

CHAPTER-I

INTRODUCTION

1.1 Background of the Study:

The excess income over expenditure is called profit. The word profit is brings for visions of reserves. "Profit does not just happen, profits are managed" (Lynch and Williamson, 1989:125) the concept of profit is not new but the concept of profit planning and control is new word in business literature. We can define profit planning and control is a tool of management used in profit making organization. The managerial skill which increase revenues and minimize the cost is called profit planning and control. Profit planning and control involves long-term commitment waiting for a reward which comes in future and always remains uncertain. Therefore, every planning entails some degree of uncertainty.

So, we can conclude profit planning and control is as an organized and formal approach for realize the planning, synchronization and control responsibilities of management which provides guidelines to the overall managerial task. Sound- controlled profit planning and control programs facilitate the management to keep a level of profits which will make certain the continuation of the business and the accomplishment of organization responsibilities. "Profit planning through volume of cost analysis, however, is a modern concept of management planning tools designated primarily for industrial enterprises. It involves a study of what a business cost and expenses should be and will be at different level of operations and it include a study of the resultant effect due to this hanging relationship between volume and cost " (Young Dong, 2001:74) "A Profit plan is an advance decision of expected achievement based on the most efficient operating

standards in effect or in prospect of time. It is established against which actual accomplishment is regularly compared" (Niel, 2001:305)

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

The financial institutions act as mediators by transferring the resources from the surplus to the deficits, which provides fuel to economic development of the country. Economic activities of a nation can't be carried forward without support of the financial institutions. Financial institutions include financial intermediaries like banks, credit unions, saving and credit, money market funds, life insurance companies, pension's funds mutual funds finance companies etc. Every country has to give a stress on up liftmen of the constant growth and sustainable financial system. Until and unless a nation can assemble its own domestic resources the nation cannot achieve economic growth. Transfer of funds from various savers to dynamic sectors is the major function of financial institution. Financial consist of financial institution including financial intermediaries using various financial instruments and connecting savers and users of cash. There is a tremendous growth in the number of financial institution in Nepal in the last two decades. At the beginning of the 1980s when financial sector was not liberalized, there were only two commercial banks, and two development banks performing banking activities in Nepal. There were no micro-credit development banks, finance companies, cooperatives and NGOs with limited banking transactions. Numbers of Banks, Financial Institutions and financial system in Nepal are as follows:

Table 1.1

Bank & Financial Institutions	Numbers
Commercial banks	25
Development banks	58
Finance Company	78
Other Financial Institutions	
Micro Finance (Registered In NRB)	12
Co-Operatives (Registered In NRB)	16
NGO's (Registered In NRB)	46

(www.nrb.org.com / directives, notification)

Table No.1.2
Structure of financial system in Nepal is as follows:

Regulator	Participants
Nepal Rastra Bank	<ul style="list-style-type: none"> ➤ Commercial banks ➤ Development banks ➤ Finance companies ➤ Micro finance development banks ➤ Some of savings and credit co-operatives ➤ Some of non-governmental organization
Nepal Government	<ul style="list-style-type: none"> ➤ Postal Saving Banks ➤ Specialized financial institutions like Employees Provident Fund, Citizen Investment Trust etc
Insurance Board	<ul style="list-style-type: none"> ➤ Insurance Companies

(www.nrb.org.com / directives, notification)

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

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

The central bank controls the whole currency and credit of the country. It also undertakes the major functional operation of the government and through this influences the

behavior of other financial institutions so as to support and develop the country's economy as a whole. NRB has following objectives: (NRB act 2002)

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

Commercial banks have different functions like accepting deposits, capital formation, granting loans, remittance, foreign exchanges. Various new functions have been introduced by commercial banks like credit card, debit card, ATM, tele-banking, e-banking lockers, SWIFT, L.C. etc. The overall operations are similar to commercial bank of development and merchant bank. Development bank is focused on the development of the certain sectors of the economy and the services of merchant banking cover project counseling, per investment activities, feasibility studies, project reports, design of capital structure, issue management, underwriting, loan syndication, and mobilization of funds, venture capital and public deposits. "Merchant Banking is skill based activities and involves serving financial need of every client. Merchant Bankers can turn to any of the activities depending upon resources such as capital, foreign tie-ups for overseas activities and skills. The issue of securities is the core of merchant banking function. The issue

function may be broadly divided into pre-issue management and post-issue management". (*www.nidc.org.np*)

1.2 Nepalese Economy - Current Macroeconomic Condition:

Nepal is a landlocked country located between two giant countries India and China having good potential in the tourism, hydropower and other business sector. The total area of the country is 147,181 Sq. Km. and only about 27 percentage of the total land area is under cultivation. Ecologically this country is divided into three regions: i) The Terai Region ii) The Himalayan Region iii) The Mountain Region and politically divided into five development regions, fourteen zones and seventy-five districts. Nepalese economy is basically the agriculture based economy and the contribution of the agriculture sector in the total GDP is about 36 percent. Around 77 percent of the total population is engaged in the agriculture sector. The commercialization of the agricultural activities has not yet taken place. There is a wide gap in the distribution of agricultural land. Most of the farmers are landless and the major portion of the land is in the hands of few landlords. The share of manufacturing sector in the total GDP is 10 percent. About 86 percentages of the total population lives in rural area and only 14 percent population lives in urban areas. The Government of Nepal (previously called His Majesty's Government) has initiated liberal, open and market oriented economic policy in 1990s, immediately after the restoration of the democracy. The deteriorating law and order situation, political instability, lack of tourists in the country in the past few years has adversely affected the country's economy. The government is required to make huge investment to develop the sufficient infrastructures like roads, powers, health and higher education etc. in order to

make a favorable investment climate in the country. Because of the political unrest, Nepal has been facing very difficult situation. After a decade of insurgency, now the situation seems to be improved and business sector seems to be much hopeful about the economic growth. Nepal is a country located in South Asia. The country is roughly rectangular in shape and Lies on the southern lap of the Himalayas. Nepal is one of the least develop country in the world. 80 % Neplease are under the line of poverty. Where as this is a predominantly a land locked agricultural county. Most of the Neplease are depends on the traditional agricultural sector and the population still reside in the rural areas being engaged in agriculture related survival economic activities. The growth in other sectors of the economy is embarrassed by the small domestic market, poor physical infrastructure, inadequate human and financial resources, land locked position of the country, the political instability and the geography of the country. During the F/Y 2063/64 the country's economic indicators are as follows: (*www.nrb.org.np / Current Macroeconomic Situation*)

- The inflation was at 6.4 % it was 8 % in F/Y 2062/63
- The Growth rate of GDP in product is 2.5 %
- Consumer price index was 8.3 % in F/Y 2062/63 this index was increased by 5.1 % in he F/Y 2063/64
- F/Y 2063/64 is the last year of 10th Plan. The expected economic growth of plan was 6.2 % and normal growth was 4.3 % but only 3.4 % has been achieved through out the plan.
- In 2063/64, the GON's budget on a cash basis remained at deficit of Rs 19.20 billion, compared to deficit of Rs 16.43 billion in 2062/63.

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

Fiscal year 2007/08 is satisfactory year from the standpoint of national economic performance. The performance on aggregate is in increase but we are not capable to take more advantage of peace progress. The structure of our GDP is still agriculture base.

The preliminary estimates of national income accounts recently released by Central Bureau of Statistics (CBS) has placed the real GDP growth in basic prices at 5.6 percent and in producers' prices at 4.7 percent in 2007/08 compared to the respective growths of 2.6 percent and 3.2 percent in the preceding year.

In 2007/08 the agriculture and non-agriculture sectors are reported to have grown by 5.7 percent and 5.6 percent respectively. These sectors had witnessed the growth of 1.0 percent and 4.1 percent respectively in the previous year.

The monsoon precipitation that plays a crucial role in agriculture production remained satisfactory in 2007/08. As per the statistics released by Department of Hydrology and Meteorology, the country witnessed 98 percent of normal precipitation in June, 125 percent in July and 101 percent in August 2007. This led to a rebound in paddy production in 2007/08. However, winter season remained unfavorable to the production of wheat, barley, pulses and fruits.

The paddy production surged by a whopping 16.8 percent in 2007/08 due mainly to a favorable monsoon. Over past three years, the paddy production had experienced a continuous decline. The maize, wheat and potato production also surged by 3.2 percent,

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

As per the latest statistics released by CBS, the manufacturing production index declined by 1.4 percent in 2007/08 compared to a growth of 2.6 percent in the previous year. The decline in the index was on account of a substantial fall in the production of vegetable ghee and oil, plastic products, garment and domestic metal products.

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

1.3 Meaning and Importance of Financial Institutions:

"Financial Institution" means a financial institution established under the prevailing laws with the objectives of providing loans for agricultural cooperative, industrial or any other specific economic purpose or of collecting deposits from the general public and the word also includes an institution prescribed as financial institution by Government of Nepal by publishing notice in the Nepal Gazette. (NRB Act 2002) "Banking institution is inevitable for resource mobilization and all-round development of the country. It is resources for economic development; it maintains economic confidence of various segments and extends credit to people". (Gryuinskhi, 1993:87)

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

1.3.1 Major Financial Policy of Nepal:

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

A. Monetary Policy:

Nepal Rastra Bank began exercising monetary policy since mid 1960 with instrument like credit control regulation, interest rate administration, margin rate, refinance rate and cash

reserve ratio. In the 1970's liquidity requirement, credit limits, / ceiling and directed credit programmers were introduced. Open market operation evolved only in the 1990s with policy shift from direct to indirect monetary control. Effective exercise of cash reserve ratio requirement and bank rate as an active monetary policy tools evolved even later – since late 1990s. The basic objective of monetary and credit policies have been fostering growth, generating employment, addressing poverty, containing prices, promoting external trade, and attaining healthy balance of payment of the country. The NRB is the apex body assigned the task of designing and operating monetary policy. The most important goals for monetary policy in Nepal are to maintain the price and external sector stability. Excess money supply causes an upward pressure in the level of prices by increasing aggregate demand in the economy in the wake of inelastic supply of output. So monetary policy purports to limit prices by disallowing money to increase in excess of desired demand for it. NRB has published its monetary policy for the fiscal year 2007/08.

The few main features of new monetary policy are as follows:

- Primarily focused towards curbing acceleration in the pace of inflation.
- Economic growth targeted at 5% on the basis of Budget of 2007/08
- Average inflation based on consumer price index estimated to be 5.5% compared to that of 6.4% in 2006/07
- Maintaining financial sector stability and to increase the financial intermediation.
- Addressing the fluctuation in short-term interest rates and the risks through Open Market Operations.
- Increase of total Banking internal loan to 17.1% 2064/65
- Maximum usage of the financial resources by the private sector.

B. Banking Policy:

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

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

C. Credit Policy:

Often monetary policy and credit policy are interpreted in the same way. Nepal Rastra Bank has also been exercising monetary and credit policies through the same manner. But monetary and credit policies are not exactly the same. Monetary policy is defined as a policy affecting changes in the quantity of money while credit policy is defined as a policy affecting the cost, availability and the allocation of credit. Money differs from

credit because money is the liability of the banking system whereas credit is an asset. In the past, NRB has introduced the priority sector lending programmed. Under this programmed all the banks were required to extend certain percentage of their lending to the prescribed priority sector. However, this priority sector-lending requirement is now phased out. With an objective of minimizing the concentration of the credit risk, the NRB has prescribed the single borrower limit for fund based as well as non-fund based. The maximum amount of fund based as well as non-fund based lending to a single borrower has been linked with the core capital of the institution.

D. Interest Rate Policy:

Interest is paid for the sacrifice made by the income holder by differing consumption for the time being and imparting with liquidity and to reward the income holder for making savings. There exists a wide array of interest rate in the economy. This is either because of wider varieties of securities having different liquidity, term structure and degree of risk or market imperfection. Interest rate is one of the monetary policy variables along with money supply and credit. In the process of financial system liberalization, initiatives to deregulate interest rate structure in Nepal were taken since Mid 1980s. The complete liberalization of the interest rate structure, however, took place in 1989 only whereby the commercial banks were set free to determine the deposit and lending rates. However, the existing number of commercial banks and the level of competitiveness in the financial market have not allowed interest rate structure to evolve through a perfect market mechanism. Further, there is a great deal difference in the level of interest rate on loans between formal and informal market. Informal market rate for borrowing are much higher than the formal market rates. One noteworthy situation of the Nepalese financial system has been the poor sensitivity of the commercial banks to changes in bank rate by

the Nepal Rastra Bank. This is because of the excess liquidity in the banking sector and therefore commercial banks do not resort to the central bank borrowing for financing their lending activities. (Source of Financial policy is: Feasibility study report of purposed Civic Development bank, 2008: 27)

1.4 Histories and Development of Banks:

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

The history of modern financial system is not too long. In Nepal it was begun in 1937 with the establishment of Nepal Bank Ltd. as a first commercial bank in Nepal. The bank was established to render services to the people for the economic progress of the

country prior to the establishment of Nepal Rastra Bank; it plays the role of central bank also with the establishment of NRB 1956 under the Nepal Rastra Bank Act 1955. The new Nepal Rastra Bank Act was brought out in 2002 by replacing the previous Act of 1955. This new Act has provided operational autonomy and independence to the Bank. Then after Government of Nepal and NRB established the Nepal Industrial Development Corporation (NIDC) Capital market in 1959. The second commercial bank the Rastriya Banijya Bank was established in the public sector in 1966, with the equity participation of Government of Nepal and Agriculture Development Bank Act, 1967 by incorporating the assets and liabilities of the Co-operative Bank.(Sharma ,2002: 3)

Numbers of financial institutions were setup till now. The legislation of commercial bank Act, 1974 set out regulation for licensing supervision and cancellation of license of commercial banks and encouraged the establishment of other commercial banks in Nepal. The move towards financial liberalization encouraged the entry of joint venture and private commercial banks. In the context of banking development, the 1980s saw a major structural change in financial sector policies, regulations and institutional developments. GON emphasized the role of the private sector for the investment in the financial sector. The financial sector liberalization, started already in the early eighties with the liberalization of the interest rates, encompassed further deregulation of interest rates, relaxation of entry barriers for domestic and foreign banks, restructuring of public sector commercial banks and withdrawal of central bank control over their portfolio management .The Nepal Arab Bank (NABIL) limited is the first joint venture commercial bank of Nepal was established in 1984. The Nepal indosez Banks ltd (now Nepal investment Bank limited). and Nepal Grindlays Bank Ltd.(Now Standard

Chartered Bank Ltd) two other joint venture commercial banks, were established in 1986 and 1987 respectively. With the passage of time, functions of banks have increased manifold. Since banks are rendering a wide range of services to the people of different walks of life, they have become an essential part of modern society. Life with out a bank is it brick bank or click bank (internet banking), is beyond imagination. (Dahal &Dahal 2002:7)

1.5 Statement of Problems:

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

Commercial banks play vital role in economic growth of a country. As a commercial institution, a commercial bank must make profit out of its operations for its survival and fulfillment of the responsibilities assigned. A commercial bank's major activities include mobilization of resources, which involves cost, and profitable deployment of those resources, which generates incomes. The differential interest income over the interest cost, which is popularly called interest margin, can be considered as the 'contribution margin' in the profit of the bank. The other operational expenses form a burden to contribution margin which, the banks are attempting to compensate by other income generated out of non fund based business activities of the bank.

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

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

1.6 Objectives of the Study

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

1. To focus the current profit planning premises adopted and it's effectiveness in NIBL.
2. To study the variance of budgeted and actual achievements.
3. Te analyzes the growth of the business of the bank over the period.
4. To provide suggestion and recommendations for improvements of the overall profitability of the bank.

1.7 Profile of NIBL:

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

With the decision of Credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, has acquired on

April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd.

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

A group of companies holding 50% of the capital .Rashtriya Banijya Bank holding 15% of the Capital. Rashtriya Beema Sansthan holding 15 % percentage. The remaining 20% being held by the General Public. (www.nibl.com.np) The share holding pattern of NIBL is showing in pie-chart below.

Chart 1.1

(Sources:www.nibl.com.np)

NIBL has the largest local network in the country .The head office of the bank is located at durbarmarg, Kathmandu. Besides the head office, the bank has 21 numbers of branches with in the country. The bank is planning further more branches in the country. Branch details are as follows:

Table 1.3

Kathmandu Head Office Durbarmarg, Kathmandu	
Seepadole Branch	Ariniko Highway Suryabinayak, Bhaktapur
Birgunj Branch	Adarshanagar, Birgunj
Pulchowk Branch	Pulchowk, Lalitpur
Banepa Branch	Banepa , Kavre
Jeetpur Branch	Neetpur , Bara
Newroad Branch	Newroad, Kathmandu
Biratnagar Branch	Golcha Chowk, Biratnagar
Butwal Branch	Traffic Chowk, Butwal
Bhairahawa Branch	Maitri Road, Bhairahawa
Pokhana Branch	Chiple Dunga , Pokhara
Putalisadak Branch	Putalisadak, Kathmandu
Narayanghat, Branch	Pulchowk, Narayanghat
Janakpur Branch	Mills Area, Janakpur
Nepalgunj Branch	Dhamboji, Nepalgunj
Thamel Branch	Chaksibari, Thamel
Kalimati Branch	Kalimati Chowk, Kathmandu
Birtamod Branch	Traffic Chowk, Birtamod
Battisputali Branch	Battisputali, Kathmandu
Dhangadi Branch	Sauraha Chowk, Dhangadi
Gongabu Branch	Gongabu Chowk, Kathmandu
Surkhet Branch	Neta Chowk, Surkhet

source: http://www.nibl.com.np/branch_network.html

Table 1.4: Board of Directors:

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

Source: http://www.nibl.com.np/board_of_directors.html

1.8 Rational of the study:

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

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

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

1.9 Limitations of the study:

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

-) The study focuses on profit planning and its application in NIBL.
-) Since, the report is prepared in short time based on secondary data and some published sources, the out come of the study may not be exactly this study covers the related date of the bank from FY 2003 to 2007 ..
-) In this study, the sample of NIBL is selected among all the commercial banks. But these may not represent the character of financial institutions.
-) This study is analysis with the help of financial tools and few statistical tools.
-) This study is meant only for the fulfillment of requirements Master Of Business Studies (MBS)
-) As detailed analysis and presentation requires enough time and high cost but due to financial and time constraint, this study could not use all the theory of profit planning.

1.10 Organization of the Study:

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

Chapter I – Introduction

Chapter II – Review of Literature

Chapter III – Research Methodology

Chapter IV – Data Presentation & Analysis

Chapter V – Summary, Conclusion & Recommendation

Chapter I – Introduction:

The first chapter deals with introduction. This includes Background of the study, Nepalese Economy - Current Macroeconomic Situation, Importance of Financial Institutions, Histories and Development of Banks in Nepal, Statement of Problems, Objectives of the Study, Profile of NIBL, Rational of the study, Limitations of the study, Organization of the Study.

Chapter II – Review of Literature:

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

Chapter III – Research Methodology:

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

Chapter IV – Data Presentation & Analysis:

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

Chapter V – Summary, Conclusion & Recommendation:

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

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

CHAPTER- II

REVIEW OF LITERATURE

2.1 Introduction

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

2.2 Concept of Commercial Bank:

Meaning of 'Bank ' in oxford dictionary says 'an establishment for keeping money and valuable safely, the money being paid out on the customer's order by means of cheques.

According to commercial bank Act 2031 " Commercial banks as a bank which exchanges money, accepts deposits, funding loans and performs other commercial activities and which is not specially established with the objectives of co-operative, agricultural , industrial or any other of such kind of specified purpose". (Commercial Bank Act 2031)

The major functions of commercial banks are as follows:

- ❖ Accepting various types of deposits
- ❖ Lending money in various sectors
- ❖ Letter of Credit

- ❖ Bank Guarantee
- ❖ Remittance
- ❖ Bills
- ❖ Others

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

2.2.1 NRB Regulation:

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

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

2.2.1 .1 Prescribed Regulations for commercial Banks:

a) Capital Adequacy

The capital adequacy is one of the major criteria to operate the commercial banks. Notional required capital will be as specified in the licensing policy.

b) Loan loss Reserves

The commercial banks have to comply and maintain loan classification and provisioning as per the NRB regulations.

c) Reserve Requirements

Banks and agencies of banks are required to maintain some reserves like cash in vault; balances with Nepal Rastra Bank .

d) Reporting requirements

Commercial Banks have to submit final annual report to Nepal Rastra Bank within 90 days after fiscal year end. Unless and until specified, other requirements are to submit reports as per NRB regulations. Quarterly financial reports should be published in national newspaper.

e) Systems and Policy Documents

Transparent systems, credit policy guidelines, borrowing guidelines, operational guidelines, risk management guidelines and other appropriate policies and guidelines need to be prepared, approved and implemented.

f) Technology and Technical Service

Modern technology and technical services should be apply by commercial banks as approved by NRB .

2.2.2 Evolution of Commercial Bank

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

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

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

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

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

In Nepal goldsmiths, merchants and money lenders were the ancient bankers of Nepal like other countries. Tejarathe Adda established during the Prime Minister Ranoddip Sing B.S 1933, was the first step towards the institutional development banking in Nepal. Tejarath Adda did not collect deposits from public but gave loans to employees and public. Banking in modern senses started with the beginning of Nepal Bank limited (NBL) on B.S 1994. NBL had Heroic accountability of attracting people toward banking sector from pre dominant money lenders net and of increasing banking services.

Nepal Rastraya Bank (NRB) was established on B.S 2013.01.14 as a central bank under the NRB act 2012 B.S the government had responsibility of stretching banking services to the corner of the country and also managing financial system in the appropriate system. NRB has been working as the government's bank and has contributed to the growth of financial sector. The major confront before NRB today is to make sure the healthy of financial institution. Accordingly, NRB has been trying to change them and has introduced as host of prudential measures to safe guard the interest of the public. NRB is yet to do a lot to prove themselves and efficient supervisor. NRB really requires strengthening their policy making, supervision and examination device. Government set up Rastriya Banijya Bank (RBB) in BS 2022 as a fully government owned commercial bank.

The first private financial institution, Nepal Bank Limited, was established in 1937 with the only other major commercial financial institution, Nepal Industrial Development

Corporation, established in 1957 initially as the Industrial Development Board, but converted in 1959 to its present form. It should be noted that technically the first legal financial institution in Nepal was the Tejarath Adda in 1877, however it faced problems catering to the general needs of the population as it had the sole objective of providing credit only, with no deposits mobilized (NRB, 1996).

The growth of financial sector in Nepal is much better compared to the other sectors in the country. The decade long conflict has had its toll on every sector including the financial sector. Despite the conflict and political insurgency, financial sector continued growing. Nepalese Financial sector is comprised of organized and unorganized sector. The Nepalese organized financial sector is composed of banking sector and non banking sector. Besides commercial banks, there are sizeable numbers of development banks, finance companies, micro-credit development banks, cooperative, NGOs and postal saving offices that undertake limited banking and financial services. Non-bank financial sector comprises Funds, Trusts and thrifts like, Employee Provident Fund, Citizen Investment Trusts, and Mutual fund. Nepalese banking system has now a wide geographic reach and institutional diversification. Although, Nepalese financial sector is dynamic, a lot of scope for development of this sector exists. This is because the banking and non-banking sectors have not been able to capture all the potentialities of business till this time. It is evident from the Rural Credit Survey Report that the majority of rural credit is supplied by the unorganized sector at a very high cost – perhaps being at two or three time of the formal sector - suggesting that the financial sector is still in the path of gradual development. Overdue loans and inefficiency of the older and the larger of commercial banks have aggravated and have been made to compete with the new trim

banks with no rural operations. Also, the commercial banks, domestic or joint venture have shown little innovation and positive attitude in identifying new areas of saving and investment opportunities. Following table reflects the present development of commercial banking institutions in Nepal.

