. The bank offers deposit products like normal savings scheme backed by accidental death insurance scheme and specialized deposit products like premium saving Account and Millionaire Deposit Scheme that have basically revolutionized deposit marketing.

2. Credit Card

Living up to the image of being innovative and to the commitment of providing the best of modern banking services, Himalayan bank was the first to introduce card system in Nepal by launching Himalayan Bank proprietary card in 1994. The Bank has entered into agreements with Visa international and Master Card and brought out Nepalese Rupee and Dollar Cards in the Nepalese Market. Some of the products include Visa International Card, Visa prepaid Card etc. The bank has also established forward linkages whereby the card users can use ATMs, POS Terminals in all major urban centers in Nepal.

3. Safe Deposit Locker Service

Himalayan Bank lockers are amongst the safest place in town. The rates are competitive and the lockers are available in various sizes.

4. Himal Remit

Himal Remit is the online remittance transfer engine developed by the bank to cater to the remittance needs of the Nepalese working abroad to remit money back home. This product helped revolutionize the way remittance has been done in Nepal. The customers now have to pay very low amount of

commission on every transaction with the guarantee of receipt of funds on a real time basis. This product is currently available in the countries of the Gulf, Middle East and United Country. Work is underway to stretch this service to United States and Europe. The delivery channel of Himal Remit extends through hundreds of outlets located in almost all prominent cities, towns and villages of Nepal.

5. Treasury Service

Treasury Service is one of the strategic investment operations of the Bank. The Bank provides an array of services ranging from exchange rate negotiation to forward and future contracts. The bank uses online information portal of 'Reuters' to gather in-depth knowledge of foreign exchange markets and currency movements in the world market.

Historical Background of HBL:

Himalayan Bank Limited was incorporated in 1992 by the distinguished business personalities of Nepal in partnership with Employees provident fund and Habit Bank Limited, one of the largest commercial bank of Pakistan. Banks operation was commenced from 18th January 1993. It is the first commercial bank of Nepal with maximum share holding by the Nepalese private sector. Besides commercial activity, the Bank also offers industrial and merchant banking.

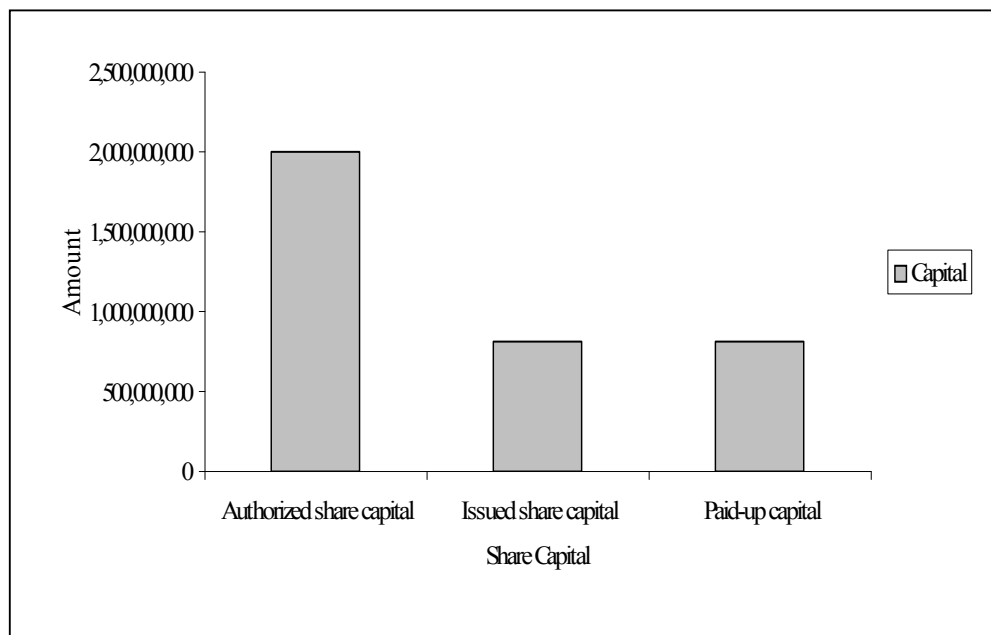
Capital Structure of HBL:

Table 1.1

Capital structure of HBL

Authorized share capital	2,000,000,000.00
Issued share capital	8,10,810,000.00
Paid-up capital	8,10,810,000.00

Each of the above capital has been divided into ordinary share of Rs.100 each.

Fig. 1.1**Presentation of Capital Structure of HBL by Bar Diagram****Shareholders Structure of HBL**

Himalayan Bank Limited has share capital worth NRS.810.85 Million.

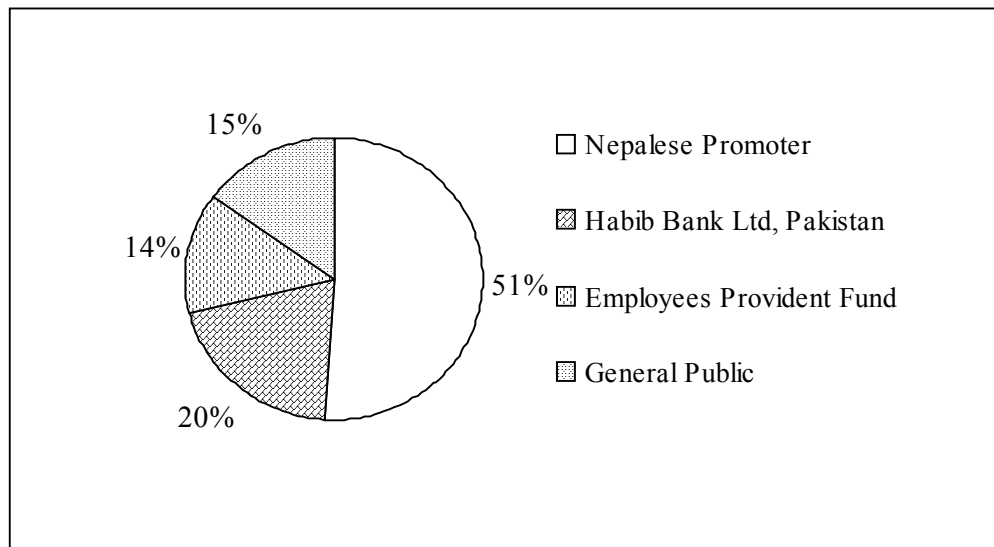
The share holder structure is as follows:

Table 1.2

Share holder structure of Himalayan Bank Limited

Structure	% Holding
Promoter's Share Holding	85%
Nepalese Promoter	51%
Habib Bank Ltd, Pakistan	20%
Employees Provident Fund	<u>14%</u>
<u>General Public</u>	<u>15%</u>
Total	100%

Figure 1.2
Share holders Structure of HBL



Vision:

Himalayan Bank Limited holds of a vision to become a leading Bank of the country by providing premium products and services to the customers, thus ensuring attractive and substantial returns to the stakeholders of the Bank.

Mission:

The Bank's Mission is to become preferred provider of quality financial service in the country. There are two components in the mission of the bank. Preferred provider and quality financial services. Therefore HBL believes that the mission will be accomplished only by satisfying these two important components with a customer at focus the bank always strikes positioning itself in the heart of the customer.

Objective

To become the Bank of first choice is the main objective of the Bank.

Awards and Achievements

Awards

- Number one bank of Nepal-2003, Awarded by the Bankers Almanac, Britain.
- Number one bank in Nepal-2006, Awarded by the Bankers almanac, Britain.
- National Excellence Award-2003, awarded by federation of Nepal Chamber of Commerce and Industry.

1.8 Profile of Nepal Investment Bank Ltd.

Nepal Indosuez Bank Ltd. was established in 1986 as a Joint Venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one of the largest banking group of the world.

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

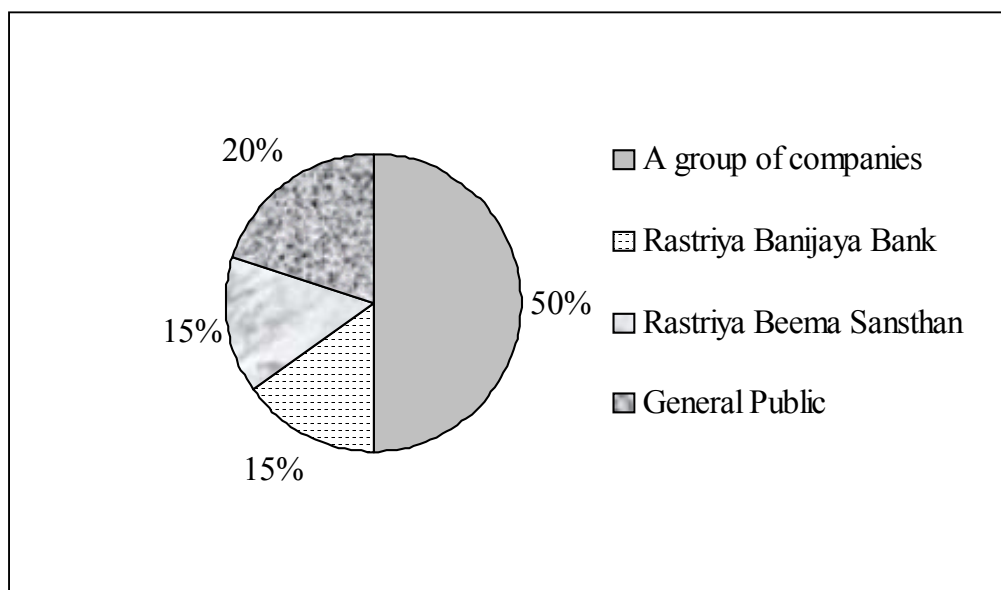
Nepal Investment Bank Ltd. functions on the rule provided by the Nepal Government and regulatory body of the bank. The main service to the bank is remittance service. it boasts of being one strongest centre of money transfer in Nepal. The bank has 30 branches all together and 78 remittance counter across Nepal. The chairman and CEO of the NIBL is Prithvi Bahadur Pandey.

The Name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting. Nepal Rastra Bank and Company Register's office with the following shareholding structure.

Table 1.3
Shareholder structure of Nepal Investment Bank Ltd.

Structure	% Holding
A group of companies	50%
Rastriya Banijaya Bank	15%
Rastriya Beema Sansthan	15%
General Public	20%
Total	100%

Figure 1.3
Shareholders of NIBL



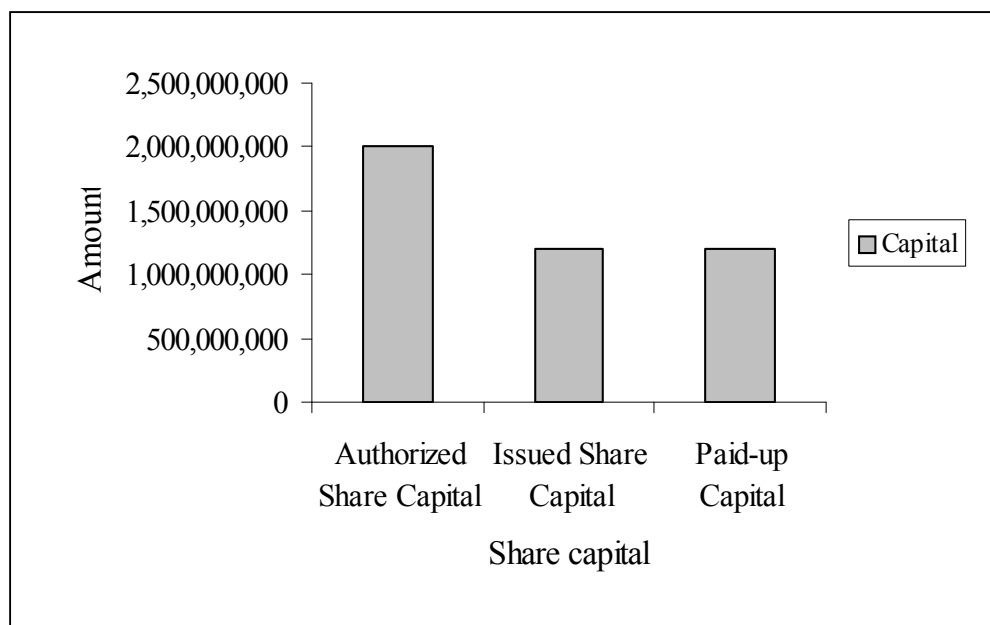
Capital Structure of NIBL

Table 1.4
Capital Structure of NIBL

Authorized Share Capital	2,000,000,000.00
Issued Share Capital	1,203,915,400.00
Paid-up Capital	1,203,915,400.00

Each of the above capital has been divided into ordinary share of Rs.100 each.

Figure 1.4
Presentation of Capital Structure of NIBL by Bar Diagram



Board of Directors of NIBL:

Table 1.5
Board of Director of NIBL

Chairman	Mr. Prithvi Bahadur Pandey
Director	Mr. Prjanya Raj Bhandari
Director	Mr. Deepak Man Serchan
Director	Mr. Krishna Prasad Sharma
Director	Mr. Surender Bahadur Singh
Director	Mr. Damodar Prasad Pandey
Director	Mr. Shiva Hari Shrestha

Vision

Our vision is to be the most preferred providers of financial service in Nepal.

Mission

To take ahead Nepal bank by delivering world class service through the combination of the state of Art, technology and management in

partnership with competent and capable staff and to achieve sense of financial health with supportable valuable addition to all its money holders.

Award and Achievements

Award

- Prestigious bank of the year-2003, Awarded by the London based financial Times Groups.
- Prestigious bank of the year-2005, Awarded by the London based financial Times Groups.
- Prestigious bank of the year-2008, Awarded by the London based financial Times Groups.
- Best presented account in the financial institution category in Nepal for the year 2001/02 and 2002/03.

Products and Services of NIBL

To develop a customer oriented services with special emphasis on customer care and convenience Nepal Investment Bank Ltd. launching different types of services to it's valued customer they are as follows:-

Deposits

The major services provided by NIBL is the deposit for each and every kind of customer such as saving accounts, current accounts and fixed account with different interest rate according to the deposit period and deposited amount.

Loans and Advances

NIBL provides loan and advances to the clients for different purposes according to the customers need. For this service bank charge certain percent interest for the different time period. For getting loan customer have to submit required document to pass loan.

Internet Banking Services

NIBL also provides internet services to its customer like other competitor of it provide to their customer. Through this customer can enjoy online banking service from any part of the world. Internet banking services make banking transaction easier to customer. Customer with the account in the bank can deal with account for 24 hours of the day with out any charge.

ATM Service

- NIBL provides the ATM services to it's customer through 78 outlays indeed and outside the valley in 24 hours of the day.
- Credit cards and VISA Debit card are two most ATM cards prevailing in NIBL. This gives NIBL another 1st electronic Debit card in Nepal by providing varied based customers with further flexibility in Nepal.

Remittance Service

Nepal Investment Bank Ltd. operating under the guidelines set by the government of Nepal and Nepal Rastra Bank, offers one of the safest and the most secured means of money transfer to Nepal, Remitters can send money to NIBL from any part of the globe through banks correspondent banks, exchange houses and bans in the middle east and using Prithvi Express, our in-house remittance software.

SWIFT Transfer

NIBL bank offer fast and reliable money transfer service through SWIFT. Our bank account with the bank can be credited with remittance from anywhere in the world. The remitter has to mention the NIBL SWIFT cord "NIBKLNPKT" and the beneficiary details to transfer money to Nepal through us. Customer can remit fund anywhere in the world denominated in major currencies through SWIFT.

Corporate Social Responsibilities of NIBL: Every year, NIBL invest in programs geared toward preserving our heritage, preserving education, health and sports as well as supporting the under privileged section of our society.

To begin with, NIBL garnered support for Kathmandu value preservation Trust (KVPT) to raise funds for the restoration and conservation of Patan Durbar/ Sundari chowk. The moment comes under UNESCO's world heritage sites and is in dire need of repairs. The total investment of NIBL for corporate social Responsibilities Stands at 85 Lakhs annually. NIBL has invested Rs 36 million into the shares of Micro finance Institution as long term investment in order to increase financial services outreach into rural Nepal.

1.9 Statement of the problems

Profit planning and control (PPC) model provides a tool for more effective supervision of individual operation and practical administration of business a whole. In our country, the industrialization and service business is still in its early stages therefore, the concept of profit planning has not even been familiar in the most of the business concerns including commercial banks. But the Commercial banks play vital role in economic growth of the country.

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

- Does Himalayan Bank limited and Nepal investment bank limited adopt appropriate profit planning system?
- Is profit planning practice of HBL and NIBL effective?
- What is the trend of overall performance of HBL and NIBL?
- How much is the difference between budgeted and actual performance of both banks?

1.10 Objective of the Study

This study is mainly concerned with budgeting system of Himalayan and Nepal investment bank limited. The fundamental objective of this study is to assess the budgeting system of Himalayan and Nepal investment bank limited:

- To examine the profit planning system of Himalayan and Nepal Investment Bank Ltd.
- To assess the effectiveness of profit planning practice of Himalayan bank and Nepal Investment bank Ltd.
- To analyze the trend of overall performance of Himalayan bank and Nepal Investment bank Ltd.
- To provide appropriate suggestion and recommendations for improvements of the overall profitability of the banks.

1.11 Significance of the Study

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

Profit planning is the heart of management. It tells us profit is the most important factor for judging overall managerial efficiency and profit is not

happen in the short period of time span. Various functional budgets and are the basic tools for proper planning of profit control over them.

Other research study may be useful for those who want to know PPC in the HBL and NIBL. It may also helpful for future researcher as a reference material. Profit planning is the most useful technique for the analysis the profitability and its performance. Hence, this study provides the guideline for the technique of profit planning in banking sectors.

1.12 Limitations of the Study

This study is focused on comparative profit planning of HBL and NIBL. So, it believes the past “Patterns” and “trends” of banks report will recur in the future and can therefore be used for prediction purpose. Nothing is out from the limitation; this study is not exception from this. Here researcher has tried to eliminate as far as possible yet here are some limitations:

- The study focused on profit planning and its application in HBL and NIBL.
- Since, the report is prepared in short time based on secondary data and some published sources, the outcome of the study may not be exactly, this study covers the related data's of the bank from F/Y 2061/2062 to 2065/2066.
- In this study, the sample of HBL and NIBL is selected among all the commercial banks. But these may not represent the character of financial institutions.
- As detailed analysis and presentation requires enough time and high cost but due to financial and time constraint, this study couldn't use all the theory of profit planning.

CHAPTER II

REVIEW OF LITERATURE

The review of literature is basically reviewing of available literature in the field of comprehensive profit planning. The study reviews the following relevant literature of books journals and thesis.

2.1 Meaning and Definition of Profit Planning

Budget is a plan of the firm's expectation in future; planning involves the control and manipulation of controllable and non-controllable variables. A comprehensive plan reflects that all activities and operations are considered when it is prepared. The comprehensive planning is prepared after co-ordination of budget for various segments of an enterprise.

Comprehensive planning is an overall planning process and is an area in which the financial function plays major role. Profit plan is now an important responsibility of financial manager, while activities of these sorts require an accounting background. They also set heavily upon the knowledge of business principles, economics statistics and mathematics. Hence from companies or firms view profit planning efforts to continue profit-planning activities within the framework of accounting procedures would be determinate to the long-range interest of the firm.

Profit planning is the comprehensive plan expressed in financial term by which an operating program is effective for a given period of time. It includes the estimate of the service activities and project comprising. The program is the resultant usable for their support.

Profit plan or budget is a comprehensive and co-coordinated plan expressed in financial terms for the operations and resources of an enterprise for some specific period in future.

Different scholars have defined profit planning differently according to their own view. Profit planning is very important for every organization because it leads an organization to ultimate success. Profit planning & control involves:

1. Development and application of board range objectives of the enterprises.
2. Signification of enterprise goal.
3. Development of a strategic long-range profit plan in board terms.
4. Specification of a tactical short-range profit plan detailed by assigned responsibility.
5. Establishment of a system of periodic performance reports detailed by assigned responsibilities.
6. Development of following procedures.

Profitability of a business firm or an organization is definitely a result of effective management. Management is a process consisting of planning, organization, staffing, leading and controlling all the financial and operating activities of the firm. The process of preparing and using budget to achieve management objective is called budgeting. Comprehensive project planning and control is a new term in the literature of business though it is a new term but it is not a new concept in the management. The other term, which can be used in some context, is comprehensive budgeting.

Planning is the most important aspect in any business firm whether it is profit oriented firm. It is not only for maximizing the profit but also for improving management process. It provides guidelines to management, acts as signal light for the management, which enables the management to correct the policy. It has defined the role of management to achieve the objective of the organization. Without effective management the firm neither can maximize its profit nor can get success. Effective management is important for any kind of organization. Good management is essentials for the organization to achieve its goal, to because success and to run for a long

period. And for the good management process there require a plan for profit or profit planning and controlling process which direct management towards the success and objective of the firm. Profit plan contains mainly three budgets; they are operating budget, financial budget and appropriation budget.

The operating budget covers revenue and expenses budget i.e. sales budget, production budget, purchase budget, labour budget and other different budget. The financial budget covers the budgets balance sheet and supporting schedules. The appropriation budget covers expenditure on advertising and research.

