

Chapter-I

INTRODUCTION

1.1 General Background

Nepal is predominately landlocked agricultural country. Agriculture, fisheries and forestry altogether accounts for some 41 percent of the country's GDP. About 80 percent of the Nepalese population is primarily engaged in agriculture sector and about 86 percent of the population still resides in rural areas being engaged in agriculture related subsistence economies activities. During the last decade, the average growth rate of GDP was 5 percent. The growth in GDP greatly depends upon the growth of non-agricultural sector also which constrained by the small size of the domestic market, the landlocked position of the country, poor physical infrastructure and inadequate of human and financial resources.

Economic growth of the country has not improved substantially over time to overtake population growth. The current population growth is 2.25 percent per annum; growing population has over shadowed the gain achieved by development activities. Little over half (58.2%) of the population of working age reported usually economically active in 2001. Population census 2001 reports that 53.1 percent population of age 10 and over is employed and 5.1 percent are unemployed. Contribution of non-agricultural activities is gradually increasing in the GDP. The preliminary estimates of per capita GDP and per capita GNI in terms of dollars are 315 and 322 at a current price respectively for the year 2005/06. 31 percent of the population is below the absolute poverty line.

Even the social indicators such as literacy, life expectancy, access to safe drinking water, health and sanitation are still far below the levels in comparison to other developing countries. The infant mortality is one of the highest and malnutrition and immunization rates are among the worst. The development indicators are very low for the rest majority of the people and are extremely low.

In the abovementioned context, the only way of economic growth of the nation is to identify the viable sector and develop it. Such sectors, so far seen here in Nepal is agricultural sector, industrial sector and tourism sector, which can be expected playing vital role in overall development of the country. And it is only possible when there is sufficient financial support available. So, this gives the significance of financial institution. (Central Bureau of Statistics, 2006:2)

1.2 Nepalese Economy – The current picture

The year 2005/2006 remained historical in restoring democracy; however, it experienced several fluctuations and political movements in Nepal. The sluggishness of the economy continued in this year also. Economic activities including the development works were affected. Local level investment could not increase due to the absence of elected bodies and rural sector was adversely affected. Increasing number of youths continued to drain abroad in search of foreign employment. Petroleum price hike affected almost all the sectors of the economy. Under these circumstances, economic growth remained low compared to the target in the Tenth Plan.

In 2005/2006, the gross external loan went up by 1.6 percent to Rs 9.4 billion compared to a growth of 21.5 percent in the previous year. The gross external loan was Rs. 9.3 billion in 2004/05. Since the principal repayments on foreign loan increases at a higher rate of 16.9 percent, the inflow of net external loan declined by 25.8 percent in the review year. The gross internal borrowing showed a growth of 32.6 percent to Rs 11.9 billion in the review year compared to the growth of 598.4 percent in the previous year. The gross internal borrowing was Rs. 8.9 billion in the previous year. The ratio of gross internal and external borrowing to GDP was stood at 2.0 percent and 1.6 percent respectively in the review year. Such ratio had stood at 1.7 percent in the previous year.

The real GDP (at producers' prices) witnessed a low growth of 1.9 percent in 2005/06 compared to 2.7 in the previous year. However, in terms of factor cost, it remained at 2.3 percent in both the years. The first four years of the tenth plan (2002- 2007) recorded an average growth of 2.8 percent, which is below the minimum growth target of the Plan. A decelerated growth in the agriculture sector, which remained the lowest over the last eight years, contributed to such a low growth in GDP in the review year. A decade-long political instability, the deteriorating law and order situation, the prevalence of various transportation blockade, unfavorable weather condition particularly during the plantation season and negative growth of tourism earnings contributed to such a lower growth of GDP in the review year.

The nominal GDP at producers' prices increased by 9.3 percent to Rs.582.95 billion and at factor cost by 9.7 percent to Rs. 539.11 billion in the review year. The corresponding growth rates in the previous year were 7.4 percent and 6.9 percent respectively. (Economic report of NRB, 2005/06)

1.3 Importance of Financial Institution

Financial institution can be considered as the catalyst to the economic growth of a country. The development process of a country involves the mobilization and deployment of resource and financial institutions have become much more significant than ever. Their activities for the poor can be considered as the major role-played by the endeavor toward poverty alleviation.

In Nepal, there are several kinds of financial institutions such as Commercial Banks, Development Banks, Rural Development Banks, Finance Companies, Co-operatives involving in saving and credit activities etc. Most of the financial institutions are under regulation of Nepal Rastra Bank (NRB), the central bank of Nepal.

1.4 Emergence of commercial Banks in the Economy

Before 1848 BC the Goldsmith used to store gold and other valuable goods of people and charge nominal charges against the deposit. That time people deposited their gold and valuable goods for the sake of security rather than earning interest. The term bank emerged in USA in 1848 BC. The bank means an institute, which deals with money. A bank performs several financial, monetary and economic activities, which 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 future and supplies loan to those 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, bill discounting, promissory notes, selling of other shares to general public, agency function of tasks, guarantee against any disable of payment (guarantee services)

The history of modern financial system in Nepal was begun in 1937 with the establishment of Nepal Bank Ltd. as the first commercial bank of Nepal. The bank was established to render services to the people and for the economic progress of the country. Prior to the establishment of NRB in 1956, the development of the financial system took a momentum. Realizing the importance of industrial development, HMG/N and NRB established the Nepal Industrial Development Corporation (NIDC) in 1959. The NRB created the Agricultural Credit Fund in 1959/60 and handed it over to HMG/N for the establishment of the Cooperative Bank in 1963. The second commercial Bank, the Rastriya Banijaya Bank was established in the public sector in 1996, with the equity participation of HMG/N and NRB. The Agriculture Development Bank (ADB/N) was set up in 1968 under the Agricultural Development Bank Act, 1967 by incorporating the assets and liabilities of the Co-operative

Bank. HMG/N had established the Land Reform Saving Corporation in 1996 to make credit available to village communities and Land Reform Saving was merged with ADB/N in 1973.

A large number of non banking financial institution were set up between 1962 to 1977 such as the Employee Provident Fund (1962), the National Insurance Corporation (1967), the Nepal Insurance Company Ltd. (1968), the Credit Guarantee Corporation (1974) and Securities Marketing Center (1977). The legislation of the 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. The Nepal Arab Bank Limited, the first joint venture commercial bank of Nepal was established in 1984. The Nepal Indosuez Bank Ltd. and Nepal Grindlays Bank Ltd., two other joint venture commercial banks, were established in 1986 and 1987 respectively.

The growth of commercial banks in the last two decades remained phenomenal; particularly after the 1990 when financial sector reform process was followed aggressively. There were only 2 commercial banks operating in the country till mid-July 1980, which increased to 5 by 1990 and 18 by mid-July 2006, including Agriculture Development Bank.

The number of commercial bank branches reached to 481 in 1998/99 but declined to 375 as at mid-July 2005 due mainly to closure and merger of bank branches owing to security reasons, following the intensification of internal conflict. However, the year 2005/06 witnessed a rise in bank branches to 390 as at mid-July 2006. In addition, there were 44 branches of Agriculture Development Bank performing commercial banking transaction. However, the financial facilities provided by commercial banks were largely been concentrated in the Central Development Region of the country, where 168 bank branches operated their business followed by the Eastern Development Region with 81 branches in mid-July 2006. The number of bank branches, however, in Far Western Development Region was just 25.

1.5. Conceptual Framework of Profit Planning

The Profit planning and control mechanism is being widely practiced in manufacturing Industries but it is relatively new in non –manufacturing / service industries. However this concept equally applies to any kind of business concern for the best utilization of the scarce resources and effectively and efficiently achieving its goals.

Profit is the lifeblood of a business organization, which not only keeps it alive but also assures the future and makes it sound. In other words, every such organization needs profit to survive and compete in the open market. The success or the failure of the business firm depends upon the margin of profit because profits are the primary requirement for its success. Moreover, the margin of profit is regarded as an indicator of economic situation of the business firm. Since profit earning plays a vital role for achieving the objective of an organization, it is necessary for all organizations to earn reasonable profit.

The main objectives of any business organization are to maximize its profits and at the same time render reliable service to its customers. Both the objectives have a great significance for the proper management of the organization. Profit is a device with the help of which efficiency of an enterprise can be measured. However, profits cannot be achieved without good organizational management.

Before evaluating an intelligent approach to managerial process of profit planning, it is important that we understand the management concept of planning and budgets. Planning is the process of developing enterprises objectives and selecting future courses of action to accomplish them. In other words, planning is the first essence of management and all other functions are performed with in the framework of planning. Planning means deciding in advanced what is to be done in future. Planning starts from forecasting and predetermination of future events.

The main objective of planning in business is to increase the chance of making profit. The budget is the primary planning operating document committed to performance. In this sense, budget is also called a profit plan.

A budget is a numerical plan of action, which generally covers the areas of revenues and expenditures. The main aim of budgeting is to present the future forecasting numerically expressed in appropriate format so as to have proper control over profits and costs.

Profit planning is a comprehensive plan expressed in financial terms by which an operating program can be made effective for a given period of time. It is a tool of direction, co-ordination and control and as such it is the most important administrative device for these purposes.

Profit planning and control (PPC) is the latest invention in the field of modern management. According to G.A.Welsch, R.W. Hilton and P.N. Gordon “A comprehensive profit planning and control is viewed as a process designed to help management effectively perform significant phases of planning and controlling functions.” Specially, PPC model involves

- i. Development and application of broad and long – range objectives of Enterprises.
- ii. Specification of Enterprises goals.
- iii. Development of a strategic long- range profit plan in broad terms.
- iv. Specification of a tactical short range profit plan detailed by assigned responsibilities (Divisions, Departments and projects)
- v. Establishment of a system of periodic performs reports detailed by assigned responsibilities.
- vi. Development of follow up procedures.

The basic concept of profit planning involves the activities, which must be generally carried out to attain maximum usefulness from the mechanism, which starts right from design of budget schedules up to implementation and obtaining feedbacks.

As like in the other profit oriented business organizations, a commercial Bank has also to make reasonable profit for its survival. Most of the commercial Banks are formed under the Company Act with joint stock and the shares being traded at stock exchanges. Therefore profit made by them has also remained as one of the vital parameter for measurement of the efficiency.

1.6 Profile of Nepal Bangladesh Bank Ltd.

1.6.1 Introduction

In the scenario of Global opening- up of the economy and liberalization, Nepal also could not stay behind in joining the worldwide trend. Further, with the restoration of democracy in the country, the liberalization process has gained even more impetus, and as a result, more and more foreign investments found their way as joint venture in the economy of the country. This trend is more prominent in financial institutions.

Establishment

Nepal Bangladesh bank Ltd. was the sixth joint venture bank to be established in Nepal. The joint venture was between international finance investment and commerce bank Ltd. and the Nepali promoters. The understanding was signed on June 3, 1993 and letter of intent for the establishment of bank was received from NRB on December 27, 1993. Accordingly, NB Bank Ltd was registered in the office of the registrar of companies on January 14, 1994. On the basis of memorandum of understanding a joint venture agreement and a Technical Service Agreement was signed on April 8, 1994 respectively between the two parties. The bank was then inaugurated its operation on June 6, 1994. The understanding between IFIC Bank and Nepali promoters were mainly based on 2 agreements.

Joint venture agreements:

Whereby IFIC Bank Ltd. was required to buy 50% shares in NB Bank but this agreement was expired by 8th April 2005

Technical Services Agreement:

Whereby IFIC Bank has the authority to appoint up to 5 executives including Managing Director of NB Bank Ltd. NB Bank Ltd. is to pay a certain sum of money as management fee to IFIC itself. However, NB Bank is responsible to provide accommodation facilities, transportation facilities and education allowance for the children of these executives.

Share capital:

The bank was started with an authorized capital of Rs 240.00 million, paid up capital of Rs 60.00 million. Over the years the authorized capital has been increased to 1.00 billion and paid up capital has been increased to 719.8 million. At the beginning share holding pattern of NB Bank Ltd. was as follows:

IFIC Bank Ltd. Bangladesh 50%
Local Promotors 20%
General Public 30%

But after the expiry of the agreement with IFIC the share holding pattern has been changed and present share holding patterns are as follows.

IFIC Bank Ltd. Bangladesh 25%
Local Promotors 45%
General Public 30%

Management:

Earlier as per the technical services agreement the management of the bank has been entrusted to IFIC Bank Ltd. IFIC Bank may nominate up to 5 executives including the Managing Director to manage the daily affair of the bank. NB Bank Ltd. is to pay a certain

sum of money as management fee to IFIC Bank and the salary and benefits of executives appointed by IFIC are to be borne by IFIC itself. However, NB Bank is responsible to provide accommodation facilities, transportation facilities and education allowance for the children of these executives, but now Board of Directors will nominate the Managing Director to manage the daily affair of the bank.