Table No: 2.1
Licensed Commercial Banks in Nepal:

1. Nepal Bank Limited
2. Rastriya Banijya Bank
3. NABIL Bank Ltd.
4. Nepal Investment Bank Ltd.
5. Standard Chartered Bank Nepal Ltd.
6. Himalayan Bank Ltd.
7. Nepal SBI Bank Ltd.
8. Nepal Bangladesh Bank Ltd.
9. Everest Bank Ltd.
10. Bank of Kathmandu Ltd.
11. Nepal Credit and Commerce Bank Ltd.
12. Lumbini Bank Ltd.
13. Nepal Industrial & Commercial Bank Ltd.
14. Machhapuchhre Bank Ltd.
15. Kumari Bank Ltd.
16. Laxmi Bank Ltd.
17. Siddhartha Bank Ltd.
18. Agriculture Development Bank Ltd.
19. Global Bank Ltd.
20. Citizens Bank International Ltd.
21. Prime Commercial Bank Ltd.
22. Bank of Asia Nepal Ltd.
23. Sunrise Bank Ltd.
24. Development Credit Bank Ltd.*
25. NMB Bank Ltd.+
<i>End of F/Y 2064/65</i>

(Source, www.nrb.org.np)

* Upgraded by Development bank

+ Upgraded by Merchant bank & Finance

2.2.3 Existing Scenario of Banking Sector:

As mention in the previous section, there are 25 commercial banks presently in operation. 2 commercial bank are has been registered in NRB and they are coming shortly in operation .Among these banks some are established under joint venture with foreign banks while some are fully domestic bank. Out of total commercial banks, 6 commercial banks are with foreign joint venture rest of all are fully domestic banks.

a) Capital Structure of Banks: The current regulation of NRB prescribes that all the new commercial banks are to be established in Kathamndu at national level should have minimum paid up capital Rs.2 billion, the existing banks in operation are required to enhance the capital level to Rs 2 billion by the end of F/Y 2065/66 BS. For this purpose and objective all the commercial banks have furnished their plans to enhance the level of capital accordingly. In the mean time, there are separate provisions on capital requirements for the national level banks to be operated outside the kathmandu. b) Banks under foreign participation: All together nine banks were established under foreign participation in Nepal but three of these have divested their stake to Nepalese promoters. Six banks still have foreign joint ventures. The banks operation under foreign participation is NABIL, Standard Chartered, Himalayan Bank, Nepal SBI bank, Everest Bank and Nepal Bangladesh Bank. Initially, Bank of Kathamndu, Nepal Credit and Commerce Bank and Nepal investment Bank were also established under foreign joint venture. The banking asset with the foreign joint venture banks is gradually increasing. As of July 2005, the commercial banks under foreign participation hold 37.54 percent of total banking assets. The deposits and credits are still of greater proportion. Foreign joint

venture banks possess 39.35 percent of total deposits and 38.45 percent of total credit of there banking system (*www.banking in nepal.com.np*).

2.2.4 Domestic Legal Provisions Regarding Banking Sector:

Nepal Rastra Bank Act, 2002 has given full authority to the Nepal Rastra Bank regarding regulation, inspection and supervision of the banks and financial institutions. Bank and financial institution ordinance 2060, Which is popularly known as Umbrella Act, has recently been enacted in unified form. Agricultural Development Bank Act, 1967. Commercial Bank Act, 1974, Finance Company Act, 1986, Nepal industrial Development Corporation Act, 1990 and Development Bank Act 1996 have been repealed with the promulgation of this ordinance. The ordinance governs the functional aspect of banks and financial institutions. Some of the important provisions in the ordinance regarding the banking sector have been analyzed in the chapter as follows:

Any person wishing to incorporate a bank or financial institution to carry on financial transactions should incorporate a bank or financial institution as a registered public limited company under the prevailing law of Nepal with prior approval of NRB by fulfilling the conditions prescribed in section 4 of the ordinance. The individual desiring for the incorporation of such entity is required to submit an application to NRB for prior approval with the prescribed documents. The NRB is required to conduct necessary investigation and grant permission to establish a bank or financial institution with or without terms or conditions if all the criteria are met and information of disapproval with reason is also to be given to the concerned person in case the application is denied. Similarly , any foreign bank or financial institution wishing to establish a bank or financial institution by making joint venture investment with a corporate body

incorporated in Nepal or with Nepali citizen or as subsidiary company with 100 % share is eligible to furnish the application to establish a bank or financial institution. However, the ordinance is silent about the percentage of equity investment in joint venture; such foreign corporate body can invest. It has been regulated by regulation till now as 75 %. The ordinance prohibits anybody to conduct financial transaction except an established bank or financial institution and no bank or financial institution can use the proposed name for the purpose of carrying financial transaction with out obtaining license from NRB. The bank or financial institution desiring to conduct financial transaction most submits an application for license to the NRB in the prescribed form including the prescribed fees, documents and description. NRB will grant license if it is satisfied with the basic physical infrastructure of the bank or financial institution. if the issuance of license for operating financial transaction will promote healthy and competitive financial intermediary and protect the interest of the depositors, the applicant is competent to operate financial transaction in accordance with the provision of this ordinance and its regulation, directive, order or provisions of memorandum and Article of Association and there are sufficient grounds to believe that the entity is competent to operate financial transaction. (*www.banking in nepal.com.np*)

The NRB will classify the institutions into A ,B ,C ,D groups on the basis of the minimum paid up capital and provide the suitable license to increase its authorized, issued and paid up capital if it deems necessary . Similarly, the license holder entity must maintain a capital fund according to ratio prescribed by NRB based on the basis of its total asset or risk weighted assets, and other transactions. At the same time the license holder entity must maintain a risk fund according to ratio prescribed by NRB based on

the basis of liability relating to its total asset and the other risk to be borne from off balance sheet transaction. The license holder entity must maintain general reserve fund regularly every year till the amount becomes double of the paid up capital of such entity. The bank of financial institution can be upgraded if the authorized capital is enough for upper class, the institution has been able to make profit for last five years and the non-performing asset is within the prescribed limit. Similarly, the bank or financial institution can be degraded if it fails to meet prescribed capital within the time period, it has been making loss for last five years, it has violated the directives of Rastra Bank time and again and it fails to maintain Risk Management fund as prescribed by it. The NRB will make necessary investigation and avail opportunity to clarify before taking such decisions. The NRB is in full power to deny license for financial transaction if the conditions stipulated in ordinance are not met and it is also authorized to impose necessary conditions taking into account the existing financial position of the bank or financial institution, the interest of depositors and healthy operation of financial transaction. Similarly, it may increase, decrease or modify the terms and conditions from time to time. The NRB can suspend the license of the license holder for a specific period of time issued for the purpose of carrying financial activities or it may order the bank or financial institution to close the operation of their office partially or fully if such a license holder acts against the provisions of the Nepal Rastra Bank Act, 2002, or the regulation made there under or fails to act in accordance with the order or directives issued by it or fails to act for the welfare and in the interest of the depositors. The NRB may cancel the license issued under this ordinance to carry on the financial transaction of the license holder under the certain circumstances as stipulated in the ordinance.

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

2.2.5 Existing rules and regulations relating to the commercial banks:

a) Paid up capital:

1. A commercial bank of national level, the paid up capital of such bank must be at least 200 crore.
2. To have an office in Kathmandu, the bank is required to have either joint venture with foreign banks and financial institutions or a technical service agreement (TSA) at least for three years with such institutions.
3. The share capital of commercial banks will be available for the promoters up to 70% and 30 % to general public. The foreign banks and financial institutions could have maximum of 75 % share investment on the commercial banks of national level. In order to provide adequate opportunity for investment to Nepali promoters in National level banks, only 20 % of total share capital will be made

- available to general public on the condition that the foreign bank and financial institution are going to acquire 50 % of total share.
4. Banks to be established with foreign promoters' participation have also to be registered fulfilling all the legal processes prescribed by the prevalent Nepal laws.
 5. Banks that are already in operation and those who have already obtained letter of intent before the enforcement of these provisions have to bring their capital level within seven years, i.e., by 16 July 2009 as per this recently declared provision. In order to increase in the capital such increase should be at a rate of 10 percent per annum at the minimum.
 6. Among total committed share capital, the promoters has to deposit in NRB an amount equal to 20 % along with the application and another 30 % at the time of receiving the letter of intent on the interest free basis. The bank should put into operation within one year of receiving the letter of intent. The promoters have to pay fully the remaining balance of committed total share capital before the banks comes in to operation. Normally, with 4 months from the date of filling of the application, NRB should give it decision on the establishment of the bank whether it is in favor or against it. If it declines to issue license, it has to inform in writing with reasons to the concern body.
- b) Promoters Qualifications & Sale of Share:
1. Action on the promoter's application will not be initiated by the Nepal Rastra Bank if it is proved that their collateral has been put on auction by the bank and financial institution as a result of non-payment of loans in the past, who have not cleared such loans or those in the black list of the Credit information

Bureau and five years have not elapsed from the date of removal of their name from such list. The application will be deemed automatically cancelled irrespective of it being on any stage of process of license issuance if the above events are proved.

2. Out of the total promoters, one-third should be its chartered accountants or at least a graduate of Tribhuvan University or recognized institutions with major in economics or accountancy, finance, law, bank in or statistics. Likewise, at least 25 percent of promoters group should have the work experience of the bank or financial institution or similar professional experience.
3. An individual, who is already serving as a director in one of the bank and financial institutions licensed by Nepal Rastra Bank, Cannot be considered eligible to become the director in other banks or financial institutions.
4. Stockbrokers, market makers, or any individual or institution involved as an auditor of the bank and institution carrying on financial transactions can not be a director.
5. Promoter group's share can be disposed or transferred only on the condition that the bank has been brought in operation; the share allotted to the general public has been floated in the market and after completion of three year from the date t has been registered in the stock exchange. Prior to the disposal of such shares, it is mandatory to get approval from the Nepal Rastra Bank.
6. The share allotted to the general public has to be issued and sold with in three years from the ate the bank has come in to operation. Failing to fulfill such

provisions, the bank cannot issue bonus share or declare and distribute dividends.

7. Shareholders of the promoters group and their family members can not have access to loans or facilities from the same institution. For this purpose, the meaning of the family members will comprise of husband, wife, son daughter, adopted-son, adopted-daughter, father, mother, step mother and depended brother and sister. (*www.banking in nepal.com.np*).

2.2.6 Activities of a commercial Bank:

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

The functions of receiving money from his customers and repaying it by honoring their cheques as and when required is the function, above all function, which distinguish a banking business from any other kind of business. The major activities of a commercial bank essentially accepting deposits and making loans and advances. In the present scenario banking activities are not limited only accepting deposits and lending loan and advance, others income generating activities has been added as in time span like remittance services, land development and housing projects, locker facilities, debit and credit cards, bank guarantee, bill payments services etc. The major activities of a commercial bank have been divided in to two parts are as follows:

1. Collection of Resources
2. Deployment or mobilization of Resources

2.2.6.1 Collection of Resources:

Sustainable economic growth requires intermediary channels for efficient allocation of resources. Through intermediary channels such as financial institutions and financial markets, funds should be efficiently channeled from depositors and investors to borrowers in need of funding to, for example, expand their business or buy a house. The role played by financial institutions and financial markets in this process is referred to as the activities of commercial banks.

Resources in commercial banks collected from two sources internal and external internal means owners fund and external means borrowed fund.

Internal Fund or Capital fund:

Internal fund of the bank is capital fund, which consists paid up capital, reserves, retained earnings, premiums, preference share, reserves and provisions. A commercial bank must have paid up capital of Rs 200 caror in order to establish as a national level commercial bank. NRB has also prescribed the capital adequacy norms to be of at least 12 %. Likewise the commercial banking act 2031 has made a mandatory provision for every commercial bank to build the general reserve out of the allocation of at least 20 % of net profit amount each year until the amount becomes double the paid up capital.

The external fund of a bank constitutes the resources apart from the owners' fund. In a bank, it is mostly contributed by customer's deposit, and some part by the short-term fund borrowed from other banks called inter bank loan or central banks.

Deposits & others liabilities:

Deposits are collected from their customers in various types of savings. Customer's deposit is a major source of bank's resources. It is very important for a bank for its

liquidity supply that banks are often engaged in competition for deposit mobilization because the capacity of a bank to grant credit to its borrowers depends upon its capacity to mobilize deposits.

There are various types of deposits like, call deposit, savings deposit, fixed deposit, current deposit etc. All of above are on demand deposit where as fixed is time base deposit. As per commercial banking act of Nepal, a current account is the bank account having money, which is subject to repayable whenever demanded. Like wise fixed deposit are time based deposit which is withdrawn only after the expiry of the time period. Banks offer interest on these accounts varying the duration of deposit maturation. The saving deposits are accepted on saving accounts which are defined by commercial banking act 2031 as "the bank account having money which is deposited for the purpose of saving" (commercial bank Act 2031).

Resources except customer's deposit and capital fund are called other liabilities of the bank. It consists of short term borrowed fund from other banks and central bank. This types of resources are called inter bank borrowings which are normally obtained for a very short period and those are meant for meeting temporary liquidity position of the bank. This borrowings rate is directed by the Central bank of Nepal. In other resources also includes, payables in the account of the banks.

2.2.6.2 Deployment of Resources:

The prime purpose of collection of resources is to use it in productive sector this function of commercial bank called deployment of resources. Deployment of resources of the bank means use for the bank's fund in such a way that it ensures liquidity as well as gives

some income for meeting its operating expenses and optimum return to shareholder. The overall performance of the banker reflects by such activity. Every financial institution tries to maximize its earning by using its excessive cash by lending it to the sensible borrowers in a manner which in no way impairs its capacity to pay on demand the acquired funds to their owners.

Mobilization of resources in bank is a challenging job. Resources of banks are mobilized basically for two purposes one is for liquidity and another is for profitability. The importance of liquidity and profitability in a bank is dominant. Liquidity is defined as bank's capacity to pay cash in exchange of deposits. Liquidity needs of commercial banks are unique because in no other types of business there will be such a large proportions of deposits payable on demand. Bank maintains liquidity in the form of cash and Bank balance, money at call, investment in government security etc.

In other hand banks always pays their attention to maximization their profitability. Depositors always expects better interest on their deposit , employees expects better salary , perks and bonus this is to because its shareholders expect a fair rate of return. If the bank can not satisfy either of these parties, the success of the bank is always questioned. The profit is excess of incomes over expenses. To maximize profit, incomes should be reasonably excess over expenses. The major sources of income of a bank are interest income from loans and investments and fee based income.

A. Resources for Liquidity:

Liquidity means portfolio of such assets which are convertible in to cash with in very short period of time. As major portion of a bank's resources comprise customer deposit which are subject to repayable on demand. So banks maintain sufficient amount of liquid

assets in the form of cash in their vault balance at their account of Central Bank and inter bank.

B. Investment in Securities:

Investment includes the fund invested for buying government and other stock exchange security, treasury bills, fund placement at call account with other bank etc. Such investments can easily be liquidated if required thus they also called liquid assets.

C. Loan and Advances:

Granting the loan and advance is a major function of bank. Overall profitability of bank depends on interest margin. Banking business essentially involves lending of loan and advances. In fact the deposits are accepted for loan and advance. Loan and advances dominate the asset side of the balance sheet of any bank. The income statement of bank occupy by interest. Hence, loan is known as risky assets. Risk of non repayment of loan is known as credit risk. Commercial banks generally lend for short term commercial purpose to finance the need of trade and commerce. As the fund available for lending with the banks, are mostly the fund mobilized from the depositors, a commercial bank should carefully consider the safety margin before granting the loan. The banker should be extra careful in selecting the borrowers. Generally banks lending is guided by their lending policies. General principles of a sound lending policy should be followed by a bank while taking decision towards the lending such as safety, liquidity, profitability, risk diversifications etc.

The types of loans may be collateral loan, demand loan, Hire purchase, educational loan, foreign employment loan, social loan, housing loan, import and export loan, loan against fixed deposit, against securities, OD loan etc. There are some approval process of bank

loan .The entire amount is disbursed to the borrower account after completing the approval process which in repayable in terms and conditions of a banks i.e periodicals installments basis or limp sum on the expiry of loans. Overdrafts are granted in current account of a customer. It is the permission given to overdraw from the account up to a certain limit allowed to the person on revolving basis. Interest is charged on daily outstanding overdrawn amount only.

NRB has made a mandatory provision on loan loss. NRB regulation on classification and provisioning is pass loan (Principal overdue up to 3 months) is 1 % , Substandard loan (principal overdue up to 6 months) 25 % , Doubtful (Principle overdue up to 1 year) 50 % , and Bad loan (Principle overdue above 1 year) is 100 % .Pass loan is called ' Performing' assets where as others are called ' Non performing' assets. Provision requirement in case of loan given against personal guarantee only is additional 20 % for pass substandard and doubtful loans. Provision for restructured, rescheduled and swapped loan is 12.5 % only. The amount of loan loss provision is treated as the expenses items. Therefore, in order to improve the profitability, the banker should be more attentive toward timely realization of dues so that the amount of loan loss provision may be maintained at the least possible level. (Dahal & Dahal 2002:120)

D. Other activities for mobilization of resources:

Granting loan and advance is a major functions besides this bank involves other income generating activities such as bank guarantee , issuing letter of credit, cheque collection, remittance services, bills payment services, traveler's cheques etc. In such cases banks do not have to involve their fund and yet they are charging some fee as commission for such services.

2.2.7 Impact of National and International Situation on Commercial Bank:

Despite the current political instability in the country, the total flow of domestic credit has increased during the year. This is mainly because of substantial growth of credit flow to government and non-financial government corporations like NOC, RNAC, and National Trading etc. However, the prolonged conflict in the economy has started taking its toll on the private sector. The delay in peace process, the current security condition, and the significant imbalance in the political situation of the country have opened up few doors for new investment opportunities. On the one hand, private sector credit is steadily declining & on the other what little extension there is, is getting riskier. On the positive side, the living standard of Nepalese people has risen due to the direct impact of more and more Nepalese people working abroad. The Nepal Living Standard Survey (NLSS)-II Released by the Central Bureau of Statistics (CBS) states that in nominal terms, average household income has grown by more than 80 per cent. This is an important factor which the Banks have capitalized on, as is evident from the growing competition amongst the banks to extend consumer loans. Nepal has shown good initiation and commitment in following the rules and regulations laid down by the South Asian Free Trade Agreement (SAFTA), scheduled to become a reality from January 1 2006, and Bay of Bengal initiative for Multi- Sectorial Technical and Economic Cooperation (BIMSTEC). Nepal's recent entry to SAFTA and BBIMSTEC has setup a ladder for possible economic growth in the future. Similarly, Nepal's accession to the World Trade Organization (WTO) would permit international banks to operate in Nepal, which will require enhancement in our service quality in order to compete with them. In view of these, it is imperative for the Bank to have its business plan and strategy accordingly. (*www.nibl.com.np*)

2.3 Profit Planning as a Concept:

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

"A profit planning & control program can be one of the more effective communication networks in an enterprise. Communication for effective planning and control requires that both the executive and the subordinate have the same understanding of responsibilities ensure a degree of understanding not otherwise understanding of responsibilities and ensure a degree of understanding not otherwise possible. Full and open reporting in performing reports that , focus on assigned responsibilities like wise enhance the degree of communication essential to sound management" (Welsch, Hilton & Gordon, 2001 : 215) "Profit planning is an example of short range planning . This planning focuses on improving the profit especially from a particular product over a relatively short period of time. Therefore as used here it is not the same as corporate planning of a cost rendition program" (Terry, 1968:245)

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

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

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

The role of profit planning and control is very important in profit oriented enterprises.

Roles of PPC are as follows:

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

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

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

2.4 Mechanism of Profit Planning:

2.4.1 Profit as a concept:

Profit is excess income over expenditure. Profit is a basic element of profit planning and control. There is no meaning of profit planning and control with out profit. Every profit oriented business concerns involves to profit generating activities. "Oxford dictionary defines profit as financial gain or amount of money gained in business especially the difference between the amounts earned and the amount spent. Like wise, advantage or

benefits gained from something is called profit "(Hornby & Cowie -1992:63) .The successes and failure of business entity measures by profit earned by them in certain period of time. The major concern of stock holder is profit so organization always wants to maximization of profit. Performance of management of organization measured by profit and loss. Survivability and sustainability of enterprises depends on profit.

2.4.2 Long term and short term profit planning:

Strategic profit plan and tactical sales plan is known as long term short term profit planning. Strategic sales plan is prepared for 5 to 10 years. It is wide and universal in nature and developed by year and amount.

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

2.4.3 Concept of Planning and control:

Planning is the basic element of profit planning and control. Planning is going according to plan the primary purpose of planning are to reduce uncertainty about future profit, to incorporate management judgment and decisions in to the planning process, to provide necessary information for developing other elements of comprehensive profit plan and to facilitate management control of sales activities." Operational planning is often referred

to as short term budgeting and looks at resources, production etc for a financial period, usually a year. It provides a detailed plan of what the organization hopes will be achieved within the next financial year. Strategic planning often referred to as the long term plan and looks at where the organization is heading over a number of years, for example of five year plan would be a long term plan it presents the organization with an idea of the broad direction that it hopes to be heading in. The Strategic plan will incorporate the operational plans of the organization. The operational plan translating the strategic plan into achievable short term goals"(Lynch 2003:158)

"Planning is the process of developing enterprises objectives and selecting a future course of action to accomplish them. It includes developing premises about the environment in which they are to be accomplished " (Welsch, Hilton, Gordon, 2001:45) Arrangement for doing or using something considered or worked out in advance is planning." Planning is the feed forwards process to reduce uncertainty about the future. The planning process is based on the conviction that management can plan its activities and condition the state of the enterprises that determine its destiny" (Pandey, 1991:325) Planning is a quantified assessment of future condition about a particular subject based on one or more explicit assumption. The management of organization make plan and it may accept, modify or reject. Planning is the intellectual mental process. It is goal oriented primary function of management. It is goal oriented primary function of management.

"The major component of profit planning and control is controlling. The dictionary meaning of control is having a power to regulate something standard of comparison for checking the results of the experiment" (Hornby 1992:84) " Control is the process that measures current performance and guides it towards some pre determined goals control is

the process of checking to determine whether or not plans are being adhered to whether or not proper progress is being made towards the objectives and goals and acting if necessary to correct deviations. Controlling can be defined as a process of measuring and evaluating actual performance of each organizational component of an enterprise and initiating corrective action when necessary to ensure efficient accomplishment of enterprise objectives, goals, policies and standards. Planning establishes the objectives, goals, policies and standards of an enterprises control is exercised by using personal evaluation periodic performance, reports and special reports. Comparison with standard and actual is called controlling. Controlling is a one of the important aspect of managerial function.

2.5 Budgetary Control:

2.5.1 Concept of Budgeting and Budget

Budgeting is future plan and projection taking some managerial assumptions. Budgeting involves the preparation advance of the quantitative as well as financial statement to indicate the intention of the management in respect of the various aspects of the business. An effective budgeting system is vital to the success and survival of a business firm. Without a fully coordinated budgeting system, management can not know the direction the business is taking out organizations that do not plan are likely to wonder aimlessly and ultimately give way to the swirl of current events.