Because of containing different budgets under profit planning and control the researcher can say it is a formal expression established by management for the concern as well as whole for each sub division. Although many people say that profit-planning process can be applied only in big organization, which is a profit making organization but all the enterprises especially those. Which are buried on various problems and with more than one supervisor can adopt this approach and rim very effectively.

“Budget may be developed in terms of varieties of quantities but finally they must be expressed in money unit.” (I.M. Pandey, 1992)

A comprehensive profit planning and controlling is a systematic and formalized approach for stating and communicating the firms, expectations and accomplishing the planning, co-ordination and control responsibilities of management in such a way to maximize the use of given resources.

“It is the only comprehensive approach to mange. So for developed that if utilized with sophistication and good judgments, fully recognizes the dominant role of the manager and provides a frame-work for implementing management as management by objectives, effective communication, participative management, dynamic control, continuous feedback, responsibility accounting, management by exception and managerial flexibility.” (Welsch. G, 2000)

The budget is applied to a system of management and accounting control by which all operations and output are forecasted as for ahead as

possible and actual results when known are compared with the budget estimates. The institute of cost and management accountants, England has defined budgetary control as the establishment of budget relating the responsibilities and executive to the requirements of a policy, and the continuous comparison of actual with budgeted results, either to secure by individual action the objectives of that policy or to provide a firm basis for its revision.

There is some kind of definition about PPC which are given by some authors which is as follows:

“A profit plan is the formal expression of the enterprise's plans and objectives, stated in financial terms for as specified future period of time.” (I.M. Pandey, 1992)

“A budget detailed quantitative plan to guide its operation in the near future.” (Lynch, Richard M., 1992)

“Profit does not just happen, profits are managed.” (Lynch, Richard. M. and William Son, Rober W., 1992)

“A budget is a comprehensive and co-ordinate plan, expressed in financial terms for the operations and resources of an enterprise for some period in future.” (Frengen, James H.M.)

2.2 Origin of Comprehensive (Profit) Planning

National budget for the fiscal year 1922/23 was prepared in USA towards the end of 1991 with the introduction of national budget in USA businessmen started realizing the importance of budgeting. National budget covers or implies on the following:

1. Forecast the probable future expenditure.
2. Analysis of the sources from which income is to be realized to meet the expenses.
3. Maintaining co-ordination between expenses and source of income.

During that time USA businessmen were not untouched by the difficulties and were also suffering from the problem of co-ordination

between expenses for material, rent and labor etc and receipt from sales, so they started thinking about adaptation of budget. Slowly and gradually they started adopting of budget. This can be considered as origin of PPC.

In 1932, the first book ever written in business budget was published in UK. The name of book was, “Business budget and budgetary control” written by A.W. Wilmore. This book is a collection of six articles written by him, which were published in “The Times” engineering supplement published between 5-12-1931 to 6-12-1932 but this philosophy could not gain popularity in UK before 1936.

Interest of British business was aroused by Mr. R. Dankerly who presented interesting reviews on several industries of USA, which was introduced and adopted budgeting at the sixth international engineering for scientific management, which was held in London in 1935. But actual popularity of PPC was gained after Marshall Plan.

2.3 Purpose of Comprehensive Profit Planning

A comprehensive profit planning and controlling is a systematic and formalized approach for stating and communicating the firms' expectation and accomplishing management in such a way so as to maximize the use of profit plan to achieve the maximum benefit from the resource available to an organization over a particular span of time. It is a tool for management control. It is the best source of communication and an important tool for management. The purposes of comprehensive profit planning or budgeting are as follows:

1. To state the firms expectation (goal) in clear and formal terms to avoid confusions and to facilitate their attainability.
2. To communicate expectation to all concerned with the management of the firm so that they understand, support and implement.
3. To provide details plan of action for reducing uncertainty and for its proper direction of individual and group efforts to achieve goals.

4. To co-ordinate the activities and efforts in such a way that the use of resources is maximized.
5. To provide a means of measuring and controlling the performance of individuals and units and to supply information based on which the corrective action can be taken.

2.4 The Basic Elements of Comprehensive Profit Planning

The basic elements of comprehensive profit planning are as follows:

1. Comprehensive and co-ordinate plan: Comprehensive planning is the plan for future expectation of firm's budget for all departments. It is prepared after coordinating them for various segments of the enterprise. That budget is known as comprehensive budget for profit planning.
2. Expressed in financial terms: Comprehensive planning is always quantified in financial terms. Initially budget must be developed in terms of various quantities, but finally they must be expressed in the monetary units i.e. Rupee, Dollars, Pounds etc.
3. Plan for operational resources and expenses: Comprehensive planning is a mechanism to plan for the firm's operations or activities. The two aspects of every operation are revenue and expenses related to specific operation. The planning for resource will include planning for assets and source of funds.
4. Long term future plan: Comprehensive planning should be meaningful only when it related to a specified period of time. The budget estimates will be relevant only for some specific period.

2.5 Application of Comprehensive Profit Plan

The comprehensive profit plan is used in the following ways:

1. Evaluating operations: Each time you prepare an income statement, actual sales and costs are compared with those you projected in your

original profit plan. This permits detection of areas of unsatisfactory performance so that corrective action can be taken.

2. Determining the need of additional resources such as facilities or personnel: For example, the profit plan may show that a sharp increase in expected sales will overload the company's billing personnel. A decision can then be made to add additional invoicing personnel, to retain an EDP service, or to pursue some other alternative.
3. Planning purchasing requirements: The volume of expected sales may be more than the business usual suppliers can handle or expected sales may be sufficient to permit taking advantage of quantity discounts. In either case, advance knowledge of purchasing requirements will permit taking advantage of cost saving and ensure that purchased goods are readily available when needed.
4. Anticipating any additional financing needs: with planning, the search for needed funds can begin as early as possible. In this way, financial crises are avoided and financing can be arranged on more favorable terms.

2.6 Advantages of comprehensive profit planning

Comprehensive profit planning offers many advantages to your business. The modest investment in time required to develop and implement the plan will pay liberal dividends late. Among the benefits that your business can enjoy from profit planning are the following:

1. Performance evaluation: The comprehensive plan provides a continuing standard against which sales performance and cost control can quickly be evaluated.
2. Awareness of responsibilities: With the profit plan, personnel are readily aware of their responsibilities for meeting sales objectives, controlling, costs and the like.

3. Cost consciousness: Since cost excesses can quickly be identified and planned, expenditures can be compared with budgets even before they are incurred, cost consciousness is increased, reducing unnecessary costs and overspending.
4. Disciplined approach to problem-solving: The profit plan permits early detection of potential so that their nature and extent are known with this information; alternate corrective action can be more easily and accurately evaluated.
5. Thinking about the future: Too often, small business neglects to plan ahead; thinking about where they are today, where they will be next year, or the year after. As a result, opportunities are overlooked and crises occur that could have been avoided. Development of the profit plan requires thinking about the future so that many problems can be avoided before they arise.
6. Financial planning: The profit plan serves as a basis for financial planning with the information developed from the profit plan, you can anticipate the need for increased investment in receivables, inventory or facilities as well as any need for additional capital.
7. Confidence for lenders and investors: A realistic profit plan, supported by a description of specific steps proposed to achieve sales and profit objectives, will inspire the confidence of potential lenders and investors.
8. Comprehensive planning performance is more relevant than past performance. Since performance is based on historical factors, which are constantly changing.
9. Comprehensive Planning improves the quality of communication. The objectives, goal, plans, authority and responsibility of enterprise are clearly written and communicated through comprehensive planning to all individuals in the enterprise, which can be better to all among managers and subordinates of enterprise.

10. Comprehensive planning helps to optimize the use of the firm's resources i.e. capital and manpower.
11. Comprehensive planning increases the morale and the productivity of the employees by seeking their meaningful participations in the formulation of plan and policies, bringing harmony between individual's goals and the enterprise objectives.
12. Comprehensive planning develops an atmosphere of profit mindedness and cost consciousness. Comprehensive planning focus management attention a significant matters through budgetary reports, it facilitates management by exception and save management time and energy considerably.
13. Comprehensive planning measures efficiency, permits management self-evaluation and indicates the progress in attaining the enterprise objectives.

2.7 Limitation of Comprehensive Profit Planning

Comprehensive plans are based upon estimates. Inevitably, many conditions you expected when the plan was prepared will change. Crystal balls are often cloudy. The further down the road one attempts to forecast, the cloudier they become. In a year, any number of factors can change, many of them beyond the control of the company. Customer's economic fortunes may decline, suppliers prices may increase or supplier's inability to deliver may disrupt your plan.

The profit plan requires the support of all responsible parties. Sales quotas must be agreed upon with those responsible for meeting them. Expenses budget must be agreed upon with the people who must live with them. Without mutual agreement on objectives and budgets, they will quickly be ignored and serve no useful purpose.

Finally, profit plans must be changed from time to time to met changing conditions. There is no point in trying to operate a business

according to a plan that is no longer realistic because conditions have changed.

Despite the limitations of profit planning, the advantages far outweigh the disadvantages. A realistic plan, established yearly and re-evaluated as changing conditions require will provide performance guidelines that will help you control every aspect of your business with a minimum of analysis and digging for financial facts.

2.8 Review of Journals

After the view of books, certain useful journals focusing either on profit planning or on banks are studied to know the recent trend and development and its implication on commercial banks.

Budgeting integrates all the functions of each department appropriately so every bank needs to prepare it. Mr. Nara Raj Chalise, personnel of NRB, also puts the same view on his published article on NRB Economic Review. He 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 year plans and annual programs. Planning should cover deposits, credit and profit and loan recovery." RBB has also separate planning department to perform the task of budget preparation. He adds, "Planning in commercial banks should start from below in the case annual program and from in that longer term of planning, such as the five year plan. In planning deposits, credits, profits and loan recovery, trends witness in the previous years should be qualified by new developments and annual target fixed accordingly." So, planning implementation is of no use. Proper implementation is the gateway of successful plans. Chalise advises, "Prompt corrective measures should be taken as a follow-up of each progress review. The success or failure in program implementation should be followed by reward or punishment." (Ibid) so that planning results in better implementation.

Mr. Narayan P1. Poudel (2053) puts his views that banks overall performances i.e. profitability is affected by the following factors.

- The structure of balance sheet and profit and loss account,
- Operating efficiency and internal management system,
- Managerial decision taken by the top management regarding interest rate, exchange rate, lending policies etc.
- Environment changes (technology, government, competition, economy).

“But my work doesn't cover every details” mentioned by poudel. However, this study is focused more in the analysis of deposits and investment that of RBB as those are prime factors of profit.

Answering what types of plan a bank should make, Mr. Maheshwor Man Shrestha (1989) writes, “Attention must be given to make a plan more practical at the time of formulation and more effective at the time implementation than towards making it more high sounding and attractive theoretically. It is along by a dedicated, courageous and purposive leadership along with and efficient and honest planning machinery that can create conditions suitable for economic development.” His concept regarding planning and implementation is more practical. The thing, which can be achieved, should be planned. This work will examine how practical the plans of RBB are.

Besides, Mr. Manohar K. Shrestha (2047) has emphasized in the classification of loan. So, as to enable to assets performing loans form non-performing loans, beginning has been made to classify loans under three categories good, substandard and doubtful loans. He add, “A clean-out criteria is necessary to threat interest suspense account and it is advisable that all interest unpaid more than six month needs to be treated as unearned income. Adequate provisioning is the surest way to get relief from sinking loan after careful consideration of portfolio risk? Mandatory provisions should not be linked with the duration of loan. Instead, provisions in case of

doubtful debts must cover from the very beginning. For bad loans, a less stringent provisioning policy should be adopted depending upon considerable of customer's situation and value of guarantees.” His other suggestions can be pointed out follows:

- No additional loan facilities should be granted to a customer of firm who has overdue loans of two years or more.
- Strong reservations should be applied in restructuring portfolio relating to over due loans.
- All credits even overdrafts should be given a maturity date and be subjected and doubtful loans.
- The professional credit committee must be formed and a board member must be appointed in that committee to have proper check and balance.
- No credit should be granted without presented of audited balance sheets and financial statements.
- An estimate of personal wealth and income becomes important while granting credit to individuals.

Every commercial bank will be resulted in better consequences if the apply these suggestions given by Shrestha. The more honestly one applies these concepts, the better change it brings in the life of bank. His views are the prime concern of any business organization, he adds, “Commercial documentary banks can shift focus on new field of business like syndicated loans, credit involving foreign trade guarantees given and received forward exchange operations etc.” Comparatively these functions need lesser cost but result in higher income. Every commercial bank should know their strength and weakness time and again which enables to utilize opportunities and avoid risk shrestha has advised it as. “One way to assess and evaluate the commercial banks lies in having through analysis of returns by establishing relevant ratios relating to solvency, liquidity, profitability and other relevant financial indicators.” (Word Development Report, 1989)

The role of capital in commercial banks is not as specific as it is in manufacturing ones. But it helps in crisis and strengthens the positions as WDR says, “Bank need capital to absorb unusual losses. The need to maintain an adequate capital to assets ratio exerts discipline on lending.” (World Development Report, 1989) It also says that there should set minimum guidelines for items not listed on the balance-sheet as guarantees and lines of credit.

Commercial banks should pay their attention towards liquidity. Though higher liquidity decreases the profitability of banks lower liquidity may make banks unable to run. Poudel says, “Liquidity is measured by the speed with which a bank assets can be converted into cash to meet deposit with drawers and current obligations, it also important in view of survival and growth of bank.”

These views of different figures have covered more aspects of profit planning commercial bank. I believe these views are applicable and useful to my research works since RBB has to devise appropriate financial goals to maximize for its ultimate success.

2.9 Review of the Previous Dissertations

Mr. Binod Kumar Sharma (2002), who summated the thesis on the topic “Profit planning is commercial Bank: A case study of Nepal Bangladesh Bank Ltd.” The objective of the study was to highlight the overall planning system and study the growth of business of the banks over the period. The major finding of the research was as following.

- It is observed that the bank is adopting a policy to keep minimum number of employee as possible. But has unnecessary long ladder at various levels without specific job description.
- Bank is currently operating with its 15 branch offices making it presence at almost all of the cities of the country. It is one of the banks, having highest branch network amount the joint venture, private bank in Nepal.

- Objectives of the bank are expressed in literacy form, and not specified clearly; therefore there is a danger of it being misinterpreted in the ways of one's benefit by the concerned.
- Major concentration of resources mobilization of the bank is at deposit mobilizations.
- Bank's resources development for non-yielding liquid assets (cash and bank balance) is increasing every year, which is determinants to profitability objectives, but it is supportive to meeting liquidity requirements of the banks.
- The interest expense of the bank is found increasing each year corresponding to increasing in deposit. The interest expenses are perfectly and positively correlated with deposit.
- Outstanding letter of credit liability of the bank is increasing every year however the growth is not consistent.
- The amount of interest income is increasing every year corresponding to increase LDO. There is a perfect and positive correlation between interest income and LDO.

Mr. Kumar Raj Joshi (2004) has conducted research on the topic "Revenue planning and cash Management of Nepal Electricity Authority." The objective of the study was to elaborate the revenue planning procedure in Nepal Electricity Authority. The major findings of the research were as following.

- NEA has not adopted practice of preparing monthly budget.
- Target sales revenue is increased by small figure but the actual sale revenue is highly increased than budgeted in both internal and external sales market in the FY 2056/57.
- NEA has a practice to increase 10 percent in past year figure to forecast next years figure as a basis for forecast.
- Demand of electricity is too high in India.

- The analysis of category-wise unit shows that the achievements in domestic, non commercial, commercial and industrial categories are highly consistent. But the achievements in the remaining categories are fluctuating.
- Actual selling price of electricity is too high in domestic, non commercial.
- Category wise analysis of NEA shows that the major contribution of domestic and industrial categories to consumption of sales unit and increased in sales revenue.
- Net fixed assets and total assets turnover ratio shows that the huge amount has been invested to purchase fixed and current assets have not been utilized properly.
- Revenue per employee ratio indicates that the employee's contribution on revenue of NEA is in increasing trend.
- Return on assets and return on equity capital are very poor. It is observed that NEA is seriously suffering to maximum utilization of available sources. In other word, NEA must minimize the high operating cost.
- NEA's market is pure monopoly, it is continuously facing problem of liquidity and under capitalization due to the improper management of revenue and over due account receivables. The problems of liquidity have always been solved by foreign loans, but till when? If NEA had been able to manage revenue efficiently, foreign loan would have increased less rapidly, for its own sake and national interest.
- NEA is paying a huge amount of cash as interest on long-term loan, because of over loading of debt.
- The authority does not maintain its periodic performance reports systematically.

Mr. Uday Kishore Tiwari (2005) has conducted research on “Profit planning in commercial Banks: A case study of standard chartered Bank

Nepal Limited.” The main objective of this study was examining system of profit planning applied in Standard Chartered Bank Nepal Limited. Following were finding of the study.

- It is observed that the bank is adopting a policy to keep minimum number of employees as possible. But it has unnecessarily long ladder at various levels without specific job description.
- Bank has the policy to employ a academically highly qualified (first class M.B.S.) fresh candidates at management trainee, which may be considered as good aspect for future manpower building.
- Controlling functions of the branches are so far being carried out directly by head office, which may be difficult in the days to come because of its wide geographical strength.
- Objectives of the bank are expressed in literate form and not specified clearly; therefore these is a danger of it being misinterpreted in the ways of one's benefits by the concerned.
- Major concentration of resources mobilization of SC bank is at deposit mobilization. In this respect they are incurring higher cost towards deposit mobilization.
- Banks Resources deployment for no-yielding liquid assets (cash and bank balance) is increasing every year, which is detrimental to profitability objectives, but it is supportive to meeting liquidity requirements of the bank.
- Interest expenses amount is the highest among total expense items of the bank every year.
- Interest income amount of the banks is the highest among other income items in the total revenue.
- The other income of bank is also in increasing trend.
- The rate of growth of spread is higher than of burden the profitability of the bank is in increasing position.

Mr. Upendra Rawal (2005) has conducted a research in the topic “Profit planning in commercial Banks; a case study of Nepal Investment Bank Ltd.” The research of Mr. Rawal was mainly concerned with examining system of profit planning applied in NBL for the time period of five years i.e. FY 1999/2000 to 2003/2004 A.D. The following are major findings of the study.

- Bank is awarded by Bank of the year 2003 AD Nepal.
- Bank management policy is very strong. It kept minimum number of employees and highly qualified to maintain the job.
- The bank operated with only 11 branches in Nepal.
- The bank adopts always new technology.
- The bank is providing 365 days service and ATM service for the customers.
- The Bank provides funds for school. Social and community work.
- Customer deposit collection is the main resource mobilization of the bank.
- Loan, allowance and bills purchasing hold the highest output of resources, deployment.
- There is significant relationship between budget and Actual LABP.
- Bank's Actual deposit is higher than actual outstanding LABP. Hence, the coefficient of variation of actual deposit is higher than actual outstanding liability LABP.
- LABP holds the highest outlet of resources deployment among the various portfolios.
- Actual LABP are in increasing trend.
- There is perfect correlation between actual deposits and actual LABP.
- There is no continuity in letter of credit amounts. Its increase or decrease every year.
- Bank, guarantee, outstanding liabilities is increasing and decreasing every year.
- Interest expenses are the highest portion amount in other cost.

- Coefficient of variation of actual deposit is higher than of actual interest expenses.
- The highest revenue comes from the interest income among the other revenue.
- Actual outstanding LABP are more variable than interest income.
- The bank has high debt equity ratio, and average 2.14%
- The analysis of BEP shows that the bank figure is an earning trend will be encouraging if it can increase the revenue and decrease in burden.
- The analysis of cash flow that the strong position of bank.

Mr. Lekh Prasad Panta (2006) had conducted research on study on “A study of revenue planning in manufacturing Enterprise: A case study of Royal Drug Limited.” The main objective of this study was to find out the Revenue planning in Royal Drug Limited. Following were findings on that research.

- Organization goals and policies are set up by the top executive level management board in accordance with plan and policies of the RDL.
- A comprehensive and complete profit planning and budgeting is not in practice at RDL. Only some of budgets they use to prepare for budgeting. And these budgets are also prepared on ‘ad-hoc bases’ than systematic and realistic analysis.
- Regression line of actual sales achievement on budget shows negative relationship with budgeted sales and time series.
- From the personal interview and interaction; it is also found that RDL is suffering from short supply of Raw materials. Short availability of Raw materials has caused low production and also idle capacity.
- RDL has started to plan for capital expenditure. It is good sign for managing fixed assets and controlling investments in fixed assets.
- RDL has not classified all its costs into variable and fixed portion. Due to this it is impossible to monitor the costs incurred in RDL. All the cost has been classified on the basis of personal decisions as

manufacturing costs are variable costs and administrating costs are fixed costs.

- Sensitivity analysis revealed that operating activity of Royal Drugs Limited is highly sensitive over change in selling price compared to fixed cost and variable cost.
- Manpower planning of Royal Drugs Limited is weak because its ratio of actual sales per employee is decreasing over last five years.
- From different ratio analysis, it is found that liquidity or solvency and profitability ratios are very poor. These are indicating poor condition of RDL in respect to liquidity, productivity, and profitability.
- Flexible budget analysis showed that if Royal Drugs Limited operates i.e. makes sales and production at least at its 50% capacity, it will generate positive profit.