Along with that, during the supervision process the Board of Directors of Nepal Bangladesh Bank Ltd. was warned for ignoring the directives of the Nepal Rastra Bank. The Bank was asked to revise the loan loss provisioning so that cumulative loss would increase by Rs.832.4 million. A number of serious shortcomings were found in the Bank such as drawbacks in the credit flow and management and violations of the NRB, audit of L\C transaction was not done; required capital fund was not maintained as per the NRB's directive; the Bank has been suffering from a huge loss and lacks good corporate governance. Hence, as the NB bank couldn't meet the directives of the NRB, so in order to ensure the stability of NB bank and to overcome the loss, it took the managerial of the NB Bank from January 2007

The organizational hierarchy of NB Bank Ltd. can be classified into 5 levels.

1. Executives Level: Chief Executive officer, Managing Director, Deputy Managing Director, General Manager, Deputy General Manager, and Assistance General Manager.
2. Managerial level: Senior Manager, Manager, Deputy Manager, and Assistance Manager.
3. Officer level: Senior officer, officer, Management trainee
4. Assistance level: Supervisor, Assistance, Trainee, and Junior Assistance.
5. Subordinates: Drivers, Guards, Messenger.

The total number of staffs of NB Bank Ltd. is as follows.

Year	1	2	3	4	5	6	7	8
No.	52	72	98	147	221	305	362	365

As it has followed the increasing trend now it has all together 378 staffs.

Branches:

NB Bank Ltd. has the largest local network in the country besides the government controlled NBL and RBB. The head office of the bank is located at Bijulibazar, Kathmandu. Besides the head office, the bank has 17 numbers of branches within the country.

Banking product and services:

NB Bank has been providing full-fledged commercial banking services to the clients. The facilities provided by the bank are as follows.

- Deposits
- Loan and advances
- Export finance
- Import finance
- Bank Guarantees
- Remittances
- Bull purchase
- SWIFT facility for remittance and Letter of credit
- Tele banking.
- ABBS
- E-banking

Technology:

From its operation, the bank has been providing the services with latest technologies and computerized equipments. The bank is currently providing Tele banking facilities, which enables the clients to get the information as well as statements through fax whenever required simply by dialing a phone. The bank is using PUMORI PLUS banking software designed by Mercantile office system as its banking software. The bank has also obtained a membership of SWIFT which has enables it to transmit message of remittances, letter of credit etc. to other member bank in no time. The bank has also established an ATM at it Putalisadak branch to facilitate the banking transaction of the clients. The bank is providing ABBS facility and E-banking to its client.

General Activities of NB Bank

As like in other business concerns, commercial Banks are also very much concerned about making profit because profit is the major element of each and every business endeavor for their survival, further development and fulfilling social expectations. In modern business, the effectiveness and efficiency of the business organizations and/or their managers are measured from the profit earned by them.

Banks deal with money and perform several financial, monetary and economic activities that are essential for economic development of a country. It is a service industry therefore its profit plans are of a different format than those in manufacturing units. Unlike the manufacturing unit, a bank has resources mobilization and deployment plan and it aims at maximizing the profit out of their activities.

NB Bank, being a commercial Banks and also a business concern, performs various kinds of profitable banking business activities those may be listed below:

General Activities

1. Acceptance of deposit
2. Providing of loans and advances
3. Providing Overdrafts
4. Obtaining Mortgage of properties as collateral security
5. Opening various types of customer accounts.
6. Remittances (Transfer of Fund)
7. Opening letter of Credit on Behalf of their customer
8. Issuing Guarantees against the bidding, performance of activities
9. Bills Discounting or Purchasing or collection on behalf of the customer.
10. Safe custody of valuables
11. Acting as executors and trustee.
12. Trading in securities etc

Broad objectives and goals of NB Bank

NB Bank has defined its objectives and goals in its mission and vision statement, which states as follows:

Vision

The vision of the Bank has been stated as “Bankers with state of the art technology strive for the growth with profitability, professionalism and excellence.” It is mentioned that the profitability is the core vision that shall be achieved with professionalism and excellence.

Mission

The mission of the Bank states “ We at NB Bank, our goal is to aim and achieve the highest standard of professionalism and service to create a lifelong relationship with our client by providing customized financial products and services through proactive management.

It further states “Our multinational team of innovative and dynamic master- minds march across the geographical and cultural boundaries with contemporary, competitively

designed and differentiated quality financial products and services to achieve strategic advantages in a dynamic environment.”

Thus, the objectives and goals set by the bank can be noted from above statements as follows:

To aim and achieve highest standard of professionalism

To aim and achieve to provide highest standard of customized products and services to their clients.

To create lifelong relationship with their client.

To maintain management proactively.

To achieve strategic advantages in the dynamic environment over their contemporary with their competitively designed and differentiated quality financial products.

Corporate Philosophy

The objectives of the Bank has been further reflected in the Corporate Philosophy of the Bank, that states as follows:

“Life long relationship with our client is our most valuable asset. We serve with excellence, always standing by to cater the need of our valued client. We develop relationship of mutual respect and faith founded on the bedrock of commitment to provide with value added and quality service. We create an environment that is Progressive, Productive and Professional encouraging, Management by group objectives and teamwork through proactive and multidisciplinary management to promote corporate excellence. We strive to enhance shareholders wealth remaining catalyst to the rapid growth and socio- economic development of the nation.”

1.7 Statement of Problem

Profit Planning and Control (PPC) model provides a tool for more effective supervision of individual operation and practical administration of a business as a whole. In our country, the industrialization is still in its infancy and therefore the concept of profit planning has not even been familiarized in the most of the business concerns. By proper profit planning a business can be managed more effectively and efficiently.

Commercial Banks play vital role in economic growth of a country. As being 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 income. The differential interest income over the interest cost, which is popularly called as Interest Margin or Spread, can be considered as the Contribution Margin in the Profit of the bank. The other operational expenses form a burden to the 'Contribution Margin', which, the banks are attempting to compensate by other income, generated out of non-fund based business activities of the Bank.

The present study has tried to analyze and examine the PPC side of Commercial Bank taking a case of NB Bank. Furthermore, the study has tried to answer the following research questions:

1. Does NB Bank has appropriate profit planning system?
2. Does the Bank mobilize the deposit and other resources at optimum cost?
3. Does the Bank deploy the resources generating satisfactory yield?
4. Does the bank giving proper attention toward non-funded business activities thereby generating satisfactory amount of other income?
5. What are the overall PPC problems of NB Bank and what suggestions can be recommended for their proper solutions

1.8 Objective of the Study

The basic objective of this study is to appraise the application of comprehensive PPC system in Bangladesh Bank. Thus the major objectives are:

1. To analyze the trend of profit of the fiscal year 2057/58 to 2063/64 of Nepal Bangladesh Bank.
2. To highlight the current profit-planning premises adopted and its effectiveness in NB Bank.
3. To observe NB Bank's Profit planning on the basis of overall managerial Budgets developed by the Bank
4. To analyze the variance of budgeted allocation and actual achievements
5. To study the growth of the business of the Bank over the period
6. To provide suggestion and recommendations for improvements of the overall profitability of the bank

1.9 Limitation of the study

Every research has certain boundary since the world is dynamic therefore this study also is not an exception. The researcher has however tried to eliminate the limitations to the best possible extent, yet it suffers from the following limitations:

1. The study is made on the profit planning of NB Bank.
2. The profit planning of NB has been analyzed, leaving other areas uncovered.
3. The study covers the period of seven years from F/Y 2057/058 to 2063/064 only.
4. Primary data is collected only from the informal discussion with the personnel of the Bank.
5. The accuracy of this study is based on the data available from the management of NB Bank, the various published documents of the Bank and the response made by the respondent during the informal discussion.

1.10 Significance of the Study

This research is concerned with the profit planning in commercial Banks with a case study of NB Bank after the management taken Nepal Rastra Bank.

Profit planning process significantly contributes to improve the profitability as well as the overall financial performance of an organization.

Accomplishment of objectives in every organization depends upon the application of scarce resources most effectively. Also the financial performance of an organization depends purely on the use of its resources. Budgeting is the key to productive financial planning. Therefore the planning process of every organization will be effective and result oriented, then the pace of development naturally steps forward.

Profit planning is the core area of management. It tells us profit as the most important indicators for judging managerial efficiency because profit does not just happen for this every organization has to manage its profit. Various functional budgets are the basic tools for planning of profit & control over them.

This research study may be useful for those who want to know the PPC in the NB Bank. It may also be helpful for future researchers as a reference material

1.11 Design of the Study

- i. **Introduction:** This Chapter includes background, current picture of Nepalese economy, importance of Financial Institutions, emergence of commercial Banks in the economy, General view of profit planning, Brief profile of NB Bank, Objectives of the Study, and Statement of the Problems, Significance of the Study and Scope and Limitation of the Study.

- ii. **Review of literature:** This Chapter includes; Concept of Commercial Banks and their various activities, Broad Pictures of PPC and Review of previous research work.
- iii. **The research methodology contains:** The research Design, Data Collection Procedures and the Tools and techniques to be employed for the analysis of data.
- iv. **Presentation and Analysis of Data:** This Chapter is one of the main chapters of this study. It includes almost data and graphs are interpreted in such a way so that the objectives of the study can be achieved.
- v. Fifth Chapter includes **Summary, Major findings and recommendations.**
- vi. References Books, Magazines, Newspapers, previous dissertations are shown under bibliography.

Documents, Compile Sheet, Calculations etc. were separately shown under appendices.

A Curriculum Vitae was placed at the end of the dissertation.

Chapter –II

REVIEW OF LITERATURE

2.1 Profit Planning as a concept

“The term comprehensive profit planning and control has recently come into existence in the business literature. It has its synonyms like comprehensive budgeting, managerial budgeting and budgeting.” This term is broadly defined as a systematic and formalized approach for performing significant phases of the management planning and control functions. Profit planning and control includes the following matters:

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

In many of the better- managed companies, comprehensive PPC has been identified as a way of managing. It focuses directly up on a rational and systematic approach to management by objectives and realistic flexibility in performing the management process.

“The international management institutions conferences on budgetary control held at Geneva in 1980 has defined profit plan as an exact and rigorous analysis of the past and the probable and desired future experience with a view to substituting considered intention for opportunism in management.” (Int’l mgmt institutions Geneva Conference Doc, 1980)

“Profit plan is estimation and predetermination of revenues and expenses that estimates how much income will be generated and how it should be spent in order to meet investment and profit requirements. In the case of institutional operations it presents a plan for spending income in manner that does not result in a loss. “(Niemeyer & Schinmidgall, 1984)

Profit plan represents an overall plan of operations, cover a definite period of time and formulates the planning decision of the management. It can be viewed as one of the major

important approaches that have been developed to facilitate effective performance of the management process.

Now a day's profit planning system is especially familiar to business organization but the practicability of it depends upon the size of the business. The common objectives of PPC system whether applied to business administration is to formulate policy as well as with the implementation of policy. And an objective established after the consideration of the probable courses of events in the future. In conclusion PPC is directed towards the final objectives of the enterprises and generally include all of its important elements. It has main objectives of attaining the optimum profit in the enterprises.

2.1.1 Components of Profit Planning and Control

2.1.2 Profit

2.1.3 Meaning and Concepts of Profits

Profit is the basic elements of profit plan so that the concept of profit planning may not be complete and meaningful in absence of the clear-cut well defined idea of profit. According to Oxford dictionary profit means- {1 (a)} financial gain (b) amount of money gained in business especially the difference between the amounts and the amount spend. {2} Advantage or benefits gained from something.” (Hornby-1992)

According some theories, profits are the factor payment for taking the risk for getting to take what is left over after contractual outlays have been made.

In the second type of profit theory are viewed as a wage for the service of Innovation. Profits in this theory are tied to dynamic development.

Profits around which all enterprises activities directly or indirectly revolve play the significant role for judging the managerial efficiency. In absence of profit nobody can think about the long- term survivability of the enterprises.

2.1.4 Long Rang and Short Range Profit Planning

Long range and short range profit plans mean strategic and tactical profit plans respectively. The two types of profit plans are developed in PPC “The strategic profit plan is broad and it usually encompasses three or more years in the future. The tactical profit plan is detailed and encompasses on 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.” (Welch, 1999)

2.2.2 Planning

2.2.3 Meaning and Concept of Planning

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

- (To do something) arrangement for doing or using something, considered or workout in advanced.
- Way of arrangement something especially when shown on a drawing scheme.
- Go according to plan.” (Hornby, 1992:21)

“Planning is deciding in advance what is to be done in future.” (Bhusan, 1975: 25)

Planning is a method of a course of action to achieve a desired result. Planning starts from forecasting and determination of future events. It is the first functions of management and all other functions are performed with the framework of planning.