2.5.2 Budgeting in Profit Plan:

Budgeting is a tool for management control it is forward planning. It is quite pivot of any successful design of control." Budgeting is the principal tool of planning and control offered to management by accounting function". (Welsch, 1999) The primary purpose of

budgeting is to help out in organized planning and in controlling the operations of business concerns. Actually budgeting is greatest sources of message and an important means in the hands of management. Since, budgeting deals with essential polices and objectives, it is prepared by top management. A formal budget by itself will not make sure that a firm's operations will be automatically run to the accomplishment of the goals set in the budget. For this to happen, the top level managers and lower level employees have to understand the goals and support them and co-ordinate their efforts to achieve them.

2.5.3 Prerequisites of Budgeting:

A successful budgeting structure should follow some crucial features to ensure best results. Some of the features are discussed below.

a. Effective Future Forecasting:

One of the major components of budgeting is forecasting. The future forecast is made by the past events and future assumptions. Forecast is groundwork of budget these forecasts are argued by the administrative and when most profitable combinations of forecast are selected they becomes budgets. The sound budgeting system gives the better result.

b. A Sound Accounting System:

Budgeting requires adequate and accurate information of past records. This can be ensured only by having a sound accounting system.

c. Effective Business Policy:

Budgeting depends of the top level business policy. Policy should be made for the success of business. Every budget reflects the business policies formulated by the

management level. Policies should clearly pre defined and budget is prepared by taking it on consideration.

d. Support of Budget Working group:

In the process of budget preparation the support of budget working group is essential. Thus in order to make a budget system more and more effective, a budget committee should be set up.

e. Availability of information:

With out right information in right time budgeting system will not be complete. Information from department and other areas should be timely available in the budget preparation process.

2.6 Basic Concept of Profit Planning:

The concept of budgeting was originally established with function of an accountant .But in the modern day budgeting is given much more importance and is regarded as a way of management and in more important sense is regarded as basic technique of decision making and is given the name ' profit planning and control program'. The basic concepts of PPC include the various activities that should be followed to attain maximum usefulness form profit planning and control. These activities are mentioned below.

a. Managerial Involvement and Commitment:

Managerial involvement entails managerial support , confidence , participation and performance orientation. Top level of management should understand the nature and characteristics of PPC, Be convinced that particular approach to manage is preferable for

their situation support the program in all its planning process as performance commitments.

b. Responsibility Accounting:

A sound profit planning and control system must consist of responsibility accounting. With in the primary accounting structure secondary classification of costs, revenues, and other financial data that are relevant may be utilized in accordance with the needs of the enterprise.

c. Organizational Adaptation:

A successful PPC program must rest on sound organizational structure, for the enterprises and clear cut designation of lines of authorities and responsibilities of all the department of enterprises. The purpose of organizational structure and the assignment of authority is to establish a framework with in which enterprise objectives may be attained in a co-ordinate and effective way on a continuing basis. The manager of each subunit would be assigned specific authority and responsibility for the operational activities of that subunit. These subunits are often referred to as decision centers or responsibility control responsibility is further classified by cost center, profit center, investment center.

d. Full communication:

Communication is transferring information from one to another. Communication can be defined as interchange of thought or information to bring about a mutual understanding between two or more parties. For profit planning and control, effective communication means development of well defined objective, specification of goals, development of profit plan and reporting and follows up activities related to performance evaluation for each responsibility center.

e. Flexible application:

"This stress that a ppc program must not dominate the business and the flexibility in applying the plan must be forthright management policy. So that strait Jackets are not imposed and all favorable opportunities are seized even through they are not covered by the budget rigidity in practicability will be the harmful boundary in an association in an occasion of r the enterprise. So, such boundary should be avoided which mean there should be flexibility in PPC so that the unseen golden opportunity should be grasped in future for the betterment of the organization (Goet, Bhattarai,Gautam 2063 1.5)

f. Realistic Expectation:

Profit Planning and Control must be based on realistic approach or estimation. Management must be realistic assumption and must not take either irrational optimism or unnecessary conservation so for ppc purpose a realistic approach reared with time dimension and external and internal environment that will prevail during the time span should be considered. This is called realistic expectation.

g. Timeless:

Time is going on it can't be stop whether an individual or organization busy or idle. The problem of the manager in one hand is to accomplish the planned activities in a given time and on the other hand is to prepare the plan itself. Phasing of the planning is of two types one is timing planning horizons and another is timing of planning activities.

h. Individual and group recognition:

Behavioral aspects of human being are for the field of the study of the psychologist, educators and businessman, and finding was that there can be so many unknown misconception and speculations which has to be considered for an efficient management.

A good and dynamic leadership can resolve this problem by integrating all the group efforts for betterment of the organization the fact also has been well considered under profit planning and control approach and focuses have been given to resolve the behavioral problems.

i. Zero-Based Budgeting:

The budgeting which is always start from Zero is called zero base budgeting. "Begin with where you are an establish a business as usual budget for next year the same way and the same things you would do if you weren't concerned about constraint an total justification" (Welsch ,Hilton, Gordon 2006 :43)

j. Follow Up :

The important of follow up action on profit planning and control approach is more. A careful study s needed to correct the action of substandard performance in a constructive manner, to recognize and transfer the knowledge of outstanding performance to others and based on the study and evaluation to provide a sound basis for future profit planning and control program.

2.7 Merits and Demerits of Profit Planning and Control:

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

- Profit planning and control brings organizational policy in to action.
- Organizational structure will be sound and effective by the means of PPC
- Historical statistical and accounting data is used by PPC.
- It compels management to plan for the most economical use of labor material an capital.

- Efficiency and inefficiency can be measured by PPC.
- Management attention can be drawn by PPC for the general business condition
- It reduces cost by increasing the span of control because fewer supervisors are needed.
- PPC creates understanding between management and their co-workers.
- PPC reduces the uncertainty and gives guidelines to achieve organizational goals.
- It provides to all levels of management the habit of timely, careful, and adequate consideration of the relevant factors before receiving important decisions.

Profit planning and control model can't be assumed that it is free from problems. Some of its demerits are listed below.

- Preparing a profit plan is a difficult task.
- Some traditional types of managers don't like to prepare a profit plan.
- It is not realistic to write out and distribute goals, policies, and guidelines to all the supervisors.
- It takes away management flexibility.
- It creates all kinds of behavioral problems.
- It adds a level of complexity that is not needed.
- The manager's supervisors and other employees do not like the budget.

2.8 Profit Planning and Control Process:

Profit planning and control has its own process from preparing plans to implementation and feedback. " A PPC Program includes more than the traditional idea of a periodic or master budget. Rather, it encompasses the application of a number of related management

concept through a variety of approaches techniques and sequential steps " (Welsch ,Gordon, Hilton 2006:71) The process of PPC are listed below:

- a. Identification and Evaluation of External Variables: Organization is always affected by two variables i.e internal and external. Management always e curious about the variables which are directly and indirectly impact to the enterprises. Variables, which have a direct and significant impact on the enterprises, re called relevant variable. Variables may have their different relevancy according to the market nature.
- b. Design of Goals and Objectives of the Enterprises: A major responsibility of management is to design the objectives & goals of the enterprise. Executive management can specify or re-state this phase of the PPC process based on realistic evaluation of the relevant variables. The management defines the purpose of the enterprise; clarify the character, environmental analysis, others decisions are taken in favor of the company.
- c. Strategy formulation and Implementation: Strategy should be set out for the betterment of the enterprises. Timely implementation and evaluation is major consideration of such strategy to achieve planed goals and objectives.
- d. Management Planning Instructions: Management planning instruction is communication between top management to lower level of management and it should adopt the basic of full communication. Top management establishes a planning foundation. On the basis of this planning foundation. On the basis of this planning foundation. On the basis of this planning foundation the statement of planning guidelines is set as executive management instructions.

- e. **Project Plan Preparation & Evaluation:** Project plans are different from periodical plan. It is a long term strategy. It is prepares and evaluated in the profit planning & control process. Consistent with this approach during the formal planning cycle, management must evaluated decide up on the plan states of each project in process and select any new projects to be initiated during time dimension covered by the up coming strategies and tactical profit plans.
- f. **Development of Long term and Short term Profit Plan:** In the profit planning and control process developing long term and short term profit plan is a major task of management executive. Certain information are collected from related sources, to develop profit plan general format is available to management Two profit plans completed , management should subject the entire planning payable to a careful analysis and evaluation to determine whether overall plans are the most realistic set that can be develop under the circumstances. When this point reaches the two profit plans should be formally approved by the top executive and distributed to the related managers.
- g. **Implementation of Profit Plan:** Formulation is on of the major task of manager whereas implementation is more and more important factor of profit planning & control. The profit plan should be implemented by every concern designation. Implementation of plans and strategy is a function of management. Effective management at all levels requires that enterprise objectives goals, strategies, and policy to be communicated and understood by subordinates.

2.9 Limitation of Profit Plan:

Profit planning and control is an important tool for management. "Every planning is not out from limitation also profit plan is not free from limitation. So it is essential that the user of profit planning and control must be having a full knowledge of its limitations. In developing and using a profit planning and control program the following limitations kept in consideration. (Goet, Bhattarai, Gautam, 2063:1.6)

- The profit plans based on estimates.
- Execution is not automatic.
- Danger of inflexibility
- Costly
- Lower moral and productivity.

"The profit plan should regard not as a master but as servant. It is one of the best tools yet devised for advancing the affairs of a company and the individuals the affairs of a company and the individuals in their various spheres of managerial activity. It is not assumed that any profit plan is perfect. The most important consideration is to make sure, by intelligent use of profit plans that all possible attainable benefits are derived from the plans as rendered and to re-plan when there are compelling business reasons "(Welsch - 1998:265)

2.10 Profit Planning in Commercial Banks:

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

taken as functional budgets despite this budget now a days bank also prepare for future plan this is called profit plan.

2.10.1 Planning for Resources:

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

Collection of resources is one of the major functions of bank whereas deployment of such resource is also as important as this. The assts portfolio is determines by the planning for deployment. Bank can utilized their fund basically in three types of investment sector like liquid assets, lower income generating assets higher income generating assets. Liquid assets means banks should maintain certain percentage of total deposit for their short term fund requirement i.e called liquid assets management. Secondly bank can invest in securities, treasury bills etc. i.e lower income generating assets and last in higher income generating assets is interest generating sector like loan and advance. Most of the portion of deployment is in the loan and advance of a bank. Lending targets are fixed at various

sector of economy for various kinds of trades and commercial activities and to various borrowers ensuring well diversification of the assets.

2.10.2 Non-Fund Consuming Income Plan:

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

2.10.3 Planning for Expenditure:

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

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

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

2.10.4 Planning for Revenue:

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

The major sources of revenue for a bank are listed below:

- Interest income
- Dividend
- Commission and Discount
- Miscellaneous income
- Foreign exchange income
- Remittance income
- Other non funded incomes

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

2.11 Application of Profit Plan in Banking Sector:

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

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

2.12 Execution of Profit planning and control:

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

"The development of an annual profit plan ends with the planned income statement, the balance sheet and planned statement of changes in financial position. These three

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

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

After execution of profit planning the performance should be reported. Its phase of a comprehensive PPC program significantly influences the extent to which the organization's planned goals and objectives are attained. Performance reports deal with control aspect of PPC. The control function of management defined as "The action necessary to assure the objectives, plans, policies and standards are being attended." Performance reports are one of the vital tools of management to exercise its controls function effectively.

2.13 Review of Previous Studies:

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

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

Ojha (1995) has conducted a research on "*Budgeting system in public enterprises in Nepal, A comparative study of Royal drugs limited & Herbs production and processing industry*". His objectives and some of major findings are listed below:

Objectives:

- To highlight the current practice of budgeting system
- To focus the effectiveness of budgeting system in public enterprises.
- To analyze various functional budgets adopts in Nepalese public enterprises.
- To draw a picture of budgeting system process adopted in those enterprises.

Some of Major findings:

- RDL and HPPC have not adequately considered controllable and non-controllable variables affecting the company furthermore strengths and weakness.

- The objectives of Nepalese enterprise are not clear RDL & HPPC both also have no any objective to create a maintain an optimum enterprises environment that maximizes the interest and motivation of all employees.
- RDL & HPPC both have to marketing specialists so these enterprises are unable to develop the alternatives marketing policy for sales expansion and for new supply sources of raw materials.,
- These enterprises are not operated on commercial basis.

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

Objectives:

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

Major Findings:

- NB bank has adopting a policy of keep minimum number of employees as possible.
- The decision making process is highly centralized.
- NB bank lacks active and organized planning department to undertake innovative products R & D works.
- Lack of staff training.
- NB bank has policy of taking highly qualified employees.
- The rate of expansion of branches of NB was increased.
- 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 extend.
- Objectives of the Bank are expressed in literary form and not specified clearly.
- The major resources of NB bank are cost bearing deposit.
- The budgeted and actual deposit mobilization by the bank has been well meet every year.
- Major portion of resources has been deployed in loan and advances
- The budgeted and actual deployment has been met every year.
- The interest expenses of the bank are fund increasing each year corresponding to the increase in deposit. The interest expenses are perfectly and positively correlated with deposit.

- The amount of interest income is increasing every year corresponding to increase in LDO. There is a perfect and positive correlation between interest income and loan and advances.
- The other income of bank is also in increasing trend.
- The bank has suffered of by loss during the first year of it's operation. It is in constantly increasing trend afterward. As the rate of growth of spreads is higher than burden the profitability of the bank is increasing.

Karki (2002) has conducted a research in "*A comparative study on Budgeting system of Rastriya Banizya Bank and Himalayan Ban limited*". Some of major objectives and findings are as follows:

Objectives:

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

Some findings are:

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

- No proper planning strategy seems to be developed although HBL is operating at profit but RBB is running with heavy cumulative loss.
- Interest coverage ratio of both banks is more than 1 except in the FY 1995-96 of RBB. It shows that interest paying capacity of both the banks is sound but the ratio of HBL is higher than the ratio of RBB. It means HBL is stronger to pay interest liability.
- Interest spread is higher in RBB than in HBL .
- Return on paid of capital is always negative in RBB. Net profits also negative in RBB.

Dhungana (2003) "*A study of Joint venture Banks Profitability*", this study was conducted with main objectives of assessing the profitability of Joint Venture Bank in Nepal (during the period of five years from 1997/88 to 2001/02). Other objectives of the study were:

- To identify whether the profitability of Joint Venture Banks are optimal or not.
- To identify the pattern of profitability of Joint venture Banks especially of Nepal Investment Bank Limited.
- To suggest on the basis of findings and analysis.

The major findings, he had presented were as follows:

- Interest income of NIBL was highest.
- SCB's commission and discount earnings and foreign exchange income were higher than both of NIBL and Nabil were,
- Nabil's other operating income was appeared higher than other banks.
- NIBL had paid highest tax per share than other banks and SCB paid the same least.

- In average, Nabil, NIBL and SCB had highest personnel expenses, interest expenses on deposit and other operating expenses respectively.

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

Objectives:

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

Major Findings:

- Bank is awarded by ' Bank of the year 2002 Nepal'
- Bank management policy is very strong. It keep minimum number of employees number of employees and highly qualified for maintain the job
- The bank always adopt new technology
- The Bank is provides ATM and 365 days of services for customers.
- The Bank provides funds for NGOs and Scholarship for the schools.
- The Bank is adopting new Accounting Policy prescribed by NRB.
- Customer deposit collection is the main resources mobilization of the bank.

- Loan, Allowance and Bill purchasing hold the highest outlet of resources deployment
- There is no significant relationship between budgeted and actual LABP.
- Bank's actual deposit is more variable than actual outstanding LABP. Hence, the coefficient of variation of actual deposit is highest than actual outstanding liability LABP.
- LABP holds highest outlet resources deployment among the various portfolios.
- Actual LABP are increasing trend.

Sachin Jung Rayamajhi (2004) is conducted a research on "*Profitability of NB Bank Limited with comparison to other J/V Banks.*"

Objectives:

- To find out the profitability position of JV banks and to disseminate quality information.
- To analyze the profit trend of NB Bank.
- To ascertain the comparative position of profitability of NB bank with respect to other JV banks.

Some of Major Findings:

- NB bank has not been able to perform well the bank is in serious position.
- ROE, EPS, Net profit, Loan loss provision and interest payout ratio is worse in comparison with other JV bank's average.

- Staff expenses per employees, Credit deposit ratio is better with comparison of other JV Banks.
- The assets quality of bank is very poor.

Roshan Thapa (2004) has conducted a research work on the topic of "*A study on profit planning and control of Nepal SBI Bank limited*" his objectives and major finding are as follows:

Objectives:

- To identify the profit planning process and adopted by Nepal SBI bank limited.
- To sketch the trend of profit and loss.
- To evaluate the variance between target and actual performance.
- To recommend the steps to be taken to improve the profit planning process.

Findings:

- Nepal SBI does not prepare long term strategic profit plan. It only prepares short term profit plan which is usually referred as budget time period of this budget covers one fiscal year.
- The budget is not based on past performance but on targeted growth, which is very optimistic in booth the budgeted year.
- Nepal SBI has not made any in depth analysis of its strength and weakness.
- Its mission and objectives have not clearly defined and delegated to the lower levels.
- The bank has not been able to maintain a minimum level of co-ordination between the departments and staff.

- The profit budget is extremely ambiguous. It is not based on scientific method or past trend analysis but based on a specific target put forward by the governing board.
- The bank is facing competition from increasing number of financial institutions in these years. These had led to substantial decrease in interest rates in the market thus attributing to lower yield.
- Budgets are prepared just to fulfill the formalities but these are not used effectively from the profit planning process.

This researcher has reviewed some of manufacturing related profit planning too. Vibek Paudel (2006) has conducted a study on *"Sales budget of profit planning and control in manufacturing public enterprises: A case study of Dairy Development Corporation"*. His objectives and some of major findings are as follows:

Objectives:

- To analyzed the sales budget prepared by DDC.
- To evaluate the variance between budgeted and actual achievement of DDC
- To compare the sales with profit of the DDC.
- To provide the suitable suggestion and recommendations for the improvement of planning system of DDC.

Major Findings:

- DDC has fulfilled the national demand but sales achievement is below than targeted sales.
- DDC is following traditional budgeting approach.

- DDC has burden of staff, loan and other expenses which directly influenced the profitability.
- Different statistical tools show the positive relationship with actual and budgeted sales.
- DDC is adopted traditional pricing method to determine the selling price.
- Profit and Loss trend of DDC showed that it has huge loss but from F/Y 2059/60 losses in it's decreasing trend.

Kashab Dahal (2006) is conducted a research entitled" *Planning process and it's impact on profitability " A case study of Gorkha Patra Corporation"* his objectives and some of major findings are listed below.

Objectives:

- To examine the present practice and effectiveness of profit planning in Gorkhapatra corporation.
- To evaluate the variance between target and actual performance of this corporation
- To analyze the preparation of various functional budget of Gorkhapatra corporation.
- To point out the suggestion and recommendation for improving the profit plan.

Major Findings:

- GC does not prepare the long term strategic profit plan but it prepares tactical short term profit plan.

- GC has not adequately considered controllable and non-controllable variables affecting the corporation. They has no in depth analysis of the corporation's strength and weakness.
- The objectives of the corporation are not clear, with regard to profit making and market penetration.
- The plans are prepared from top level only. There is no letter communication between the top level and lower level management regarding the corporation's goals and objectives.
- GC has not a system of periodical performance reports. Corporation is not seriously conscious to it poor performance.
- Actual production is made in accordance with the actual sales. Therefore production activities are not done according to the budgeted production but this done according to the recent data of actual sales.

Tirtha Bahadur Thapa (2006) has study on "*Profit Planning in Merchandising company: A case study of National Trading Limited*" his objectives and major findings are as follows:

Objectives:

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

Some of Major Findings:

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

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 Kathamndu Limited" his objectives and major findings are as follows:

Objectives:

- To find out the relationship between total investment, loan and advances, deposit , net profit and outside assets.
- To identify the investment priority sectors of Commercial Banks.
- To assess the impact of investment 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 ratio.
- The interest earned to total outside assets and return on total working fund ratio of EBL is lowest of all.
- The return on loan and advances ratio and return on assets of EBL is lowest of all. The ratio suggests that the earning capacity of the banks loan and advances is satisfactory.
- The total interest paid to working fund ratio is less than the interest earned to total working fund ratio. So it is profitable position as it is getting higher return that is interest cost.
- The degree of risk is average on EBL. The credit risk ratio is higher than the compared banks. However the lowest C.V of credit ratio and average C.V of liquidity risk ratio and capital ratio over the study 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 advances and investment in profitable sectors interested earnings by providing loan to clients.
- The trend of the total investment, total deposit loan and advances and net profit of EBL shows better position than that of Nabil and BOK.

2.13 Research gap:

Today's world is marketed by rapid changes and new developments, as such researchers conducted a few years back may not be adequate to explain current phenomena. Thus continuous attempt needs to be taken and new researcher and conducted to build our existing knowledge base, interpret and analyze events in the face of dynamism.

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

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

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

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

3.2 Research Design

This study is a case study in nature. A true research design is basically concerned with various steps to collect the data for analysis and draw a relevant conclusion. Recommendation is another important aspect of design strategy. The research design

allows the researchers to take an appropriate measure and direction towards the predetermined goals and objectives. A research design is the arrangement of conditions for the collection and analysis of data in a manner to combine relevance to the research purpose with economy in procedure. Research design is the plan, structure and strategy of investigation imagines obtaining answers to research questions and controlling various things. This study is an examination and evaluation of budget process in profit planning program of Nepal Investment Bank. Various functional budgets and other related accounting information's and statement of Bank are the materials to analyze and evaluate the 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 studying the profit planning aspect of commercial bank taking the case study of a single bank Nepal Investment Bank, and data have been analyzed for five years so the five years data have been taken as sample for this case study.

3.4 Sources and collection of data

Here both primary and secondary data has been used for this study. The primary data can be taken from informal discussion with executives. But this study is mainly based on secondary data. The main sources of secondary data are quarterly and annual financial reports, official records, web site, brochures, prospectus and other relevant publications of NIBL, NRB, Central Bureau of Statistic and relevant publications. From these sources the relevant historical data are gathered for analysis purpose.

3.5 Study Variables:

Share capital, Customer deposit, loan and advances, Overdrafts, total resources and deployment, LC, Bank Guarantees, Interest Expenses, Other Expenses, Interest Income, and Other Income of Nepal Investment Bank are research variables of this study.

3.6 Analytical Tools

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

3.6.1 Statistical and Mathematical tools:

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

- Percentile Increment
- Mean
- Standard Deviation
- Correlation of coefficient
- Coefficient of variation
- Probable Error
- Regression analysis
- Test of Goodness of fit of the Regression Estimate
- Coefficient of Determination

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

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

3.6.1.3 Correlation of coefficient: Correlation analysis is a statistical tool. It is used to find the relationship between variables. If two quantities vary in such a way that movement in one are accompanied by movements in the other these quantities are correlated. It shows the effect on other variable due to the change in one variable. The degree of relationship between the variables under consideration is measured through the correlation analysis. Thus correlation is statistical device, which helps us in analysis the co-variation of tow or more variables. Karl Pearson’s Coefficient of correlation is widely used in practice. The Pearson’s coefficient of correlation is widely used in practice. The Person’s Coefficient of correlation is denoted by the symbol “r”. The formula for computing Person’s “r” is:

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

Where,

r= the correlation coefficient

x= $\sum X - Z\bar{X}$

y= $\sum Y - Z\bar{Y}$

X= Independent variable

Y= Dependent variable

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

When $r = +1$, it means there is a perfect positive relationship between the variables.