Mr. Sushank Kharel (2008) has conducted a research on “Profit planning of commercial Banks in Nepal: A comparative study of Everest Bank Limited, Nabil Bank Limited and Bank of Kathmandu Limited.” his objectives and major findings are as follows:

Objectives:

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

Some of major findings:

- The liquidity position of EBL is comparatively better than that of Nabil and BOK. In spite of the current ratio is average among the other two banks EBL has maintained the cash and bank balance to meet the customers demand.

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

2.10 Research Gap

Today's world is marketed by rapid changes and new developments as such researchers conduct a few years back may not be adequate to explain current phenomena. Thus continuous attempt needs to be under taken by new researcher to explore and expand our existing knowledge in the face of dynamism.

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

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

The main purpose of this chapter is to discuss the research methodology such as research design, population and sample, Data collection technique and analytical tools of the research study. It is widely accepted that research is simply the process of arriving at dependable solution to problem through the planned and systematic collection, analysis and interpretation of data. It is important tools for advancement of knowledge and accomplishment of purpose, thus research methodology is a way to systematically solve the research problem. It may be understood as science of studying how research is done scientifically (Kothari, 1998/Shakya 2008:57). Research methodology's a vital part of research study, describes the various sequential steps to be adopted by researcher in studying research problem along with the logical behind them.

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

3.2 Research Design

Research design is the plan, structure and strategy of investigation imagines obtaining answers to research questions and controlling various things. This study is an examination and evaluation of budget process in profit

planning program of Himalayan Bank and Nepal Investment Bank. However various functional budgets and other related accounting information's and statement of bank are the materials to analyze and evaluate the profit planning system of the Bank. Descriptive as well as analytical research designs have been adopted in this research. This is a case study research.

3.3 Population and Sample

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

3.4 Sources of Data

The data presented in this study are secondary type. The annual reports of the concerned banks are the major sources of data for the study. Besides the annual reports of the concerned banks, the following source of data can be used in this study.

1. NRB reports, publication of finance ministry.
2. Various publications dealing in the subject matter of the study.
3. Various articles published in the newspaper, journals and websites.

Annual report of the bank is collected from the concerned bank, especially from their corporate office. Reports of NRB such as economic bulletin, annual reports are collected from NRB head office. Some of data are collected from Central library at TU. As well as some data's are obtained from the various websites.

3.5 Research Variables

The research variable of this study is mainly related with the accounting statement of the bank. Interest income, non-interest income, total income, interest expenses, staff expenses, operating expenses, loan loss provision, deposit, loan and advance, investment, net worth, other assets etc are the research variables of this study.

3.6 Tools and Techniques

The study is confirmed to examine the comprehensive planning of Himalayan Bank and Nepal Investment Bank Ltd.; therefore the data have been managed, analyzed and presented in suitable tables, formats, diagrams, graphs and charts. Such presentation have been interpreted to analyze the presented data, which includes correlation coefficients, mean, standard deviation, coefficient of Variance, ratio analysis and cost volume profit analysis etc.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

In this chapter various elements and variables related with profit of HBL and NIBL are analyzed. This study is mainly focused on analysis of revenue collection, deposit, loan and advances, investment, assets etc. by using financial and statistical tools, such as mean, standard deviation, coefficient of variation, variance analysis, correlation analysis and ratio analysis. For this purpose, data of five-year period from F.Y.2061/062 to 2065/066 of HBL and NIBL are used.

4.1.1 Human Resources of HBL and NIBL

The following table shows the status of personnel of HBL and NIBL

Table 4.1

Status of Personnel in HBL and NIBL

Fiscal Year	2061/062	2062/063	2063/064	2064/065	2065/066
No. of employee in HBL	501	561	584	591	591
No. of employee in NIBL	353	390	514	622	766

Sources: Annual Report of HBL and NIBL.

4.1.2 Resources mobilization planning

The term resources have been used for the sources of fund required by the bank for its activities. Banks mobilizes their resources from the following sources:

- Deposit collection
- Loans and Borrowing from other
- Capital fund

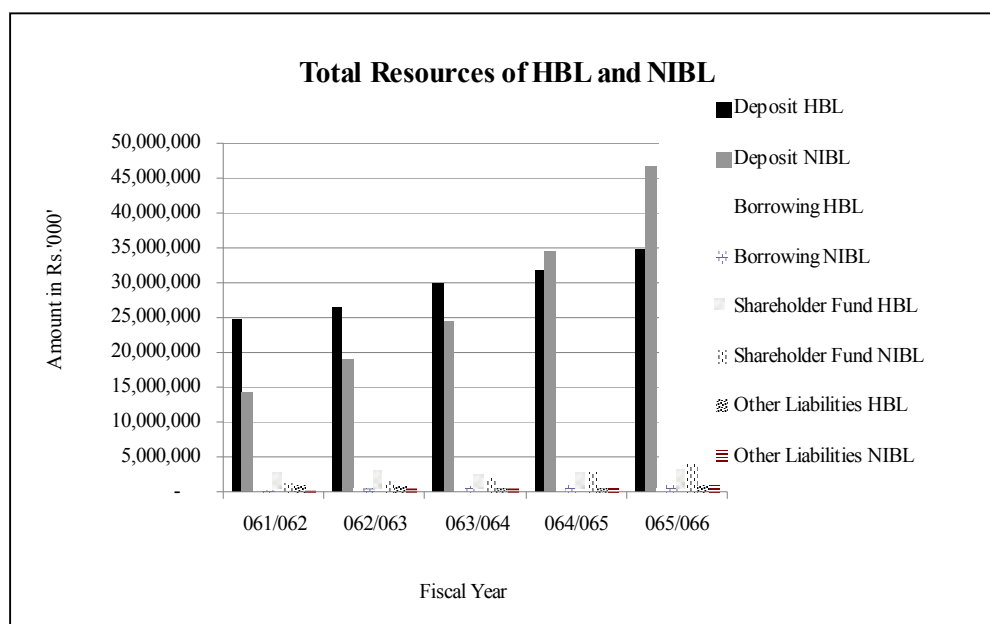
- Other fund(Other Liabilities)

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

The capital fund, which includes reserve fund also, is raised from shareholders equity. This is the net-worth of the bank capital fund of commercial bank is divided into two categories Viz. core capital and supplementary capital.

Following table shows the resources mobilized by the banks over the period of study. From the table, it was observed that the customer deposit collection contributes the major share in resources mobilization, which was more than 85%. The proportion of deposit collection was a bit equal however; the total amount of deposit collection was increased by substantial amount in both banks. Here the researcher going to present status of available resources of HBL and NIBL in tabular and chart form.

Fig. 4.1



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

- Customer Deposit Collection
- Other Resources.

4.1.3 Customer Deposit Collection

As deposit collection is major activities of commercial bank this is the importance source or resources mobilization. As per the data F/Y 2061/062 to 2065/066 the customer deposit is as high as 91.26% in the HBL and 88.76% in NIBL respectively. These deposits are collected from different sectors individual and corporate customer. Deposits are collected as per the banks rules some deposits are interest bearing and some are interest free the researcher has categorized the deposit in to two types is as follows:

1) Interest Bearing Accounts:

- a) Saving account
- b) Call deposit account
- c) Fixed deposit account
- d) Certificate of deposit

2) Interest Free Account :

- a) Current deposit account
- b) Margin deposit account
- c) Other deposit account

4.1.4 Deposit Collection Budget of HBL and NIBL:

Deposits are the main sources of fund for the banks, which are mobilized on loan, advances and investment. Deposit collected from general public. IF deposits are utilized properly, it will increase the profit of the bank. Both banks have prepared the plan for the deposit collection. The budgeted and actual deposit collection of HBL and NIBL are presented below:

Table 4.2
Status of budgeted and actual deposit collection

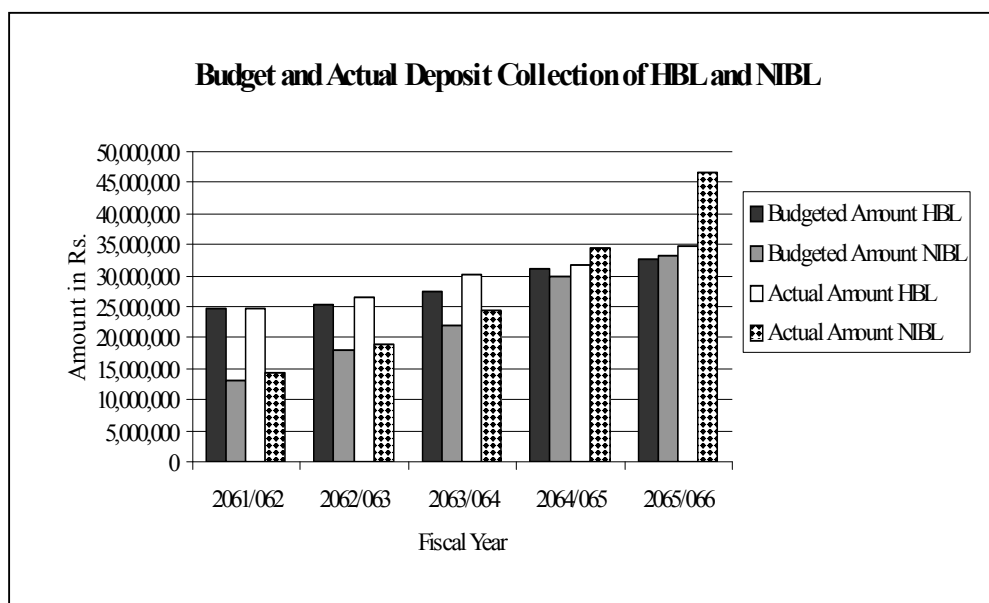
Amount in Rs. '000'

Fiscal Year	Budgeted Figure		Actual Figure		% Achievement	
	HBL	NIBL	HBL	NIBL	HBL	NIBL
2061/062	24,801,000	13,000,000	24,814,012	14,254,574	100.05	109.65
2062/063	25,391,500	18,000,000	26,490,852	18,927,306	104.33	105.15
2063/064	27,437,500	22,000,000	30,048,418	24,488,856	109.52	111.31
2064/065	31,225,000	30,000,000	31,842,790	34,451,726	101.98	114.84
2065/066	32,511,100	33,100,000	34,681,345	46,698,100	106.68	141.08

Source: HBL and NIBL Annual Report.

The above table shows the status of budgeted and actual deposit collection of HBL and NIBL. Both banks have achieved their objectives of deposit collection every year more than 100%. The base of preparing the budgets is the actual deposit collection the last year. The achievement range is more in NIBL rather than HBL. The data of table are presenting in bar diagram for the analysis purpose.

Fig. 4.2



The above bar diagram indicates that the deposit collection of the banks are regularly increasing trend except in 064/065 in HBL and 062/063 in NIBL. None of the business is perfectly running along with the budget. There could be variance seen in actual situation. The performance of both banks is not highly fluctuated. The performance achieved by the banks showed the bank was very capable and in satisfactory level. It was the symbol that the bank was capable to consistent expansion of its business and was not of aggressive planning of deposit collection.

The relationship between estimated deposit collections with the actual for the years study can be found out by using statistical tools such as arithmetic mean, standard deviation and coefficient of variation. The detail calculation of these statistical tools is shown in appendix 1. The summary of results of the calculation is presented below:

Table 4.3
Result of Statistical analysis of Deposit Collection

Statistical Tool	Amount in Rs. '000'			
	HBL		NIBL	
	Budgeted Deposit (x)	Actual Deposit (y)	Budgeted Deposit (x)	Actual Deposit (y)
Mean	28,260,000	29,560,000	23,220,000	27,780,000
Standard Deviation	3,083,000	3,568,000	7,440,000	11,614,000
Coefficient of Variation	10.91%	12.07%	32.04%	41.81%
Correlation Coefficient(r)	0.97		0.974	
Probable Error (PE)	0.0178(r>6PE)		0.0155(r>6PE)	

Source: Appendix no .1

The above table shows that actual deposits are more variable than budgeted deposits as the coefficient of variation of actual deposits is greater than budgeted deposit. It can be interpreted that the actual deposits are not consistence and homogeneous than the budgeted deposits in both bank. A greater coefficient of variation is said to be more heterogeneous. Here, HBL Budgeted and actual deposit is less variability than NIBL budgeted and actual deposit in earlier year.

Researcher can use another statistical tool Correlation coefficient to analyze the relationship between budgeted and actual deposits. There should be positive correlation between budgeted and actual deposits. Researcher can take the help of Karl Pearson's coefficient of correlation to find correlation between actual deposits and budgeted deposits. Karl Pearson's coefficient or correlation is denoted as 'r'. By calculating 'r', researcher can examine whether correlation between budgeted deposits and actual deposits are positive or not. The value of 'r' ranges from -1 to 1 if the value of 'r' is -1 then the relation is perfectly negative and if the value is 1 then the relation is perfectly positive, where as '0' value will denote no relation at all. The actual deposit will change in the same direction, as budgeted deposits if the correlation value is near to 1. For this purpose budgeted deposits are denoted by 'x' an independent variable and actual deposits be denoted by 'y' a dependent variable upon budgeted deposits. So that increase in budgeted in support to increase in actual achievement or vice versa, this meant that there should be positive correlation between budgeted figure and achieved figures in both banks.

The calculated value of 'r' for budgeted and actual deposit collection is 0.974 in NIBL and 0.97 in HBL. This figure of 'r' shows that there is positively perfect correlation between budgeted deposit and actual deposit and Probable Error (PE) is 0.0155 in NIBL and 0.0178 in HBL which is also greater than six times of probable error (6PE), the value of 'r' is more significant. So, it is not doubtful that actual deposits will go on same direction that of budgeted deposits in both banks.

4.1.5 Movement in Deposit collection of HBL and NIBL:

Table 4.4

Movement of Deposit collection of HBL and NIBL

Fiscal Year	Deposit Amount		Growth in Amount		Growth in Percentage	
	HBL	NIBL	HBL	NIBL	HBL	NIBL
2061/062	24,814,012	14,254,574	-	-	-	-
2062/063	26,490,852	18,927,306	1,676,840	4,672,732	6.76%	32.78%
2063/064	30,048,418	24,488,856	3,557,566	5,561,550	13.43%	29.38%
2064/065	31,842,790	34,451,726	1,794,372	9,962,870	5.97%	40.68%
2065/066	34,681,345	46,698,100	2,838,555	12,246,374	8.91%	35.55%

Source:

The above table shows the growth trend of deposit collection of HBL and NIBL. F/Y 2061/062 is the base year for the growth calculation. In f/y 2062/063 the deposit collection increased by 6.76% in HBL and 32.78% in NIBL in comparison with f/y 2061/062. The amount of deposit collection is in increasing trend where as the increasing percentage is fluctuating as a result in f/y 2064/065 the percentage has decrease in 5.97% from 6.76% of f/y 2062/063 in HBL and in f/y 2063/064 NIBL has 29.38% from 32.78% of f/y 2062/063 the trend of growth is 8.91% in HBL and 35.55% in NIBL with comparison of f/y 2064/065.

4.1.6 Other Resources of HBL and NIBL

Other resource of HBL contributes 11.7% where as 11.38% on NIBL in total resources of the banks. It is formed of shareholder fund and other liabilities except deposit collection. The budgeted and actual other resources of HBL and NIBL are presented in the following table

Table 4.5
Other Resources of HBL and NIBL

Amount in Rs. '000'

Fiscal Year	Budgeted Amount		Actual Amount		Achievement	
	HBL	NIBL	HBL	NIBL	HBL	NIBL
2061/062	4,287,230	2,000,000	4,057,331	1,808,969	94.64%	90.45%
2062/063	4,298,320	1,500,000	4,088,956	2,402,832	95.13%	160%
2063/064	4,296,830	2,500,000	2,876,567	3,101,990	66.95%	124%
2064/065	4,889,970	4,000,000	3,947,865	4,421,580	63.15%	110.54%
2065/066	5,084,328	4,150,000	4,638,977	6,312,703	91.24%	152.11%

Source: Annual report of HBL and NIBL.

The above table shows that in the given budgeted amount, the achievement level in mobilizing the resources from other than customer Deposits was in range of 63-95% in HBL and 90-160% in NIBL respectively. The achievement trend of other resources is in fluctuating trend. Both banks have highest achievement in F/Y 2062/063 likewise budgets are prepared but the actual figure doesn't match accordingly. Below 100% achievement indicate the lower achievement and more than 100% indicate the higher achievement of budgeted figure. The status of resources other than deposits presented in Bar and Scatter diagrams.

Fig. 4.3

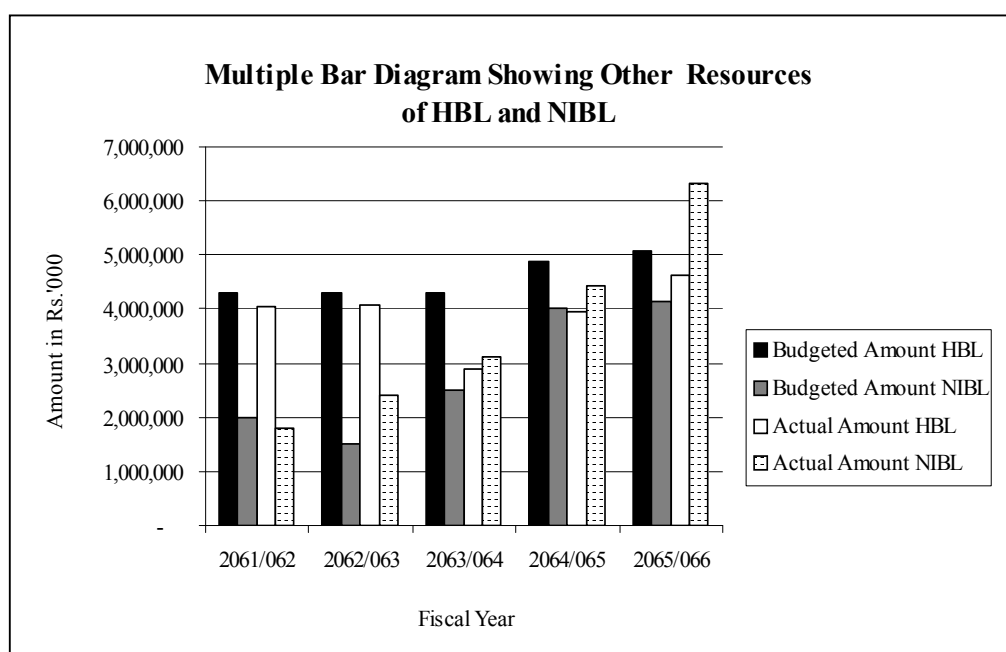
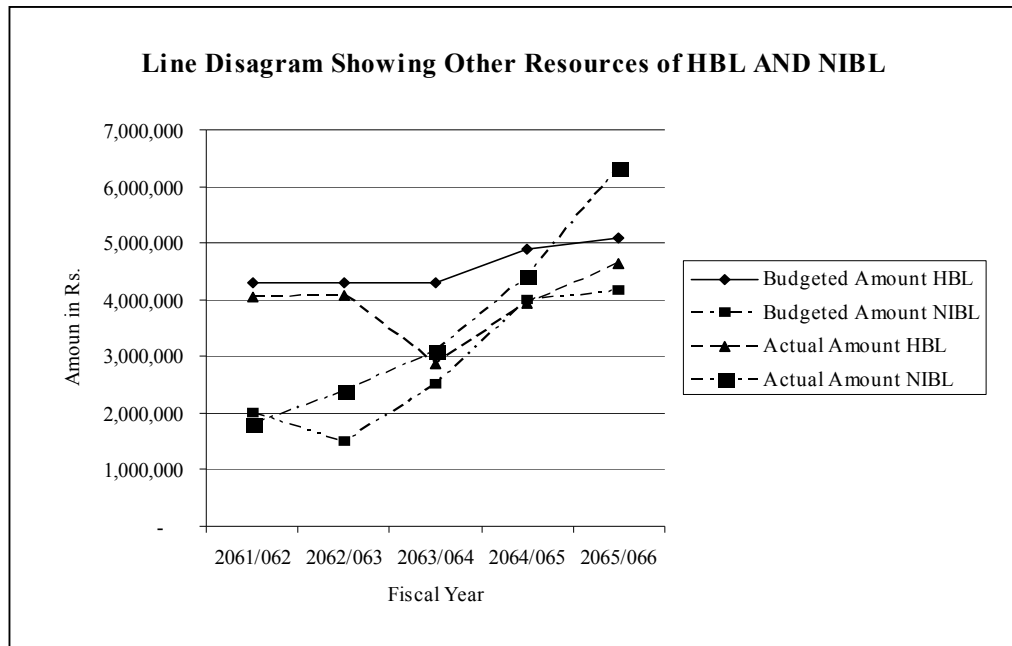


Fig. 4.4



From the above table and Diagrams we can find the status of budgeted and actual resources of HBL and NIBL. Due to the bank policy to decreasing borrowings and to decrease debt ratio and increase capital fund and reserve fund RMOD is fluctuating in HBL where as NIBL was adapting the same policy but its RMOD is still higher than budgeted amount so, NIBL is still adopting higher debt financing.