“Planning is the process of developing enterprises objectives and selecting a future course of action to accomplish them. It includes developing premises about the environment in which they are to be accomplished.” (Welsch, 1999:27)

A plan is then a projected course of action. All planning involves anticipation of the future course of events and therefore bears an element of uncertainty in respect of its success.

Management planning and control begins with the establishment of the fundamental objectives of the organization and continues as the process by which necessary resources are provided and employed effectively and efficiently towards the achievement of goals.

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

“Planning is the feed forward to reduce uncertainty about future. The planning process is based on the convection that management can plan its activities and condition the state of the enterprise that determines its destiny.” (Pandey 1991:20)

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

“In planning the manager fixes the objectives of the organization as a whole and in the light of this, the goals of the various departments of the organization. Then, he proceeds to prepare a kind of blue print mapping out the way of attaining these objectives naturally then all other functions of the manager depend up on planning.” (Bhusan 1976:30)

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

- Planning is an intellectual process.
- Planning is a goal-oriented task.
- Planning is a primary function of management.
- Planning pervades all management activities.
- Planning is desired towards efficiency.

2.2.5 Long Range and Short Range Planning

Long range planning is closely concerned with the concept of the organization as long living institution. It is most important for broad and long living enterprises. Long range planning varying five to ten years with the enterprises is sometimes extended to ten years. Strategic planning is one of the most difficult time span involve in planning as many problems in short range planning can be traced to the absence of a clear sense of direction and the practices which a comprehensive long range plan provides. The short-term planning is limited time dimensions usually it covers one years time period. The management as a substantial part of the long- range plan uses short- term planning.

2.3 Corporate Planning

Corporate planning means the systematic process of setting corporate objectives and making strategic decisions and developing the plans necessary to achieve these objectives.

Corporate planning is one part of plan. It was first started in the USA in 1950, and it is however being used in one form or another in many companies there.

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

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

Long term planning is included in corporate planning. Corporate planning often is considered synonymous with long term planning. The main objectives of corporate planning are as follows.

- Achieving objectives
- Embodiment of goals and objectives in the Enterprises
- Formulating realistic and attainable objectives.
- Clarity and adequacy of goals and objectives.
- Communication of goals and objectives.
- Involvement of personnel in developing the goals of enterprises.

2.3.1 Forecasting

The forecasting is to take future decision at present form by the analysis of relevant factors of past and present. Forecasting is not only imagination or guess matter, it is related with certain assumption. Its main aim is to reduce uncertainty and risk in future and attain conformity to achieve desired goals or objectives as far as possible.

According to I.M Pandey “It should be realized that budgeting is not merely forecasting although forecasting is form of the basis of budgeting. Forecasting is estimate of the future environment with in which the company will operate. Budgeting or planning on the other hand involves the determination of what should be done, how the goals may be reached and what individual units are to be assumed responsible and be held accountable. Budget provides orderly way to attain goals and also provides a time schedule for future action to produce, measure result.” (Pandey, 1991:35)

When an estimate of future condition is made on the systematic basis, the process is referred to as forecasting. It’s aim is to reduce the area of uncertainty that management decision making with respect to cost and capital investment.

2.3.2 Forecasting Vs Planning

Planning and forecasting often are confusing of being the same. But they are not same, although related.

The notion that planning and forecasting are different functions deserves special mentions here. Forecasting is generally used to predict what will happen, given a set of circumstances assumptions. Planning on the other hand, involves the use of forecast to help to make good decisions about most attractive alternatives for the organization. Thus a forecast seeks to describe what will happen, where as a plan is based on the notion that by taking certain action how the decision maker can affect subsequent events in a given situation and thus influence the final results, in the direction desired. Generally speaking forecasting and forecast are inputs to the planning process.

2.3.3 Control

After being clear about the concept of profit and planning we move towards the third component of profit planning and control i.e. control. The dictionary meaning of control is,

1. Have a power or authority over somebody or something
2. Regular something
3. Management, guidance, restriction
4. Standard of comparison for checking the results of the experiment. (Hornby 1992:32)

Controlling can be defined as a process of measuring and evaluating actual performance of each organizational component of an enterprises and initiating corrective action when necessary to ensure efficient accomplishment of enterprises objectives, goals, policies and standards. Planning establishes the objectives, goals, policies and standards of an enterprise. Control is exercised by using personal evaluation, periodic performance, reports and special reports.

“Control” is an ambiguous word; it means the ability to direct oneself and one’s work. It can also mean domination of person by another (management). Objectives are the basis of control in the first sense, but they must never become the basis of control as in the second for this would defeat their purpose, indeed one of the major contributions of management by substitute management. By objective is that it enables us to substitute management by self control for management by dominant.” (Drucker P.F- 1954:20)

An important aspect of control that is frequently overlooked is its relationship to the point of action or at the time of commitment. Effective control requires feed forward. In other words, it is assumed that objectives that objectives, plan, policies, and standards have been developed and communicated to those manager who have the related performance responsibilities.

Thus, control must necessarily rest upon the concept of feedback, which requires performances measurements and triggers corrective action designed to ensure attainment of the objectives. When plans become operational control must be exercised to measure progress. In some cases, control also results in the revisions of prior plans and goals or in the formulation of new plans changes in operations and reassignment of people. Control approach must be tailored to the characteristics of the operation and the organization structure.

“A control process designed to help monitor the periodic activities of business and of each responsibility center has the following phases,

- i. Compare actual performance for the period with the planned goals and standards.
- ii. Prepare a performance report that shows actual results, planned results and any differences between the two (i.e Variation above or below planned results)
- iii. Analyze the variations and the related operations to determine the underlying causes of the variations.

- iv. Develop alternative course of action to correct any deficiencies and learn from the successes.
- v. Make a choice (corrective action) from the set of alternatives and implements it.
- vi. Follow up to appraise the effectiveness of the correction. Follow with feed forward for re-planning.” (Welsch-1999)

The comparison of actual result with planned goals and standard constitutes measurement of the effectiveness of control during a specified past period. This provides the basis for effective feedback. The facts shown in a performance report cannot be changed; however the historical measurement may lead to improved control in the future. The significant concept here is that objectives policies and standards fulfill two basic requirements in the overall control process, namely (1) feed forward-to provide a basis for control at the point of action. (2) Feedback-to provide a basis for measurement of the effectiveness of control after the action has taken place. Moreover, feedback is of instrumental in re-planning.

2.4 Profile of Nepal Bangladesh Bank LTD

Nepal Bangladesh Bank (NB Bank) has also been founded as a joint venture commercial bank promoted by IFIC Bank, Bangladesh and Nepalese promoters on 6th June 1994 with total authorized capital of RS 240 million, and issued capital of 120 million (NB Bank, Annual Report 1995) At the beginning share holding pattern of NB Bank Ltd. was as follows:

IFIC Bank Ltd. Bangladesh 50%
Local Promoters 20%
General Public 30%

But after the expiry of the agreement with IFIC the share holding pattern has been changed and present share holding patterns are as follows:

IFIC Bank Ltd. Bangladesh 25%
Local Promoters 45%
General Public 30%

2.4.1 Liquidity

Liquidity refers to that state of position of bank refers its capacity to meet all of its obligations. In other words, it refers to the capacity of bank to pay cash against and upcoming

obligation. Banking is a business of financial dealing whose major source of financing is public-deposit.

As we know that a large part of bank deposit are withdrawn on demand and hence the bank must be prepared with sufficient degree of liquidity of its assets. Therefore liquidity generally refers to the cash or any assets that can be converting into cash immediately. On the other hand banking is a serious business. Once the confidence is lost in depositor's eye, they may withdraw all their deposits within a brief period without giving any chance the bank to manage since most of the assets of bank are attached in the loan and advance. Even the best bank can hardly survive in such situation. Confidence depends upon the ability of the bank to meet the ready demands for cash made by customers. Hence, the liquidity position of a bank is such an important factor that is most enable to meet its cash requirement either by its cash in vault or by the help of converting its assets into in case of demand for such from its customers. There is no sense if the bank has adequate assets but not liquidity I.e. they can't serve the purpose so liquidity when required. Commercial banks maintain liquidity in all or many forms of following:

1. Cash in self vault and in other banks specially in Nepal Rastra Bank (first line of Defense)
2. Overnight placements, money at call or short notice or any other very short term placement (second line of defense)
3. Investment on marketable securities like government securities which can be easily sold and readily convertible into cash (third line of defense) (Sarita Dahal & Bhuwan Dahal, 1996: 41)

2.4.2 Trade – off between profitability and liquidity

As stated above, the profitability of commercial banks is highly dependent on the optimum utilization of available financial liquidity in the profit generating assets like loan and advance and investments. However banks can not ignore the necessity of maintaining a portion of the deposits in their cash vault, or in the immediate approach like in the account of central banks or in any highly liquid assets like government treasury bills, other government bonds that can be easily sellable without loosing and further value.

A sound liquidity position of the bank satisfies the demand of the deposits holder, which maintains the goodwill of the banks. Since banks are faithfully considered as the last resort for monetary needs of the public, the incapability of fulfilling their demands will lose the faith of the depositors/ public. Once any signaling effect is negatively attached in the

perception of the depositors, they tend to doubt in the banks dependability and that can consequent in the bank run. Further, bank must maintain the certain portion of deposits in the vault and in Nepal Rastra Bank.

However, liquid assets are almost all idle. They do not generate any returns. The cash in the vault meets any upcoming obligations immediately but banks will not be able to generate any returns in such a case. Further, banks do not get any interest or other return in the accounts maintained in the central bank, Nepal Rastra Bank in our case.

Profitability and liquidity maintain a highly negative co-relation. Since both are equally important for commercial banks, banks cannot ignore any of them. So, the crucial decision for the management of the banks is to trade-off between them. The more liquidity the less will be the profitability and vice versa.

2.4.3 The Financial Statements of a Commercial Bank

Banks are simply the business forms selling different kinds of products. The product a bank deals with is the financial instrument representing various financial claims. The particular services a bank chooses to offer and the overall size of a banking organization are reflected in the financial statements. Two basic financial reports commercial banks have to submit to the regulatory authorities and the public each year are: The Report of condition (Balance Sheet) and Report of income (Statement of income and expenses or profit and loss account). These statements are viewed as the lists of inputs and outputs. As with and other firm's balance sheet, the sources of bank's fund must equal to total uses of bank's fund (i.e. Total assets = total liabilities + equity capital). The balance sheet (report of condition) reflects all assets, liabilities and net worth of the bank on a particular day of a year. Assets represent used of funds / sources to generate revenue for the bank. Liabilities and net worth are sources of bank fund.

"One useful way to view a bank's balance sheet is to note that bank liabilities and equity capital represents accumulated sources of fund, which provide the needed spending power for the bank to acquire the assets. A bank's assets, on the other hand, are its accumulated uses of funds, which are made to generate income of its stockholders, pay interest to its depositors, and compensate the bank employees for their labor and skill." (Peter Rose, 1997: 127)

2.4.4 Cash and Cash Item

The most liquid asset held by any commercial bank is cash. Since cash is an idle asset, a minimum level of cash is held by banks to ensure that the statutory requirement is at least fulfilled. Since cash is the most liquid asset, it is used to cover deposit withdrawals, handle credit demands from customers, and to meet all regular and emergency expenses. This item includes currency and coins in the bank vault. And cash balance maintained in other banks and financial institutions and cash items in the process collections for clearing and this all composition is regarded as the first line of defense for meeting liabilities.

Cash items refer to the clearing checks, which are in the collection process, and written against deposit accounts of other banks. Eventually (not more than 2 or 3 days later) the bank sending these clearing items will receive credit for them, either in its reserve accounting maintained in the central bank (NRB in our case) or in the form of an increase deposits at a correspondent bank.

2.4.5 Money at call or Short Notices & Overnight Placements

This is a bank to bank and accept to account transaction for a very short period of between 1 to 7 days. As per the statutory requirements, banks are supposed to maintain a level of liquidity including the fund maintained in the central bank's account. Commercial bank may find a very hard time to retire a heavy liability, knowingly and unknowingly and they feel shortage of liquidity. In such a situation, bank with deficit or fund may fund another bank with excess reserves and debit, as per agreement between Rastra Banks account and credit the account of their own maintained in the central bank for the very short position. This is appeared on the balance sheet as the liquid asset and which can be used as the second line of defense for the bank granting the short time fund collectable at a call or a short time notice.