When $r = -1$, it means there is a perfect negative relationship between the variables.

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

3.6.1.4 Regression Analysis: Regression is the statistical tool which is used to determine the statistical relationship between two or more variables and to make estimation of one variable on the basis of other variables in other words regression is that statistical tool with the help of which the unknown value of one variable can be estimated on the basis of known value of the other variable.

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

3.6.1.6 Coefficient of Determination:

3.6.2 Financial tools:

Ratio Analysis and CVP analysis has been used in this study as financial analytical tools.

Ratio analysis is main focus as financial tools through out the study as " Ratio analysis is such power full tool of financial analysis that thought the help of it economic and financial position of business unit can fully x-rayed" (Kothari, 1971: 187)

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

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

4.1 General Introduction of Nepal investment Bank (NIBL)

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one the largest banking group in the world. With the decision of Credit Agricole Indosuez to divert, a group of Nepalese companies comprising of bankers, professionals, industrialists and businessmen, has acquired on April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd. The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting (AGM). The shareholding pattern of NIBL is group of Nepalese companies holding 50% of the capital .Rashtriya Banijya Bank holding 15% of the Capital. Rashtriya Beema Sansthan holding 15 % percentage. The remaining 20% being held by the General Public. "The NIBL's vision is to be the most preferred provider of Financial Services in Nepal". The bank has 2000 Million of authorized capital and the proposed amendment of authorized capital of bank is NRs 4000 million for the purpose of bonus share and issue of right share. Issued capital of the bank is NRs 1203.9154 Million and

fully paid up. (Source Annual report of NIBL 2064/65) NIBL has a history of providing high quality services to valued customers and sound return to stakeholders over two decades. It is the mission to continue this legacy and sustain growth path. The Bank has been awarded the prestigious award “Bank of the Year 2008” by the London-based Financial Times Group’s The Banker - making it the first Nepali Bank to win the award three times. (Sources Kantipur daily 12th Mangsir 2065) NIBL had also won the “Bank of the Year 2003” award and “Bank of the year 2005”. The Bank was selected for this honor amongst the Nepali banks by meeting the stringent benchmark criteria set by the Banker. The award is based on the growth and performance in terms of capital, assets, and return on equity and management quality. The Bank of the Year 2008 award has energized to remain focused on NIBL mission. Winning this award for the third time has not only recognized the overall banking value it has created for the market but has testified endeavors to live up to the expectations of ever growing loyal customer base. Like wise the bank has awarded by “Best Presented Accounts Award -2006” by the institute of Chartered Accountants of Nepal (ICAN). NIBL has 22 branches and 46 ATM counters it has target of 50 branches up to year 2010. (Source: www.nibl.com.np)

4.1.1 Mission Statement of NIBL:

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

4.2 General Activities of NIBL:

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

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

4.3 Profit Plan of Nepal Investment Bank Limited (NIBL):

The bank prepares the some of functional business budgets which includes the business budget, revenue, expenditure, and profit plan. The business budget is estimation of business activities to be performed and the goals to be achieved by the bank with in the particular fiscal year. The strategic plan of NIBL set some targets and used to be limited

only up to the top management level were not published for the public . The business budget consists the total activities to be performed, broadly in terms of resources mobilization and deployments. The profit plan of NIBL is as follows:

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

(Source: Budget Statements of NIBL)

4.3.1 Human Resources & Branch offices of NIBL :

There are altogether 622 employees in NIBL as F/Y 2064/65 the following table shows the status of Personnel of NIBL.

Table No: 4.1
Status of Personnel in NIBL

F/Y	2060/061	2061/062	2062/063	2063/64	2064/065
No: Of Employees	325	353	390	514	622

(Sources: Annual Report of NIBL)

There are altogether 22 branches including head office of NIBL as of end of F/Y 2064/65 the following table shows the status of branches of NIBL.

Table No: 4.2
Status of branches of NIBL

F/Y	2060/061	2061/062	2062/063	2063/64	2064/065
No: Of Branches	12	14	16	17	22

(Sources: Annual Report of NIBL)

4.3.2 Resource Mobilization Planning:

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

Table No: 4.3
Status of Available Resources of NIBL

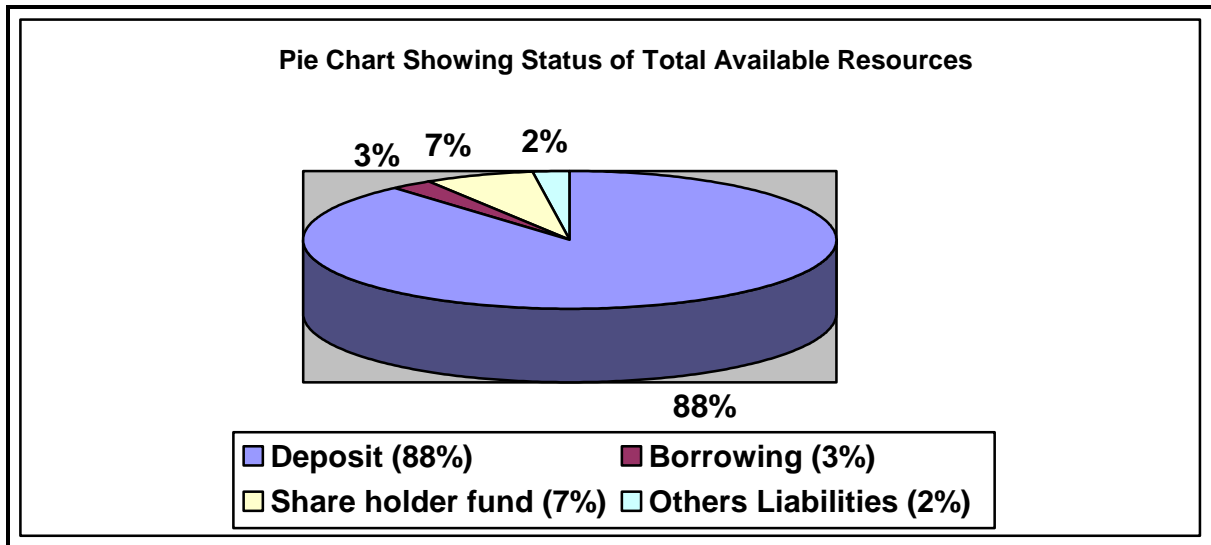
Amount in '000'

F/Y	Deposit		Borrowing		Shareholder fund		Other Liabilities		Total Resources year wise
	Amount	%	Amount	%	Amount	%	Amount	%	
2060/061	11524680.00	86.94	361500.00	2.73	729048.00	5.50	640269.00	4.83	13,255,497.00
2061/62	14254574.00	88.74	350000.00	2.18	1180173.00	7.34	278796.00	1.74	16,063,543.00
2062/063	18927306.00	88.73	550000.00	2.58	1415440.00	6.64	437392.00	2.05	21,330,138.00
2063/064	24488856.00	88.76	800000.00	2.90	1878124.00	6.80	423866.00	1.54	27,590,846.00
2064/065	34451726.00	88.62	1050000.00	2.70	2688717.00	6.92	682853.00	1.76	38,873,306.00
Total of Resources	103,647,142.00		3,111,500.00		7,891,512.00		2,463,176.00		

(Sources: Annual Reports of NIBL)

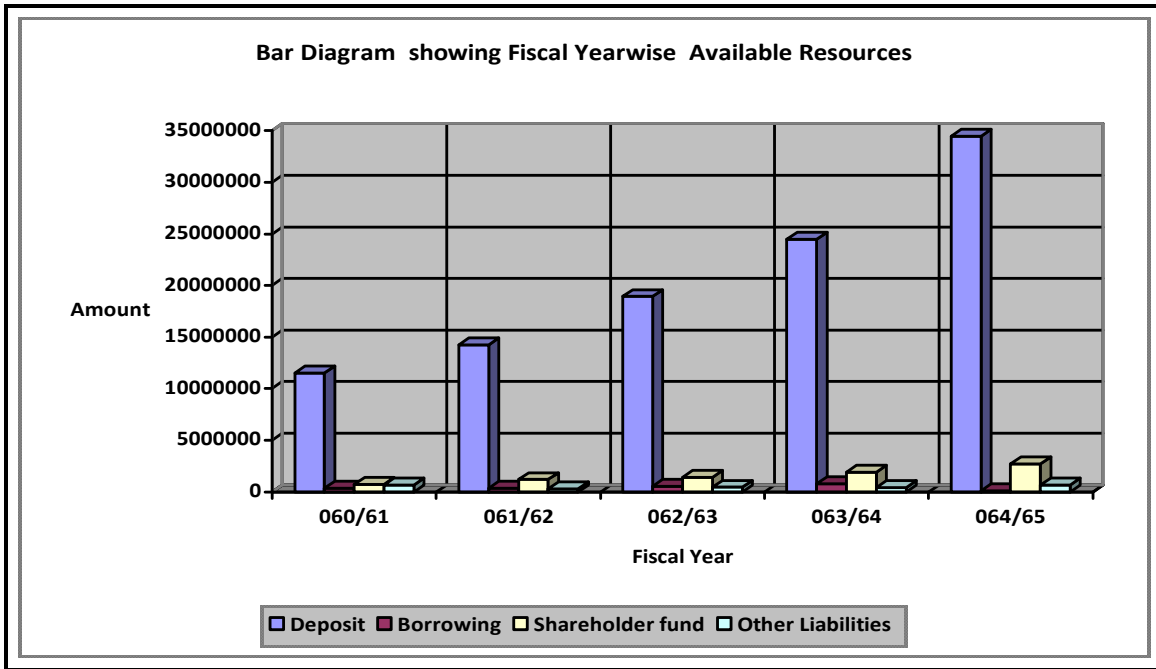
The above table shows the status of total resources of NIBL. The resources are collected from customer deposit, share holder fund, other liabilities and borrowings if required. The major source of resource collection is customer deposit since it has higher figure in the above table. For the more analysis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

Chart No: 4.1



The above table and Bar diagram shows the sources of available resources used by the bank this figures shows in the Pie-chart by year and types of resource wise and draw some conclusion below:

Chart No: 4.2



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

- Customer Deposit Collection
- Other Resources

4.3.3 Customer Deposit Collection:

As deposit collection is major activities of commercial bank this is the important source of resources mobilization. As per the data F/Y 2060/61 to 2064/065 the customer deposit is as high as 88 %. 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

4.3.4 Deposit Collection Budget of NIBL:

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

Table No: 4.4
Status of budgeted and actual deposit collection

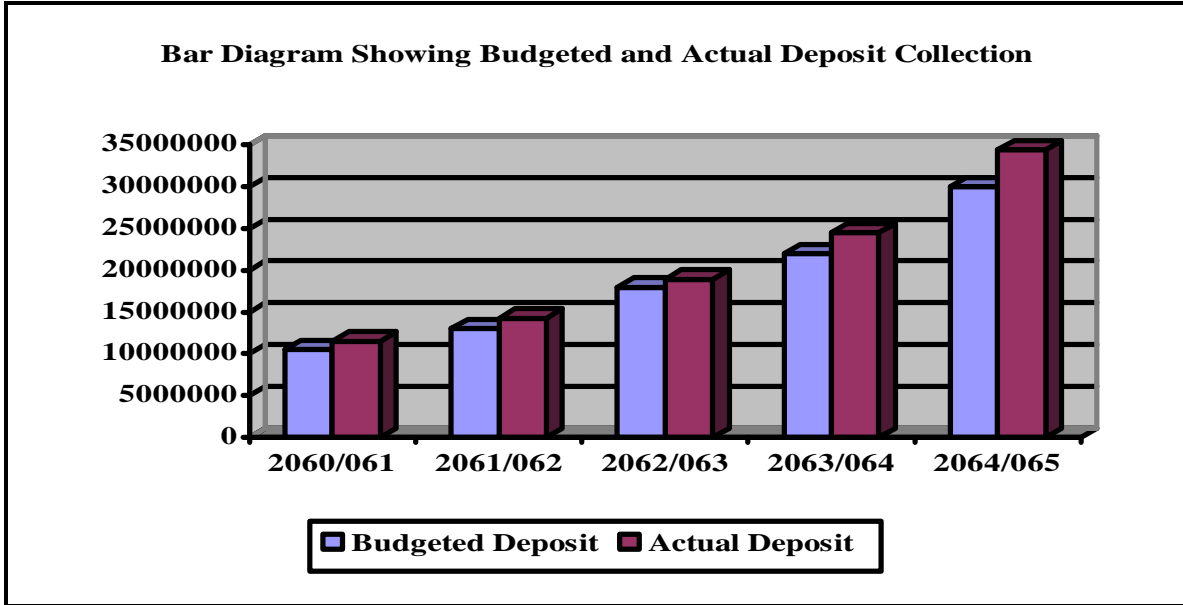
Fiscal Year	Budgeted Figure	Actual Figure	Achievement
2060/061	10500000	11524680	109.76 %
2061/062	13000000	14254574	109.65 %
2062/063	18000000	18927306	105.15 %
2063/064	22000000	24488856	111.31 %
2064/065	30000000	34451726	114.84 %

(Sources: Annual Reports & Budget Statements of NIBL)

The above table shows the status of budgeted and actual deposit collection of NIBL. The bank has achieved its objectives of deposit collection every year more than 100%. The base of preparing the budgets is the actual deposit collection the last year. The achievement range is slightly fluctuation it ranged between 105.15 % to 114.84 %

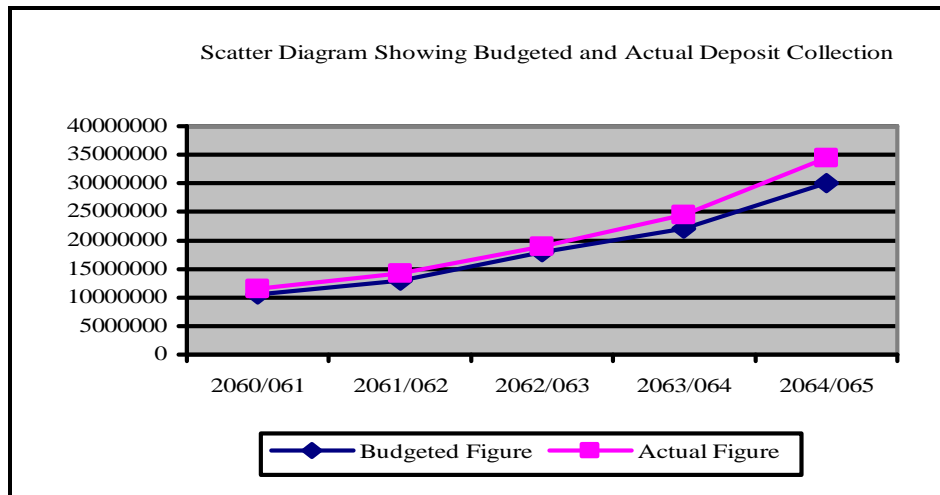
through out the five year of study period. The data of table are presenting in bar diagram for the analysis purpose.

Chart No: 4.3



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

Chart No: 4.4



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

Table No: 4.5
Summary of Deposit Collection budget and actual deposit

Statistical Tools	Budgeted Deposit (X)	Actual Deposit (Y)
Mean	18700000	20740000
Standard Deviation ()	6911000	8170000
Coefficient of Variation	36.96 %	39.39 %
Correlation of Coefficient (r)	0.9977	
Probable Error (PE)	0.0014 ($r > 6PE$)	

Source: Appendix No 1

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

Budgeted deposit is denoted by X and assumed to be independent variable and actual deposit is denoted by Y is assumed to be dependent variables. So that increase in budget is support to increase in actual achievement or vice versa, this meant that there should be positive correlation between, budgeted figure and achievement figures. Significance of correlation of (r) tested with probable error (PE) by the calculation as per appendix ... The researcher have found (r) is 0.9977 and PE is 0.0014. The figure of 'r' shows that there is positive perfect correlation between budgeted deposit and actual deposit. The relation of PE with r is $r > 6PE$ so it is significant so the actual deposit going on same direction. Another statistical tools regression line can also be fitted to show the degree of relationship between budgeted deposits and actual deposit and to forecast the achievement with given target so that the regression line of 'Y' On 'X' is as follows:

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

$$y - 20740000 = 0.9977 \left(\frac{8170000}{6911000} \right) (x - 18700000)$$

$$y - 20740000 = 1.1795(x - 18700000)$$

$$y = 1.1795x - 1316650$$

From the above equation it is clear that actual deposit is in increasing trend. By the help of this equation we determine the expected deposits achievement with given value of budgeted deposit (X=35000000) ascertain the expected deposits achievement for F/Y 065/66.

When X=35000000

The expected deposit for the year 2065/66

$$y = 1.1795 \times 35000000 - 1316650$$

$$y = 42599150(000)$$

The relationship between budgeted and actual amount deposit remains same the amount of deposit in F/Y 2065/066 will be RS 42599150000 stated by the above regression line.

4.3.5 Movement in Deposit Collection of NIBL:

Table No: 4.6
Movement of Deposit Collection of NIBL

Fiscal Year	Deposit Amount	Growth in Amount	<i>Amount in '000'</i>
			Growth in Percentage
2060/061	11524680.00	-	-
2061/062	14254574.00	2729894.00	23.69 %
2062/063	18927306.00	4672732.00	32.78 %
2063/064	24488856.00	5561550.00	29.38 %
2064/065	34451726.00	9962870.00	40.68 %

The above table shows the growth trend of deposit collection of NIBL. F/Y 2060/061 is the base year for the growth calculation. In F/Y 2061/062 the deposit collection is increased by the 23.69 % in comparison with F/Y 2060/061. The amount of deposit collection is in increasing trend where as the increasing percentage is fluctuating as a result in F/Y 2063/064 the percentage has decrease in 29.38 % from 32.78 % of F/Y 2062/063 and in F/Y 2064/065 the trend of growth is 40.68 % with comparison of F/Y 2063/064.

4.3.6 Other Resources of NIBL:

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

Table No: 4.7
Other Resources of NIBL:

Fiscal Year	Budgeted Amount	Actual Amount	Achievement
2060/061	1000000	1730917	173 %
2061/062	2000000	1808969	90.45 %
2062/063	1500000	2402832	160 %
2063/064	2500000	3101990	124 %
2064/065	4000000	4421580	110.54 %

The above table shows more than 100 % achievement in resources other than deposit except in the F/Y 2061/062. The achievement trend of other resources is in increasing in the amount where as the increment ratio is in declining trend. The bank has highest achievement in F/Y 2060/061 likewise budgets are prepared but the actual figure doesn't match accordingly. The achievement percentage is ranged between 90.45 % to 173 % below 100% indicate the lower achievement and more than 100 % indicate the higher achievement of budgeted figure. The status of resources other than deposit presented in Bar and scatter diagram.

Chart No: 4.5

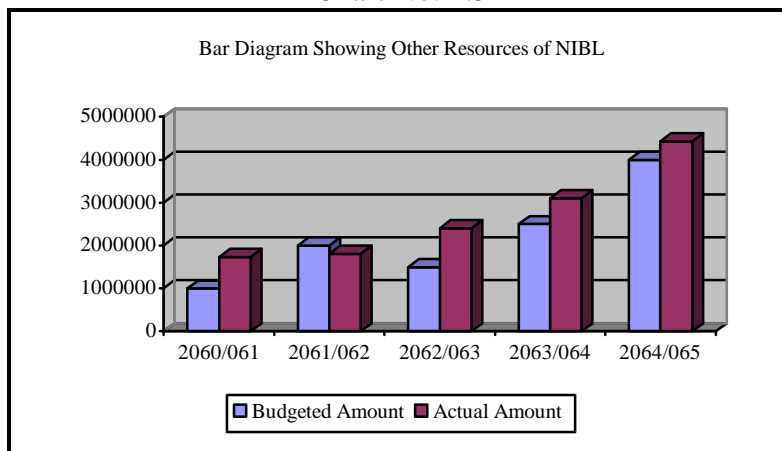
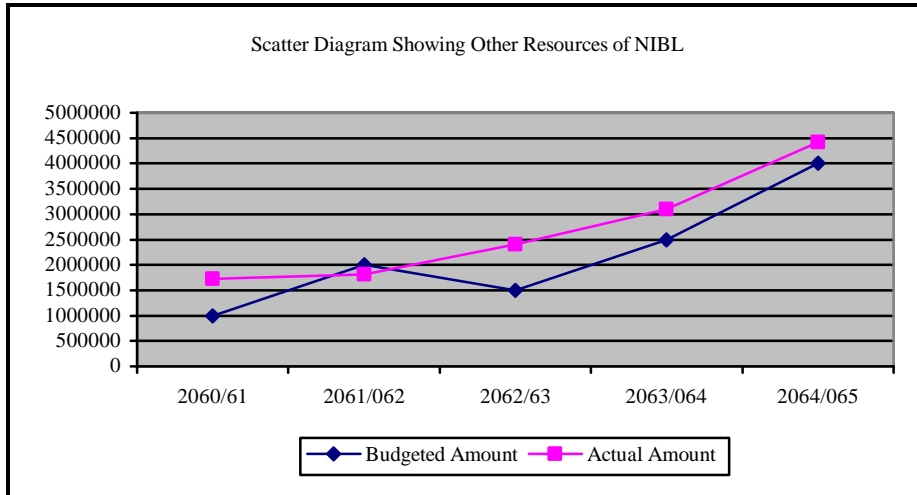


Chart No: 4.6



From the above table and diagrams we can find the status of budgeted and actual resources of NIBL. The actual resources is higher than budgeted in the bar diagram except the year 2061/062 like wise scatter diagram the actual amount is in high position than budgeted except year 2061/062 .

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

Table No: 4.8
Summary of budgeted and actual other resources of NIBL

Statistical Tools	Amount in Rs'000'	
	Budgeted Figure (X)	Actual Figure (Y)
Mean	2200000	2680000
Standard Deviation (†)	1023000	995000
C.V	9.3 %	7.43 %
r	0.9315	
P.E	0.0399 (r >6PE)	

Source Appendix No:2

The average amount of other resources of actual figure is higher than the budgeted figure so the bank has achieved higher than its target. Budgeted figure is more variable than actual since it has high coefficient of variation it means actual figure is more consistent and homogeneous than budgeted figure of other resources. Here the budgeted resource other than deposit of NIBL is the more variable than actual resources in nature. Here researcher has used another statistical tools i.e. correlation of coefficient (r). The result of 'r' is 0.9315 so it has perfectly correlated between the budgeted resources and actual resources. The actual resources will change in the same direction, as the budgeted resources. The significance of 'r' is tested by P.E since the value of 6P.E is less than 'r' gives the absolute result.