4.2 Resources Deployment

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

a) Deployment to Maintain Liquidity Position:

Liquidity need to be maintained for the purpose of payment of withdrawals from deposit amount and payment for other liabilities and

expenses. The liquidity can be maintained in terms of cash in vault and balance in bank. The return on such amount may be nominal or no return at all. The central bank of Nepal NRB has instructed to commercial bank to maintain certain liquidity as per their deposits. The liquidity position should be maintained as required higher the liquidity can't give effective return and lower the liquidity became failure to repay the deposit.

b) Deployment of income generating Activities:

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

- Loan, Discount, Overdrafts(LDO)
- Other Investment

LDO refers loan, Advances, O/D, Bills purchase & Discount and other loan which generates income in terms of interest other investment includes, investment in securities, Treasury bill etc.

➤ **Deployment of other assets**

This includes the deployment of the resources toward the non yielding assets such as fixed assets, other capital expenditure subject to write off in future course of time, income receivable; advance payments, sundry debtors etc. following table shows the status of resources deployed by the banks over the period of study.

Table 4.6
Status of Resources Deployment of HBL and NIBL

Amount in Rs. '000'

Fiscal Year	Cash & Bank				Investment & Money Received at call				Loan and Advance				Fixed Assets				Other Assets				Total	
	HBL	%	NIBL	%	HBL	%	NIBL	%	HBL	%	NIBL	%	HBL	%	NIBL	%	HBL	%	NIBL	%	HBL	NIBL
2061/062	2,014,471	6.98	1,340,481	8.18	11,692,342	40.50	4,074,189	24.86	13,892,249	48.12	10,453,164	63.70	295,822	1.02	320,592	1.96	976,459	3.38	202,226	1.23	28,871,343	16,390,652
2062/063	1,717,352	5.62	2,335,521	10.75	10,889,031	35.61	5,672,869	26.10	16,767,257	54.83	13,178,152	60.64	540,825	1.77	343,450	1.58	665,343	2.18	201,090	0.93	30,579,808	21,731,082
2063/064	1,757,341	5.24	2,441,514	8.70	13,533,008	40.37	6,868,650	24.47	16,997,997	50.71	17,769,100	63.19	574,060	1.71	759,456	2.70	656,734	1.96	234,797	0.84	33,519,140	28,073,517
2064/065	1,448,143	4.00	3,754,942	9.53	13,858,706	38.31	6,874,024	17.44	19,497,520	53.90	27,529,305	69.86	795,310	2.20	970,092	2.46	575,853	1.59	277,597	0.71	36,175,532	39,405,960
31 19/66	3,048,527	7.75	7,918,003	14.94	9,881,485	25.13	7,399,812	13.96	24,793,155	63.05	36,241,207	68.37	952,196	2.42	1,060,752	2.00	644,960	1.64	391,028	0.74	39,320,323	53,010,802

Source: Annual Report of HBL and NIBL.

The LABP was the major area for deployment of resources of the banks, and it held the largest outlet of total resources deployment. It covers around 54% of total deployment of resources in HBL where as it is more than 65% in NIBL. It has lowest deployment of 48.12% on F/Y 2061/062 and highest deployment of 63.05% on F/Y 2065/066 in HBL and in NIBL 60.64% on F/Y 2062/063 and 69.86% on F/Y 2064/065. Due to increase in deposit collection, the banks have to find the new investment areas for the deployment of resources.

After LABP, the second stands to investment & money received at call, this ranges between 25-40% in HBL and 13-26% in NIBL in 5 consecutive years. Both banks have been investing mainly the shares of different limited companies including the bank and financial institutions as its area for investment. The proportion did not change significantly but the amount of investment had been changed significantly in each year. The above tables also indicate that share of LABP and investment has inverse relation for utilization of resources in HBL and NIBL.

The proportion of other assets of the banks in total deployment of resources was 1.59-3.4% in HBL where as it is 0.71-1.23% in NIBL and fixed assets is range from 1-2.42% in HBL and 1.58-2.70% in NIBL respectively.

From above analysis, it could be said that the banks have increasing deployment of resources significantly. As all the deployment areas were increasing about equal rate, the proportion of these deployment areas remained a little bit unchanged. The findings of this study show that there is minimal fluctuation. Both banks could able to maintain balance the cash and bank balances within limit prescribed by NRB guidelines of at least of 10% of deposit collection. Likewise, LABP and Investment are major deployment sector of the banks so, if LABP increase then investment decrease and vice versa. The poor management of resources is the main reason of fluctuation of deployment.

In this study, researcher has segregated the deployment in two parts. These are as follows:

- Deployment in LDO
- Deployment in other sector(NLDO)

4.2.1 Budgeted and Actual LDO of HBL and NIBL:

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

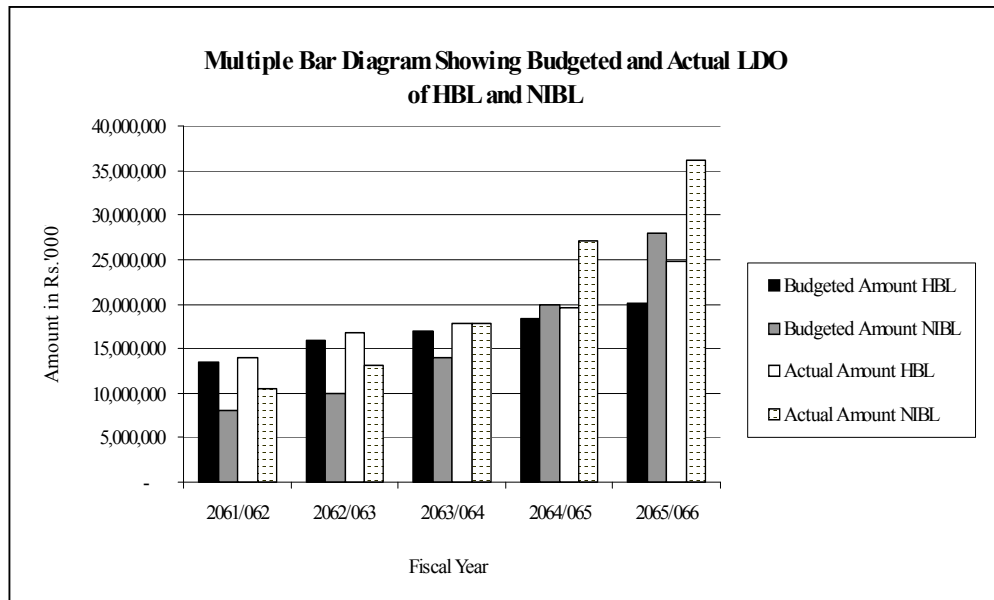
Table 4.7
Comparative Table showing Budgeted and Actual Loan, Discounted,
Overdraft of HBL and NIBL
Amount in Rs ‘000’

Fiscal Year	Budgeted Amount		Actual Amount		Achievement	
	HBL	NIBL	HBL	NIBL	HBL	NIBL
2061/062	13,482,580	8,000,000	13,892,249	10,453,164	103.04%	130.66%
2062/063	15,872,580	10,000,000	16,767,257	13,178,152	105.64%	131.78%
2063/064	17,026,621	14,000,000	17,793,724	17,769,100	104.51%	126.92%
2064/065	18,395,168	20,000,000	19,497,520	26,996,652	105.99%	137.65%
2065/066	20,100,000	28,000,000	24,793,155	36,241,207	123.35%	129.43%

Sources: Annual Reports & Budget Statement of HBL and NIBL.

Above table shows that status of budgeted and actual LDO of HBL and NIBL. The actual achievement of LDO is more than 100% in both banks. The investment in LDO is increasing trend in terms of amount where as the achievement percentage with budgeted figure is fluctuating trend in both banks. The range of achievement over the five year is 103.04 to 123.35% in HBL and 126.92 to 137.65% in NIBL it shows that both banks have meet the targeted investment in LDO in every year ,but the achievement trend is not same increment trend. For the study purpose the figure of LDO are presented in Bar and Scatter diagram and draw some conclusion accordingly.

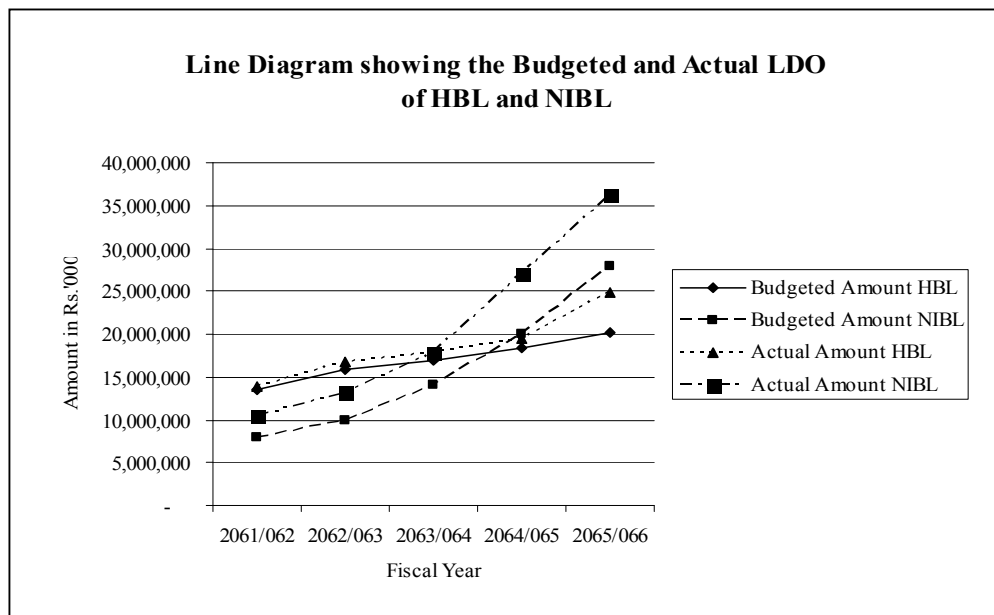
Fig. 4.5



The above bar diagram shows the trend of budgeted and actual deployment of resources in the sector of LDO. The trend of actual and budgeted deployment is increasing trend in the both banks. The actual achievements of LDO have met the budgeted LDO in every year. For the more analysis purpose the figure of budgeted and actual LDO in presenting in scatter diagram to show the relationship between budgeted and actual achievement throughout the study period.

The scatter diagram shows the status of budgeted and actual deployment of LDO of HBL and NIBL.

Fig. 4.6



The actual deployment in LDO is in higher position than budgeted LDO throughout the study period it means the scatter diagram shows that the relation between actual achievements is higher than budgeted LDO. It shows that both banks are perfectly operating to meet the business budget prepared based on business plan. The researcher is going to find the relationship between the budgeted LDO with that of actual for different years by the help of statistical tools. The summary of LDO budget and achievement are presented below.

Table 4.8
Summary of budgeted LDO and achievement

Statistical Tools	HBL		NIBL	
	Budgeted LDO(X)	Actual LDO (Y)	Budgeted LDO(X)	Actual LDO(Y)
Mean	16,980,000	18,560,000	16,000,000	20,940,000
Standard Deviation	2,237,000	3,611,000	7,266,000	9,469,000
C.V	13.17%	19.46%	45.41%	45.22%
r	0.963		0.9987	
P.E	0.0219 (r>6PE)		0.00468 (r>6PE)	

Source: Appendix no 2.

The above table shows that actual LDO are more variable in both banks than targeted LDO. Since the coefficient of variations of actual LDO is greater than targeted LDO in HBL whereas it is lower in NIBL, actual LDO are of variable nature. On the other hand budgeted LDO are more consistent and homogenous than actual LDO in HBL. A greater coefficient of variation is said to be more heterogeneous. Here NIBL actual and budgeted figures are more heterogeneous as compared with HBL. HBL actual LDO is more variability than budgeted LDO and in NIBL budgeted LDO is more variability than actual LDO.

We can use another statistical tool correlation co-efficient to analyze the relationship between budgeted and actual LDO. There should be positive correlation between budgeted and actual LDO. We can take the help of Karl Pearson's coefficient of correlation to find correlation between actual and

budgeted LDO. For this purpose budgeted LDO is denoted by X and actual LDO is denoted by Y respectively. Here X is independent variable and Y is dependent variable. Here the correlation between budgeted and actual is 0.963 in HBL and 0.9987 in NIBL it means the relation between budgeted and actual LDO are perfectly correlated. Significance of r is tested with PE we have $r > 6PE$ in both banks this means the value of r is more significant. So it is no doubtful that actual LDO will go on same direction that of budgeted LDO.

4.2.2 Resources Deployment on Other Sector (NLDO)

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

Table 4.9

Status of Budgeted and Actual Deployment in other sector (NLDO)

Amount in Rs.'000'

Fiscal Year	Budgeted Amount		Actual Amount		Achievement	
	HBL	NIBL	HBL	NIBL	HBL	NIBL
2061/062	14,715,160	5,500,000	14,979,094	5,937,488	101.79%	107.95%
2062/063	13,661,900	6,500,000	13,812,550	8,552,930	101.10%	131.58%
2063/064	14,908,213	8,000,000	14,811,120	10,304,417	99.35%	128.81%
2064/065	15,534,204	9,000,000	16,678,012	11,876,655	107.36%	131.96%
2065/066	16,256,000	10,100,000	14,527,167	16,769,596	89.36%	166.04%

Source: Budgeted and Actual Report of HBL and NIBL.

Above table shows the status of budgeted and actual deployment in other sectors than LDO (NLDO). The actual achievement of investment in other sector has more than the 100% except in F.Y 2063/064, 2065/066 in HBL. The rate of achievement is fluctuating trend over the study period. The range of achievement is 89.36 to 107.36% in HBL and 107.95 to 166.04% in NIBL respectively. For the analysis purpose the status of budgeted and actual NLDO is presenting in diagram below.

Fig. 4.7

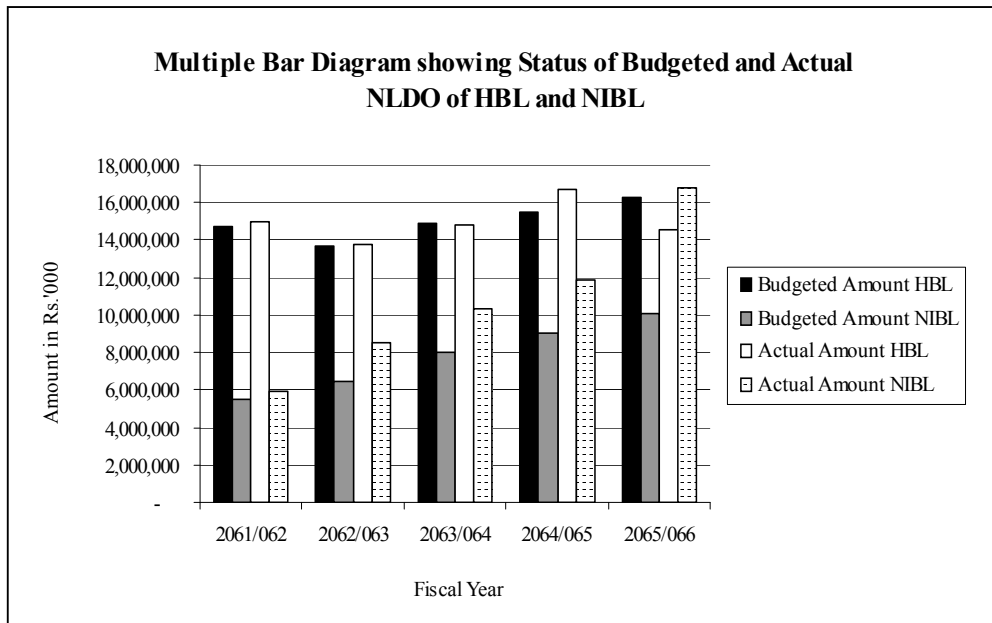
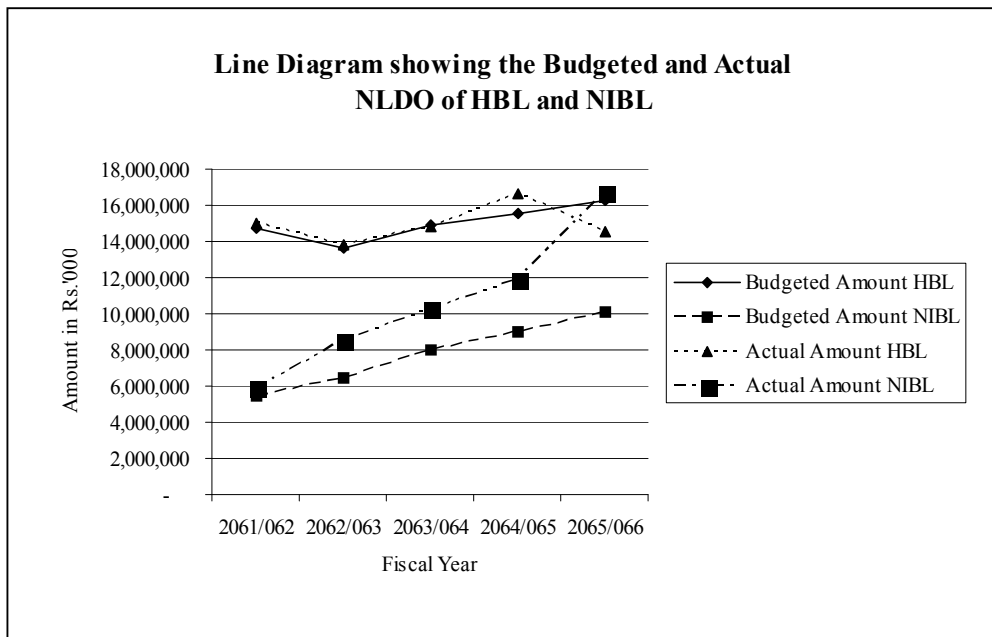


Fig. 4.8



Above table and diagram shows the budgeted and actual achievement of targets in deployment of resources other than LDO i.e.NLDO. To show the relationship between budgeted and actual NLDO we have calculated some values by using some statistical tool below.

Table 4.10
Summary of NLDO of HBL and NIBL

Statistical Tools	HBL		NIBL	
	Budgeted NLDO(X)	Actual NLDO(Y)	Budgeted NLDO(X)	Actual NLDO (Y)
Mean	15,020,000	14,960,000	7,820,000	10,700,000
Standard Deviation	863,000	960,000	1,658,000	3,640,000
C.V	5.75%	6.42%	21.20%	34.02%
r	0.4301		0.9661	
PE	0.2458		0.02012	

Source: Appendix no 3.

The above table shows the summary of investment in other sector (NLDO). The average investment in other sector is highest than the budgeted figure. It means the target has been achieved. The actual NLDO is more variable in nature since it has higher C.V it means that the budgeted figure is more consistent a greater C.V is said to be more heterogeneous. The correlation between budgeted and actual NLDO is denoted by 'r' the value of 'r' is 0.4301 in HBL and 0.9661 in NIBL so the relationship between budgeted and actual figure is perfectly correlated.

4.2.3 Actual Deposit and Outstanding LDO of HBL and NIBL:

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

Table 4.11
Status of LDO VS Actual Deposit of HBL and NIBL

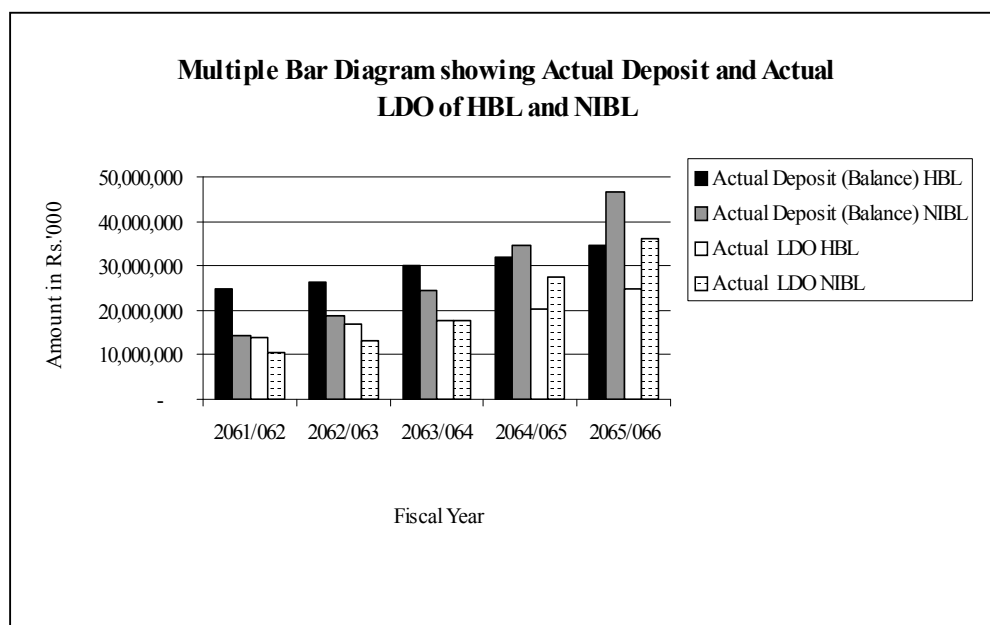
Amount in Rs. '000'

Fiscal Year	Actual Deposit (Balance)		Actual LDO		LDO to Deposit Ratio	
	HBL	NIBL	HBL	NIBL	HBL	NIBL
2061/062	24,814,012	14,254,574	13,892,249	10,453,164	55.99%	73.33%
2062/063	26,490,852	18,927,306	16,767,257	13,178,152	63.29%	69.96%
2063/064	30,048,418	24,488,856	17,793,724	17,769,100	59.22%	72.56%
2064/065	31,842,789	34,451,726	20,179,613	27,529,305	63.37%	79.90%
2065/066	34,681,345	46,698,100	24,793,155	36,241,207	71.49%	77.61%

Source: Annual Report of HBL and NIBL.