2.4.6 Investment in the Securities

As the third line of defense to meet demands of cash and reserve, as a quick source of funds is the bank's liquid security holdings, often called secondary reserves. These assets normally compose more than one third of total assets of banks. These typically include holding of shorter-term government bonds like treasury bills; development bonds etc. and other securities purchased in the open market and readily convert into cash in the financial market. These security bear low risk, low return, but higher liquidity. The remaining securities banks invest in are investments, direct and indirect, in the sectors where by virtue the statutory requirements are imposed, for example, most of the Nepalese commercial banks feel

continent to invest in the rural developments bank's share as this complies both NRB regulations for priority sector lending and also they get moderate return from them.

Commercial banks invest their excess funds to the shares and debenture or the other company. They generally do so when there is excess of funds than required and there is no alternative opportunity to make investment and there is no alternative opportunity to make investment in the profitable sector. Now days the commercial banks of Nepal have purchased shares and debenture of regional development bank, NIDC and other development banks and for other advantages like tax shelter etc. investment are recorded in their cost price or markets value whichever is lower.

2.4.7 Loan and Advances

This is the primary source of income and most profitable asset to a bank. A bank is always willing to lend as more as possible since they constitute the larger part of revenue. This occupies the highest proportion of assets of any commercial banks bearing more than 40% of the assets used. But a bank has to be more careful while providing loans and advances since they may not be realized at short period of time. And sometimes they may turn into bad debts. Therefore it is wise not to rely on them at the time of emergency for all banks.

A commercial bank hardly lends money for a long period of time. It lends money for short period of time that can be collected at a short period of time. The commercial banks are never bounded to provide long –term loan because it has synchronize the loan and advances with the nature of deposits they receive. Loan and advances are provided against the personal security of the borrower or against the security of the immovable and movable properties. Banks provide the loans in the various forms; overdrafts, cash credit, direct loans and discounting bill of exchange.

2.4.8 Other Assets

The great majority of banks assets are financial claims. However, banks assets also include the value of bank buildings, vehicles, equipments, computer and other miscellaneous fixed assets like different revenue expenditure, leaseholds and freeholds, prepaid expenses and advances. However, only a small portion (2 to 5 percent) of total asset is covered in this category.

2.4.9 Deposits

The principal liability of a commercial bank is its deposits collected from general public, business and government agencies. It is a direct claim of outsider to the bank. The total assets of banks are financed supported by more than 75% from the deposits. In case of Nepal Bangladesh Bank total assets were for more than 75% from the deposits. Normally deposits are classified into three categories: Demand checking deposits, saving deposits and fixed term/ Time deposits.

Demand deposits are permitted for unlimited check writings, but they do not bear any interest liabilities. However, a minimum balance is fixed for the depositors. By the viewpoint of banks, these are the cost free deposits but banks are not confirmed to invest them for a longer period, since they can be demanded at any time. This is an easy mean for more circulating transaction and suitable for business concerns.

Saving deposits are normally meant for the individuals, non-profit making organizations and others who are for saving motive and also want to earn some interest from the deposits. However, there is a minimum balance fixed. Banks offer interest in the minimum monthly balance to the saving depositors and also permit withdrawal and deposits to these accounts. However, banks impose some constraints in the maximum one –time withdrawal.

If the maximum one time limit is exceeded and minimum balance is not maintained, no interest is offered to the depositors. These deposits are of some how stable and banks can feel confirmed to invest them in the medium term financings.

Fixed term deposits (also called time deposits) are the major sources for banks longer-term investments as these deposits bear a fixed maturity period. These deposits are offered a stipulated interest rate (normally higher than the savings rate) a fixed denomination of amount and a prefixed maturity period. Banks tend to offer different interest rates to these deposits according to the deposits amount and maturity time. The more amount and longer maturity period, the higher the interest rates and vice versa.

Nepalese commercial banks have introduced a different type of deposit account: call deposit. Banks are happy to find the heavy corporate source of deposits stable in the time span. Banks are interested to find the single source of heavy deposits constant to invest it in the market. These types of deposits have various benefits. Banks can serve a single corporate

depositor more carefully than various small accounts. The deposits are of constable nature and banks can invest them without hesitation. So, banks provide a special interest rate to such deposit, permit to write checks against them, but also fix a minimum balance for maintaining this account.

2.4.10 Borrowings from the Non- Deposit Sources

A sizeable amount of funds stem from miscellaneous liability accounts. Bank assets are supported from other non- deposit liabilities with or without costs. Bank t bank borrowings, placements, overnight placements, borrowing from central banks, foreign banks are some examples for nominal cost bearing sources. However, these are short term liabilities, due to no obligation for banks to maintain reserve for them, these type of liabilities is also important for banks. Other cost free sources of liabilities are accrued interests payable, differed expenses, accounts payable, differed tax liabilities, obligations such as bankers acceptances bankers checks, matured time deposits, remittance awaiting disposals and other liabilities.

2.4.11 Stockholders Equity / Internal Financing Sources

Every new bank begins with a minimum amount owner's capital normally accounts less than 10% value of the total assets. So, banks are the institutions having the greatest financial leverage using from external sources of finance. Though relatively a small item, banks capital account typically includes value of paid up capital, share premium, statutory and other reserves and retained ploughed back profits. Usually the largest item in the capital account is retained earnings, undivided profits, which include accumulated profit over each year after payments of dividends.

2.5 Contents of Report of Income / Profit and Loss Account of Commercial Banks

2.5.1 Operating Income

Operating income for a business entity is the regular and prime source of revenue for that business. It is main identity of a business regarding what a business stands for Nepalese commercial banks are allowed to invest in the shares of another entity like other commercial banks, rural development banks, financial institutions and other organized institutions. The investing bank receives dividend income and other income. Further banks receive various types of fees from safe deposit locker, credit cards, ATM cards issuance and renewals,

consultancy fees and other non banking and casual incomes like gain from sale of assets, revaluation gain of assets etc.

2.5.2 Operating Expenses

Operating expenses of a business entity is the regular and prime item of cost and expenditure. It is the main identity of a business regarding what a business expenses for. This of expenditure is directly attributable to the production/ service that entity provides for.

2.5.3 Interest Expenses

The main expenditure item for a commercial bank is interest deposits. Normally this type of expenditure covers more than half of the total expenditure. Interest is regularly expensed off for various deposits; inter bank borrowings, central bank borrowings and other external obligations.

2.5.4 Administrative Overheads

Under noninterest expenses bank has to bear the various fixed and variable administrative overheads like office occupancy expenses, depreciation expenses, amortization of deferred expenditures, personnel expenses and other general and administrative expenses like insurance, statutory, repair and maintenance, fuel, telephone, electricity rates and taxes and others expense.

2.5.5 Non – operating Expenses

Under this heading, the casual type expenditures like loss on sale of assets and others. In addition to other expenditures, banks deduct from revenue any loss from revaluation of foreign currency, staff bonus, loan loss provision and income tax before arriving to net disposable income.

2.5.6 Off Balance Sheet Activities

The massive expansion and growth of banking in the last couple decades and constant pressure on improving the rate of return have forced the banking sector to diversity from its traditional function of lending and deposit mobilization with deregulation of financial system, new financial institution mostly in the form of off- balance sheet commitment have increasingly emphasis on activities that generate income with increasing the assets in the balance sheet.

The banks, in their traditional function, increased lending and committed itself beyond the strength of the bank. Quality of the assets were questioned i.e. lending became bad due to slow recovery, but banks continued lending and thereby increasing the portfolio and the balance sheet footling.

Off – balance sheet activities arise from the contingent of banks in the present time, which can appear as real liabilities in the future. These activities are not recognized as assets and liabilities in balance sheet. These activities are very important, as they are the good source of profit to the bank, though they have risk. The- off balance sheet items are not included in the balance sheet until they are recognized as real liabilities. Off balance sheet activities involve contracts for future purchase or sale of assets and all these activities are contingent obligations that are not recognized as assets or liabilities on balance sheet.

Few typical off-balance sheet transactions are as follows:

- Letter of credit
- Letter of guarantees
- Document negotiated under reserve
- Commitments
- Acceptance
- Bills of collation
- Performance bond
- Bid bond
- Forward foreign exchange transaction]
- Currency exchange
- Option, etc

It is estimated that the joint venture banks generate more than one third of the total income funds from fee- based activities. The joint venture bank has been successful in harnessing the fee- based activity to the maximum possible extent so as to earn profit.

2.6 Review of Literature

Peter Rose in her book commercial bank management (Peter Rose, 1999 169) says, "Achieving superior profitability for a bank depends upon several crucial factors:

- ❖ Careful use of financial leverage or the proportion of bank assets financed by debts as opposed by the shareholders equity capital.
- ❖ Careful use of operating leverage from fixed assets or the proportions of fixed cost input the bank uses to boost its operating earning before taxes as bank output grows.

- ❖ Careful control of operating expenses so that more dollars of sales revenue become net income.
- ❖ Careful control of the bank's exposure to risks so that the losses don't overwhelm its income and equity capital.

Michal R Baye and Dennis W. Jansen through their book Money, Banking and Financial Markets have tried to analyze a bank's profitability under an economic approach. They state, "to maximize profits, bank should attract the interest rate paid on deposits." (Michael R Baye, 1999: 47)

"Bank earn interest on loans and investments, they pay interest to the depositors, when interest rate sensitive assets and liabilities. If, for example, a bank holds more rate sensitive assets and liabilities when interest rate rise, profits will be improved because the bank will receive more in increased interest revenue than it will pay out in rising costs. The reverse would be true during a period of falling interest rates." (LYN: 2002: 24)

The interest gap is the difference between rate sensitive assets and liabilities; holding more rate sensitive assets than liabilities is called a positive Gap and an excess of rate sensitive liabilities over assets result in a Negative Gap. (LYN: 2002:33)

Emphasizing the bank's modern functions Meir Kohn says, "Bank now have steadily expanded their activities in payment related services, in delegation and trust services, in credit substitution and services, and in forward transactions. In doing so, they have pursued economics of scope, relatively uncontained by regulations." (Meir Kohn 1999: 240)

Analyzing the behavior and future prospects for profitability of a financial institution is a complex task. Many factors affect each institution's profitability. Among the most important factors are the friskiness of loans and investments made; liquidity needs and the institutions provision for those needs' the effectiveness of tax management practices the level of efficiency in utilizing human and non human resources; and the ability of management to control expenses. (Particularly interest expenses and employee costs)

H.D Crosse puts in this way, "Lending is the essence of commercial banking and consequently the formulation and implementation of sound policies are among the most important responsibilities of bank directors and management. We conceived lending policies

and careful lending practices are essential if a bank is to perform its credit creating function effectively and minimize risk inherent in any extension of credit. (Crosse H.D, 1993: 216)

In other words of S.P & Sing & Sign, "the investment (credit) policies of banks are conditioned, to great extent, by the national policy framework, every banker has to apply his own judgment for arriving at a credit decision, keeping of course his banker's credit policy also in mind. Sing S.P & Sighs, financial analysis for credit management in banks. (SP Singh, 1993: 45-46)

2.6.1 Review of Research Papers

A study undertaken by Kishor Rijal on " Joint Venture Bank, A case study of Nepal SBI Bank " concludes that Nepal SBI bank limited (NSBL) has earned less profit in terms of net profit to its total risky assets. From shareholders point of view earnings per share of NSBL is not much satisfactory because a minimal amount has been given to the shareholders as dividend and in last year of his study the dividend payment to its shareholders is reduced by 50% in comparison to previous years. The growth rates of NSBL in respect net profit, earning per share, and dividend per share are low.

A study undertaken by Khandgendra Prasad Ojha on "Profit planning in public enterprises in Nepal" A comparative study of royal Drugs limited and Herbs Production and Processing Comapany." He has examined and analysis the current practices of profit planning and its effectiveness in Nepalese public enterprises. His research had the following findings and recommendations:

- ❖ Objectives of Nepalese public enterprises are not clear. Conflict between social objectives and profit objectives and hindering to profit planning program of PEs. RDL and HPPC have not any effective program to increase profitability but these have numbers of social objectives.
- ❖ Nepalese public enterprises are not successful to maintain coordination within organization.
- ❖ One major problem in Nepalese public enterprises is behavioral. But this PEs has not any attempt to solve behavioral problems that are in organization.
- ❖ Pricing system of Nepalese Public Enterprises is not scientific. PEs adopts traditional pricing methods. Usually, cost – plus pricing method is applied to detrainment price. Certain products are priced below costs as per HMG circular.

Recommendation of MR Ojahas researches are:

1. Since external variables exert major influences on the enterprises, HPPC and RDL and all PEs should adequately identify and evaluate these variables. These enterprises should have in depth analysis of the company's strength and weakness.
2. Objectives are the ends, which an enterprise seeks to achieve. RDI and HPPc should develop the objects to create and maintain on optimum enterprise environment that maximizes the interest and motivation of all employees.
3. This enterprise should maintain proper co-ordination within the organization. Line and staff authorities and responsibility should be clearly defined.
4. Nepalese PEs should attempt to solve the behavioral problems that arise in organization.
5. Price cost volume relationship should be taken into consideration while developing sales plan and pricing strategies.