4.4 Resources Deployment Plan of NIBL:

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

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

a) Deployment to Maintain Liquidity Position:

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

maintain certain liquidity as per their deposits. The liquidity position should be maintained as required higher the liquidity can't give effective return and lower the liquidity became failure to repay the deposit.

b) Deployment for income generating Activities:

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

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

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

Table No: 4.9
Total Income Generating Deployment of NIBL

Amount "000"

Fiscal Year	Other Investment		Loan and Advance		Total
	Amount	Percentage	Amount	Percentage	
2060/061	4172483	36.25 %	7338566	63.75 %	11511049
2061/62	4074189	28.04 %	10453164	71.96%	14527353
2062/063	5672869	30 %	13178152	70 %	18851021
2063/064	6868650	27.88 %	17769100	72.12%	24637750
2064/065	6874024	19.98 %	27529305	80.02 %	34403329

The above table shows the status of income generating deployment of NIBL. The major portion of deployment of the bank covers by the loan and advance. The range of loan and advance is 63.75 % to 80.02 % where as the range of other investment is 28.04 % to 36.25 %.

c) Deployment in Other Assets:

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

4.1.1 Total Deployment of NIBL:

Table No: 4.10
Total resources deployment of NIBL

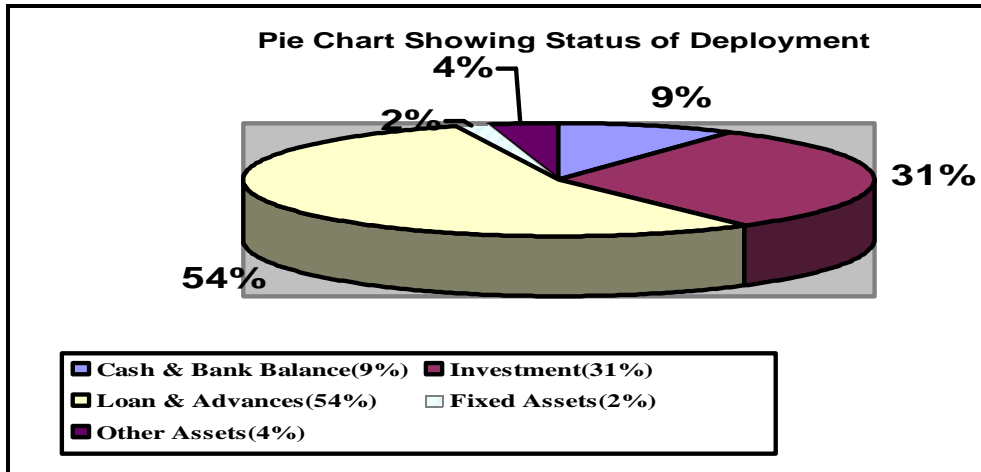
Amount in '000'

Fiscal Year	Cash & Bank Balance		Investment & Money Received at call		Loan and Advance		Fixed Assets		Other Assets		Total (Year wise)
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
2060/061	1226923	9.10	4172483	31	7338566	54.5	249788	1.86	476177	3.54	13463937
2061/62	1340481	8.18	4074189	24.86	10453164	63.7	320592	1.96	202226	1.23	16390652
2062/063	2335521	10.75	5672869	26.10	13178152	60.64	343450	1.58	201090	0.93	21731082
2063/064	2441514	8.70	6868650	24.47	17769100	63.19	759456	2.70	234797	0.84	28073517
2064/065	3754942	9.53	6874024	17.44	27529305	69.86	970092	2.46	277597	0.71	39405960
Total Sector wise	11099381		27662215		76268287		2643378		1391887		

(Sources: Annual Reports of NIBL 2060/061 to 2064/065)

Above table shows the total deployment of funds in various sectors of NIBL. The range of cash and bank balance of NIBL through out the study period is 8.18 % to 10.75 % it means the bank use their fund to maintained liquidity position 8.18 % to 10.75 % out of total deployment. The trend of cash and bank balance slightly fluctuating trend. Like wise the bank use their fund in investment 17.44 % to 31 % over the period. The trend of investment is in fluctuating trend in the F/Y 2060/61 the percentage of investment is 31 whereas in decreased in year 2064/065 in 17.44 % other three years are in average. The highest use of resources in the loan and advances the range of loan and advance is 54.5 % to 69.86 % out of total deployment over the five years period. In the F/Y 2060/61 the percentage is 54.5 and in it increased in F/Y 2061/062 to 63.7 % but in F/Y 2062/063 it slightly decreased in 60.64 % again in the F/Y060/64 it increased than F/Y 2062/63 to 63.19 % but could not recover the percentage of F/Y 2061/062 . In the F/Y 2064/065 the percentage of loan and advance reached to 69.86 % out of total deployment. Even though the range of loan and advance is fluctuating trend in terms of percentage the amount is in increasing trend over the study period. NIBL use the resources in fixed assets and other assets in nominal percentage out of total deployment. The range of fixed assets is 1.86 to 2.46 and other assets are 0.71 to 3.54 % out of total deployment over the study period. For the analysis purpose the total deployment of NIBL is presented in pie chart and bar diagram below:

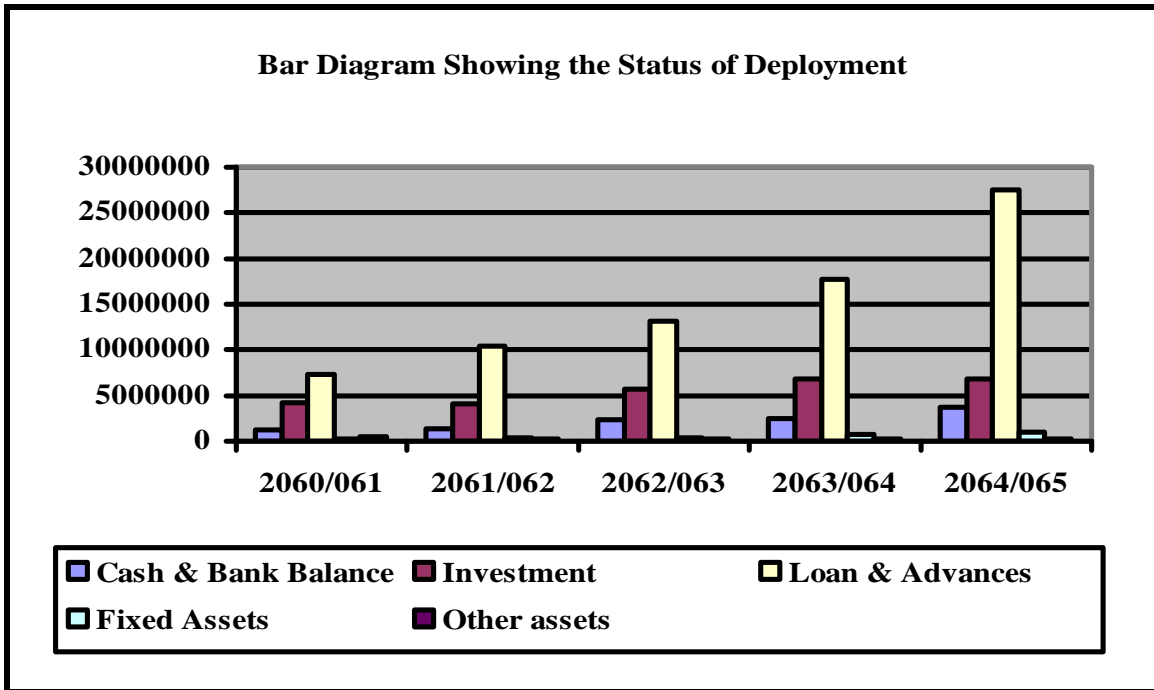
Chart No: 4.7



The above pie chart shows the total deployment of NIBL in various sectors. The Loan and advance holds the highest area of the chart since it has 54 % of deployment out of total deployment. This means the bank more use their resources in the deployment of loan and advance than other. Like wise investment is 31 % out of total deployment. The third highest sector of deployment is Cash and bank balance this shows the bank keeps the liquidity of 9 % out of total deployment in average over the five year of study period. Similarly the bank uses their resources in fixed assets and other assets 2 % and 4 % respectively over the five years period.

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

Chart No: 4.8



The above diagram shows the deployment of Banks available resources at various portfolios among which LDO is in highest position through out the study period the trend is in increasing over the period. Like wise the investment is in second position out of total deployment amount the trend of investment is increasing except the year 2061/062. The third positing of deployment holds by cash and bank balance in is also in increasing trend over the five years of study .The other assets and fixed assets hold the fourth and 5th position but it is in fluctuating trend over the five years of time period.

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

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

4.4.2 Budgeted and Actual LDO of NIBL:

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

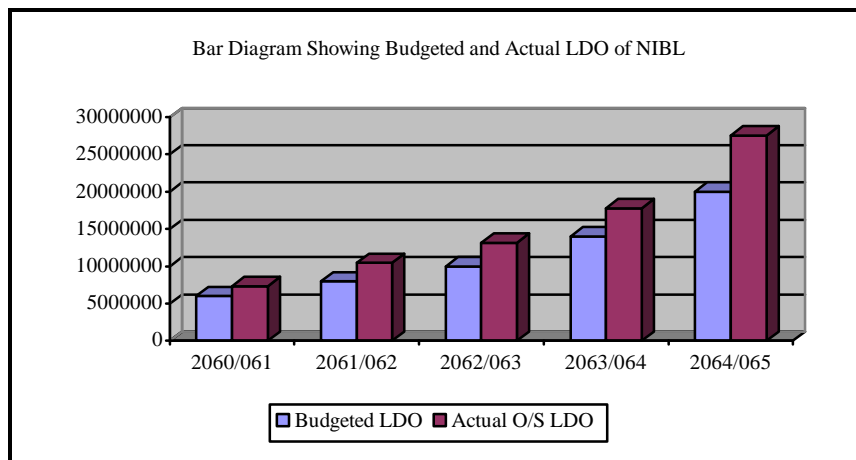
Table No: 4.11
Comparative Table showing Budgeted and Actual Loan, Discounted, Overdraft of NIBL.

Fiscal Year	Budgeted Amount	Actual Amount	Achievement
2060/061	6000000	7338566	122.31 %
2061/062	8000000	10453164	130.66 %
2062/063	10000000	13178152	131.78 %
2063/064	14000000	17769100	126.92 %
2064/065	20000000	27529305	137.65 %

(Sources: Annual Reports & Budget Statements of NIBL)

Above table shows that status of budgeted and actual LDO of NIBL. The actual achievement of LDO is more than the 100 % in every year. The investment in LDO is increasing trend in terms of amount where as the achievement percentage with budgeted figure is fluctuating trend. The range of achievement over the five year period is 122.31 % to 137.65 % it shows that NIBL has 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.

Chart No: 4.9



The above bar diagram shows the trend of budgeted and actual deployment of resources in the sector of LDO. The trend of actual deployment is in increasing trend and budgeted too. The actual achievement of LDO has 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 figure and actual achievement through out the study period.

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

Chart No: 4.10

The actual deployment in LDO is in higher position than budgeted LDO through out the study period it means the scatter diagram shows that the relation between actual achievements is higher than budgeted LDO. This 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 summery of LDO budget and achievement are presented below.

Table No:4.12
Summary of budgeted LDO and achievement

Statistical Tools	Budgeted LDO (X)	Actual LDO (Y)
Mean	11600000	15260000
Standard Deviation (σ)	4964000	7022000
C.V	45.12 %	46.02 %
r	0.9980	
P.E	0.00120 ($r > 6PE$)	

Source Appendix No 3

The above table shows that budgeted LDO is less variable than actual LDO. Since the coefficient of variations of actual LDO is greater than that of budgeted LDO, actual LDO are more variable nature. On the other hand budgeted LDO more consistent and homogeneous than actual a greater coefficient of variation is said to be more heterogeneous. Here NIBL bank actual LDO is the variable nature than budgeted LDO. We can use another statistical tool correlation co-efficient to analyze the relationship between budgeted LDO and Actual LDO. There should be positive correlation between budgeted and actual LDO. We can take the help of Karl person's coefficient of correlation to find correlation between actual LDO and budgeted LDO. Karl Person's coefficient of correlation between budgeted LDO and actual LDO or not. For this purpose budgeted LDO is denoted by X and actual LDO is denoted by Y. Here X is independent variable and Y is dependent variable. Here the correlation between budgeted and actual LDO is 0.9980 it means the relation between budgeted and actual LDO are perfectly co-related. Significance of r is tested with PE we have $r > 6 PE$ 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.

From the calculation in appendix no 3 We have obtained the value of r being 0.9980. Now the coefficient of determination which explains the change in Y variable i.e. actual LDO by X variable i.e. budgeted LDO can be calculated as the square of r. $r^2 = (0.9980)^2 = 0.9960$ Another statistical tool regression line can also be fitted to show the degree of relationship between budgeted LDO and actual LDO and the forecast the achievement with given target. For this purpose achievement figure have been supposed to be depended up on independent target. So that the regression line of achievement 'Y' on targeted 'X' or Y on X is as follows.

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

$$y - 15260000 = 0.998 \left| \frac{7022000}{4964000} \right| (x - 11600000)$$

$$y - 15260000 = 1.4118 (x - 11600000)$$

$$y = 1.4118x - 116880$$

From the above equation, it is clear that actual LDO are in increasing trend. By the help of this regression equation, we ascertain the expected LDO achievement with the given value of target LDO say X for fiscal year 065/066 = 30000000

When X = 30000000

Then expected LDO achievement

$$y = 1.4118 \times 30000000 - 116880$$

$$= 33118520 \text{ (000)}$$

4.4.3 Movement in LDO of NIBL :

Table No: 4.13
Table showing movement in LDO of NIBL

Amount in '000'

Fiscal Year	LDO Amount	Growth in Amount	Growth in %
2060/061	7338566	-	-
2061/062	10453164	3114598	42.44
2062/063	13178152	2724988	26.068
2063/064	17769100	4590948	34.84
2064/065	27529305	9760205	54.93

(Sources: Annual Reports of NIBL 2060/061 to 2064/065)

The above table shows the movement of LDO of NIBL. The base year to calculate the growth rate of NIBL is F/Y 2060/061. The increment rate is 42.44 % in F/Y 2061/062 in comparison with F/Y 2060/061. The rate of growth is declined in the F/Y 2062/063 it is only 26.068 % since the amount of LDO could not increased as last year. In the F/Y 2063/064 it has improved than the year 2062/063 but could not meet the F/Y 2061/062. The growth rate in 2064/065 has reached to 54.93 % with comparison of F/Y 2063/064 since the amount of LDO increased.

4.4.4 Resources Deployment in 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 No: 4.14
Status of Budgeted and actual Deployment in other Sector (NLDO)
Amount in Rs '000'

Fiscal Year	Budgeted Amount	Actual Amount	Achievement
-------------	-----------------	---------------	-------------

2060/061	5000000	6125371	122.5 %
2061/062	5500000	5937488	107.95%
2062/063	6500000	8552930	131.58%
2063/064	8000000	10304417	128.81 %
2064/065	9000000	11876655	131.96%

(Sources: Annual Reports & Budget Statements of NIBL)

The above table shows the status of budgeted and actual deployment in other sector than LDO (NLDO). The actual achievement of investment in other sector has more than the 100 % each year. The rate of such achievement in fluctuating trend over the study period. The achievement is 122.5 % in F/Y 2060/061 and it decreased in F/Y 2061/062 to 107.95 %. Again in F/Y 2062/063 in increase to 131.58 % and slightly fluctuating up to F/Y 2064/065. The average rate of achievement over the five year is 124.56 % this indicate that the bank achieved its target by 25 % approximately .For the analysis purpose the status of budgeted and actual NLDO is presenting in diagram below.

Chart No: 4.11

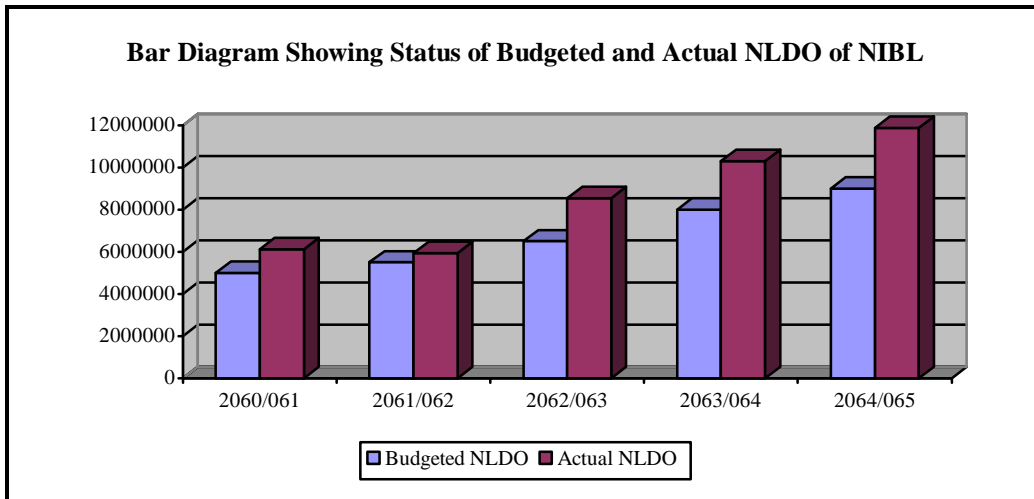
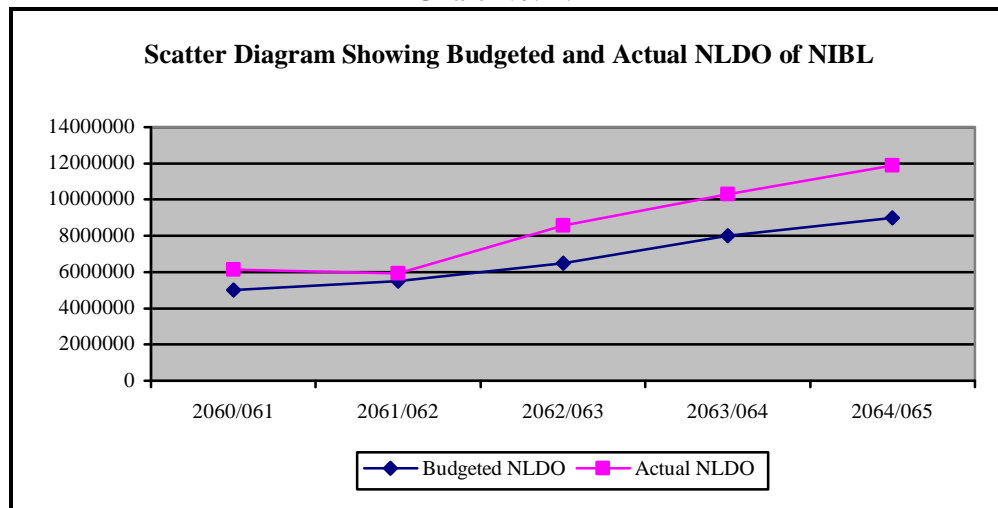


Chart No: 4.12



Above table and diagrams shows that more than 100 % of 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 No: 4.15
Summary of NLDO of NIBL

Statistical Tools	Budgeted NLDO (X)	Actual NLDO (Y)
Mean	6800000	8560000
Standard Deviation (†)	1503000	2205300
C.V	22.10 %	25.76 %
r	1	
P.E	-0.027 (r>6PE)	

Source: Appendix No:4

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 1 so the relationship between budgeted and actual figure is perfectly correlated. The significant of r can be measured by the probable error here the $r > 6PE$ so the r is significant.

4.4.5 Actual Deposit and outstanding LDO of NIBL:

Customer deposit and deployment in LDO is major activities of NIBL. As it is understood the major source of resources mobilization of NIBL is the customer deposit and similarly the major outlet for deployment portfolio is for loan and advance and bills discount (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.

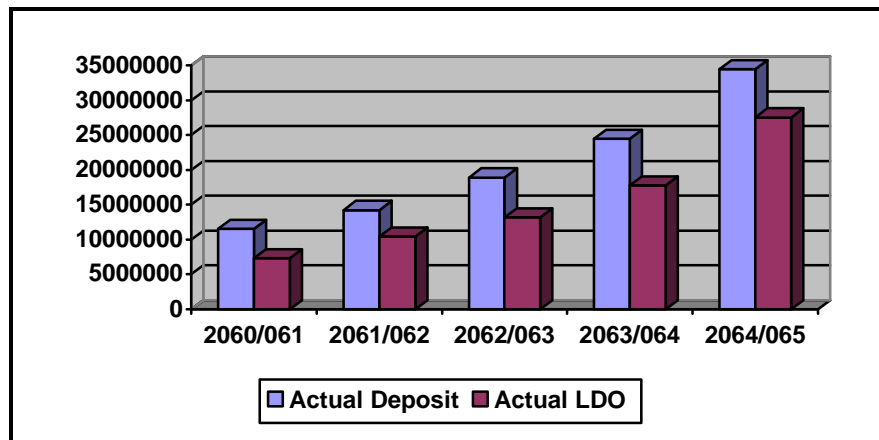
Table No: 4.16
Status of LDO VS Actual Deposit of NIBL

<i>Amount “ 000”</i>			
Fiscal Year	Actual Deposit (Balance)	Actual O/S LDO	LDO to Deposit Ratio
2060/061	11524680	7338566	63.68 %
2061/062	14254574	10453164	73.33 %
2062/063	18927306	13178152	69.96 %
2063/064	24488856	17769100	72.56 %
2064/065	34451726	27529305	79.90 %

(Sources: Annual Reports of NIBL 2060/061 to 2064/065)

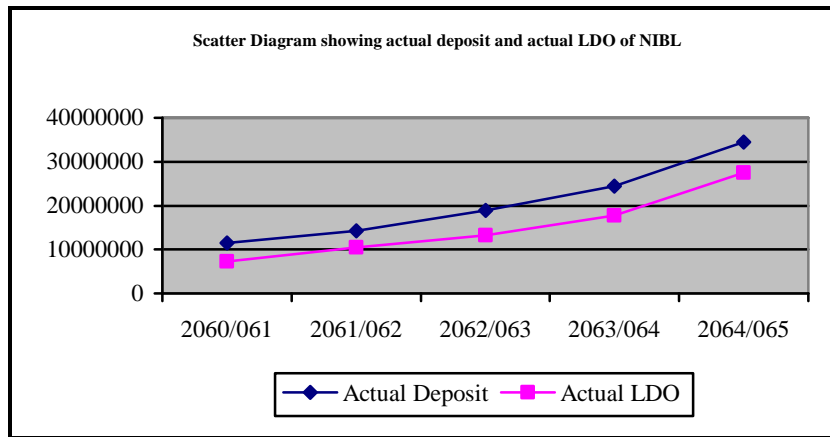
The above table shows the status of actual deposit balance and actual o/s LDO. The actual deposit balance and actual o/s LDO both are in increasing trend through out the study period. The utilization of deposit collection in terms of LDO is fluctuating trend in percentage. The range of LDO to deposit ratio is 63.68 % to 79.90 %. This indicates that the bank invests in LDO out of total deposit in the range of 63.68 % to 79.90 % over the five years time period. For the analysis purpose the figure of actual deposit balance and actual o/s LDO is presented in the charts.

Chart No: 4.13
Bar Diagram showing actual deposit and actual LDO of NIBL



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 through out the study period.

Chart No: 4.14



From the above table and charts it can be found that both the deposit and LDO is in increasing trend over the period. The average ratio of LDO to deposit is 71.89 %. It means that the bank invest in NLDO 28.11 % in 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 of coefficient, probable error.

Table No: 4.17
Summary of actual deposit and Actual O/S LDO

Statistical Tools	Actual Deposit in Rs '000'	Actual O/s LDO in Rs '000'
Mean	20740000	15260000
S.D (†)	8170000	7022000
C.V	39.39 %	46.02 %
r	0.9637	
P.E	0.1290 (r>6PE)	

Sources: Appendix no 5

The above table shows that actual O/S LDO is more variable than actual deposit since it has higher C.V. On the other hand actual deposit 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 co-relation between them. We can take the help of Karl Person's Co-efficient of correlation to find correlation between actual deposit and actual outstanding LDO. The correlation r is 0.9637 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.

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

The total income of bank can be generate by two form one is fund base another is non fund base. Advancing loan, overdraft, Bills discounting and investments are fund consuming income generative activities. Another activities performed by the bank which don not involve fund yet but they are income generative. Such transactions are called Non fund consuming bu8siness activities and off balance sheet items. These types of income generative activities are L/C, Bank Guarantee, Foreign exchange, and others. NIBL Non- Fund consuming business activities (off-Balance sheet items) are summarized below for the study period.