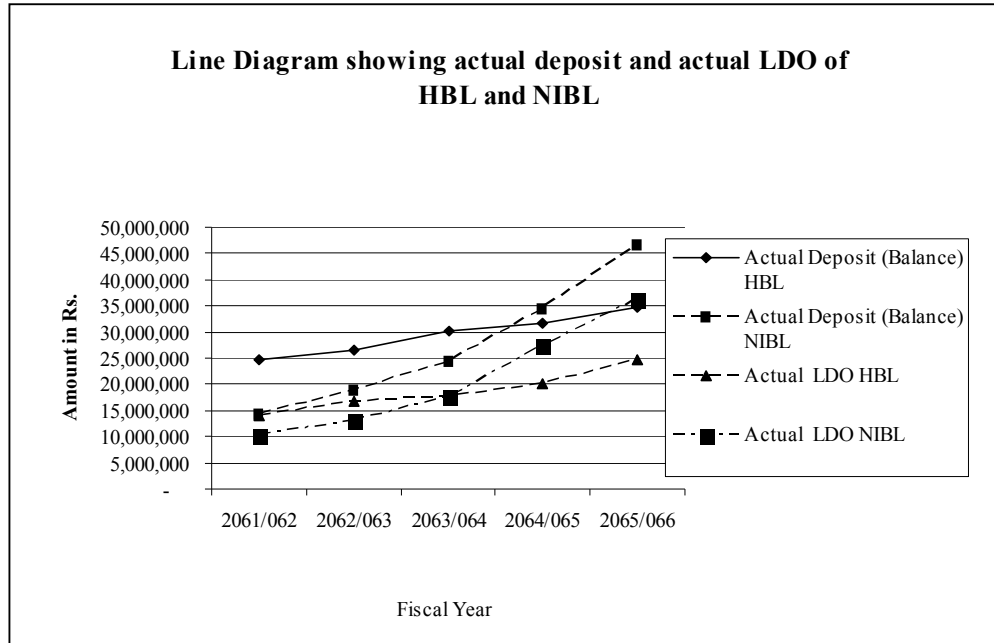
The above table shows the status of actual deposit balance and actual o/s LDO. The actual deposit balance and actual o/s LDO both are in increasing trend throughout the study period. The utilization of deposit collection in terms of LDO is fluctuating trend in percentage in both banks. The range of LDO to deposit ratio is 55.99 to 71.49% in HBL and 69.96 to 79.90% in NIBL. This indicates that the both bank invest in LDO out of total deposit in the range of 55.99 to 71.49% in HBL and 69.96 to 79.90% in NIBL over the five years time period. For the analysis purpose the figure of actual deposit balance and actual o/s LDO is presenting in the charts.

Fig. 4.9



The above diagram showing the position of actual deposit balance and actual outstanding balance of LDO the position of actual deposit is higher than the actual LDO. Both are in increasing trend in both banks throughout the study period.

Fig. 4.10



From the above table and figure it can be found that both the deposit and LDO is in increasing trend over the study period in both banks. The average ratio of LDO to deposit is 62.67% in HBL and 74.67% in NIBL respectively. It means that HBL invest in 37.33% and NIBL invest 25.33% in NLDO in an average. Now researcher is going to analyze by using some statistical tools to find the variability of deposit and LDO. We have to calculate arithmetic mean, standard deviation, coefficient of variation, correlation coefficient, probable error.

Table 4.12
Summary of actual deposit and Actual O/S LDO

Amount in Rs. '000'

Statistical Tools	HBL		NIBL	
	Actual Deposit	Actual O/S LDO	Actual Deposit	Actual O/S LDO
Mean	29,560,000	18,700,000	27,780,000	21,040,000
S.D	3,568,000	3,658,000	11,521,000	9,535,000
C.V	12.07%	19.56%	41.47%	45.32%
r	0.965		1.006	
PE	0.0208 (r>6PE)		-0.0036 (r>6PE)	

Sources: Appendix no 4.

The above table shows that actual O/S LDO is more variable than actual deposit in both banks since it has higher C.V. On the other hand actual deposit is more consistent than outstanding LDO it means the outstanding LDO is variable in nature. The relationship between actual deposit and actual outstanding LDO can be measured by correlation between them. We can take the help of Karl Person's Coefficient of correlation to find correlation between actual deposit and actual outstanding LDO. The correlation is 0.965 in HBL and 1.006 in NIBL respectively this means it is perfectly correlated between actual deposit and actual outstanding LDO. Significance of correlation r is tested with probable error (PE) here the $6PE < r$ so the calculation of r is highly significance in both banks.

4.3 Expenditure planning of HBL and NIBL

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

Table 4.13
Status of Expenditure of HBL and NIBL

Expenditure	2061/062		2062/063		2063/064		2064/065		2065/066	
	HBL	NIBL	HBL	NIBL	HBL	NIBL	HBL	NIBL	HBL	NIBL
Interest expenses	561,964	354,549	648,842	490,947	767,411	685,530	823,745	992,158	934,778	1,686,973
% share	38.69	38.81	39.48	44.19	44.18	45.75	43.95	48.31	42.81	55.85
Staff expenses	178,589	97,004	234,589	120,664	290,921	145,371	292,213	187,150	360,981	225,721
% share	12.30	10.62	14.27	10.86	16.75	9.70	15.59	9.11	16.53	7.47
Operating expenses	277,375	182,915	329,699	190,605	322,865	243,431	344,321	313,154	398,317	413,884
% share	19.10	20.02	20.06	17.16	18.59	16.25	18.37	15.25	18.24	13.70
Provision for Staff Bonus	58,060	37,075	67,240	50,491	71,740	72,338	94,884	101,996	106,661	129,860
% share	4.00	4.06	4.09	4.55	4.13	4.83	5.06	4.97	4.89	4.30
Provision for Risk	147,139	140,409	145,156	103,808	58,431	129,719	6,008	135,989	68,806	166,201
% share	10.13	15.37	8.83	9.34	3.36	8.66	0.32	6.62	3.15	5.50
Income tax provision	214,265	101,529	214,941	154,378	225,580	221,977	312,970	323,229	313,771	397,981
% share	14.75	11.11	13.08	13.90	12.99	14.81	16.70	15.74	14.37	13.18
Non operating expenses	15,012	-	2,902	-	-	-	-	-	-	-
% share	1.03	0	0.18	0	0	0	0	0	0	0
Total expenses	1,452,404	913,481	1,643,369	1,110,893	1,736,948	1,498,366	1,874,141	2,053,676	2,183,314	3,020,620

Source: Annual Report of HBL and NIBL.

The above table shows that the each types of expenses each year some are decreasing and increasing trend. Interest expenses cover the most proportion of expenses in both banks. An interest expense covered more than 40% in an average in both banks but it is fluctuating trend in HBL where as it is in increasing trend in NIBL. The increase and decrease in interest expenses would be affected accordance of the deposit collection amount during the year. But interest expenses are not increasing like customer deposit is increasing every year in both banks. It means proportion of non interest bearing deposits is higher in the banks. Interest expenses fully depends upon the customer deposits so, higher the customer deposit, it should be higher the interest expenses well.

Similarly, staff expenses proportion to total expenses was 12.30 – 16.75% in HBL and it was range between 7.47 –10.86% in NIBL respectively. Staff expenses are increasing trends in both banks but comparatively HBL staff expenses are higher than NIBL. The increase in cost of staffs was mainly due to company's policy to regular increase in salary every year to existing staffs with certain percentage and additional new staff on expansion. Both banks have created Retirement fund as per the income Tax Act 2058 as a separate entity. The banks have been provided bonus to staff of the net profit before tax as per Bonus Act, 2030. The banks have announced Employee's Housing Scheme and made provision as required under the Labor Act, 2048. This showed that the banks have motivated those employees who are the key to success of the banks.

The proportion of operating expenses was range between 18.24 to 20.06% in HBL and it was 13.70- 20.02% in NIBL respectively. Operating expenses are increasing trend because they are expansion of the banks with new branches and increase in office materials.

Provision for possible losses is made as per NRB directive to cover the risk inherent in banks loan provisions. Provisions of doubtful debts were 0.32 to 10.13% in HBL and 5.50 to 15.37% in NIBL respectively. Both banks risk provision is in decreasing trend it shows that proportion of bad loan is decline

and the proportion of provision of doubtful debts is low. It showed the efficient management of loan. Both banks are providing loans to secure sectors only.

The proportion of provision for staff bonus was 4 to 5.06% in HBL and 4.06 to 4.97% in NIBL respectively. The provision for staff bonus amount is also increasing in every year but the proportion of increasing in NIBL is less than in earlier year but it was increasing in HBL. The staff bonus is based on the net profit of the banks therefore, if the banks earn more profit, staff bonus is increased subsequently.

Further, the tax expenses are also based on the profit of the banks. Both banks have the profit in increasing trend therefore, the proportion of provision of income tax in increasing rate. It was in decreasing trend in some year but it was constantly increase in NIBL except 2065/066. The proportion of non-operating expenses is negligible in HBL but it was zero in NIBL. For analysis purpose we have divided the total expenses in two categories these are as follows:

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

4.3.1 Interest Expenses

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

Table 4.14
Status of Average cost of Deposit

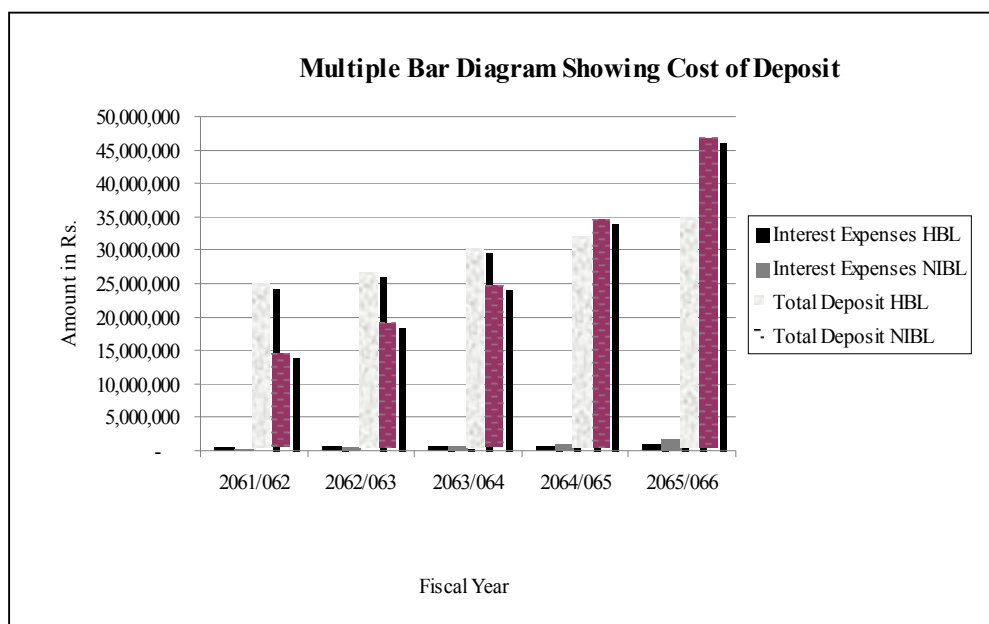
Amount in Rs. '000'

Fiscal Year	Interest Expenses		Total Deposit		Cost of Deposit (%)	
	HBL	NIBL	HBL	NIBL	HBL	NIBL
2061/062	561,964	354,549	24,814,012	14,254,574	2.26	2.49
2062/063	648,842	490,947	26,490,852	18,927,306	2.45	2.59
2063/064	767,411	685,530	30,048,418	24,488,856	2.55	2.80
2064/065	823,745	992,158	31,842,789	34,451,726	2.59	2.88
2065/066	934,778	1,686,973	34,681,345	46,698,100	2.70	3.61

Source: Annual report of HBL and NIBL.

The above table shows the total deposit and interest expenses of respective year. The deposit amount and interest expenses are in increasing trend in both banks. The table shows the cost of deposit in percentage. The HBL cost of deposit is range between 2.26 to 2.70% and in NIBL it is range between 2.49 to 3.61%.over the study period. The COD of the banks is slightly fluctuating trends. The relation between COD and total deposit can be shown in the bar diagram below.

Fig. 4.11



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

4.3.2 LABP Vs Provision for Doubtful Debts

As per the directives of Nepal Rastra Bank, the commercial banks are required to set aside some amount from their operating profit at a fixed ratio against the outstanding LABP of the bank as prescribed by the NRB from time to time. Such amount provided by the bank against the LABP is based on the classification of the loans. As per NRB current directives, banks are required to classify their outstanding LABP on the basis of aging into four categories and the amount of provisioning that have to be made with effect from F.Y 2060/061 are as follows:

Pass: Advance include in this category are those loan accounts which are within the validity or past due up to a period of three months. Amount of loan loss to be provided for is 1% of the outstanding loan failing under this category.

Substandard: All loans and advances those are past due for a period of three months to six months shall be included in this category. The required provisioning is 25% of the outstanding loan falling under this category.

Doubtful: All loan and advances those are past due for a period of more than six months to one year are included in this category and require provisioning of 50% of outstanding LABP falling under this category.

Loss: All loans and advances chose are past due for a period of more than one year, are included in this category which shall to be provided for 100% of the LABP falling under this category.

All classified loans except 'Pass' are called non-operating loan. The higher amount of non-performing loan consumes the profit of the banks, as they require higher amount of provisioning towards loan loss. Therefore, banks have to make reasonable effort for regularizing their loans to keep them performing in order to reduce the amount of provisions for those loan losses to enhance the profit. Further, internationally accepted standard rate of percent for total loan loss provision to total loan is 3%.

Now, researcher analyses the provision for Doubtful Debts to total LABP mobilized by the banks in following table.

Table 4.15
Status of provision for Doubtful Debts to LABP

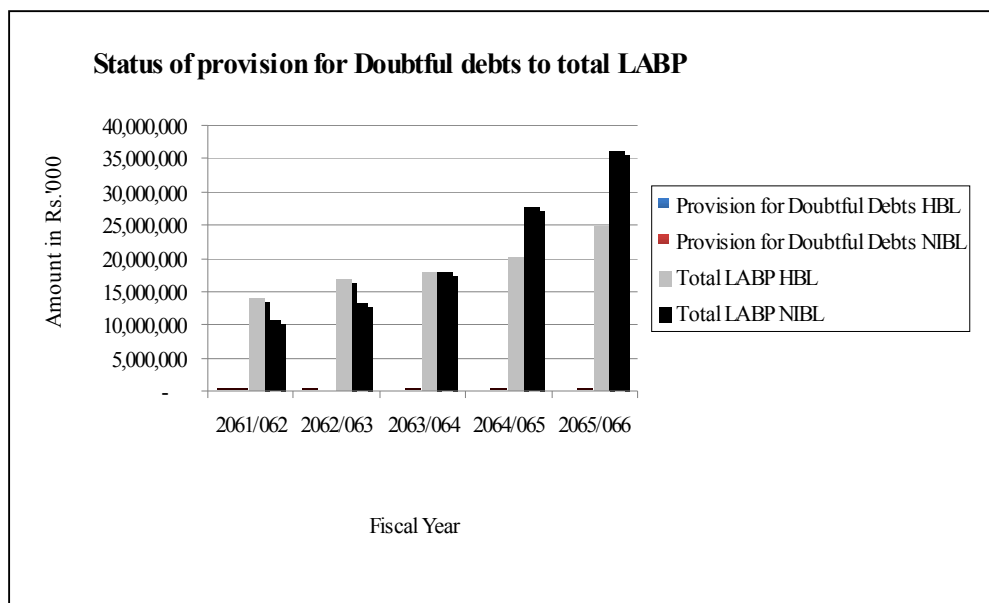
Fiscal Year	Amount in Rs.'000'					
	Provision for Doubtful Debts		Total LABP		Provision for Doubtful debts to Total LABP %	
	HBL	NIBL	HBL	NIBL	HBL	NIBL
2061/062	147,139	140,409	13,892,249	10,453,164	1.06	1.34
2062/063	145,156	103,808	16,767,257	13,178,152	0.87	0.79
2063/064	58,431	129,719	17,793,724	17,769,100	0.33	0.73
2064/065	6,008	135,989	20,179,613	27,529,305	0.03	0.49
2065/066	68,806	166,201	24,793,155	36,241,207	0.28	0.46

Source: Annual reports of HBL and NIBL.

The above table shows that the percentage of provision is going to decline each year in both banks. Both banks total provision is not near to the internationally accepted rate, the banks further need to maintain the international level of provision for those losses. This also indicates that the banks are lending their deposit securely. It is the main reason for decreasing trend of provision for doubtful debts. These are the good sign for any of these banks. Both the directives of NRB and management are responsible to control loss provision.

The status of provision for doubtful debts to total LABP is shown in the Bar Diagram as below.

Fig. 4.12



4.4 Revenue Planning of HBL and NIBL

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

- Income from commission and Discounts
- Dividend received from Investment in shares
- Foreign Exchange Gain
- Various kinds of service fees and charges

Table 4.16
Income structure of HBL and NIBL

Revenue	2061/062		2062/063		2063/064		2064/065		2065/066	
	HBL	NIBL	HBL	NIBL	HBL	NIBL	HBL	NIBL	HBL	NIBL
Interest income	1,446,468	886,800	1,626,474	1,172,742	1,775,583	1,584,987	1,963,647	2,194,275	2,342,198	3,267,941
% Share	82.15	77.41	77.42	80.25	68.90	79.26	76.18	79.78	79.50	83.34
Commission & discount	132,816	93,551	165,448	115,942	193,224	163,899	202,888	215,292	284,302	262,792
% Share	7.54	8.17	7.88	7.93	7.50	8.20	7.87	7.83	9.65	6.70
Foreign Exchange Income	137,301	102,518	198,130	125,747	151,637	135,355	207,669	165,839	249,983	185,327
% Share	7.80	8.95	9.43	8.60	5.88	6.77	8.06	6.03	8.49	4.73
Non Operating Income	2,795	6,192	58,449	391	416,147	1,426	9,700	7,048	3,810	2,953
% Share	0.16	0.54	2.78	0.03	16.15	0.07	0.38	0.26	0.13	0.08
Other Income	41,301	56,567	52,325	46,607	40,329	114,096	193,786	167,953	65,828	202,228
% Share	2.35	4.94	2.49	3.19	1.57	5.71	7.52	6.11	2.23	5.16
Total	1,760,681	1,145,628	2,100,826	1,461,429	2,576,920	1,999,763	2,577,690	2,750,407	2,946,121	3,921,241

Source: Annual Report of HBL and NIBL.

The above table shows that the revenue was increasing every year in both banks. Income from interest was the highest among the others in total revenue for each year. The proportion of interest is around 80% of total revenue in both banks.

The proportion of interest income was range between 68.90 to 82.15% in HBL and 77.41 to 83.34% in NIBL respectively. It seems every year share of income from interest amount high for the banks. Minimum or negligible fluctuation is there. The main reason for fluctuating is deployment in less interest bearing Investments. Overall, generation of interest income in HBL and NIBL is satisfactory. The interest income is based on the amount of outstanding LABP during the year. As the banks LABP amount was increasing each year, the interest income amount was also increasing each year in both banks.

Commission and discount hold the second position in revenue collection. The proportion of commission and discount was range between 7.50 to 9.65 % in HBL and it was range between 6.70 to 8.20% in NIBL respectively. Above table shows collection of commission and discount is going smoothly, but the percentage of commission and discount is increase in decline trends.

Similarly, the proportion of foreign exchange income was 5.88 to 9.43% in HBL and 4.73 to 8.95% in NIBL respectively. The table shows that exchange income is increasing trend in amount in both banks. The increase or decrease of foreign income is depends on US dollar rate. The increase and decrease in commission and discount is based on the amount of Letter of Credit (L/C) and Bank Guarantee issuance. It is also increasing trend. Income amount and proportion is also increasing in both banks.

Other operating income and non-operating income are the contributors of total revenue in very negligible. But the contribution percentage is higher in NIBL than HBL. Higher the non operating income shows capital gain on sale of fixed assets.

4.4.1 Interest income to LABP.

As interest income contributes the major portion of Total Revenue Mix, this study attempts to analyze the interest income amount with other relevant data. Interest income is generated out of the loan and advances made by the banks. Therefore, this proudly called Yield of Fund (YOF). Bills discounting is also one form of advances. Now, the researcher is going to analyze the comparative status of total return on LABP with the help of table and diagrams.