Mr Binod Kumar Sharma in his study "Profit planning and controlling, A case study of Nepal Bangladesh Bank." has found the following

1. MANAGEMENT AND PERSONAL

- a. It is observed that the bank is adopting a policy to keep minimum number of employees as possible .But it has unnecessary long ladder at various level with out specific job description.
- b. The decision making process is highly centralized, however top management takes the feed forwards for annual planning and strategy building through manager conferences and strategic meeting organized ones in every year at the head office
- c. NB bank lacks active and organized planning department to undertake innovative product research and development works .
- d. Advanced training to the personnel is lacking.
- e. Bank has the policy to employ academically highly qualified (first class MBA) fresh candidates at Management Trainee, which may be considered as a good aspect for future men power building.

1. Branch Office

- a. NB bank is currently operating with its 15 branch offices making its presence at almost all of the cities of the country .It are one of the banks having highest branch network among the joint-venture Banks in Nepal.
- b. Controlling functions of the branch are so far being carried out directly by Head Office ,which may be difficult in the days to come because of its wide geographical stretch

2. Objectives of the Bank

- a. Objectives of the bank are expressed in literary form ,and not specified clearly therefore there is a danger of being misinterpreted in the ways of one's benefit by the concerned

3. Resources Mobilization

- a. Major concentration of resources mobilization of NB bank is at deposit mobilization. In this respect they are incurring higher cost toward deposit mobilizations.
- b. Deposit mobilized by the bank is found to be considerably growing every year with an average growth over the period of last seven years being as high as 54.88%
- c. The targets for deposit mobilization by the Bank have been well met every year.
- d. From the data analysis of deposit budget and actual achievements, by coefficient of variance, it is found that the actual deposits are more variable than the deposits one.
- e. From regression analysis of the budgeted and actual deposits ,remaining the trend same for the coming year too ,the deposit to be mobilized by the bank by the end of F/Y 2057/058 shall reach up to 11979.98 million

4. Resources Development

- a. Bank's resources deployment for non yielding liquid assets (cash and bank balance) is increasing every year which is detrimental to profitability objectives, but it is supportive to meeting liquidity requirements of the Bank.
- b. Major portion of the resources have been deployed in LDO.
- c. The targets for deployment toward LDO have been well meet every year.
- d. LDO of the bank has found to be considerably increasing every year ,with an average growth over the period of last seven years is as high as 565.21%
- e. From the analysis of Budgeted and Actual LDO with the help of co-efficient of variance it is found that, the actual LDO is more than the budgeted one .

- f. From the regression analysis of budgeted and actual deposit remaining the trend same as before, the estimated LDO by the end of F/Y 2057/058 shall be of Rs .10198.79million.
- g. CD Ratio (Credit to deposit ratio, ratio of LDO on total deposit expressed in percent term) of the Bank is high The average CD ratio of the Bank for the period of last seven years is as high as 80.27%
- h. The data analysis of LDO and deposit with the help of Karl person's co-efficient of correlation shows that, the deposit and the LDO are perfectly correlated.
- i. The data analysis of Deposit and LDO with the help of coefficient of variation shows that LDO is more variable than the deposit.

5. Non-Funded business activities

- a. Outstanding Letter of Credit liability of the bank is increasing every year however the growth is not consistent.
- b. Outstanding guarantee liability of the Bank is increasing every year except for the year except for the year 2057/08 when it is decreased by 29.33%

6. Expenditure

- a. Interest amount expenses are the highest among total expenses items of the bank every year.
- b. The interest expense of the bank is found increasing each year corresponding to the increase in deposit .The interest expenses are perfectly and positively correlated with deposit.
- c. Average cost of deposit (calculated as the ratio of total interest expenses during a year on the outstanding deposit as of the year end expressed in percent term) of the bank is found to be increasing during the first four years of operations but it has reduced gradually from f/y 055/056 .The average COD over the period has been found to be at 6.7%.
- d. Other expenses of the bank are also in increasing trend every year.

7. Revenue

- a. Interest income of the bank is the highest among other income items in the total Revenue.
- b. 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 LDO
- c. Average yield on LDO (ratio of interest income on total LDO expressed in percent term) was at the lowest level of 9% in the first year, which increased afterwards and reached up

to 14.14% during F/Y 054/055. During F/Y 057/058, it has been reduced up to 11% the average yield on LDO for the last seven years has remained at 12.34%.

- d. The other income of Bank is also in increasing trend.
- e. The interest spread or the amount of interest margin is found to be increasing every year. From the study it is found that during the period of last seven years, average 68.32% of interest income is spent over paying interest to depositors leaving the interest margin or spread on average of 31.68% of interest income amount.
- f. Net burden of the bank is increasing every year, but as the average rate of growth of other income is higher than that of other expenses, it can be expressed that it would not hamper much to the profitability if the same trend is continued.
- g. The bank has suffered a loss of Rs 4993 million during the first year of its operation. It is in constantly increasing trend afterward as the rate of growth of spread is higher than that of burden, the profitability of the bank is increasing.

8. Ratio analysis

- a. The average current ratio of the bank has found to be always higher than standard ratio of 2:1, which shows satisfactory liquidity position of the bank.
- b. Generally the debts equity ratio of the banks are higher because they mobilize fixed deposit much more times of their capital fund. NB bank is also not exception to it. The average debt equity ratio of the Bank is approximately 10:1.
- c. The average Interest Coverage Ratio of the bank is 1.22 times during the study period.
- d. From the study of total number of manpower and total volume of overall activities of the bank, it is found that the volume of business per employee is increasing every year, which suggests increasing productivity of manpower.
- e. From the profitability ratio, it is found that the ROC (return on capital) is negative for the first year; afterward it is increasing gradually except in F/Y 057/058 where it has slightly decreased. This may be due to higher rate of increase in capital fund than that of net profit.
- f. From the cost volume analysis, the break even income level of the bank is found to be Rs 26.83 Crore and BEP LDO and BEP Deposit to be 217.41 crore and 270.85 crore respectively.

Recommendations

On the basis of study on profit planning of NB bank, the following suggestions are recommended to improve the profit planning system of the bank:

- A. In the internal management and personnel part

1. Level wise specific job description and responsibility assignment should be mentioned clearly.
2. Bank management should adopt the policy of appropriate authority delegation at all level of management in order to save the valued time of the chief executive officer for other productive use.
3. Employee raining at advanced level should be given more focus in order to keep the man power updated with the changing practices and the technologies.
4. It is suggested to the Bank to form a specific planning and Research Department, which shall be responsible for developing new innovative products, further development and up gradation of existing products, which in turn ensure better profitable business for the bank.
5. Branch monitoring and controlling mechanism should be made at the regional level also in order to ensure the better functioning of the branch offices located at such locations, which are far from the Head Office.
6. Objective of the bank should be clearly defined in order to avoid the risk of it being misinterpreted.

B. In the business part

1. The average cost of deposit of bank is high, therefore bank should try to lower it by mobilizing more and more low cost or cost free deposits thereby reducing the interest cost because due to the high cost of deposit, bank is forced to invest its fund more on high yielding assets, which are generally not liquid and obviously risky for the bank.
2. Banks CD ratio is high, which is rather a compulsion for a bank to meet the cost of high cost deposits .Higher CD ratio although gives better results in short term, it hampers the liquidity and is more risky for the bank and calls for more provision for loan loss In this way the profitability of the bank also get hampered on the long run .Therefore the bank should improve its position from lowering the deposit cost and increase the investments in liquid assets although they are of low yield.
3. LDO of the bank has increasing significantly but the part of proper loans assessment and monitoring aspects are not well developed and the infrastructures required (such as trained manpower, logistics etc) are not adequate Therefore with such poor infrastructures, it is not advisable to go aggressively in LDO. The bank should keep adequate required infrastructures to support its objectives.
4. The Nepal Rastra Bank has put the restriction on the difference of average rate of interest income and average rate of interest expenses of the Bank (i.e. Spread) not to

exceed 5%. Therefore the bank has to put more focus on the other kind of non-funded activities by which it shall increasing income from other sources than interest to increase its profitability.

5. Expenses cannot be avoided and always are growing with increasing activities, but it should be optimize and should be related to the income generating activities. Bank should minimize those expenses, which are not related to income earning other expenses than interest form a burden to the gross profit margin (interest margin) of the bank, therefore lowering the other expenses the bank shall enhance its profit.
6. Net profit of the Bank is the amount, which is obtained by subtracting the amount of net burden from the amount of gross interest margin Therefore, NB bank shall attempt to lower the burden cost, by increasing the other income and decreasing the other expenses. At the same time it should take a policy to make the interest margin at the maximum extent as allowed by the central Bank's norm.

2.7 Research Gap (Difference between previous research and this research)

Most of the past research studies were about profit planning system is basically related to profit planning system of manufacturing organization or production oriented activities and comparative study of joint venture banks. The researcher could not find only one study so far that has been related to profit planning system of a commercial bank. All dissertations have pointed out there is no proper planning and controlling system and recommend for the effective implementation of profit planning and controlling system in the concerned institutions.

This study is shall be a new one in this field as no study has been made so far in the profit planning and controlling of particularly Nepal Bangladesh Bank. This study has tried to indicate the role of budgets for effective formulation and implementation of profit planning system as well as to see how far the bank is practicing. This study has analyzed the financial position of NB Bank by applying the tools of ratio analysis and other mathematical and statistical tools. Finally it concludes the various finding of research and recommendation to NB Bank.

Above chapter two gives the detailed study about the conceptual framework of profit and profit planning, various activities of commercial bank and the applicability of profit and profit planning, in the bank with a specific reference to Nepal Bangladesh Bank Ltd.

The forthcoming chapter includes the Research Methodology adopted for the study.

Chapter- III

RESEARCH METHODOLOGY

3.1 Introduction

The term research is believed to be derived from the French word researcher meaning to search again .The research work is undertaken following a systematic way, which is called the research methodology .As per Kothari, it is the way to solve systematically about the research problem.

This study has intense relation with the application of planning and control in a commercial Bank with a specific reference to Nepal Bangladesh 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 used.

3.2 Research Design:

A research design is purely and simply the framework or plan for a study that guides the collection and analysis of the data .As per Kerlinger (1986),Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance .This study is an examination and evaluation of budget process in profit planning program of NB Bank .Various functional budgets and other related accounting information's and statement of the 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 & sample

As this report aims at studying the profit planning aspect of a commercial Bank taking the case study of a single Bank i.e. Bank, and data have been made analyzed for whole seven years of its operation ,the population and sample term is not relevant for this study .

3.4 Data Collection Procedures and Sources of Data

This study is mostly based on secondary data. However; primary data and information have been obtained through informal discussions with the executives and other staff of the Bank. Secondary data have been collected from the annual published accounting and financial statement of NB Bank. Similarly other necessary data have collected from publications of the Nepal Rastra Bank, the Central Bank of Nepal, Central Bureau of statistic and related publications.

3.5 Research Variables

Loans/Advances Overdrafts and Bills Discounted (LDO), Customer deposits, total resources, total deployment ,outstanding balance of letters of credit and Bank Guarantees, Interest Expenses Other Expenses ,Interest income ,Other Income etc of NB Bank are the research variables of this study .

3.6 Tools and Techniques Employed

This study is confined to examine the profit planning of NB Bank ,Therefore the data have been collected accordingly and managed ,analyzed and presented in suitable tables ,formats ,diagrams ,graphs, and charts .Such presentation have been interpreted and explained wherever necessary. Financial, mathematical and statistical tools are used to analyze the presented data, which includes ratio analysis, percentage, regression analysis, Test of goodness of fit of the regression estimates (r^2), correlation, mean, standard deviation, coefficient of variance etc.

3.6.1. Financial Tools

Following financial tools have been used to analyze the data in this study:

- a. Ratio analysis: By ratio analysis we study the arithmetical relation ship of two data ,in this study, we have applied liquidity Ratio, Capital Structure Ratio, Activity Ratio and Profitability Ratio of the Bank.
- b. Cost Volume Profit analysis: we study the relationship among cost, volume, price and profit of the Bank

3.6.2 Statistical and Mathematical Tools

We have analyzed the data presented in this study by applying following statistical and mathematical tools:

1. Percentile Increment
2. Mean
3. Standard Deviation
4. Coefficient of Variance
5. Regression analysis
6. Test of Goodness of fit of the Regression Estimate
7. Correlation of coefficient
8. Probable Error
9. Coefficient of Determination

The research methodology adopted for this study is shown above. The forthcoming chapter includes the data presentation and analysis

Chapter- IV

PRESENTATIONS AND ANALYSIS OF DATA

4.1 Status of Resource Mobilization

All the commercial Banks have identical accounting year of 12 months beginning from 1st of Shrawan to the end of Ashad of the next year. NB Bank prepares the profit plans for every year, which includes the business budget; revenue, expenditure and profit plan for the year.