Table No: 4.18
Status of Non-fund consuming business activities:
Off-Balance Sheet Items

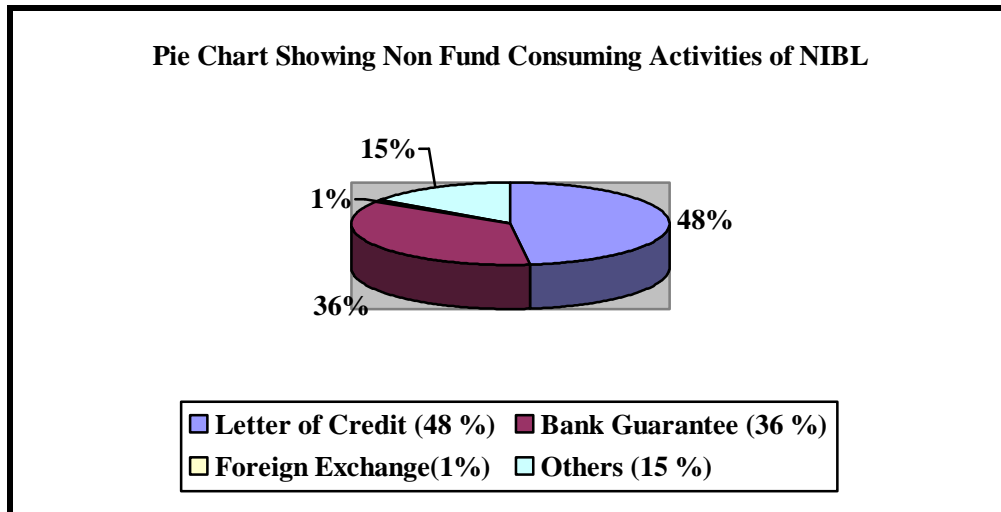
Fiscal Year	Letter of Credit	Bank Guarantee	Foreign Exchange	Others	Total
2060/061	2213553	946052	85814	90322	3335741
2061/062	1816959	1831665	6222	516792	4171638
2062/063	3955491	2653473	15716	1738180	8362860
2063/064	4632463	3656465	12723	1523162	9824813
2064/065	5163478	4102036	2170	1812190	11079874
Total	17781944	13189691	122645	5680646	

Amount in Rs '000'

(Sources: Annual Reports of NIBL 2060/061 to 2064/065)

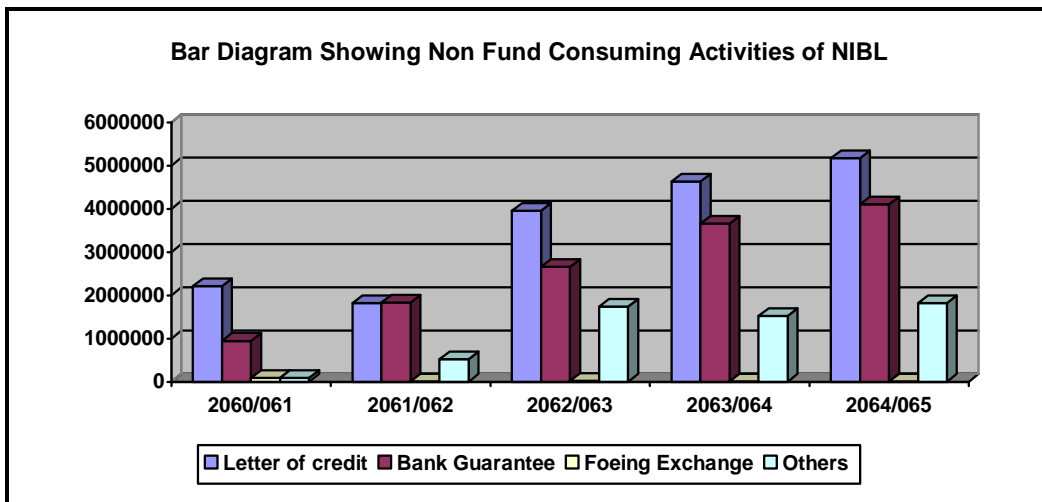
The above table shows the status of Non-fund consuming items. Letter of credit is a major source of non fund consuming business activities. And the second highest figure of bank guarantee. Here researcher going to show the status of non fund consuming activities in the pie chart and bar diagram for the analysis purpose.

Chart No: 4.15



The above pie chart shows the status of total non fund business of NIBL. The major contribution in such business of letter of credit it holds the 48 % out of total non fund base business activities. Secondly the bank guarantee contributes 36 % .likewise foreign exchange and other activities have 1 and 15 percent respectively. For the more analysis purpose this figure are presenting in the bar diagram below.

Chart No: 4.16



Above bar diagram shows the status of non fund consuming business activities of NIBL through out the five years of study period. And chart shows that the major contribution in non-fund consuming business of NIBL is LC. The overall non-funded business is increasing trend while the foreign exchange more fluctuating over the study period the contribution of foreign exchange is very nominal.

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

4.4.6.1 Letter of credit (LC) business of NIBL:

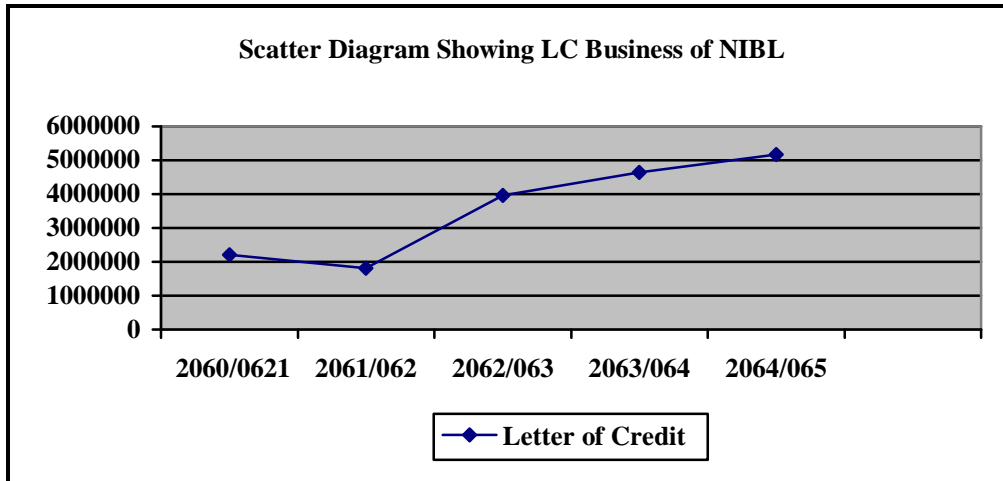
Letter of credit is a kind of facility provided by the bank to customer, by way of which the customer can import the goods from foreign buyer for which the bank undertake the guarantee for payment provided the terms and conditions of the L/C is complied with.

Table No: 4.19
Movement of LC business in NIBL

Fiscal Year	Letter of Credit	Growth in amount	Growth in %
2060/061	2213553	-	
2061/062	1816959	(396594)	-17.92 %
2062/063	3955491	2138532	117.70 %
2063/064	4632463	676972	17.11 %
2064/065	5163478	531015	11.46 %

The above table shows the movement of letter of credit business of NIBL. The trend of such business is very fluctuating. The base year for the calculating of movement is F/Y 2060/061 the rate of growth in negative of 17.92 % in F/Y 2061/062 with the comparison of F/Y 2060/61. In F/Y 2062/063 LC business growth by 117.70 % in comparison of F/Y 2061/062. Like wise the business growth by the 17.11 % and 11.46 % in F/Y 2063/64 and F/ 2064/065 with comparison of year 2062/063 and 2063/064 respectively. For the more analysis researcher going to present the LC business in scatter bar diagram below.

Chart No: 4.17



The above scatter diagram shows the position of letter of credit business of NIBL. Trend of business decreasing in F/Y 2061/062 then F/Y 2060/061. Again in F/Y 2062/63 it reached higher position like wise it is in slightly increasing trend with the coming two F/Y 2063/064 and 2064/065.

4.4.6.2 Bank Guarantee business of NIBL:

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

Table No: 4.20
Showing the status of bank guarantee business of NIBL

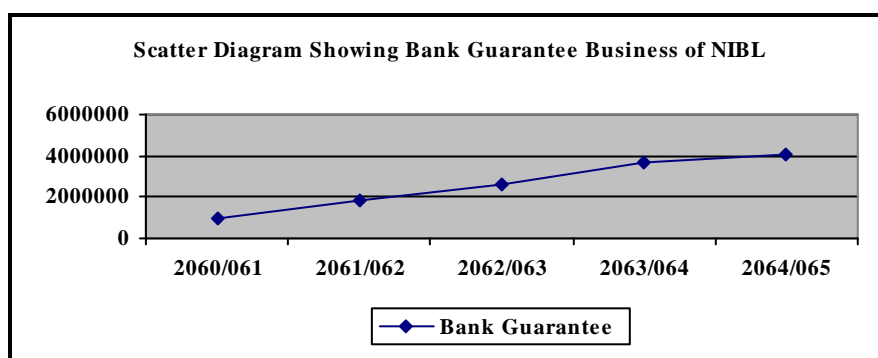
Amount in Rs '000'

Fiscal Year	Bank Guarantee	Increased Amount	Growth
2060/061	946052	-	-
2061/062	1831665	885613	93.61 %
2062/063	2653473	821808	44.87 %
2063/064	3656465	1002992	37.80 %
2064/065	4102036	445579	12.18 %

(Sources: Annual Reports of NIBL 2060/061 to 2064/065)

The above table shows the status of bank guarantee business of NIBL. The amount of bank guarantee is in increasing trend every year. Whereas the growth rate is decreasing trend. The base year to calculate the growth rate is F/y b2060/061. The bank guarantee business increased by 93.61 % in year 2062/ 063 with comparison of the F/Y 2060/061. The rate of growth bank guarantee business is 44.87 %, 37.80 % 12.18 % with the comparison with F/Y 2061/062, 2062/063, 2063/064 respectively. The trend of bank guarantee business is increasing in terms of amount but the growth trend is in decreasing trend. For the analysis purpose we have plotted the data in scatter diagram and some conclusion drawn below.

Chart No: 4.18



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

4.5 Planning for Expenditure of NIBL:

Expenditure planning is most essential to support the objectives and planned programs of the bank. Expenditure planning considered expenses and the benefits derived from this expenditure. The major concern of business is income; income is not possible with out expenditure so expenditure is most crucial part of the business. Expenditure plan helps to organization to achieve the goal and objectives. The following table shows the status of expenditure incurred by the NIBL over the study period.

Table No: 4.21
Status of Expenditure of NIBL

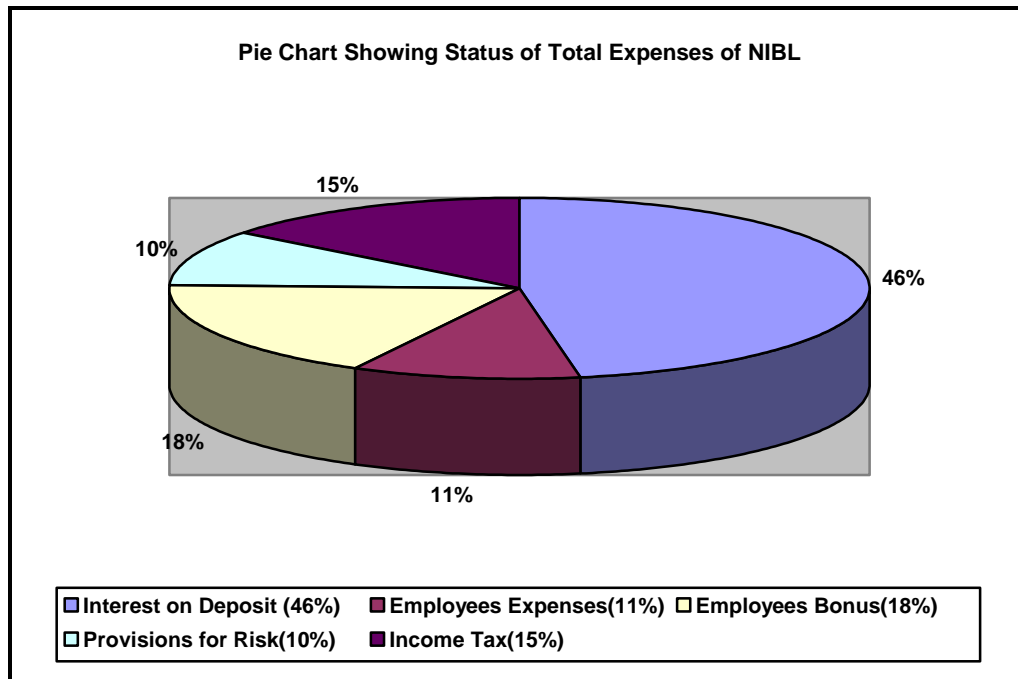
Amount in Rs '000'

Expenditure	2060/061		2061/062		2062/063		2063/064		2064/065		Types wise Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
Interest on Deposit	326202	44.36	354549	40.45	490947	46.30	685530	48.07	992158	50.89	2849386
Employees Expenses	89749	12.21	97004	11.07	120664	11.38	145371	10.19	187150	9.60	639938
Employees Bonus	149479	20.38	182915	20.88	190605	17.97	243431	17.07	313154	16.06	1079584
Provisions for Risk	91092	12.33	140409	16.02	103808	9.79	129719	9.09	135989	6.97	601017
Income Tax	78801	10.72	101529	11.58	154378	14.56	221977	15.58	321288	16.48	877973
Year wise Total	735323		876406		1060402		1426028		1949739		

(Sources: Annual Reports of NIBL 2060/061 to 2064/065)

The above table shows the total expenses of NIBL. The trend of all expenses is in increasing as per the overall volume of business increased. The major expense of bank is interest expenses it ranged 40.45 % to 50.89% out of total expenses of NIBL though out the five years of time period. The another expenses of bank is employees expenses ranged between 9.60% to 12.21 % the amount of employees expenses increasing every year likewise the employees bonus , provision for risk , and tax ranged between 16.06 % to 20.88 % , 6.97 % to 16.02 % and 10.72 % to 16.48 % respectively out of total expenses. The expenditure of NIBL has analyzed by the help of pie chart below.

Chart No: 4.19



By the above and pie chart the researcher can find out the major expenses of NIBL is Interest on Deposit it holds the 46 % out of total expenditure. Like wise employees bonus, employees expenses, provision for risk, income tax has 18 % ,11 % , 10% ,15 % respectively . For the analysis purpose we have divided the total expenses in two categories these are as follows:

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

4.5.1 Interest Expenses:

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

Table No: 4.22
Status of Average Cost of Deposit

Amount in Rs '000'

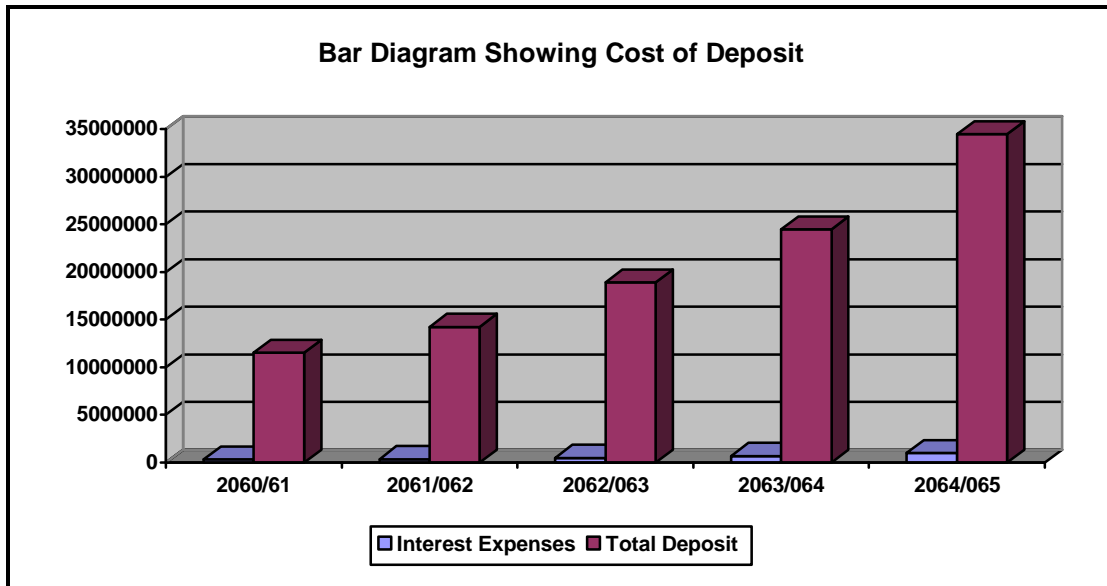
Fiscal Year	Interest Expenses	Total Deposit	Cost of Deposit (%)
2060/061	326202	11524680	2.83
2061/062	354549	14254574	2.48
2062/063	490947	18927306	2.59
2063/064	685530	24488856	2.80
2064/065	992158	34451726	2.88

(Sources: Annual Reports of NIBL 2060/061 to 2064/065)

The above table shows the total deposit and interest expenses of respective year. The deposit amount is increasing trend likewise the interest too. The table shows the cost of deposit in percentage. The NIBL cost of deposit (interest) range between 2.48 % to 2.88 % over the study period. The COD of the bank is slightly fluctuating trend the highest

cost of deposit is 2.88 in the year 2064 /065. The relation between COD and total deposit can be shown on the bar diagram below.

Chart No: 4.20



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

4.5.2 Non- Interest Expenses:

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

- Employees Expenses
- Operational Expenses
- Provision for Risky loan
- Non-Operating expenses

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

Table No: 4.23
Status of Non-Interest expenses of NIBL

Amount in Rs '000'

Expenses	2060/061		2061/062		2062/063		2063/64		2064/065	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Employees Expenses	89749	14.02	97004	15.16	120664	18.86	145371	22.72	187150	29.24
Operational Expenses	149479	13.85	182915	16.94	190605	17.66	243431	22.55	313154	29
Non-Operational Expenses	-		-		-		-		-	
Provision for Risky Loan	91092	15.15	140409	23.36	103808	17.28	129719	21.58	135989	22.63
Employees Bonus	25719	8.94	37075	12.89	50491	17.55	72338	25.15	101996	35.47
Income Tax	78801	8.98	101529	11.56	154378	17.58	221977	25.29	321288	36.59
Total	434840	12.47	558932	16.03	619946	17.78	812836	23.33	1059577	30.39

(Sources: Annual Reports of NIBL 2060/061 to 2064/065)

The above table shows the non interest expenses of NIBL over the five year period. Employees expenses is in increasing trend every year the range of employees expenses is 14.02 % to 29.24 % in the F/Y 2060/061 and 2064/065 respectively. The operational expense is in increasing trend the range of operational expenses in 13.85 % to 29 % in 2060/061 and 2064/065 respectively. The trend of provision for risky loan is fluctuation in the F/Y 2061/062, in the year 2062/063 it decreasing 17.28 % likely increasing to 22.63 % in F/Y 2064/065 .This indicate that the bank has high risk loan in F/Y 2064/065 loan risky loan in F/Y 2060/061.

The trend of bonus to employees is in increasing it is 8.98 % in F/Y 2060/61 and in F/Y 2064/065 shows the 36.59 % .This means the bank paying bonus to employees in increasing figure every year. The trend of tax is also increasing trend since it indicated the bank's overall profitability is increasing trend because income tax pays from the profit. The researcher going to present in pie chart to analysis the non interest expenses below.

Chart No: 4.21

The above pie chart shows the status of yearly Non-interest expenses of NIBL over the study period. The rate of Non-interest expenses is in increasing trend. The range between F/Y 2060/061 to 2064/065 is 12 % to 31 % respectively in between it is 16 %, 18 %, 23% in F/Y 2061/062, 2062/063, 2063/064 respectively.

4.5.3 LDO Verses Loan Loss Provision of NIBL:

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

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

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

Table No: 4.24
 Status of Loan loss provision to Total LDO of NIBL

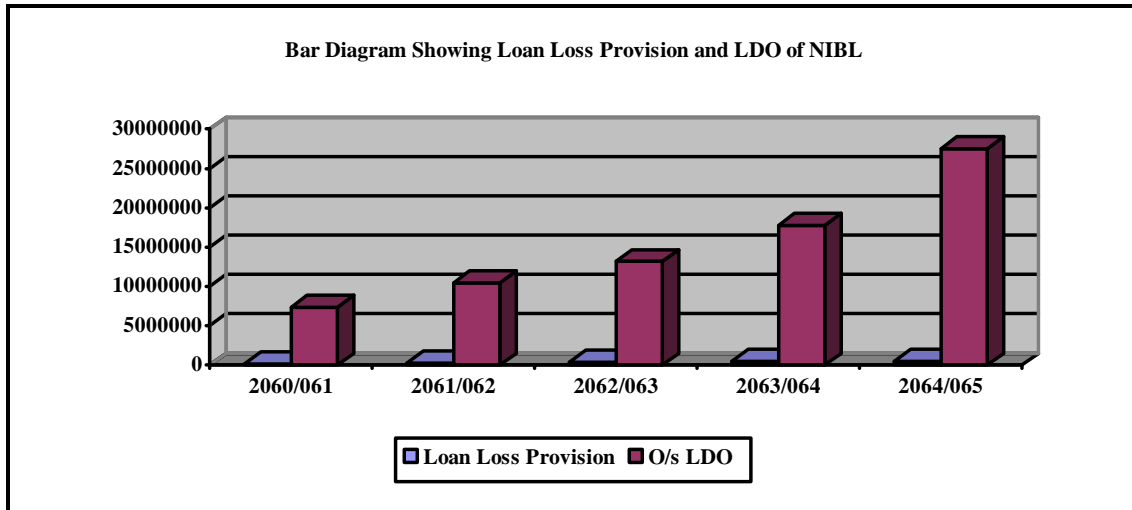
Amount '000'

Fiscal Year	Loan Loss Provision	O/S LDO	Loan Loss Provision to LDO
2060/061	208441	7338566	2.84 %
2061/062	327108	10453164	3.13 %
2062/063	401944	13178152	3.05%
2063/064	482673	17769100	2.72%
2064/065	532652	27529305	1.93%

(Sources: Annual Reports of NIBL 2060/061 to 2064/065)

The above table shows the loan loss provision ratio with the total o/s LDO of NIBL. The trend for loan loss provision is fluctuating it ranged between 1.93 % to 3.15 % over the five years study period. The trend in terms of amount is increasing of total loan loss provision and o/s loan. The bank has 2.84 % loan loss provision in F/Y 2060/061 In F/Y 2061/062 in increased to 3.13 % like wise the trend is decreasing up to F/Y 2064/065. It means that the bank has good recovery condition since the trend of loan loss provision is in decreasing trend. For the analysis purpose researcher going to plot the figure of loan loss provision and outstanding LDO in bar diagram.

Chart No: 4.22



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

The total amount of loan loss provision is increasing trend of NIBL. Whereas the percentage of Provision is in decreasing trend it means this is a good indication because there is decreasing in time crossed loan. The provision of loss decreases the profitability of the bank. The loan loss provision ranges between 1.93 to 3.13 % the average loan loss provision of NIBL is 2.74 % over the study period.

4.6 Revenue Planning of NIBL:

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

4.6.1 Interest Income

Interest income also called return of LDO contributes major portion of total revenue mix.