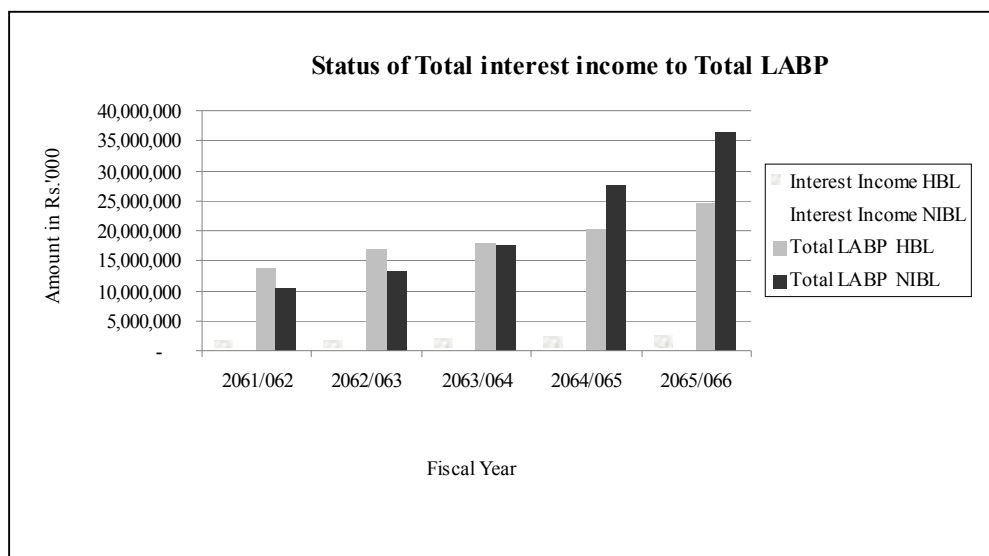
Table 4.17
Status of Average Return of LABP

Amount in Rs. '000'

Fiscal Year	Interest Income		Total LABP		Average rate of Return %	
	HBL	NIBL	HBL	NIBL	HBL	NIBL
2061/062	1,446,468	886,800	13,892,249	10,453,164	10.41	8.48
2062/063	1,626,474	1,172,742	16,767,257	13,178,152	9.70	8.90
2063/064	1,775,583	1,584,987	17,793,724	17,769,100	9.98	8.92
2064/065	1,963,647	2,194,275	20,179,613	27,529,305	9.73	7.97
2065/066	2,342,198	3,267,941	24,793,155	36,241,207	9.45	9.02

Source: Annual reports of HBL and NIBL.

The above table shows the comparative status of interest income with the LABP and the return on same LABP. The interest income is in increasing trend as the LABP has increased where as the rate of return on LABP is fluctuating trend. The range of rate of return lies between 9.45 to 10.41% in HBL and 7.97 to 9.02% in NIBL respectively. The actual LABP and interest income earned can also be presented in diagram as below:

Fig.4.13**Bar diagram showing status of Interest Income to Total LABP**

Above diagram shows both actual LABP and Interest income are in increasing trend. It is significant to analyze the relationship between outstanding LABP and interest income. The figure of LABP and interest income amount of both banks have presented in tabular form above. In order to find out the variability of actual LABP and actual interest income of different year's researcher have to calculate arithmetic mean, standard deviation and coefficient of variation technique and correlation of coefficient. The detail calculation of these statistical tools is presented in Annex 5. Now summarizing the results from Annex, researcher has:

Table 4.18**Result of statistical analysis of Interest Income to Total LABP.****Amount in Rs. '000'**

Statistical Tool	HBL		NIBL	
	Total o/s LDO (x)	Interest Income (y)	Total o/s LDO (x)	Interest Income (y)
Mean	18,700,000	1,820,000	21,040,000	1,840,000
S.D	3,658,000	312,000	9,535,000	850,000
C.V	19.56%	17.14%	45.32%	46.20%
r	0.9881		0.9914	
PE	0.0071 (r>6PE)		0.0052 (r>6PE)	

Source: Appendix no.5.

The above results show that the coefficient of variation of actual outstanding LABP is higher than of interest income in HBL and it is lower in NIBL. It shows that actual outstanding LABP is more variable than interest income in HBL and Vice versa in NIBL. Another statistical tool, correlation coefficient can be used to analyze the relationship between actual outstanding LABP and interest income.

The correlation coefficient 'r' is 0.9881 in HBL and 0.9914 in NIBL and $r > 6PE$ in both banks, the value of 'r' is significant and there is perfect correlation between interest income and actual outstanding LABP.

4.4.2 Interest Margin

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

Table 4.19
Movement of Interest Margin of HBL and NIBL

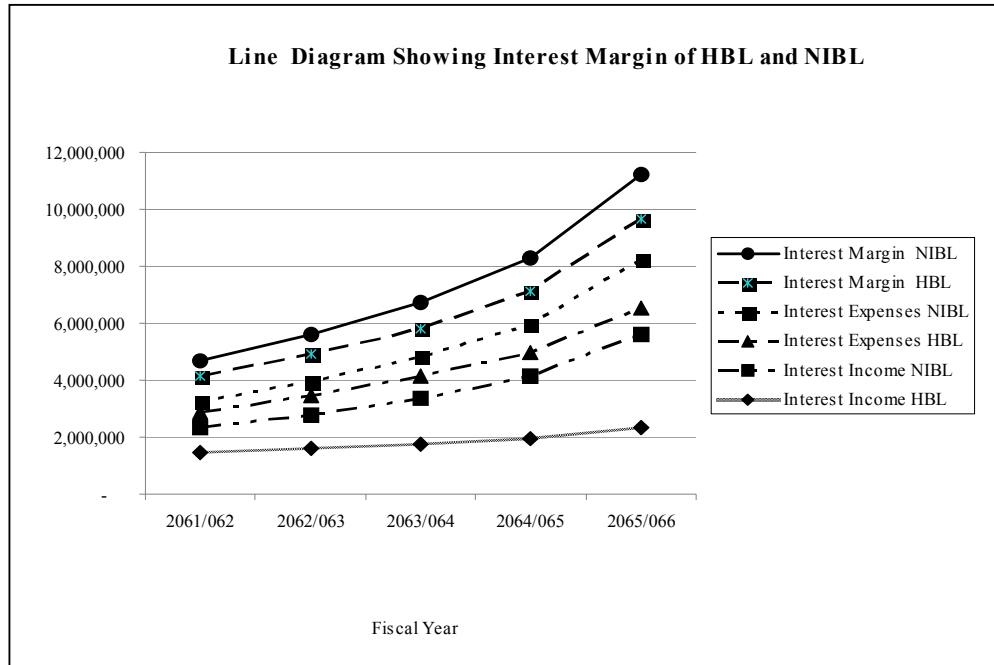
Fiscal Year	Interest Income		Interest Expenses		Interest Margin		% Growth in Interest Margin	
	HBL	NIBL	HBL	NIBL	HBL	NIBL	HBL	NIBL
2061/062	1,446,468	886,800	561,964	354,549	884,504	532,251	-	-
2062/063	1,626,474	1,172,742	648,842	490,947	977,632	681,795	10.53	28.10
2063/064	1,775,583	1,584,987	767,411	685,530	1,008,172	899,457	3.12	31.92
2064/065	1,963,647	2,194,275	823,745	992,158	1,139,902	1,202,117	13.07	33.65
2065/066	2,342,198	3,267,941	934,778	1,686,973	1,407,420	1,580,968	23.47	31.52

Sources: Annual Report of HBL & NIBL 2061/062 to 2065/066.

The above table shows the position of interest margin and its growth throughout the study period. The figure of interest margin is fluctuating trends in both banks. The base year to calculate the interest margin is F.Y. 2061/062. The rate of growth % is higher of HBL in F.Y. 2065/066 but it was higher in F.Y. 2064/065 of NIBL. The amount of total interest is increasing but interest expenses are in fluctuating trend. Therefore, growth rate of spread is

fluctuating too. The fluctuating was mainly due to decrease in interest rate, poor market system, political situation and other instability in the country.

Fig. 4.14



Above diagram shows that interest spread is in increasing trend in both banks. It was observed that spread of the banks were positive interest spread. The spread was increasing trend. This prove that both banks have sufficient income to pay the interest of deposit collected from the customers and extra balance to pay employees costs, operating cost, to pay capital providers etc. The interest spread is in increasing in amount with reducing rate of growth.

4.4.3 Burden of HBL & NIBL

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

Table 4.20
Status of Burden of HBL & NIBL

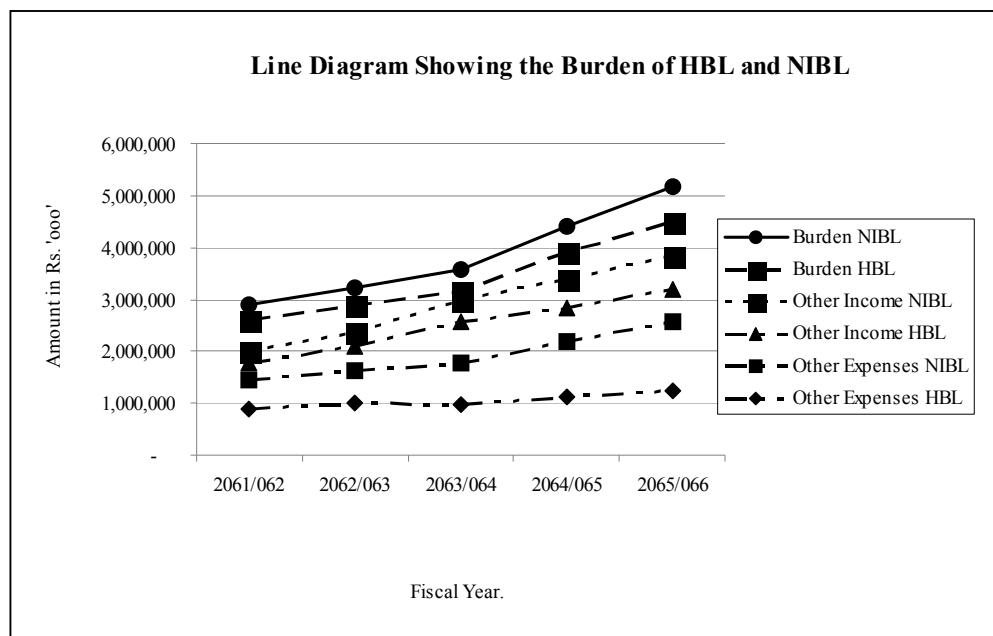
Amount in Rs. '000'

Fiscal Year	Other Expenses		Other Income		Burden	
	HBL	NIBL	HBL	NIBL	HBL	NIBL
2061/062	890,440	558,932	314,213	258,828	576,227	300,104
2062/063	994,527	619,946	474,352	288,687	520,175	331,259
2063/064	969,537	812,836	801,337	414,776	168,200	398,060
2064/065	1,135,077	1,061,518	651,399	556,132	483,678	505,386
2065/066	1,248,536	1,333,647	603,923	653,300	644,613	680,347

Source: Annual report of HBL & NIBL.

The major objective of this study is to find out whether other sources of income are maintaining the other expenses part or not. It was observed that the net burden of the banks was positive hence, it lowered the profit from interest spread. The net burden of the banks was increasing each year but with decreasing rate. To know the relationship between other expenses, other income and the burden researcher is going to plot the data in line diagram below.

Fig. 4.15



The above line diagram shows the position of other expenses, other income and burden of the HBL and NIBL. The purpose of the diagram is to show the relationship of burden amount with other expenses and other income. The other expenses are in the higher position line diagram throughout the five years of time period. The other income is in second position this result of diagram shows that other expenses are higher than other income every year.

4.4.4 Net profit and Loss of HBL and NIBL

Profit is excess income over expenditure likewise loss incurred by excess expenditure over the income. The researcher has calculated above the interest margin and burden so the difference between interest margin and burden is called net profit & loss. Following table shows the status of interest margin, Burden and Net profit of HBL and NIBL.

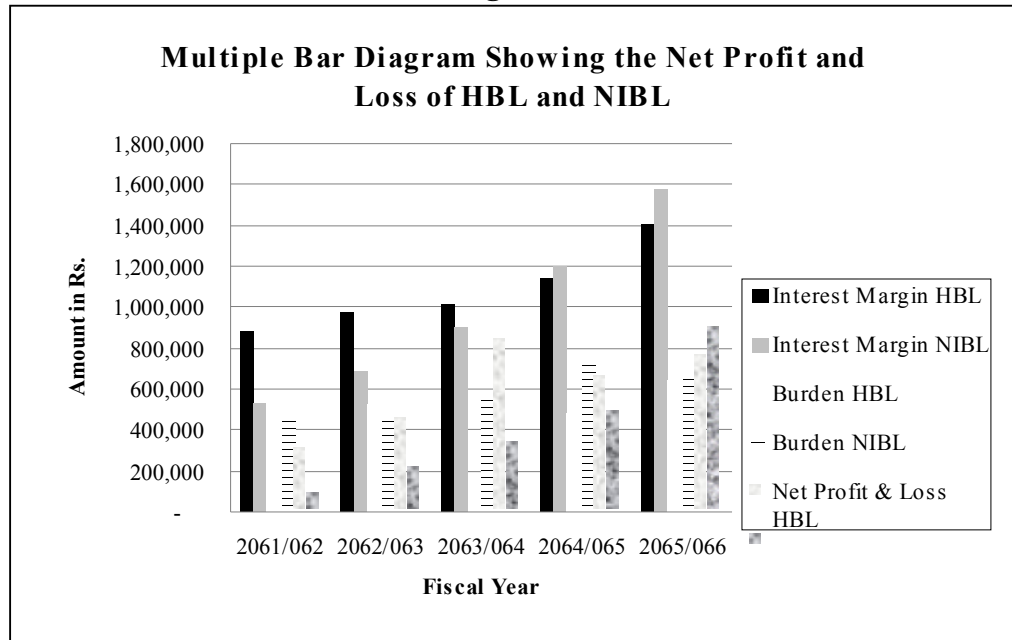
Table 4.21
Showing the status of Profit & Loss of HBL and NIBL

Fiscal Year	Interest Margin		Burden		Net Profit & Loss		Growth Rate	
	HBL	NIBL	HBL	NIBL	HBL	NIBL	HBL	NIBL
2061/062	884,504	532,251	576,227	445,944	308,277	86,307	-	-
2062/063	977,632	681,795	520,175	471,373	457,457	210,422	48.39	143.81
2063/064	1,008,172	899,457	168,200	569,153	839,972	330,304	83.62	56.97
2064/065	1,139,902	1,202,117	483,678	716,544	656,224	485,573	(21.88)	47.01
2065/066	1,407,420	1,580,968	644,613	680,347	762,807	900,621	16.24	85.48

Source: Annual report of HBL & NIBL.

The above table shows the status of net profit and loss of HBL and NIBL since the figure in P/L column are positive forms in both bank in every year. The trend of net profit is increasing every year of NIBL but HBL profit on F.Y. 2064/065 is decrease with compare to its last year. The rate of growth is decreasing in NIBL and it is increasing in HBL except F.Y. 2064/065. For more analysis purpose the status of net profit presenting in the bar diagram below:

Fig. 4.16



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

4.5 Performance Evaluation of HBL and NIBL

Performance evaluation is used as an important part of comprehensive budgeting system. All companies regardless of their size have reporting requirements to show their overall performance. Performance reporting is an important phase of control process. Researcher can use various techniques and criteria to evaluate performance of banks which are as follows:

- Ratio Analysis
- Cost Volume Profit Analysis

4.5.1 Ratio Analysis

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

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

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

4.5.1.1 Liquidity Ratio

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

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

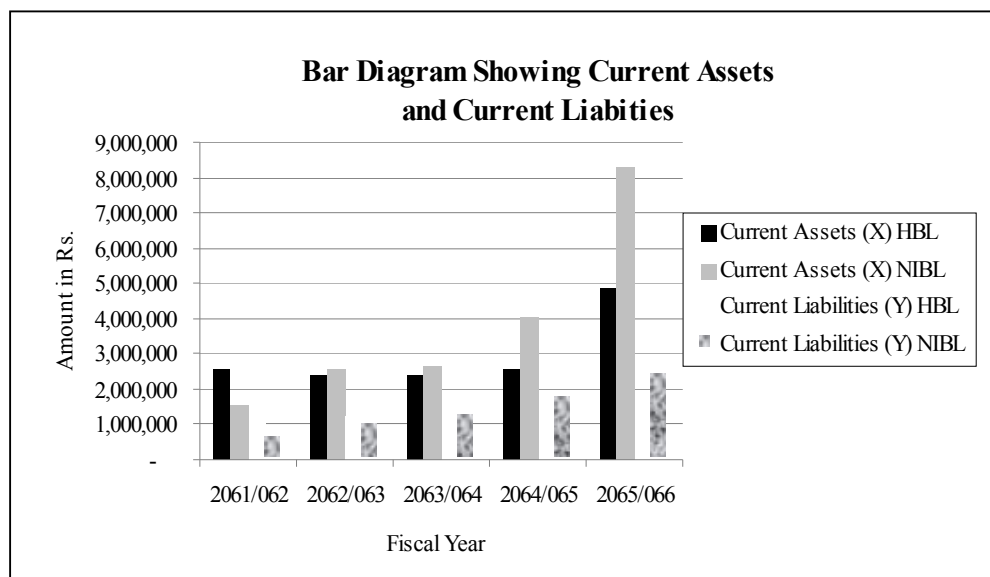
Table 4.22
Current ratio of HBL and NIBL

Fiscal Year	Current Assets (X)		Current Liabilities (Y)		Current Ratio (X/Y)		Working Capital	
	HBL	NIBL	HBL	NIBL	HBL	NIBL	HBL	NIBL
2061/062	2,564,392	1,542,707	1,062,399	628,796	2.41:1	2.45:1	1,501,993	913,911
2062/063	2,382,695	2,537,611	1,203,363	987,392	1.98:1	2.57:1	1,179,332	1,550,219
2063/064	2,414,075	2,676,311	1,324,223	1,223,866	1.82:1	2.19:1	1,089,852	1,452,445
2064/065	2,542,526	4,032,538	1,819,751	1,734,794	1.15:1	2.32:1	722,775	2,297,744
2065/066	4,864,281	8,309,031	1,519,096	2,404,864	3.20:1	3.46:1	3,345,185	5,904,167

Source: Annual report of HBL & NIBL.

The above table shows the liquidity position of HBL and NIBL. Higher the current ratio is better for the liquidity position. For the many types of business 2:1 is considered to be an adequate ratio. If the current ratio is less than 2:1, it means the firms have difficulty in meeting its current obligation. If the current ratio is more than 2:1 the company may have an excessive investment in current assets that do not produce satisfied return. Here, the current ratio of NIBL has meet the standard of 2:1 over the study period but HBL current ratio is less than standard in last three years of study. It means NIBL has sufficient to pay current obligation but HBL has some problem to meet them. The relationship between current assets and current liabilities presenting in the bar diagram for the analysis purpose.

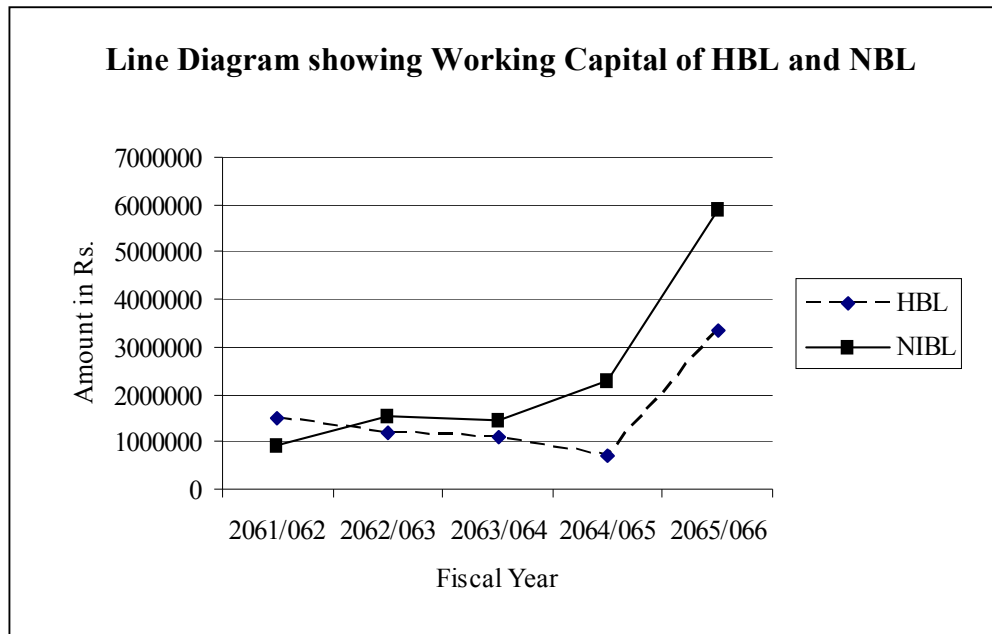
Fig. 4.17



Above bar diagram shows the status of current assets and current liabilities of HBL and NIBL over the five years period. By the diagram the position of current assets is higher than the position of current liabilities in both banks. It means the banks maintained their liquidity position in each year.

It also showed that the company's working capital is increasing as well. The figure below showed the actual working capital position of the banks.