The Strategic Profit Plan of NB Bank is reflected in its Business budget that shows the resource mobilization plan of NB Bank

Here, the term resources have been used for the fund required by the bank for its activities. Bank mobilizes its resources from the following sources:

Deposit collection

Loan and Borrowings from other Banks

Capital Fund

Among the above three sources, the Deposits collection is the major source of resource mobilization which is in fact, one of the most important activities of every commercial Bank. Loans and Borrowings are obtained from local Banks, Foreign Banks, Central Bank and financial institutions generally for a short period of time.

The Capital Fund is raised from shareholder's equity. It reflects the net-worth of the Bank. Commercial Banks' Capital Fund has been divided into two categories viz Core capital and Supplementary Capital.

The following table shows the resource mobilized by the bank over the period of study:

Table No.1 Status of Resource Mobilization

Amount in Rs “000”

F/Y	Deposit	% of Deposit	Borrowing	% of Borrowing	Capital Fund	% of Capital Fund	Other liability	% of Other liability	Total
2057/58	86,00,812	86.3	0	0.0	5,95,122	6.0	7,66,762	7.7	99,62,696
2058/59	95,34,220	88.4	2,87,500	2.7	3,57,252	3.3	6,11,281	5.7	1,07,90,253
2059/60	1,05,91,081	91.9	68,319	0.6	3,59,924	3.1	5,11,247	4.4	1,15,30,571
2060/61	1,28,07,376	92.7	67,225	0.5	3,59,924	2.6	5,75,870	4.2	1,38,10,395
2061/62	1,21,25,578	88.4	0	0.0	7,19,852	5.2	8,75,335	6.4	1,37,20,765
2062/63	1,30,15,136	93.3	71,000	0.5	7,19,852	5.2	1,40,268	1.0	1,39,46,256
2063/64	93,85,950	89.2	2,30,000	2.2	7,19,852	6.8	1,91,720	1.8	1,05,27,522

(Sources: NB Bank, Annual Reports, 2001 to 2007)

From the above table, it is clear that the Customer deposit collection contributes the major share in Resources mobilization. Therefore, total sources of resources mobilization comprised of two categories as follows.

- a. From Customer Deposit Collection (Deposit)
- b. From other sources than Customer Deposit (RMOD)

4.1.1 Deposit Collection

Customer Deposit is the major important source of resource mobilization of the Bank. The contribution of customers deposit to total resources is high. Deposit is collected from various sectors such as the general public, business entities NGO's, Schools, And Trusts and other individuals and institutions, which qualify to open an account in the Bank.

Deposits are collected on customer's account, which are opened as per the Bank's policy. The customer's deposit accounts are of two types

- i Interest Free Deposit Accounts
 1. Current Deposits A/C
 2. Margin Deposits A/C
 3. Other Deposits A/C
- ii. Interest Bearing Deposits accounts
 1. Saving Deposit Account
 2. Call Deposit Account
 3. Fixed Deposit Account

4.1.2 Deposit Collection budget of NB Bank

The following table shows the budgeted amount of deposit collection which has been find out following the time series approach was adopted to ascertain the budgeted figure for Deposit collection from F/Y 2059/60 to F\Y 2063/64. Realizing its significance the bank has started to prepare budget statement from current year. The actual amount of deposit and achievement of it on the budgeted amount is given in the table.

Table No.2 Status of Budgeted and Actual Deposit Collection

Amount in Rs “000”

Fiscal Year	Budgeted Deposit	Actual Deposit	Achievement
2057/58	8,00,000	86,00,812	107.5%
2058/59	1,06,20,000	95,34,220	89.78%
2059/60	1,30,80,000	1,05,91,081	80.98%
2060/61	1,43,44,800	1,28,07,376	89.29%
2061/62	1,56,09,600	1,21,25,578	77.68%
2062/63	1,68,74,400	1,30,15,136	77.13%
2063/64	1,81,39,200	93,85,950	51.75%

(Sources: NB Bank, Annual Reports, 2001 to 2007)

Diagram No.1: Bar Diagram of Budgeted and Actual Deposit Collection

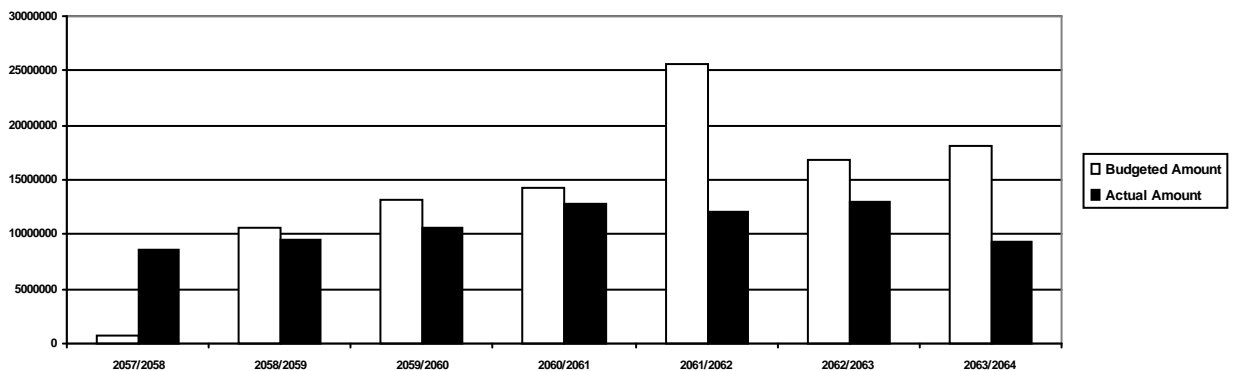
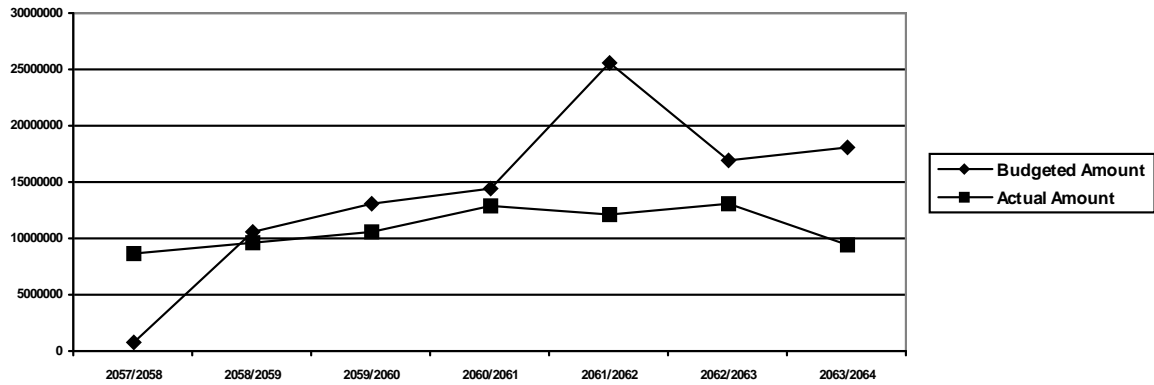


Diagram No.2: Scatter Diagram of Budgeted and Actual Deposit Collection



The table shows that the Deposit collection target was achieved recording 107 % in the first fiscal year 2057/58 and then afterwards this picture shows the low level of achievement made by the Bank in deposit collection. The Bar diagram shows the achievement level remaining lower than the budgeted level. Similarly, in the scatter diagram, the actual line is running lower than the budgeted line. The reason behind it is the declination of faith of customers towards bank because of its heavy investment on non-performance assets.

Table No.3 Summary of the deposit collection budget and achievement:

Amount in Rs “000”

Statistical tool’s	Budgeted Deposits in Rs (x) in “000”	Actual Deposits in Rs (y) in “000”
Mean	1,27,81,142	1,08,65,736
Standard deviation()	54,01,275	16,53,789
C.V	0.42	0.15

The above table shows that actual deposits are little less variable than budgeted deposits. Since the coefficient of variations of actual deposits is less than that of budgeted deposits. Actual deposits of less variable. On the other hand budgeted deposits are more variable. A greater coefficient of variation is said to be more heterogeneous. Here NB Bank’s actual deposit is the nature of less variable than deposits.

A statistical tool correlation co-efficient can be used to analyze the relationship between budgeted deposits and actual deposits. There should be positive co-relation between budgeted deposits and actual deposits. Karl person’s coefficient correlation was used to find correlation between actual deposits and budgeted deposits. Karl person’s coefficient of

correlation is denoted by (r). By calculating (r) correlation between budgeted deposits and actual deposits can be known. The actual deposits will change in the same direction, as the budgeted deposits. For this purpose budgeted deposits assuming to be independent variable was assigned X and actual deposit assuming to be dependent variable was assigned Y upon budgeted deposits. Budgeted deposits and the actual achievement increased, which meant that there should be positive correlation between, budgeted figure and achievement figures. Significance of correlation of (r) is tested with probable error PE.

The detail calculation of 'r' and probable error PE was made in appendix 1. From that appendix the calculated the value of r was 0.168. This figure 'r' shows that there was positively perfect correlation between budgeted deposits and actual deposits. The value of $r=0.168$ and Probable Error (PE)= 0.315

From the calculations shown in Appendix 1, the Karl Person's coefficient of correlation (r) between the Budgeted deposit (X) and Actual deposit (Y) i.e. $r(X,Y)$ being 0.168

The following table shows the data of actual deposit mobilized by the bank as of the end of each fiscal year. The table shows the amount of deposits is increased every year considerably.

Table No.4 Growth of deposits of NB Bank

Amount in Rs "000"

Fiscal Year	Deposit Amount	Growth in Rs	Growth %
2057/58	86,00,812	21,33,648	32.99
2058/59	95,34,220	9,33,408	10.85
2059/60	1,05,91,081	10,46,428	10.97
2060/61	1,28,07,376	22,26,728	21.04
2061/62	1,21,25,578	6,81,798	5.3
2062/63	1,30,15,136	8,89,558	7.3
2063/64	93,85,950	(3,62,918)	(27.8)

(Sources: NB Bank, Annual Reports, 2001 to 2007)

4.1.3 Resources Other than Customer Deposits

Resources other than customer deposit contribute in an average 20 % on total resources of the Bank. This was calculated on the basis of the Capital Fund (The Net Worth).

The following table shows the budgeted and actual figures of the resources under this category over the period of study. Since the budgeted figure for resources mobilization other than Deposit

(RMOD) from fiscal year 2057/058 to 2063/064 could not be available so, this study has assumed the budgeted amount for the corresponding years using time series.

Table No.5 Status of Budgeted and Actual Resources other than deposit

Amount in Rs “000”

Fiscal Year	Budgeted Amount	Actual Amount	Achievement
2057/58	14,31,700	13,61,884	95%
2058/59	19,93,311	12,56,033	63.01
2059/60	25,71,663	9,39,490	36.53
2060/61	28,66,705	10,03,019	34.98
2061/62	31,61,747	15,95,187	50.45
2062/63	34,56,789	9,31,120	26.93
2063/64	37,51,831	11,41,572	30.42

(Sources: NB Bank, Annual Reports, 2001 to 2007)

The above table shows the achievement was 20% in mobilizing the resources from other than Customer Deposits for the study period except for the F|Y 2057/058 with 95% achievement.