Now, researcher going to analyze the comparative status of total return on LDO with the help of table & diagrams.

Table No: 4.25
Status of Average Return of LDO

Fiscal Year	Interest Income	Total O\S LDO	Amount''000''
			Average Rate of Return
2060/061	731403	7338566	9.97 %
2061/062	886800	10453164	8.48 %
2062/063	1172742	13178152	8.90 %
2063/064	1584987	17769100	8.92 %
2064/065	2194275	27529305	7.97 %

(Sources: Annual Reports of NIBL 2060/061 to 2064/065)

The above table shows the comparative status of interest income with the o/s LDO and the return on same LDO. The interest income is in increasing trend as the LDO has increased where as the rate of return on LDO is fluctuating trend. The range of rate of return lies between 7.97% to 9.97 % over the five year period. It is effective to analyze the relationship between o/s LDO and interest income by using the statistical tools to find out the variability of actual LDO and actual income of different years we have to calculate arithmetic mean, standard deviation coefficient of variation, coefficient of determination and correlation of coefficient. The detail calculations of these statistical tools are presented in appendix no 6 now summary of calculation listed below.

Table No: 4.26
Summary of Actual LDO and Interest income

	Amount in '000'	
Statistical Tools	Actual LDO (X)	Interest Income (Y)
Mean	15247800	1313800
Standard Deviation ()	70184800	527000
Coefficient of Variation	46 %	40 %
Correlation of Coefficient (r)	0.9953	
Probable Error (PE)	0.00282 (r>6PE)	

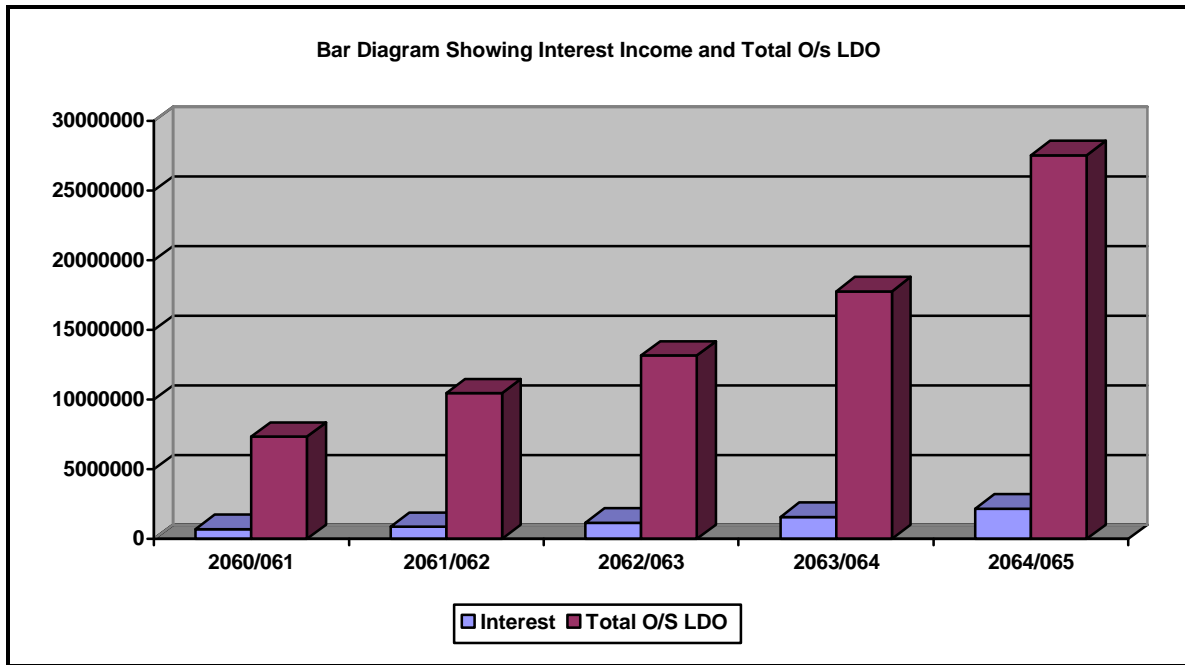
Source: Appendix No 6

The above results show that actual o/s LDO is more variable than interest income since CV of LDO is higher than of interest. There should be positive correlation between o/s LDO and interest income. In other words the interest income increases as the o/s LDO increase or vice versa. To find the correlation between interest income and actual o/s LDO we can take the help of Karl person's coefficient of correlation and it is denoted by 'r' we can examine whether there is positive correlation between interest income and actual LDO. The actual LDO (X) is assumed as independent variable and interest income (Y) is assumed to be dependent variable. So that increase in LDO will support to increase in interest income and vice verse. After this significance of 'r' is tested with the probable error of 'r'. The value of r is 0.9953 & P.E is 0.00282 since r >6PE the value of r is significant. From the calculation shown in appendix no 6 the value of r is 0.9953. Now the coefficient of determination which explains the change in Y variable i.e. interest income by x variable i.e. LDO can be calculated as the r².

$$r^2 = 0.9953 \times 0.9953 = 0.9906$$

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

Chart No: 4.23



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

4.6.2 Income Other Than Interest :

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

Table No: 4.27
Showing income other than interest

Incomes	2060/61		2061/062		2062/063		2063/064		2064/065	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Exchange Income	87980	48.26	102518	39.60	125747	43.56	135355	32.63	165839	29.82
Commission Income	55747	30.58	93551	36.16	115942	40.16	163899	39.52	215292	38.71
Other operational Income	36816	20.19	56567	21.85	46607	16.14	114096	27.51	167953	30.20
Non-Operational Income	1768	0.97	6192	2.39	391	0.14	1426	0.34	7048	1.27
Total	182311		258828		288687		414776		556132	

(Sources: Annual Reports of NIBL 2060/061 to 2064/065)

The above table shows the other income and its trend in terms of percentage of NIBL. The range of exchange is 29.82 % to 48.26%. The trend is fluctuating over the five year the exchange income is highest source of income over the period. Commission income ranged 30.58 % to 40.16 % over the five years. This income is in fluctuating trend like wise other operational income ranged between 16.14 to 30.20 % the trend of this income increasing except the F/Y 2062/063. Non operational income has nominal contribution in total income the range of non operational income is 0.97 to 2.39 % the trend of non operational income is fluctuating tend over the five year period.

4.6.3 Interest Margin:

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

Table No: 4.28
Movements in Interest Margin of NIBL

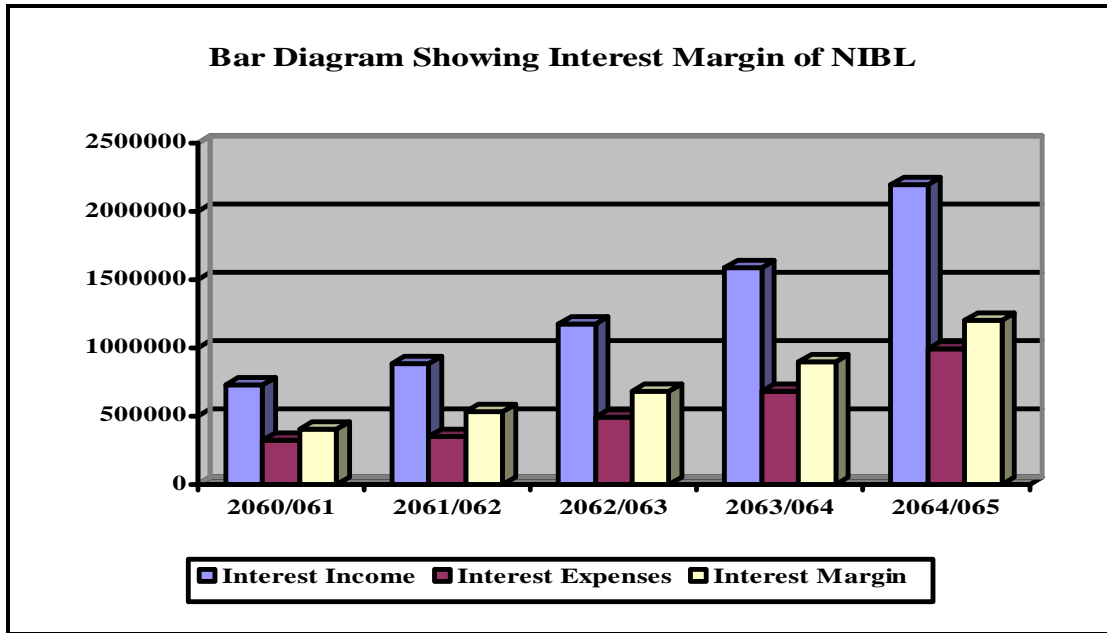
Fiscal Year	Interest Income(X)	Interest Expenses(Y)	Interest Margin(X-Y)	<i>Amount '000'</i>
				Growth in Interest Margin
2060/061	731403	326202	405201	-
2061/062	886800	354549	532251	32 %
2062/063	1172742	490947	681795	28 %
2063/064	1584987	685530	899457	32 %
2064/065	2194275	992158	1202117	34 %

(Sources: Annual Reports of NIBL 2060/061 to 2064/065)

The above table shows the position of interest margin and its growth through out the study period. The figure of interest margin is increasing trend every year. The base year to calculate the interest margin is F/Y 2060/061. The rate of growth is 32% in F/Y

2061/62 the it decreased to 28 % in the year 2062/063 like wise it increase to 32 % and 34% in F/Y 2063/064 and 2064/065 respectively. The position of interest income, interest expenses and interest margin is presenting in the bar diagram.

Chart No: 4.24



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

4.7 Burden of NIBL:

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

Table No: 4.29
Status of burden of NIBL

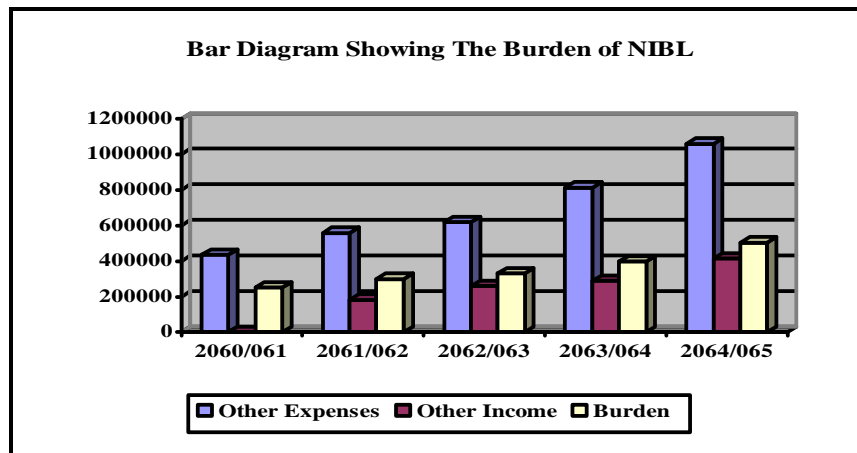
Amount '000'

Fiscal Year	Other Expenses	Other Income	Burden
2060/061	434840	182311	252529
2061/062	558932	258828	300104
2062/063	619946	288687	331259
2063/064	812836	414776	398060
2064/065	1059577	556132	503445

(Sources: Annual Reports of NIBL 2060/061 to 2064/065)

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

Chart No: 4.25



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

4.8 Net Profit & Loss of NIBL:

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

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

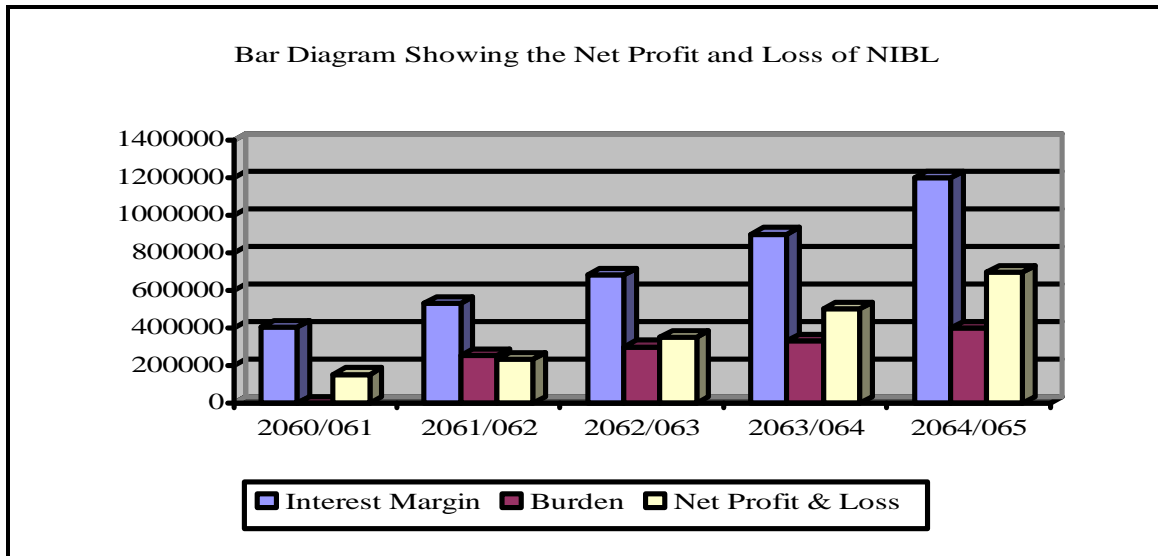
Table No: 4.30
Showing the status of Profit and Loss of NIBL

Fiscal Year	Interest Margin	Burden	Net Profit & Loss	Amount '000'
				Growth Rate
2060/061	405201	252529	152672	-
2061/062	532251	300104	232147	52 %
2062/063	681795	331259	350536	51%
2063/064	899457	398060	501397	43 %
2064/065	1202117	503445	698672	39 %

(Sources: Annual Reports of NIBL 2060/061 to 2064/065)

The above table shows the status of net profit and loss of NIBL since the figure in P/L column are positive form the NIBL is in profit zone every year. The trend of net profit is increasing every year where as the growth rate of profit is decreasing trend. The rate of growth in F/Y 2061/062 is 52 % in comparison with the F/Y 2060/061 the rate decreased by 1 % in F/Y 2062/63 and it decreased to 42 % and 39 % in F/Y 2063/064 and F/Y 2064/065 respectively. For the more analysis purpose the status of net profit presenting in the bar diagram below.

Chart No: 4.26



By the above bar diagram researcher can find that the relationship of net profit with interest margin, Burden, of NIBL the main purpose of the bar diagram is to represent the status of net profit of NIBL. Since the bar diagram shows the position of net profit is above the base line it is in profit zone every year. The position of Net profit is in increasing trend every year. The interest margin has higher rank over the five year and burden has lower rank so there is profit in every year. The net profit is higher than burden amount but in the F/Y 2061/062 net profit is slightly lower than burden.

4.9 Performance Evaluation of NIBL:

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

- Ratio Analysis
- Cost Volume Profit Analysis

4.9.1 Ratio Analysis

“Ratio refers to the numerical relation of component parts of financial statement to each other. Ratio relationships are computed to obtain information about various characteristics and conditions of firm” (Bagavati & 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 rations from the figures of different accounts is termed as ratio analysis. Ratio used for financial analysis of business can be classified in to four categories.

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

4.9.1.1 Liquidity Ratio:

Liquidity Ratio is ability of a firm to pay short term liabilities. Liquidity ratio reflects the short term financial strength of a firm. This ratio is calculated by the help of current assets and current liabilities. Here the researcher is going to calculate the current Ratio of NIBL. Current ratio is calculated dividing current assets by current liabilities. The details of current assets and current liabilities shown on appendix No 7.

$$\text{CurrentRatio} \times \frac{\text{CurrentAssets}}{\text{CurrentLiabilities}}$$

Table No: 4.31
Current Ratio of NIBL

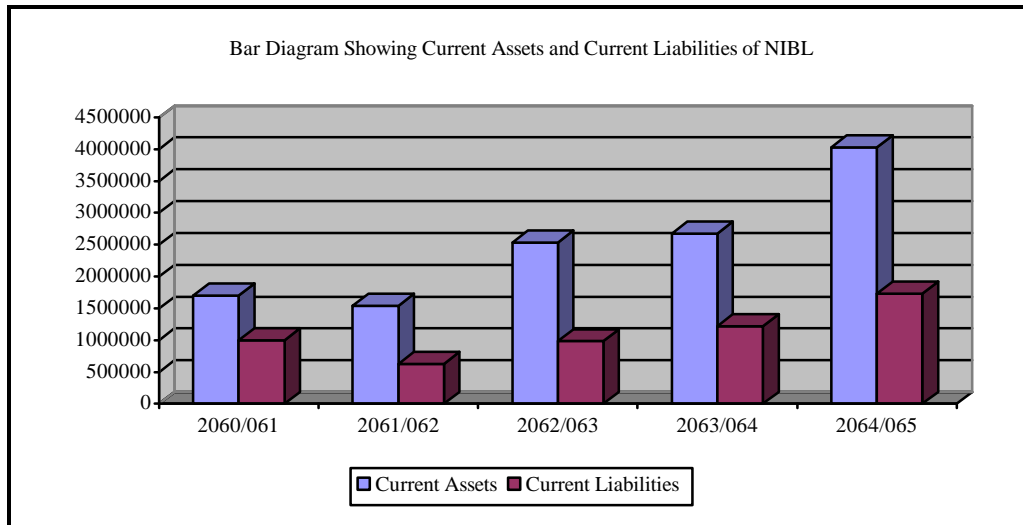
Fiscal Year	Current Assets (X)	Current Liabilities (Y)	Amount '000'
			Current Ratio (X/Y)
2060/061	1703100	1001769	1.7 :1
2061/062	1542707	628796	2.45 :1
2062/063	2536611	987392	2.57:1
2063/064	2676311	1223866	2.19:1
2064/065	4032539	1732853	2.33:1

(Sources: Annual Reports of NIBL 2060/061 to 2064/065 & Appendix no.7)

The above table shows the liquidity position of NIBL. Higher the current ratio better the liquidity position, for the many types of business 2:1 is considered to be an adequate ratio. If the current ratio of a firm is less than 2:1, it means the firm has difficulty in meeting its current obligation. If the current ratio is more than 2:1 the company may have

an excessive investment in current assets that do not produce satisfied return. The current ratio of NIBL has met the standard of 2:1 except the year 2060/061 though it has sufficient to pay current obligation. The trend of current ratio is slightly fluctuating the range of current ration through out the five years period is 1.7: 1 to 2.57: 1. NIBL has higher current assets than current liabilities over the study period so NIBL has utilized their fund in maximum level because there is no higher liquidity. The relationship between current assets and current liabilities presenting in the bar diagram for the analysis purpose.

Chart No: 4.27



Above bar diagram shows the status of current assets and current liabilities of NIBL over the five years period. By the diagram the position of current assets is higher than the position of current liabilities. It means the bank maintained its liquidity position every year.

4.9.1.2 Leverage Ratio:

The leverage ratio also called capital structure ratio. The leverage ratio calculated to judge the long term financial position of a firm. These 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

4.9.1.3 Debt-Equity Ratio:

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

$$\text{DebtEquityRatio} X \frac{\text{Borrowings}}{\text{Shareholder'sEquity}}$$

Table No: 4.32
Debt-equity ratio of NIBL

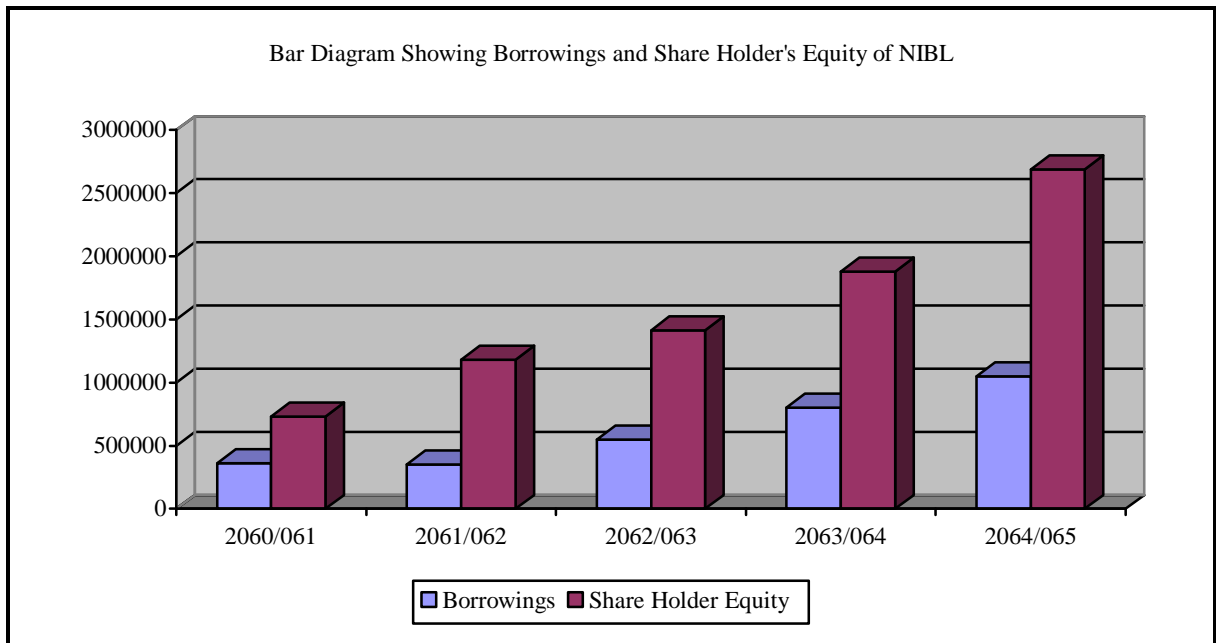
Fiscal Year	Borrowings (X)	Share Holder Equity (Y)	Amount '000'
			Debt - Equity Ratio (X/Y)
2060/061	361500	729018	0.50:1
2061/062	35000	1180174	0.30:1
2062/063	550000	1415440	0.39:1
2063/064	800000	1878124	0.43:1
2064/065	1050000	2688727	0.39:1

(Sources: Annual Reports of NIBL 2060/061 to 2064/065 & Appendix No.8)

The above table shows the debt equity ratio of NIBL. The column X shows the figure of borrowings and column Y shows the figure of share holder's equity. By dividing to

Column X by Y is the result of debt equity ratio. Here the range of debt equity ratio of NIBL is 0.30:1 to 0.50: 1. The trend of debt equity ratio is fluctuating every year. NIBL has 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 and chart shows that NIBL's financial strength is very strong because it has more internal fund to repay the borrowing capital. The figure of long term debt and share holder's equity is presenting in the bar diagram below.

Chart No: 4.28



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

4.9.1.4 Interest Coverage Ratio (ICR):

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

$$\text{InterestCoverateRatio} X \frac{EBIT}{InterestExpenses}$$

Table No: 4.33
Calculation of Interest Coverage Ratio

Fiscal Year	EBIT (X)	Interest Expenses (Y)	Amount '000' Times
2060/061	648767	326202	1.99
2061/062	828634	354549	2.34
2062/063	1099669	490947	2.24
2063/064	1538624	685530	2.24
2064/065	2148108	992158	2.17

(Sources: Annual Reports of NIBL 2060/061 to 2064/065)

The above table shows the position of interest coverage ratio (ICR) of NIBL. The ICR is 1.99 times in F/Y 2060/061 this means EBIT is 1.99 times more than interest expenses. Likewise the ICR reached to 2.34 times in F/Y 261/062 this results represents the NIBL increased it's EBIT. The rate decreased to 2.24 in F/Y 2062/063 and 2063/064 then the rate decreased to 2.17 in F/Y 2064/065. The interest coverage ratio of NIBL ranges between 1.99 to 2.34 Times. It means that the bank sufficiently capable to pay the interest expenses.