Fig. 4.18



4.5.1.2 Leverage Ratio

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

- Debt-Equity Ratio
- Interest Coverage Ratio

4.5.1.3 Debt – Equity Ratio

The relationship between long term debt and share holder's equity is called debt equity ratio. Debt –Equity ratio measures the long term financial solvency of a business concern. It is calculated by dividing to long term debt by share holder's equity. The Debt-Equity Ratio can be calculated by dividing to borrowings by share holder equity

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

Table 4.23

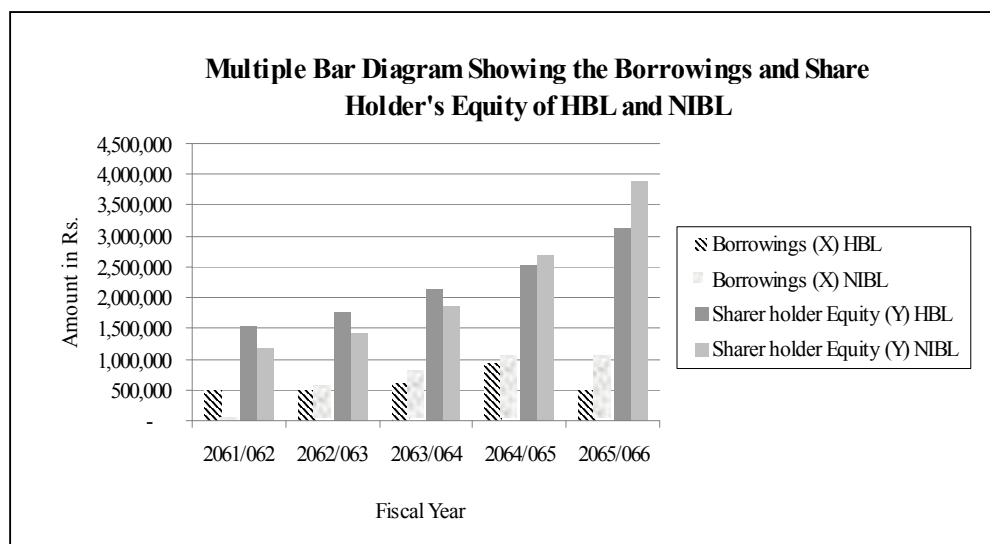
Debt-Equity Ratio of HBL and NIBL

Amount in Rs. '000'

Fiscal Year	Borrowings (X)		Share holder Equity (Y)		Debt-Equity Ratio (X/Y)	
	HBL	NIBL	HBL	NIBL	HBL	NIBL
2061/062	506,048	35,000	1,541,746	1,180,174	0.33:1	0.03:1
2062/063	504,625	550,000	1,766,176	1,415,440	0.29:1	0.39:1
2063/064	595,968	800,000	2,146,500	1,878,124	0.28:1	0.43:1
2064/065	943,178	1,050,000	2,512,992	2,686,786	0.38:1	0.39:1
2065/066	500,000	1,050,000	3,119,881	3,907,840	0.16:1	0.27:1

The above table shows the debt equity ratio of HBL and NIBL. The column X shows the figure of Debenture and borrowing and column Y shows the figure of share holder's equity. By dividing to column X by Y is the result of debt equity ratio. Here the range of debt equity ratio of HBL is 0.16:1 to 0.38:1 and NIBL is 0.03:1 to 0.43:1. The trend of debt equity ratio is fluctuating every year in both banks. Both banks have high portion of equity than long term debenture where as for a banking sector fixed deposit also consider as long term obligation but in above analysis researcher have calculated only borrowings as long term debt. The above table shows both banks have financial strength is very strong because they have more internal fund to repay the borrowing capital. The figure of long term debt and share holder's equity is presenting in the bar diagram below.

Fig. 4.19



Above diagram shows the status of long term debt and shareholder's equity. The long term debt is fluctuating trend where as shareholder's equity is increasing rapidly over the five year's period in both banks. The position of share holder equity is higher than the long term debt this indicates that the banks use more internal fund than external fund.

4.5.1.4 Interest Coverage Ratio (ICR)

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

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

Table 4.24

Calculation of Interest Coverage Ratio

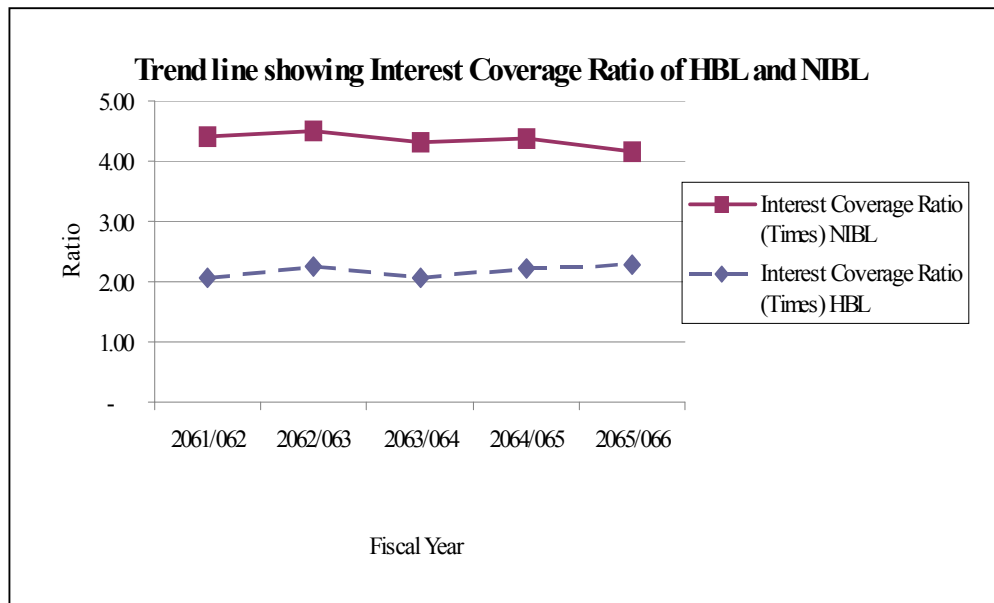
Amount in Rs. '000'

Fiscal Year	EBIT (X)		Interest Expenses (Y)		Interest Coverage Ratio (Times)	
	HBL	NIBL	HBL	NIBL	HBL	NIBL
2061/062	1,158,404	828,634	561,964	354,549	2.06	2.34
2062/063	1,462,782	1,099,669	648,842	490,947	2.25	2.24
2063/064	1,575,503	1,538,624	767,411	685,530	2.05	2.24
2064/065	1,831,015	2,148,108	823,745	992,158	2.22	2.17
2065/066	2,134,742	3,159,252	934,778	1,686,973	2.28	1.87

Source: Annual Report of HBL and NIBL.

The above table shows the position of interest coverage ratio (ICR) of HBL and NIBL. The ICR is range between 2.05 to 2.28 in HBL and 1.87 to 2.34 in NIBL respectively. Both banks ICR is in increasing trend. It means that the banks sufficiently capable to pay the interest in borrowing adequately and it indicate of healthy financial status of the banks. Researcher can see that the trend line of interest coverage ratio below which is in increasing trends.

Fig.4.20



4.5.1.5 Activity Ratio

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

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

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

Table 4.25
Showing the activity ratio of HBL and NIBL

Fiscal Year	Amount in Rs. '000'									
	Deposit Collection (A)		LDO Deployed (B)		No. of Employees (C)		Deposit per Employees (D) =A/C		LDO per Employees (E) =B/C	
	HBL	NIBL	HBL	NIBL	HBL	NIBL	HBL	NIBL	HBL	NIBL
2061/062	24,814,012	14,254,574	13,892,249	10,453,164	501	353	49,529	40,381	27,729	29,612
2062/063	26,490,852	18,927,306	16,767,257	13,178,152	561	390	47,221	48,532	29,888	33,790
2063/064	30,048,418	24,488,856	16,997,997	17,769,100	584	514	51,453	47,644	29,106	34,570
2064/065	31,842,789	34,451,726	19,497,520	27,529,305	591	622	53,880	55,389	32,991	44,259
2065/066	34,681,345	46,698,100	24,793,155	36,241,207	591	766	58,682	60,964	41,951	47,312

Source: Annual report of HBL and NIBL 2060/061 to 2065/066.

The above table shows the relationship of major activities of the banks with its human resources. The number of employees increasing in each year in both banks. And the major activities of HBL and NIBL is also increasing trend. In the above table column A, B, C Shows deposit collection, LDO deployed and No. of employees. The relationship with such activities is calculated dividing to column A, B by column C.

4.5.1.6 Profitability Ratio

Profitability ratio is related to profit. It shows the overall efficiency of the business concern. The earning capacity of a business is measured by profitability ratio. Maximization of profit is the main objective of each and every business concern. It is very necessary to earn maximum profit for the successful running of a business concern. Here the researcher is going to measure of HBL and NIBL profitability by total assets & total capital fund to Net Profit. It is computed by dividing to Net Profit by Total Assets & Net profit to total Capital fund.

Table 4.26
Profitability Ratio of HBL and NIBL

Amount in Rs. '000'

Fiscal Year	Net Profit After Tax (A)		Total Assets (B)		Return on Assets (C) =A/B		Total Capital Fund (D)		Return on Capital (E) =A/D	
	HBL	NIBL	HBL	NIBL	HBL	NIBL	HBL	NIBL	HBL	NIBL
2061/062	308,277	232,147	28,871,343	16,390,652	1.07	1.42	1,541,746	1,180,174	20.00	19.67
2062/063	457,458	350,536	30,579,808	21,732,081	1.50	1.61	1,766,176	1,415,440	25.90	24.77
2063/064	491,823	501,399	34,314,868	28,073,517	1.43	1.79	2,146,500	1,878,124	22.91	26.70
2064/065	635,869	698,673	36,175,532	38,873,306	1.76	1.80	2,512,992	2,688,727	25.30	25.99
2065/066	752,835	900,619	39,320,322	53,010,803	1.91	1.70	3,119,881	3,907,840	24.13	23.05

Source: Annual report of the HBL and NIBL

The above table shows the status of return on assets and return on capital employed of HBL and NIBL. The ratio shows the relation of net profit after tax with the total assets and total capital employed. The rate of return on assets is increasing trend it is ranged between 1.07% to 1.91% in HBL and 1.42% to 1.80% in NIBL respectively. Likewise the return on capital ratio presenting the relation of net profit with the capital employed. The range of return on capital employed is 20% to 25.90% in HBL and 19.67% to 25.99% in NIBL respectively. It is fluctuating trend through five years of study period.

4.5.2 Cost Volume Profit Analysis

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

4.5.2.1 BEP in terms of Interest Margin

Following table shows the BEP in Rs and Percentage in terms of interest margin of HBL and NIBL

$$\text{BEP (\%)} = \frac{\text{Net Burden}}{\text{Interest Margin}}$$

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

Status of BEP in percentage and in amount of HBL and NIBL

Table 4.27
BEP in terms of Interest Margin

Amount in Rs. '000'

Fiscal Year	Net Burden (A)		Interest Margin (B)		Interest Income (C)		BEP in % (D) = A/B		BEP in Rs (E) =C*D	
	HBL	NIBL	HBL	NIBL	HBL	NIBL	HBL	NIBL	HBL	NIBL
2061/062	576,227	445,944	884,504	532,251	1,446,468	886,800	65.15	83.78	942,329	743,001
2062/063	520,175	471,373	977,632	681,795	1,626,474	1,172,742	53.21	69.14	865,409	810,799
2063/064	168,200	569,153	1,008,172	899,457	1,775,583	1,584,987	16.68	63.28	296,232	1,002,939
2064/065	483,678	716,544	1,139,902	1,202,117	1,963,647	2,194,275	42.43	59.61	833,206	1,307,938
2065/066	644,613	680,347	1,407,420	1,580,968	2,342,198	3,267,941	45.80	43.03	1,072,751	1,406,312

Source: Annual Report of HBL and NIBL.

From the above table researcher can find the BEP percentage and BEP amount of HBL and NIBL in terms of Interest Margin. The percentage of BEP is in fluctuating trends in both banks it means the burden and interest margin is not in increasing as same ratio where as the BEP in Rs is in increasing trend over the period so HBL and NIBL is in over the BEP level in terms of Interest margin. The BEP range over the study period is 16.68% to 65.15% in HBL and 43.03% to 83.78% in NIBL respectively.

4.5.2.2 Margin of Safety of HBL and NIBL

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

$$\text{Margin of Safety (MOS)} = \frac{\text{Total Interest Income}}{\text{BEP Interest}}$$

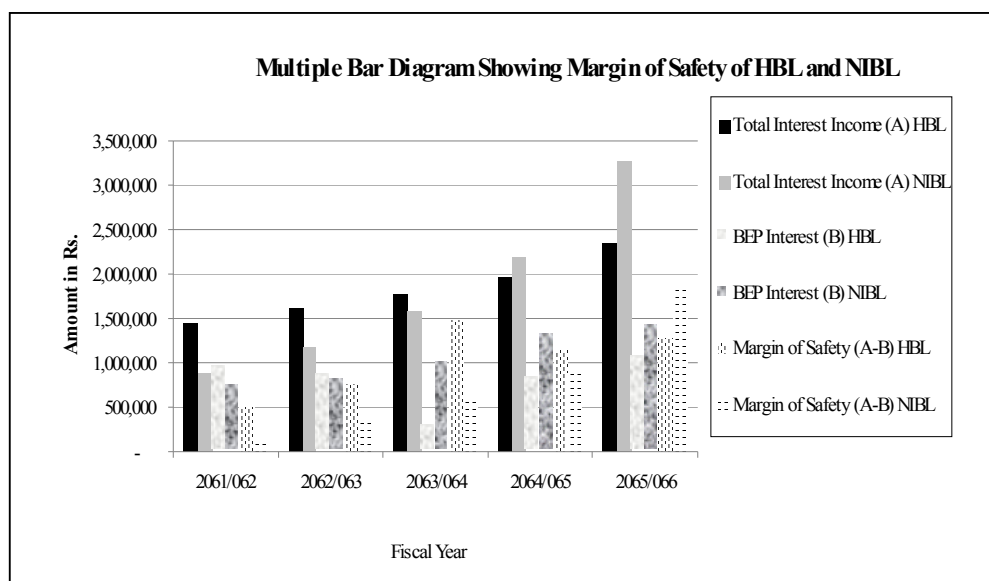
Table 4.28
Showing the status of Margin of Safety of HBL and NIBL

Fiscal year	Amount in Rs. '000'					
	Total Interest Income (A)		BEP Interest (B)		Margin of Safety (A-B)	
	HBL	NIBL	HBL	NIBL	HBL	NIBL
2061/062	1,446,468	886,800	942,329	743,001	504,139	143,799
2062/063	1,626,474	1,172,742	865,409	810,799	761,065	361,943
2063/064	1,775,583	1,584,987	296,232	1,002,939	1,479,351	582,048
2064/065	1,963,647	2,194,275	833,206	1,307,938	1,130,441	886,337
2065/066	2,342,198	3,267,941	1,072,751	1,406,312	1,269,447	1,861,629

Source: Annual report of HBL and NIBL.

The above table shows the status of Margin of Safety over the five years of time period. The trend of MOS is in increasing trends in both banks except in HBL in F.Y. 2064/065. To know the trend of MOS figure is presenting in bar diagram below.

Fig. 4.21



Above bar diagram shows the status of actual interest, BEP interest and MOS. The main purpose of the diagram is to show the position of MOS in comparison with actual and BEP interest. The trend of MOS is increasing. The actual interest is higher position than BEP so the figure of MOS is positive every year.

4.6 Major findings of the study

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

- Both banks are conscious about the human resource due to rapid growth and advent new branches. Develop skills to employees to empower them to provide excellent customer services banks support to employees further skill development. Currently there are 766 employees in NI BL and 591 in HBL over the 30 and 27 branches respectively.
- HBL has 90% average contribution of customer deposit in the resource mobilization where as it is 88% in an average in NIBL as per the data

F/Y 2061/062 to 2065/066 and uses the other resources of 10% and 12% respectively.

- Both banks are well performing in the deposit collection sector. Budgeted figure is higher than Actual figure in HBL and Vice versa in NIBL. The researcher found (r) is 0.97 and PE is 0.0178 in HBL and 0.974 and 0.0155 in NIBL respectively. The figure of 'r' shows that there is positive perfect correlation between budgeted deposit and actual deposit. The relation of PE with r is $r > 6PE$, it is significant so the actual deposit is going on same direction in both banks.
- The deployment of banks available resources at various portfolio among which LDO hold the highest percentage i.e. 54% in an average out of total deployment in HBL and 65% in NIBL throughout the five years of study period.
- The stastical tool (r) represents that HBL actual LDO is the variable nature than budgeted LDO and Vice Versa in NIBL. The correlation between budgeted and actual LDO is 0.963 in HBL and 0.9987 in NIBL it means the relation between budgeted and actual LDO are perfectly co-related. Significance of r is tested with PE there is $r > 6PE$ this means the value of r is more significant.
- The researcher found that the 100% of achievement of targets in deployment of resources other than LDO i.e. NLDO but it is less than 100% in F/Y 2063/064 and 2065/066 in HBL respectively.
- The relationship between actual deposit and actual O/S LDO is in increasing trend over the study period in both banks.
- The interest holds highest percentage of expenses as deposits is the major resources of the banks. The cost of deposit of HBL is in the range of 2.26 to 2.70% and 2.49 to 3.61% in NIBL it means HBL paid the interest 2.51% and NIBL pays 2.87% in an average over the period.
- The loan loss provision range between 0.32 to 10.13% in HBL and it is in range between 5.50 to 15.37% in NIBL respectively.

- The yearly interest income is in increasing trend in amount as per the O/S LDO is also increasing. In term of average rate of return is fluctuating trend it ranges of 9.45% to 10.40% in HBL and 7.97% to 9.02% in NIBL, the average rate of return over the study period is 9.85% in HBL and 8.66% in NIBL.
- The amount of interest margin of both banks is increasing trend where as the increment percentage is fluctuating trend but the fluctuating rate is higher in HBL rather than NIBL.
- The interest margin is in higher rank over the five year and burden (other income- other expenses) has lower rank so there is profit in every year. The net profit is higher than burden in HBL except F/Y 2061/062 and 2062/063 but in NIBL it is higher on F/Y 2065/066 only.
- The current ratio of NIBL has met the standard of 2:1 in each year but in HBL it is lower than standard in F/Y 2062/063, 2063/064 and 2064/065 respectively.
- Debt-Equity ratio shows that the both banks financial strength is very strong because they have more internal fund to repay the borrowing capital.
- The interest coverage ratio of HBL is range between 2.05 to 2.28% and it is 1.87 to 2.34% in NIBL. The variance of interest coverage ratio is higher in NIBL than HBL.
- Return on assets did not show the satisfactory result in both banks. The banks have deployed most of the fund on non-business and fixed assets. Therefore, the ratio is very lower than the standard rate of 10%.
- Return on Capital (ROE) of the banks is also satisfactory. It shows the efficiency of the management.
- The percentage of BEP is in fluctuating trend it means the burden and interest margin is not increasing as same ratio where as the BEP in Rs is in increasing trend over the period so HBL and NIBL are in over the BEP level in terms of interest margin. The BEP range over the study period is 16.68 to 65.15% in HBL and it is 43.03 to 83.78% in NIBL.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter is focused on the findings and conclusions obtained from the study of “A comparative analysis of Profit planning practice in Himalayan Bank Ltd and Nepal Investment Bank Ltd.” This chapter is comprised of three sections, the first sections deals with the summary of the study, the second sections draws the conclusions of the study and the third section proposes the suggestions to the problems observed on the basis of the findings.

5.1 Summary

Economic growth is the main factor to ensure the prosperity of the country. The role of commercial banks in the economic growth of the country is very high. By mobilizing the scattered an idle resources from the savers, commercial bank pools the fund in a sizable volume in order to feed to the fund requirement of the productive sector of the economy. Such investment is the productive sector, promote trade and industrialization in the country thereby raising the employment opportunities and earning to the labours and materials and service into the banks more saving more funds available in the bank for further investment. In this way, as the chain moves rolling on, the economy of the nation also grows.

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

commercial bank, with specific case study of Himalayan Bank Limited and Nepal Investment Bank Limited.

This study has tried to cover the various aspect of budgeting in the banks from the time of its inception to the end of F/Y 2065/066. In the first introductory chapter, this study report has tried to give brief introduction of banking and its relation to the economy, brief history banking in Nepal, brief profile of the concerned banks, general concepts to profit and comprehensive planning, the statement of problem, objective of the study and its scope, limitations and significance.

During the research work, an extensive review of various literatures, books, past thesis, journals have been made and for some materials relevant websites were also consulted. The work was compiled into 'review of literature' chapter.

Research methodology followed for this research work is mentioned in this work is mentioned in the chapter three entitled as 'Research Methodology'. The study is mostly based on secondary data and required data have been collected by using various sources and presented in tabular and various diagram form and are tried to be interpreted in the study report in logical ways. Data are then analyzed applying various financial, mathematical and statistical tools and are listed in a systematic manner. All these works are compiled in the fourth chapter titled as 'Data Presentation and Analysis' of the study.

Finally, the summary and the recommendation are made for this study is hereby being presented in this current chapter five titled as 'Summary, Conclusion and Recommendations'.

5.2 Conclusion

On the basis of major findings of study some conclusion has drawn about the HBL and NIBL. Both banks are well conscious about their human resources as they have the policy of skill development programs, reward system and other motivational activities. NIBL only one Nepalese bank

achieved the bank of the year award three times. Both banks are increasing their internal fund by increasing capital year by year this means strengthen their capability internally. NIBL is able to meet its targeted deposit collection where as HBL is little bit difficulties to meet its target. Its actual achievement is less than budgeted deposit. But both banks are well performing in deployment of LDO. The relationship between budgeted and actual figures is positively correlated.