The resources mobilized from the sources other than customer deposit is shown in the scattered and Bar Diagram pattern:

Diagram :3 Bar Diagram of Actual Resources other than deposits

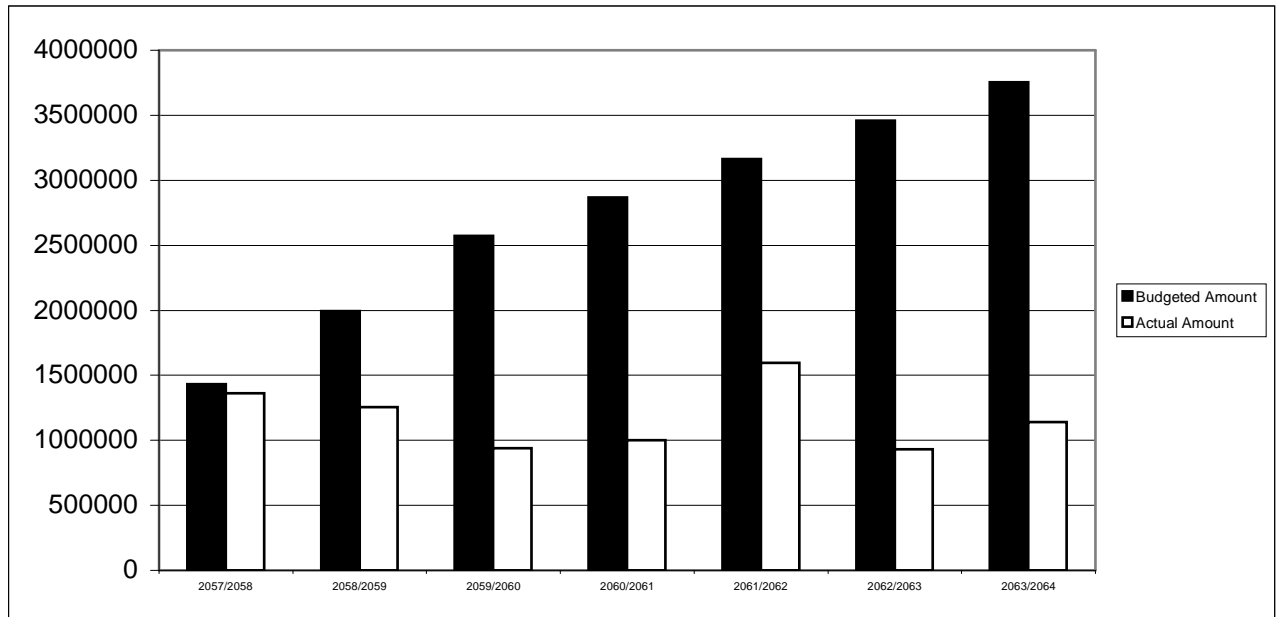
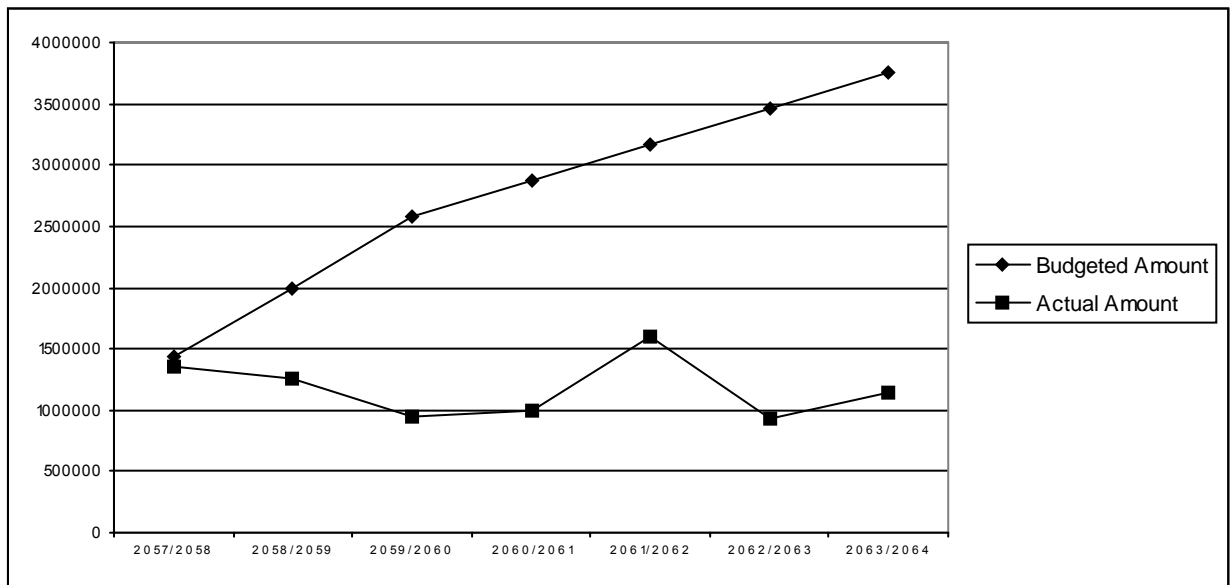


Diagram: 4 Scatter Diagram of Actual Resources other than deposits



4.2. Resource allocation plan

A reasonable allocation of the resources is required for comfortable liquidity for investment as well as in income generating activities. Besides these, some investments need to be made in fixed assets and other operating assets in the context of the Bank. The employment of available resources can be objectively made in three categories.

- a. Employment for maintaining liquidity
- b. Employment for maintaining income generating activities
- c. Employment for acquiring other asset

4.2.1 Employment for maintaining liquidity:

This is made for meeting withdrawal and other kind of payment obligation of the bank. The resources for this purpose is kept in liquid form such as in Vault, Cash at Bank. Generally, there is no yield on this type of fund with an exception of money placed in interest bearing account. The Central Bank of Nepal, NRB's instruction made the commercial Banks mandatory to maintain approximately 10% of their total customer deposit liability form (Cash in Vault at NRB). Therefore, Cash & Bank Balance is grouped in one portfolio investment.

4.2.2. Employment for income generating activities:

Bank deploys the major portion of the resources for income generating activities popularly called as fund based exposure. Fund based exposure are made by the Bank in following two portfolios:

- a. Loan, discounts and overdraft (LDO)
- b. Other investments.

LDO includes all loans, advances, Overdraft, Bills purchased/discounted and other types of loans availed to the borrowers of the Bank in return, of which the bank earns interest income. Other investments include investment in shares, Treasury Bill (TB), Placement of fund on call market etc.

4.2.3. Employment for acquiring other assets

This includes the employment of the resources in acquiring fixed assets, along with other capital expenditure subject to write off in future, income receivables; advance payments, sundry debtors etc. The following table deployment of fund by the bank over the period of study:

Table No.6 Status of Resource Deployed by NB Bank

Amount in Rs “000”

Fiscal Year	Cash and Bank Balance	% CBB	LDO	% of LDO	Investments	% of Investment	Other Assets	% of OA	Net fixed Assets	% of NFA	Total
2057/58	10,25,824	10.30	73,58,838	73.86	10,88,717	10.93	3,97,618	3.99	91,699	0.92	99,62,696
2058/59	17,59,305	15.99	76,32,418	69.37	10,08,642	9.17	5,10,359	4.64	91,509	0.83	1,10,02,233
2059/60	8,99,513	8.53	72,47,980	68.77	21,68,923	20.58	14,21,362	13.49	80,731	0.77	1,05,39,309
2060/61	14,36,473	10.07	86,48,744	60.66	26,99,167	18.93	12,82,412	8.99	1,91,178	1.34	1,42,57,973
2061/62	14,01,767	10.56	77,87,690	58.65	24,11,720	18.16	14,86,667	11.20	1,89,307	1.43	1,32,77,151
2062/63	11,64,054	97.31	64,60,247	54.05	26,61,833	22.52	4,84,697	40.52	1,29,396	1.18	1,09,00,227
2063/64	16,94,685	22.22	44,09,013	57.80	10,34,560	13.0	3,44,196	4.52	1,40,807	1.85	7623255

(Sources: NB Bank, Annual Reports, 2001 to 2007)

The above table shows the deployment available resources by the bank in portfolios LDO holds the biggest outlet of resources deployment. Therefore, in this study, deployment of resources is categories into the two categories:

- a. Deployment in LDO (NLDO)
- b. Deployment in other sector than LDO

4.2.3.1 LDO budget of NB Bank

The following table shows the budgeted amount resources allocation and achievement. Since the budgeted figure of LDO from the F/Y 20057/058 to F/Y 063/064 was not available, time series model was used to find the budgeted amount of resource deployment

Table No.7 Status of Budgeted and Actual Deployment for LDO

Amount in Rs “000”

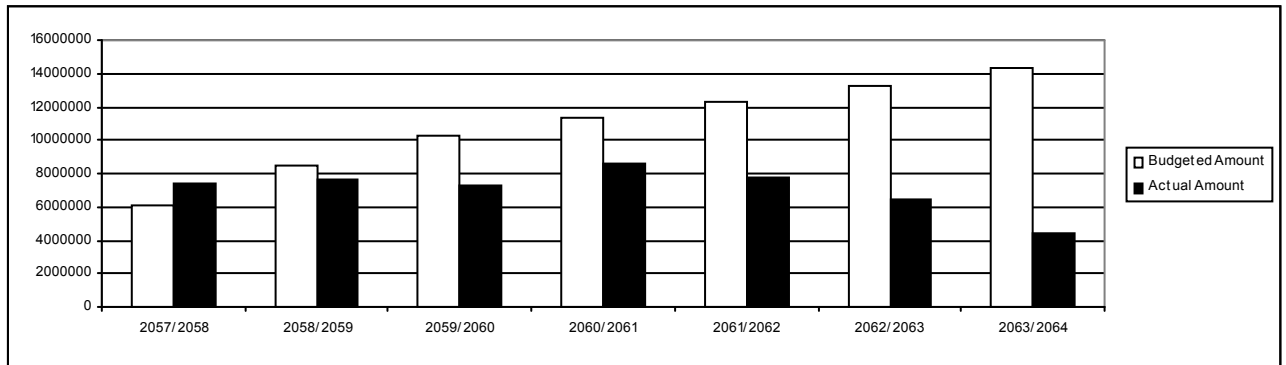
Fiscal Year	Budgeted Amount	Actual Amount	Achievement
2057/58	61,20,100	73,58,838	120.24%
2058/59	85,00,000	76,32,418	89.80
2059/60	1,03,10,050	72,47,980	70.31
2060/61	1,13,11,055	8,64,87,44	76.47
2061/62	1,23,12,060	77,87,690	63.26

2062/63	1,33,13,065	64,60,247	48.53
2063/64	1,43,14,070	44,09,013	30.81

(Sources: NB Bank, Annual Reports, 2001 to 2007)

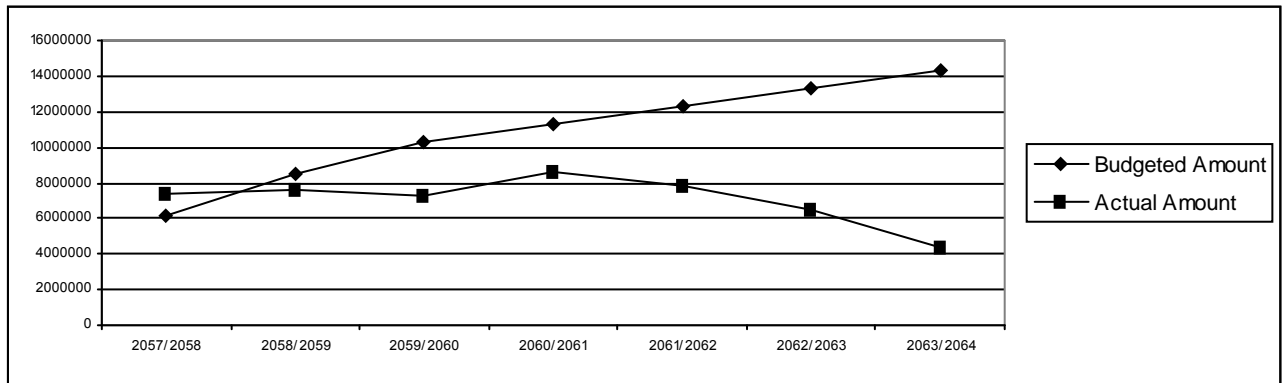
The above table showed that the achievement on deployment of LDO is in decreasing trend. It stated from 120% and it has reached to 32.81% in the fiscal year 2063/64.

Diagram No. 5 Bar Diagram of Actual Deployment for LDO



The status of budgeted and actual deployment in LDO on the various years of study was presented in the Bar diagram, the figure was presented in Scatter diagram as below:

Diagram: 6 Scatter Diagram of Actual Deployment for LDO



The statistical tools comprising arithmetic mean, standard deviation and coefficient of variation to find the relationship between the budgeted LDO with that of actual for different years. The details of calculation are available in appendix.

Table No.8 Summary of the LDO budget and achievement:

Amount in Rs. "000"

Statistical tool's	Budgeted Deposits in Rs (x) in "000"	Actual Deposits in Rs (y) in "000"
Mean	1,08,82,914	70,77,847
Standard deviation()	26,34,797	12,47,349
C.V	0.24	0.17

Source : Appendix :2

The above table shows that actual LDO were more variable than targeted LDO. Since the coefficient of variations of actual LDO was greater than that of targeted LDO, actual LDO were of more variable. On the other hand budgeted LDO were more consistent and homogeneous than actual LDO. A greater coefficient of variation said to be more heterogeneous. Here NB Bank's actual LDO were the nature of more variability than budgeted LDO.