4.9.1.5 Activity Ratio:

The relationship between activity of bank & 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, LDO, & Non-fund business so researcher going to show the relationship with these items & number of employees of NIBL.

$$\text{Deposit per Employees} = \frac{\text{Deposit collected}}{\text{No. of employees}} \quad \text{LDO per Employees} = \frac{\text{LDO Deployed}}{\text{NO. of Employees}}$$

$$\text{Non-Fund Business per Employees} = \frac{\text{Non Fund Business}}{\text{NO. of Employees}}$$

Table No: 4.34
Showing the activity ratio of NIBL

F/Y	Deposit Collected (A)	LDO Deployed (B)	Non-Funded Business(C)	No. of Employees(D)	<i>Amount '000'</i>		
					Deposit per Employee (E)=A/D	LDO Per employee(F) =B/D	Non-Funded Business Per employee(G)=C/D
2060/061	11524680	7338566	3335441	325	35460	22580	10262
2061/062	14254574	10453164	4171637	353	40381	29612	11818
2062/063	18927306	13178152	8365860	390	48532	33790	21451
2063/064	24488856	17769100	8365860	514	47644	34570	16276
2064/065	34451726	27529305	11079883	622	55389	44259	17813

(Sources: Annual Reports of NIBL 2060/061 to 2064/065)

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

4.9.1.6 Profitability Ratio:

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

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

Table No: 4.35
Profitability ratio of NIBL:

Fiscal Year	Net Profit after Tax (A)	Total Assets (B)	Return on Assets(C)= A/B	<i>Amount '000'</i>	
				Total Capital Fund (D)	Return on Capital (E=A/D)
2060/061	152671	13463937	1.13 %	729048	20.94 %
2061/062	232147	16390652	1.42%	1180173	19.67 %
2062/063	350536	21732081	1.61%	1415440	24.77 %
2063/064	501399	28073517	1.79%	1878124	26.70%
2064/065	698673	39405959	1.77%	2688727	25.99 %

The above table shows the status of return on assets and return on capital employed of NIBL. The ratio shows the relation of net profit after tax with the total assets and total capital employed. The rate of return of on assets is increasing trend it is ranged between 1.13 % to 1.77 % through out the five years period. Like wise the return on capital ratio presenting the relation of net profit with the capital employed. The range of return on capital employed is 19.67 % to 26.70 % it is fluctuating trend through five years of study period.

4.9.2 Cost Volume Profit Analysis:

Relationship between cost, volume and profit is called cost volume profit (CVP) Analysis. The CVP analysis is a tool of Profit planning used by management. The three

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

4.9.2.1 BEP in terms of Interest Margin

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

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

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

Status of BEP in Percentage and in amount of NIBL

Table No: 4.36
BEP in terms of Interest Margin

Fiscal Year	Net Burden (A)	Interest Margin(B)	Interest Income (C)	Amount'000'	
				BEP In % D =(A/B)	BEP In Rs (C D)
2060/061	252529	405201	731403	34.53 %	252553
2061/062	300104	532251	886800	56.38 %	499978
2062/063	331259	681795	1172742	48.59 %	569835
2063/064	398060	899457	1584987	44.26 %	701515
2064/065	503445	1202117	2194275	41.88%	918962

From the above table researcher can find the BEP percentage and BEP amount of NIBL in terms of interest margin. The percentage of BEP is in fluctuating trend it means the burden and interest margin is not in increasing as same ratio where as the BEP in Rs is in

increasing trend over the period so NIBL is in over the BEP level in terms of interest margin. The BEP range over the study period is 34.53 % to 56.38 % .

4.9.2.2 Margin of Safety of NIBL

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

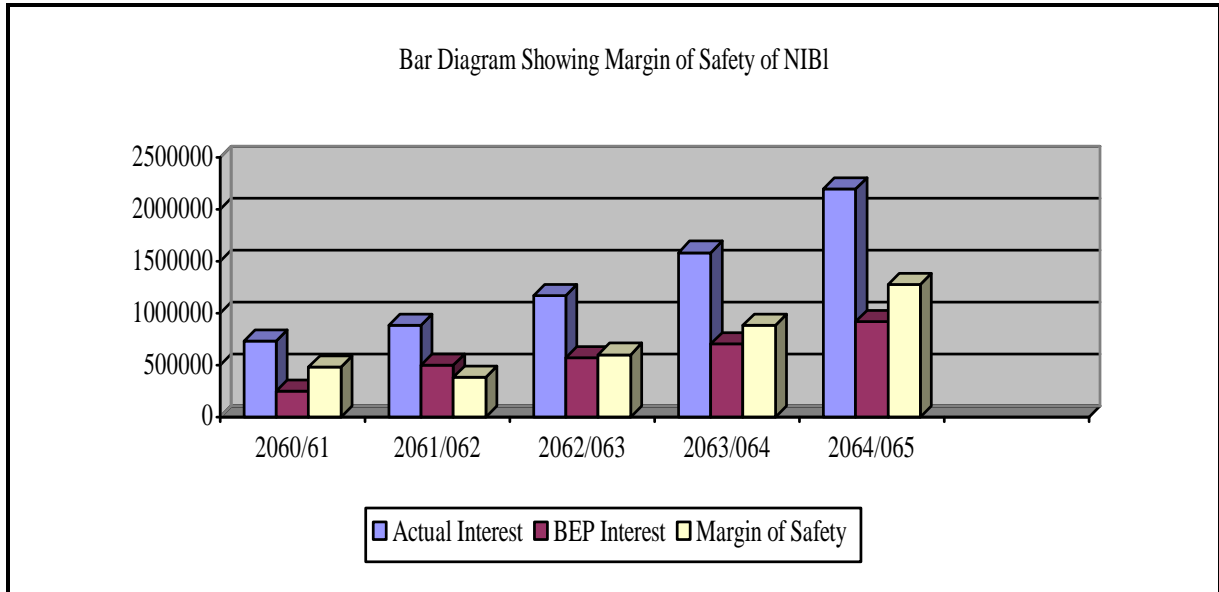
$$\text{Margin of Safety (MOS)} = \frac{\text{TotalInterestIncome}}{\text{BEPInterest}}$$

Table No: 4.37
Showing the status of Margin of Safety of NIBL:

<i>Amount '000'</i>				
Fiscal Year	Total Interest Income(A)	BEP Interest(B)	Margin of Safety (A/B)	Growth
2060/061	731403	252553	478850	-
2061/062	886800	499978	386822	-19.22 %
2062/063	1172742	569835	602907	55.87 %
2063/064	1584987	701515	883472	46.54 %
2064/065	2194275	918962	1275313	44.36 %

The above table shows the status of margin of safety and the growth rate over the five years of time period. The trend of MOS is increasing except the F/Y 2061/062. The base year to calculate the growth of MOS is F/Y 2061/062 the rate of growth is in negative in F/Y 2061/062 in comparison with the F/Y 2060/61. In F/Y 2062/63 it increased to 55.87 % then after up to 264/065 it is in decreasing trend. To know the trend of MOS figure is presenting in bar diagram below.

Chart No: 4.29



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 higher than the BEP interest except in the F/Y 2061/62. The actual interest is higher position than BEP so the figure of MOS is positive every year.

4.9.2.4 BEP in terms of Volume of O/S LDO

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

$$\text{BEP in terms of LDO} = \frac{\text{BEP interest income}}{\text{Return on LDO}}$$

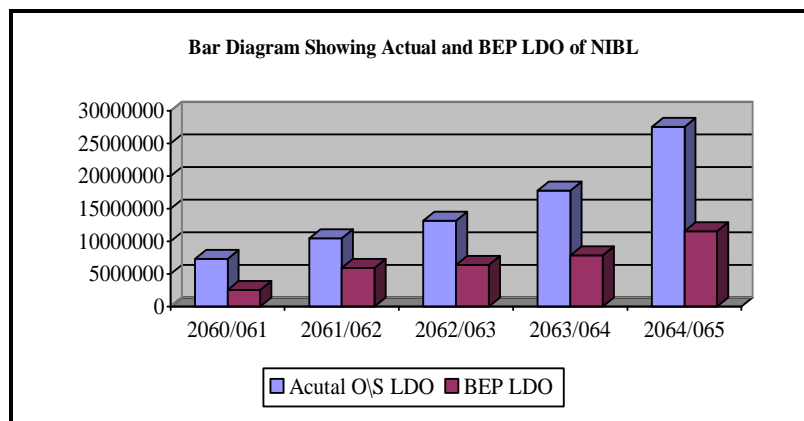
Table No: 4.38
BEP in terms of Volume of O/S LDO

Fiscal Year	BEP Interest Income (X)	Return on LDO (Y)	BEP (LDO) (X/Y)
2060/061	252553	9.97 %	2533129
2061/062	499978	8.48%	5895967
2062/063	569835	8.90%	6402640
2063/064	701515	8.92%	7864518
2064/065	918962	7.97%	11530263

(Source: table no 4.25 & 4.37)

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

Chart No: 4.30



From the above bar diagram researcher can find the actual LDO is over than the BEP LDO and it is also in increasing trend over the study period.

4.9.2.5 BEP in terms of Volume of Deposit:

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

$$\text{BEP Deposit} = \frac{\text{BEPLDO}}{\text{LDOtoDepositRatio}}$$

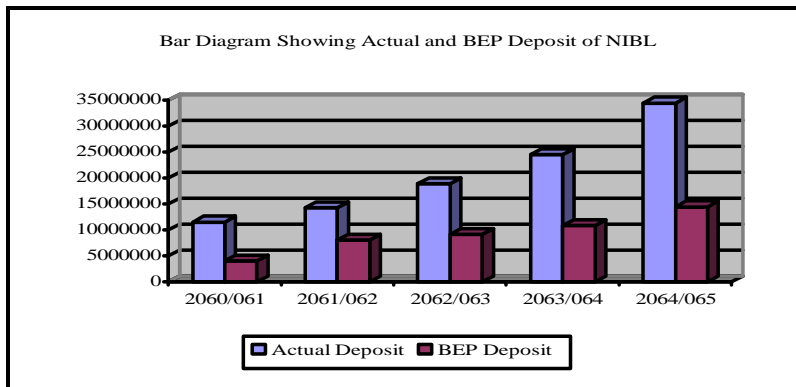
Table No: 4.39
Showing in BEP in terms of Volume of Deposit:

Fiscal Year	BEP (LDO) (X)	LDO to Deposit Ratio (Y)	BEP (Deposit) X/Y
2060/061	2533129	63.68%	3977904
2061/062	5895967	73.33%	8040320
2062/063	6402640	69.96%	9151858
2063/064	7864518	72.56%	10838641
2064/065	11530263	79.9%	14430867

(Sources: Table no 4.16 & 4.38)

The above table shows the status of BEP in terms of deposit collection. The deposit collection of NIBL is higher than the BEP Deposit every year. The value of actual deposit and BEP deposit is presenting in the bar diagram below.

Chart No: 4.31



The above diagram shows the relationship between actual and BEP deposit of NIBL. The actual deposit is higher than the BEP Deposit over the study period and the deposit is in increasing trend of NIBL.

4.10 Major Findings Of The Study:

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

- The bank is conscious about the human resources due to rapid growth and advent new branches. Develop skills to employees to empower them to provide excellent customer services banks supports to employees further advanced courses. Currently there are 622 employees over the 22 branches of NIBL and bank has aim to rise up to 50 branches with in the year 2010 A.D.
- The Bank is awarded “Bank of the year 2003, 2005, and 2008 “by the London-based Financial Times Group’s, The Banker.
- The bank has awarded by “Best Presented Accounts Award -2006” by the institute of Chartered Accountants of Nepal (ICAN)
- The bank has 2000 Million of authorized capital and the purposed amendment of authorized capital of bank is NRs 4000 million for the purpose of bonus share and issue of right share.
- The bank has 88% average contribution of customer deposit in the resources mobilization as per the data F/Y 2060/61 to 2064/065 and uses the other resources of 12 % in average.
- NIBL is well performing in the deposit collection sector. Budgeted figure is higher than the actual deposit. The researcher have find (r) is 0.9977 and PE is 0.0014. The figure of ‘r’ shows that there is positive perfect correlation between budgeted deposit and actual deposit. The relation of PE with r is $r > 6PE$, it is significant so the actual deposit going on same direction. The relationship

- between budgeted and actual amount deposit remains same the amount of deposit in F/Y 2065/066 will be RS 42599150 thousand stated by the regression line.
- The deployment of Banks available resources at various portfolios among which LDO hold the highest percentage i.e. 54 % in average out of total deployment amount through out the five years of study period.
 - The statistical tool CV represents that NIBL's actual LDO is the variable nature than budgeted LDO. The correlation between budgeted and actual LDO is 0.9980 it means the relation between budgeted and actual LDO are perfectly co-related. Significance of r is tested with PE there is $r > 6 PE$ 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. The regression line shows the expected LDO for the F/Y 2065/66 will be 33118520 thousand.
 - The researcher find that the 100 % of achievement of targets in deployment of resources other than LDO i.e. NLDO
 - LDO is in increasing trend over the period. The average ratio of LDO to deposit is 71.89 %.
 - The relationship between actual deposit and actual O/S LDO is in increasing trend over the period.
 - The non-fund consuming business activities like LC, Bank Guarantee, Foreign exchange, others are adopted by NIBL. These types of business activities reduced the burden of expenses. The non fund consuming business increasing every year but the Foreign exchange in fluctuating trend and very nominal figure over the period where as LC has highest contribution which is 49 percent.

- The interest holds highest percentage of expenses amount as deposit is the major resources of the bank. The COD of NIBL is in the range of 2.48 % to 2.88 % it means the bank pays the interest 2.71 % in average over the period.
- The loan loss provision ranges between 1.93 to 3.13 % the average loan loss provision of NIBL is 2.74 % over the study period.
- The yearly interest income is in increasing trend in amount as per the O/S LDO is also increasing. In the term of average rate of return is fluctuating trend it is ranges of 7.97 % to 9.97 % the average rate of return over the study period is 8.85 %.
- The amount of interest margin of NIBL is in increasing trend where as the increment percentage is fluctuating trend over the study period.
- The interest margin has higher rank over the five year and burden has lower rank so there is profit in every year. The net profit is higher than burden amount but in the F/Y 2061/062 net profit is slightly lower than burden.
- The current ratio of NIBL has met the standard of 2:1 except the year 2060/061.
- Debt-Equity ratio shows that the NIBL's financial strength is very strong because it has more internal fund to repay the borrowing capital.
- The interest coverage ratio of NIBL ranges between 1.99 to 2.34 Times.
- The range of return on total assets is 1.13 to 1.77 % and range of return of total capital fund is 19.67 to 25.99 % over the period.
- The percentage of BEP is in fluctuating trend it means the burden and interest margin is not in increasing as same ratio where as the BEP in Rs is in increasing

trend over the period so NIBL is in over the BEP level in terms of interest margin.

The BEP range over the study period is 34.53 % to 56.38 %.

- The cash flow analysis of the NIBL shows that there is sufficient fund to repay the short term obligation and it has maintained the liquidity position as per the NRB direction.

CHAPTER-V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

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

5.2 Summary

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

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

The major income source of bank is interest margin which depends upon the deployment of available resources. The bank generally deployed their resources for the purpose of liquidity, lending and investing in securities. So the overall profitability of bank depends on lending procedure, lending policy and investment policy. The main objective of the study is to evaluate the budgeting and profit planning system of NIBL. The study is mostly based on secondary data and required data have been collected by using various sources. There are 25 commercial banks operating in Nepal which are taken as population of the study among them NIBL has been taken as a sample of the study and collected data has been analyzed by using various statistical and financial tools.

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

5.3 Conclusion:

On the basis of major findings of study some conclusion has drawn about the NIBL. The bank is more conscious about its 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. NIBL increasing its internal fund by increasing capital year by year this means strengthen their capability internally. NIBL is able to meet its targeted deposit collection, deployment of LDO. The relationship between budgeted and actual figures is positively correlated.

The non fund consuming business of NIBL is also remarkable since it gives the return to bank with out investing the fund. The average cost of deposit (COD) of bank is normal it means the bank is able to collect cost free deposit. The relationship between loan loss provision and o/s LDO shows that the doubtful debt is decreasing trend. The major

income source is interest margin the trend of interest margin is increasing trend every year.

The liquidity position of NIBL is better position bank has maintained the cash and bank balance to met the current obligations. The financial strength of NIBL is strong since Debt equity ratio shows that the NIBL use more internal fund to repay its borrowings.

The return on assets and return on capital is satisfactory of NIBL it shows the good earning capacity of the bank. The result of the study shows the overall performance of NIBL is satisfactory and progressive.

5.4 Recommendation:

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

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

5. Every business concerns have one another obligation i.e corporate social responsibility so NIBL needs more involvement in social activities in the coming days.
6. NIBL's major source of resources collection is deposit since this is the cost bearing sources the bank is suggest increasing cost free resources too, and reducing the burden of the bank.
7. NIBL invest in LDO 54 % 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 advances and maintain stability on the investment policy.
8. The bank need to put more focus on the non fund consuming business activities like LC, Bank guarantee , foreign exchange and other . It supports in the overall profitability of the bank.
9. Expenses grow as the volume of activities increases so it can't be avoided but can be controlled. The bank can minimize those expenses not related for income generating activities so the bank enhances its profitability.
10. People in rural area of Nepal still out of banking services so NIBL is suggested to take bold steps to expand and upgrade its network to reach such area with their products and services.
11. The 'Global Economic Crisis 2008' started from banking sector of USA this crisis may affects to Nepalese financial sectors too so the NIBL suggested to make some policy to be safe from this crisis.

The size of Nepali banking market is increasing day by day. The increase in number of financial institutions indicates the increasing competition in financial market. To monitor

with proper regulation this even more, the government had to bring new strategies. Moreover, foreign banks are allowed to operate in Nepal from 2010 A.D there will be more challenge for Nepalese financial institutions. The central bank of Nepal (NRB) should make some policies toward the banking sector to comfort and able to compete with this ever increasing financial institutions.

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

Deposit Collection Budget of NIBL (Appendix 1)

Amount '00000000'

Year	X	Y	$x - \bar{X}$ (187)	$y - \bar{Y}$ (2074)	xy	x^2	
2060/061	105	115	-82	-92.4	7576.8	6724	
2061/062	130	143	-57	-64.4	3670.8	3249	
2062/063	180	189	-7	-18.4	128.8	49	
2063/064	220	245	33	37.6	1240.8	1089	
2064/065	300	345	113	137.6	15548.8	12769	
	$\sum X = 935$	$\sum Y = 1037$	$\sum (x - \bar{X}) = 0$	$\sum (y - \bar{Y}) = 0$	$\sum xy = 28166$	$\sum x^2 = 23880$	

Resource Other than Deposit (Appendix No: 2)

Year	X	Y	$x - \bar{x}$	$y - \bar{y}$	xy	x^2	y^2
2060/0 61	10	17	-12	-9.8	117.6	144	96.04
2061/0 62	20	18	-2	-8.8	17.6	4	77.44
2062/0 63	15	24	-7	-2.8	19.6	49	7.84
2063/0 64	25	31	3	4.2	12.6	9	17.64
2064/0 65	40	44	18	17.2	309.6	324	295.84
	$\sum X = 111$	$\sum Y = 133$	$\sum x = 0$	$\sum y = 0$	$\sum xy = 477$	$\sum x^2 = 535$	$\sum y^2 = 494$

Budgeted & Actual LDO (Appendix No: 3)

Year	X	Y	$x - \bar{X}$	$y - \bar{Y}$	xy	x^2	y^2
2060/ 061	60	73	-56	-79.6	4457.6	3136	6336.16
2061/ 062	80	105	-36	-47.6	1713.6	1296	2265.76
2062/ 063	100	132	-16	-20.6	329.6	256	424.36
2063/ 064	140	178	24	25.4	609.6	576	645.16
2064/ 065	200	275	84	122.4	10281.6	7056	14981.76
	$\sum X = 580$	$\sum Y = 763$	$\sum (x - \bar{X}) = 0$	$\sum (y - \bar{Y}) = 0$	$\sum xy = 17303.6$	$\sum x^2 = 12360$	$\sum y^2 = 24655.36$

Budgeted and Actual NLDO of NIBL (Appendix No: 4)

Year	X	Y	$x - \bar{X}$	$y - \bar{Y}$	xy	x^2	y^2
2060/ 061	50	61	-18	-24.6	442.8	324	605.16
2061/ 062	55	59	-13	-26.6	345.8	169	707.56

062							
2062/ 063	65	86	-3	0.4	-1.2	9	0.16
2063/ 064	80	103	12	17.4	208.8	144	302.76
2064/ 065	90	119	22	33.4	734.8	484	1115.56
	$\sum X = 342$	$\sum Y = 422$	$\sum x = 0$	$\sum y = 0$	$\sum xy = 1711.6$	$\sum x^2 = 1111$	$\sum y^2 = 2431.16$

Actual Deposit & O/s LDO of NIBL (Appendix No: 5)

Year	X	Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	xy	x^2	y^2
2060/ 061	115	73	-92.4	-79.6	7355.04	8537.76	6336.16
2061/ 062	143	105	-64.4	-47.6	3065.44	4147.36	2265.76
2062/ 063	189	132	-18.4	-20.6	379.04	338.56	424.36
2063/ 064	245	178	37.6	25.4	955.04	1413.76	645.16
2064/ 065	345	275	137.6	122.4	16842.24	18933.76	14981.76

065							
	$\sum X = 10$	$\sum Y = 7$	$\sum x = 0$	$\sum y = 0$	$\sum xy = 2764$	$\sum x^2 = 333$	$\sum y^2 = 246$

Actual O/s LDO and Interest Income of NIBL (Appendix No: 6)

Year	X	Y	$x - \bar{X}$	$y - \bar{Y}$	xy	x^2	y^2
2060/061	73.39	7.31	-79.088	-5.828	460.9248	6254.91	33.96
2061/062	104.53	8.86	-47.948	-4.278	205.1215	2299	18.30
2062/063	131.78	11.73	-20.698	-1.408	29.1427	428.40	1.98
2063/064	177.69	15.85	25.212	2.712	68.37	635.64	7.35
2064/065	275	21.94	122.522	8.802	1078.43	15011.64	77.47
	$\sum X = 76$	$\sum Y = 65$	$\sum x = 0$	$\sum y = 0$	$\sum xy = 184$	$\sum x^2 = 246$	$\sum y^2 = 13$

Calculation of Current Assets and Current Liabilities (Appendix No.7)
Amount '000'

Fiscal Year	Cash and Bank Balance	Other Current Assets	Total Current Assets	Borrowings	Other Current Liabilities
2060/061	1226923	476177	1703100	361500	640269
2061/062	1340481	202226	1542707	350000	278796
2062/063	2335521	201090	2536611	550000	437392
2063/064	2441514	234797	2676311	80000	423866
2064/065	3754942	277597	4032539	1050000	682853

Calculation of borrowing and share holder's equity of NIBL (Appendix No.8)
Amount '000'

Fiscal Year	Borrowings	Paid-up capital (X)	Retain Earnings (Y)	P/L Account (Z)	Shareho
2060/061	361500	295293	419092	14663	
2061/062	350000	587739	567511	24924	

2062/063	550000	590586	778904	45950	
2063/064	800000	801353	955417	121354	
2064/065	1050000	1203915	1415392	69420	

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