The non-fund consuming business of HBL and NIBL is also remarkable since it gives the return to banks without investing the fund. The average cost of deposit (COD) of banks is normal but it is higher in NIBL with compare to HBL. It means HBL is able to collect cost free deposit as compare with NIBL. The relationship between loan loss provision and o/s LDO shows that doubtful debt is decreasing trend where as provision for doubtful debt is lower percentage in HBL as compare with NIBL. The major source of income is interest margin the trend of interest margin is increasing trend every year in both banks but the percentage is highly fluctuated in HBL but the fluctuation rate is lower in NIBL.

NIBL is maintained the current ratio as 2:1 in each year for the study period but HBL is unable to maintain it except the F/Y 2061/062 and F/Y 2065/066 over the study period. The financial strength of HBL and NIBL is strong since Debt-equity ratio shows that both banks use more internal fund to repay their borrowings. The return on assets is lower in both banks but it is a little bit higher in NIBL and return on capital is almost same in both banks and it is satisfactory of HBL and NIBL it shows the good earning capacity of the banks.

On overall, the banks have effective budgetary system and the management system is also supportive for the true achievement of the budgetary goal.

5.3 Recommendations

The recommendations are based on the study of profit planning of HBL and NIBL these are as follows:

- 5.3.1 Due to increase in competition HBL and NIBL should make some policy like: staff motivation, introducing new product and service, customer orientation service etc. to keep their present position as before among the Nepalese financial institutions. For that they should pay more attention about the changing technological environment and provide innovative products and services to reduce the cost of fund it give more growth and profitability.
- 5.3.2 They should be conscious about the factors affecting the business like Global economic crisis, existing abnormal situation, political instability etc.
- 5.3.3 Every bank should consider the corporate social responsibility so HBL and NIBL suggest more involvement in social activities in the days to come.
- 5.3.4 HBL and NIBL's has major source is deposit since this is the cost bearing source so, the banks is suggest to increase cost free resources and reducing burden(other income- other Expenses) for the banks.
- 5.3.5 The banks have collected high amount of deposit but could not utilize their funds towards profitable sectors. They must utilize properly their fund. Otherwise it only increases their expenses rather than increase their income. Large amount of deposit increases interest expenses, staff expenses and operating expenses and reduce profit. So, it is recommended to find out new area like: Hydropower, Small and Medium Size import replacement and export industry, Agro base industry and Micro finance etc.
- 5.3.6 HBL invest in LDO 54% and NIBL invest in LDO 65% out of total available resources. To overcome from the situation it is recommended

to follow liberal lending policy and invest more in secured loan and maintain stability on the investment policy to the HBL.

- 5.3.7 The banks should more focus on the non fund consuming business activities like LC, Bank Guarantee, Foreign exchange and other. It supports in the overall profitability of the banks.
- 5.3.8 Return on assets ratio is Lower than standard prescribed by NRB at 10% in both banks so, it is recommended to deployed fewer portions of resources at fixed assets and non business activities.
- 5.3.9 People of rural area of Nepal still out of banking services so HBL and NIBL is suggested to take bold steps to expand and upgrade its network to reach such area with their products & services and follow up NRB guidelines.
- 5.3.10 The 'Global Economic Crisis 2008' started from banking sector of USA some of its effect is started to seems in Nepalese economy so both banks suggested to less investment in real estate sector and investment more portion in productive sector like agro base industry, import replacement industry etc. for safe from that crisis.

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APPENDIX -1

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HBL	X	Y	X=X- \bar{X}	Y=Y- \bar{Y}	XY	X ²	Y ²	NIBL	X	Y	X=X- \bar{X}	Y=Y- \bar{Y}	XY	X ²	Y ²
2061/62	248	248	-34.60	-47.60	1646.96	1197.16	2265.76	2061/62	130	143	-102.20	-134.80	13776.56	10444.84	18171.04
2062/63	254	265	-28.60	-30.60	875.16	817.96	936.36	2062/63	180	189	-52.20	-88.80	4635.36	2724.84	7885.44
2063/64	274	300	-8.60	4.40	-37.84	73.96	19.36	2063/64	220	245	-12.20	-32.80	400.16	148.84	1075.84
2064/65	312	318	29.40	22.40	658.56	864.36	501.76	2064/65	300	345	67.80	67.20	4556.16	4596.84	4515.84
2065/66	325	347	42.40	51.40	2179.36	1797.76	2641.96	2065/66	331	467	98.80	189.20	18692.96	9761.44	35796.64
			0.00	0.00	5322.20	4751.20	6365.20				0.00	0.00	42061.20	27676.80	67444.80

$$\bar{X} = \frac{\sum x}{n} = \frac{1413}{5} = 282.2$$

$$\bar{Y} = \frac{\sum y}{n} = \frac{1478}{5} = 295.6$$

$$\sigma_x = \sqrt{\frac{\sum x^2}{n} - \left(\frac{\sum x}{n}\right)^2} = \sqrt{\frac{4751.2}{5} - 0} = 30.83$$

$$\sigma_y = \sqrt{\frac{\sum y^2}{n} - \left(\frac{\sum y}{n}\right)^2} = \sqrt{\frac{6365.2}{5} - 0} = 35.68$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{5322.2}{\sqrt{4751.2} \sqrt{6365.2}} = \frac{5322.2}{68.93 \times 79.78} = \frac{5322.2}{5499.24} = 0.97$$

$$CV_x = \frac{\sigma_x}{\bar{x}} \times 100 = \frac{30.83}{282.6} \times 100 = 10.91\%$$

$$CV_y = \frac{\sigma_y}{\bar{y}} \times 100 = \frac{35.68}{295.6} \times 100 = 12.07\%$$

$$PE = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-(0.97)^2}{\sqrt{5}} = 0.178$$

$$6PE = 6 \times 0.178 = 0.1068 \quad (r > 6PE)$$

$$\bar{X} = \frac{\sum x}{n} = \frac{1161}{5} = 232.2$$

$$\sigma_x = \sqrt{\frac{\sum x^2}{n} - \left(\frac{\sum x}{n}\right)^2} = \sqrt{\frac{27676.8}{5} - 0} = 74.4$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{42061.2}{\sqrt{27676.8} \sqrt{67444.8}} = \frac{42061.2}{166.36 \times 259.7} = \frac{42061.2}{43203.69} = 0.974$$

$$CV_x = \frac{\sigma_x}{\bar{x}} \times 100 = \frac{74.4}{232.2} \times 100 = 32.04\%$$

$$CV_y = \frac{\sigma_y}{\bar{y}} \times 100 = \frac{116.14}{277.8} \times 100 = 41.81\%$$

$$PE = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-(0.974)^2}{\sqrt{5}} = 0.0155$$

$$6PE = 6 \times 0.0155 = 0.093 \quad (r > 6PE)$$

$$\bar{Y} = \frac{\sum y}{n} = \frac{1389}{5} = 277.8$$

$$\sigma_y = \sqrt{\frac{\sum y^2}{n} - \left(\frac{\sum y}{n}\right)^2} = \sqrt{\frac{67444.8}{5} - 0} = 116.14$$

APPENDIX -2

HBL	X	Y	X=X- \bar{X}	Y=Y- \bar{Y}	XY	X ²	Y ²	NIBL	X	Y	X=X- \bar{X}	Y=Y- \bar{Y}	XY	X ²	Y ²
2061/62	135	139	-34.80	-46.60	1621.68	1211.04	2171.56	2061/62	80	105	-80.00	-104.40	8352	6400	10899.36
2062/63	159	168	-10.80	-17.60	190.08	116.64	309.76	2062/63	100	132	-60.00	-77.40	4644	3600	5990.76
2063/64	170	178	0.20	-7.60	-1.52	0.04	57.76	2063/64	140	178	-20.00	-31.40	628	400	985.96
2064/65	184	195	14.20	9.40	133.48	201.64	88.36	2064/65	200	270	40.00	60.60	2424	1600	3672.36
2065/66	201	248	31.20	62.40	1946.88	973.44	3893.76	2065/66	280	362	120.00	152.60	18312	14400	23286.76
	849.00	928.00	0.00	0.00	3890.60	2502.80	6521.20				0.00	0.00	34360.00	26400.00	44835.20

$$\bar{X} = \frac{\sum x}{n} = \frac{849}{5} = 169.8$$

$$\bar{Y} = \frac{\sum y}{n} = \frac{928}{5} = 185.6$$

$$\sigma_x = \sqrt{\frac{\sum x^2}{n} - \left(\frac{\sum x}{n}\right)^2} = \sqrt{\frac{2502.8}{5} - 0} = 22.37$$

$$\sigma_y = \sqrt{\frac{\sum y^2}{n} - \left(\frac{\sum y}{n}\right)^2} = \sqrt{\frac{6521.2}{5} - 0} = 36.11$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{3890.6}{\sqrt{2502.8} \sqrt{6521.2}} = \frac{3890.6}{50.03 \times 80.75} = \frac{3809.6}{4039.92} = 0.963$$

$$CV_x = \frac{\sigma_x}{\bar{x}} \times 100 = \frac{22.37}{169.8} \times 100 = 13.17\%$$

$$CV_y = \frac{\sigma_y}{\bar{y}} \times 100 = \frac{36.11}{185.6} \times 100 = 19.46\%$$

$$PE = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-(0.963)^2}{\sqrt{5}} = 0.0219$$

$$6PE = 6 \times 0.0219 = 0.1314 \quad (r > 6PE)$$

$$\bar{X} = \frac{\sum x}{n} = \frac{800}{5} = 160$$

$$\sigma_x = \sqrt{\frac{\sum x^2}{n} - \left(\frac{\sum x}{n}\right)^2} = \sqrt{\frac{26400}{5} - 0} = 72.66$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{34370}{\sqrt{26400} \sqrt{44835.2}} = \frac{34370}{162.48 \times 211.74} = \frac{34370}{34403.52} = 0.9987$$

$$CV_x = \frac{\sigma_x}{\bar{x}} \times 100 = \frac{72.66}{160} \times 100 = 45.41\%$$

$$CV_y = \frac{\sigma_y}{\bar{y}} \times 100 = \frac{94.69}{209.4} \times 100 = 45.22\%$$

$$PE = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-(0.9987)^2}{\sqrt{5}} = 0.00078$$

$$\bar{Y} = \frac{\sum y}{n} = \frac{1047}{5} = 209.4$$

$$\sigma_y = \sqrt{\frac{\sum y^2}{n} - \left(\frac{\sum y}{n}\right)^2} = \sqrt{\frac{44835.2}{5} - 0} = 94.69$$

$$6PE = 6 \times 0.00078 = 0.00468 \quad (r > 6PE)$$

APPENDIX - 3

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HBL	X	Y	X=X- \bar{X}	Y=Y- \bar{Y}	XY	X ²	Y ²	NIBL	X	Y	X=X- \bar{X}	Y=Y- \bar{Y}	XY	X ²	Y ²
2061/62	147	150	-3.20	0.40	-1.28	10.24	0.16	2061/62	55	59	-23.20	-48.00	1113.6	538.24	2304
2062/63	137	138	-13.20	-11.60	153.12	174.24	134.56	2062/63	65	86	-13.20	-21.00	277.2	174.24	441
2063/64	149	148	-1.20	-1.60	1.92	1.44	2.56	2063/64	80	103	1.80	-4.00	-7.2	3.24	16
2064/65	155	167	4.80	17.40	83.52	23.04	302.76	2064/65	90	119	11.80	12.00	141.6	139.24	144
2065/66	163	145	12.80	-4.60	-58.88	163.84	21.16	2065/66	101	168	22.80	61.00	1390.8	519.84	3721
	751.00	748.00	0.00	0.00	178.40	372.80	461.20				0.00	0.00	2916.00	1374.80	6626.00

$$\bar{X} = \frac{\sum x}{n} = \frac{751}{5} = 150.2$$

$$\bar{Y} = \frac{\sum y}{n} = \frac{748}{5} = 149.6$$

$$\sigma_x = \sqrt{\frac{\sum x^2}{n} - \left(\frac{\sum x}{n}\right)^2} = \sqrt{\frac{372.8}{5} - 0} = 8.63$$

$$\sigma_y = \sqrt{\frac{\sum y^2}{n} - \left(\frac{\sum y}{n}\right)^2} = \sqrt{\frac{461.2}{5} - 0} = 9.60$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{178.4}{\sqrt{372.8} \sqrt{461.2}} = \frac{178.4}{19.31 \times 21.48} = \frac{178.4}{414.78} = 0.4301$$

$$CV_x = \frac{\sigma_x}{\bar{x}} \times 100 = \frac{8.63}{150.2} \times 100 = 5.75\%$$

$$CV_y = \frac{\sigma_y}{\bar{y}} \times 100 = \frac{9.60}{149.6} \times 100 = 6.42\%$$

$$PE = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-(0.4301)^2}{\sqrt{5}} = 0.2458$$

$$6PE = 6 \times 0.2458 = 1.4 \quad (r < 6PE)$$

$$\bar{X} = \frac{\sum x}{n} = \frac{391}{5} = 78.2$$

$$\sigma_x = \sqrt{\frac{\sum x^2}{n} - \left(\frac{\sum x}{n}\right)^2} = \sqrt{\frac{1374.8}{5} - 0} = 16.58$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{2916}{\sqrt{1374.8} \sqrt{6626}} = \frac{2916}{37.08 \times 81.40} = \frac{2916}{3018.31} = 0.9661$$

$$CV_x = \frac{\sigma_x}{\bar{x}} \times 100 = \frac{16.58}{78.2} \times 100 = 21.20\%$$

$$CV_y = \frac{\sigma_y}{\bar{y}} \times 100 = \frac{36.40}{107} \times 100 = 34.02\%$$

$$PE = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-(0.9333)^2}{\sqrt{5}} = 0.02012$$

$$\bar{Y} = \frac{\sum y}{n} = \frac{535}{5} = 107$$

$$\sigma_y = \sqrt{\frac{\sum y^2}{n} - \left(\frac{\sum y}{n}\right)^2} = \sqrt{\frac{6626}{5} - 0} = 36.40$$

$$6PE = 6 \times 0.02012 = 0.12072 \quad (r > 6PE)$$

APPENDIX-4

'0000000'

HBL	X	Y	X=X- \bar{X}	Y=Y- \bar{Y}	XY	X ²	Y ²	NIBL	X	Y	X=X- \bar{X}	Y=Y- \bar{Y}	XY	X ²	Y ²
2061/62	248	139	-47.60	-48.00	2284.8	2265.76	2304	2061/62	143	105	-134.80	-105.40	14207.92	18171.04	11109.16
2062/63	265	168	-30.60	-19.00	581.4	936.36	361	2062/63	189	132	-88.80	-78.40	6961.92	7885.44	6146.56
2063/64	300	178	4.40	-9.00	-39.6	19.36	81	2063/64	245	178	-32.80	-32.40	1062.72	1075.84	1049.76
2064/65	318	202	22.40	15.00	336	501.76	225	2064/65	345	275	67.20	64.60	4341.12	4515.84	4173.16
2065/66	347	248	51.40	61.00	3135.4	2641.96	3721	2065/66	467	362	189.20	151.60	28682.72	35796.64	22982.56
	1478.00	935.00	0.00	0.00	6298.00	6365.20	6692.00		1389	1052	0.00	0.00	55256.40	67444.80	45461.20

$$\bar{X} = \frac{\sum x}{n} = \frac{1478}{5} = 295.6$$

$$\bar{Y} = \frac{\sum y}{n} = \frac{935}{5} = 187$$

$$\sigma_x = \sqrt{\frac{\sum x^2}{n} - \left(\frac{\sum x}{n}\right)^2} = \sqrt{\frac{6365.2}{5} - 0} = 35.68$$

$$\sigma_y = \sqrt{\frac{\sum y^2}{n} - \left(\frac{\sum y}{n}\right)^2} = \sqrt{\frac{6692}{5} - 0} = 36.58$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{6298}{\sqrt{6365.2} \sqrt{6692}} = \frac{6298}{79.78 \times 81.80} = \frac{6298}{6526} = 0.965$$

$$CV_x = \frac{\sigma_x}{\bar{x}} \times 100 = \frac{35.68}{295.6} \times 100 = 12.07\%$$

$$CV_y = \frac{\sigma_y}{\bar{y}} \times 100 = \frac{36.58}{187} \times 100 = 19.56\%$$

$$PE = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-(0.965)^2}{\sqrt{5}} = 0.0208$$

$$6PE = 6 \times 0.0208 = 0.1248 \quad (r > 6PE)$$

$$\bar{X} = \frac{\sum x}{n} = \frac{1389}{5} = 277.8$$

$$\sigma_x = \sqrt{\frac{\sum x^2}{n} - \left(\frac{\sum x}{n}\right)^2} = \sqrt{\frac{66368.96}{5} - 0} = 115.21$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{55256.4}{\sqrt{66368.96} \sqrt{45461.2}} = \frac{55256.4}{257.62 \times 213.22} = \frac{55256.4}{54929.74} = 1.006$$

$$CV_x = \frac{\sigma_x}{\bar{x}} \times 100 = \frac{115.21}{277.8} \times 100 = 41.47\%$$

$$CV_y = \frac{\sigma_y}{\bar{y}} \times 100 = \frac{95.35}{210.4} \times 100 = 45.32\%$$

$$PE = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-(1.006)^2}{\sqrt{5}} = -0.0036$$

$$6PE = 6 \times (-0.0036) = -0.0216 \quad (r > 6PE)$$

$$\bar{Y} = \frac{\sum y}{n} = \frac{1052}{5} = 210.4$$

$$\sigma_y = \sqrt{\frac{\sum y^2}{n} - \left(\frac{\sum y}{n}\right)^2} = \sqrt{\frac{45461.2}{5} - 0} = 95.35$$

APPENDIX -5

'0000000'

HBL	X	Y	X=X- \bar{X}	Y=Y- \bar{Y}	XY	X ²	Y ²	NIBL	X	Y	X=X- \bar{X}	Y=Y- \bar{Y}	XY	X ²	Y ²
2061/62	139	14	-48.00	-4.20	201.6	2304	17.64	2061/62	105	9	-105.40	-9.40	990.76	11109.16	88.36
2062/63	168	16	-19.00	-2.20	41.8	361	4.84	2062/63	132	12	-78.40	-6.40	501.76	6146.56	40.96
2063/64	178	18	-9.00	-0.20	1.8	81	0.04	2063/64	178	16	-32.40	-2.40	77.76	1049.76	5.76
2064/65	202	20	15.00	1.80	27	225	3.24	2064/65	275	22	64.60	3.60	232.56	4173.16	12.96
2065/66	248	23	61.00	4.80	292.8	3721	23.04	2065/66	362	33	151.60	14.60	2213.36	22982.56	213.16
	935.00	91.00	0.00	0.00	565.00	6692.00	48.80		1052	92	0.00	0.00	4016.20	45461.20	361.20

$$\bar{X} = \frac{\sum x}{n} = \frac{935}{5} = 187$$

$$\bar{Y} = \frac{\sum y}{n} = \frac{91}{5} = 18.2$$

$$\sigma_x = \sqrt{\frac{\sum x^2}{n} - \left(\frac{\sum x}{n}\right)^2} = \sqrt{\frac{6692}{5} - 0} = 36.58$$

$$\sigma_y = \sqrt{\frac{\sum y^2}{n} - \left(\frac{\sum y}{n}\right)^2} = \sqrt{\frac{48.8}{5} - 0} = 3.12$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{565}{\sqrt{6692} \sqrt{48.8}} = \frac{565}{81.80 \times 6.99} = \frac{6298}{6526} = 0.965$$

$$CV_x = \frac{\sigma_x}{\bar{x}} \times 100 = \frac{36.58}{187} \times 100 = 19.56\%$$

$$CV_y = \frac{\sigma_y}{\bar{y}} \times 100 = \frac{3.12}{18.2} \times 100 = 17.14\%$$

$$PE = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-(0.965)^2}{\sqrt{5}} = 0.0208$$

$$6PE = 6 \times 0.0208 = 0.1248 \quad (r > 6PE)$$

$$\bar{X} = \frac{\sum x}{n} = \frac{1389}{5} = 277.8$$

$$\sigma_x = \sqrt{\frac{\sum x^2}{n} - \left(\frac{\sum x}{n}\right)^2} = \sqrt{\frac{66368.96}{5} - 0} = 115.21$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{55256.4}{\sqrt{66368.96} \sqrt{45461.2}} = \frac{55256.4}{257.62 \times 213.22} = \frac{55256.4}{54929.74} = 1.006$$

$$CV_x = \frac{\sigma_x}{\bar{x}} \times 100 = \frac{115.21}{277.8} \times 100 = 41.47\%$$

$$CV_y = \frac{\sigma_y}{\bar{y}} \times 100 = \frac{95.35}{210.4} \times 100 = 45.32\%$$

$$PE = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-(1.006)^2}{\sqrt{5}} = -0.0036$$

$$6PE = 6 \times (-0.0036) = -0.0216 \quad (r > 6PE)$$

$$\bar{Y} = \frac{\sum y}{n} = \frac{1052}{5} = 210.4$$

$$\sigma_y = \sqrt{\frac{\sum y^2}{n} - \left(\frac{\sum y}{n}\right)^2} = \sqrt{\frac{45461.2}{5} - 0} = 95.35$$