Another statistical tool correlation co-efficient to analyze the relationship between budgeted LDO and actual LDO. There should be positive co-relation between budget LDO and Actual LDO. Karl person's coefficient of correlation was used to find correlation between actual LDO and budgeted LDO. Karl person's coefficient of correlation is denoted by (r). By calculating ® the positive correlation between budgeted LDO and actual LDO can be examined. The actual LDO would change in the same direction, as the budgeted LDO. For this purpose budgeted LDO was assigned by X and assumed to be independent variable and actual LDO was assigned 'Y' and assumed to be dependent variable upon budgeted LDO.

It helped to examine whether increase in budget increased in actual achievement or vice versa, which meant that there should be positive correlation between, budgeted figure

and achievement figures. Significance of correlation of \otimes was tested with probable error (PE). The probable error (PE)=0.188

The details of calculation of 'r' and probable error 'PE' were presented in appendix 3. The value of r is 0.509. This figure of 'r' shows that there was positively perfect correlation between budgeted LDO and actual LDO.

Since r was greater than six times of the probable error (0.50 the value of r was more significant. So it is no doubtful that actual LDO would go on the same direction that of budgeted LDO.

Table No.9 Growth of LDO of NB Bank

Amount in Rs. "000"

Fiscal Year	LDO	Growth in Amount	Growth %
2057/58	73,58,838	27,41,441	59.38
2058/59	76,32,418	2,73,580	3.7
2059/60	72,47,980	3,84,438	5.03
2060/61	86,48,744	(14,00,764)	19.3
2061/62	77,87,690	8,61,054	9.9
2062/63	64,60,247	13,27,440	17.04
2063/64	44,09,013	(20,51,234)	31.75

(Sources: NB Bank, Annual Reports, 2001 to 2007)

4.2.3.2 Resources Deployment in Other portfolio than LDO (NLDO) :

Deployment in other portfolio than LDO includes cash and Bank, Investment, fixed assets and other assets.

The following table shows the budgeted and actual figures of the resources deployed over the period of study. So the figures were:

Table No.10 Status of Budgeted and Actual Deployment for NLDO

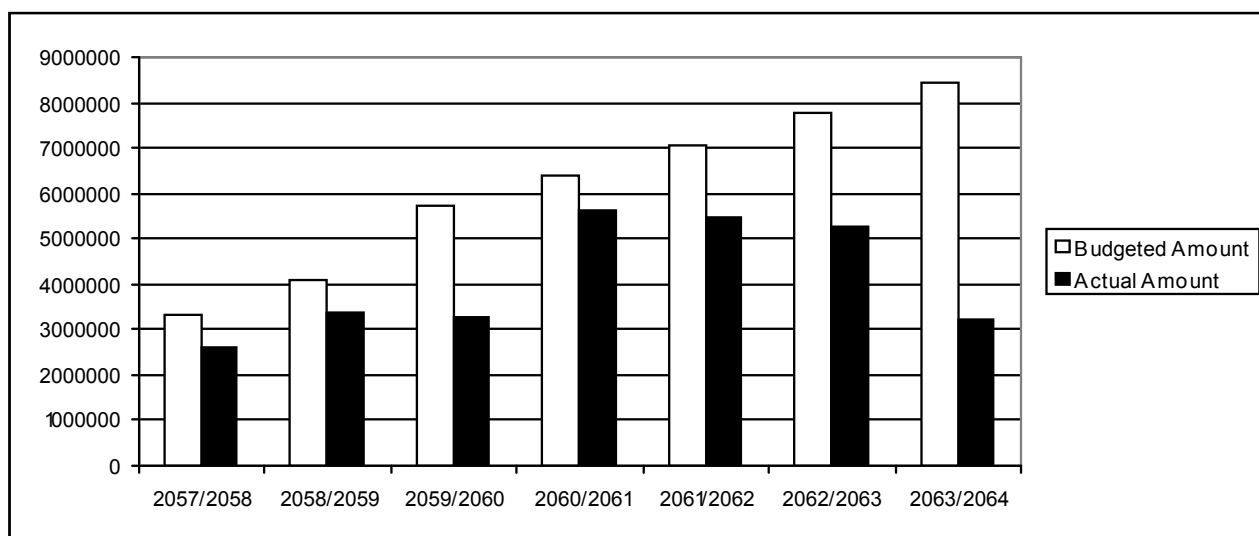
Amount in Rs “000”

Fiscal Year	Budgeted Amount	Actual Amount	Achievement
2057/58	33,11,600	26,03,858	79%
2058/59	41,13,311	33,69,815	82%
2059/60	57,26,363	32,91,329	57%
2060/61	64,00,625	56,09,230	88%
2061/62	70,74,887	54,89,461	78%
2062/63	77,49,149	52,64,020	67%
2063/64	84,23,411	32,14,242	38%

(Sources: NB Bank, Annual Reports, 2001 to 2007)

The above table shows the achievement of the bank in deployment of the NLDO. It shows the fluctuating trend during the study period. In the fiscal year 2060/61 it has reached 88% and but in 2063/64 it has fallen to 38%.

Diagram No.7 Bar Diagram of Budgeted and Actual Deployment for NLDO



4.2.3.3 Actual Deposit Collection Vs Actual LDO of NB Bank

The major source of resources mobilized of NB Bank was the customer deposit and similarly the major outlet for deployment portfolio was for loan and advances and bills discounts (LDO).

The following table shows the actual balance of customer deposit mobilized by the bank and actual position of deployment of resources towards LDO and the ratio of the LDO to Deposit (CD Ratio).

Table No.11 Status of LDO verses Actual Deposit of NB Bank

Amount in Rs “000”

Fiscal Year	Actual Deposit	Actual Outstanding LDO	LDO to Deposit Ratio (CD ratio)
2057/58	86,00,812	73,58,838	85.56%
2058/59	95,34,220	76,32,418	80.05
2059/60	1,05,91,081	72,47,980	68.43
2060/61	1,28,07,376	86,48,744	67.52
2061/62	1,21,25,578	77,87,690	64.22
2062/63	1,30,15,136	64,60,247	49.63
2063/64	93,85,950	44,09,013	46.97

(Sources: NB Bank, Annual Reports, 2001 to 2007)

It can be found that both the Deposit and LDO increased during the period. The average CD ratio over the period of last seven years was 66.05%.

It is significant to analyze the relationship between deposits and outstanding LDO. In order to find out the variability, of actual deposits and actual outstanding LDO of different years, the arithmetic mean, standard deviation and coefficient of variation technique and correlation of coefficient.

The details calculation was presented in appendix no.3.

Diagram No.8 Bar Diagram of Status of LDO verses Actual Deposit of NB Bank

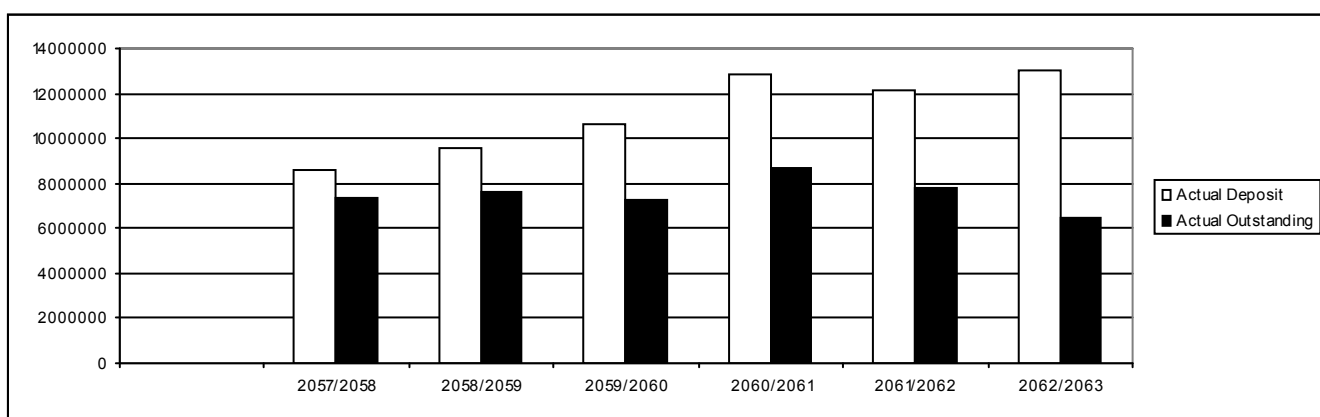


Diagram No. 9 : Scatter Diagram of Status of LDO verses Actual Deposit of NB Bank

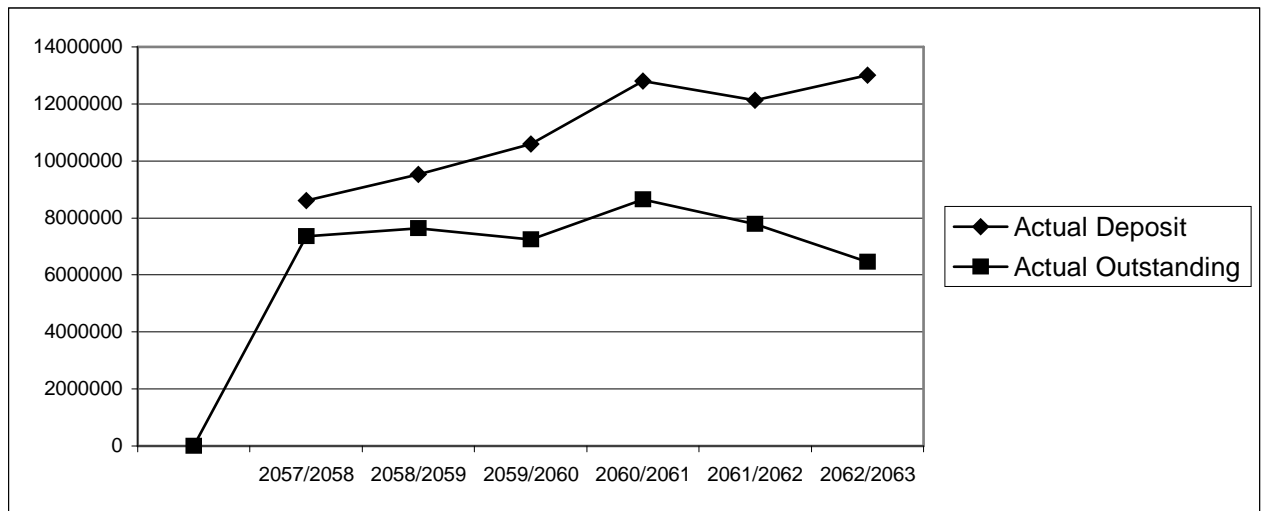


Table No.12 Summary of Actual deposits and actual outstanding LDO

Amount in Rs “000”

Statistical tool's	Budgeted Deposits in Rs (x) in “000”	Actual Deposits in Rs (y) in “000”
Mean	1,08,65,737	70,77,848
Standard deviation()	16,53,789	12,47,349
C.V	0.15	0.17

The above results showed that actual outstanding LDO was more variable than actual deposits. Hence the coefficient of variation of actual outstanding LDO was higher than that of actual outstanding deposits.

Another statistical tool, correlation of coefficient was used to analyze the relationship between actual outstanding deposits and actual outstanding LDO. The actual deposits increased as the actual LDO increased.

To find out correlation between actual deposits and actual outstanding LDO, Karl person's coefficient of correlation denoted by 'r' we can examine whether there was positive correlation between actual deposits outstanding and actual LDO outstanding or not.

For this purpose, actual deposits (X) were assumed to be independent variable and actual LDO (Y) is assumed to be dependent variable.

After this significance of 'r' was tested with probable error of 'r' the detail calculation of 'r' and probable of 'r' was presented in appendix 3 The value of r and P.E respectively 0.35 and 0.222.

Since r was greater than 6PE the value of 'r' was significant. There is perfect correlation between actual deposits and actual LDO.

4.3. Plan for Non-Funded Business Activities of NB Bank

Apart from the business activities like advancing loans, overdrafts, Bills discounting and investments where fund are involved for income generation, there are other business activities too performed by the bank which does not involve fund yet they are income generative. Such transactions are called non-funded business of the bank. In such transactions, the bank has to take contingent liabilities on behalf of their customer for a free and/or commission, which are the income of bank other than the interest income. Such income greatly contributes in reducing the expenses burden of the bank.

Generally income generating non-funded business activities of the bank is of following two types:

- a. Letter of credit Business
- b. Bank guarantee Business

Since these are the contingent liabilities it appears as a special item in balance sheet of the Bank.

4.3.1 Letter of Credit

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

The following table shows the letter of Credit of the Bank as of the closing of the respective fiscal year and its growth over the period of this study:

Table No.13 Growth of L\C Business of NB Bank

Amount in Rs “000”

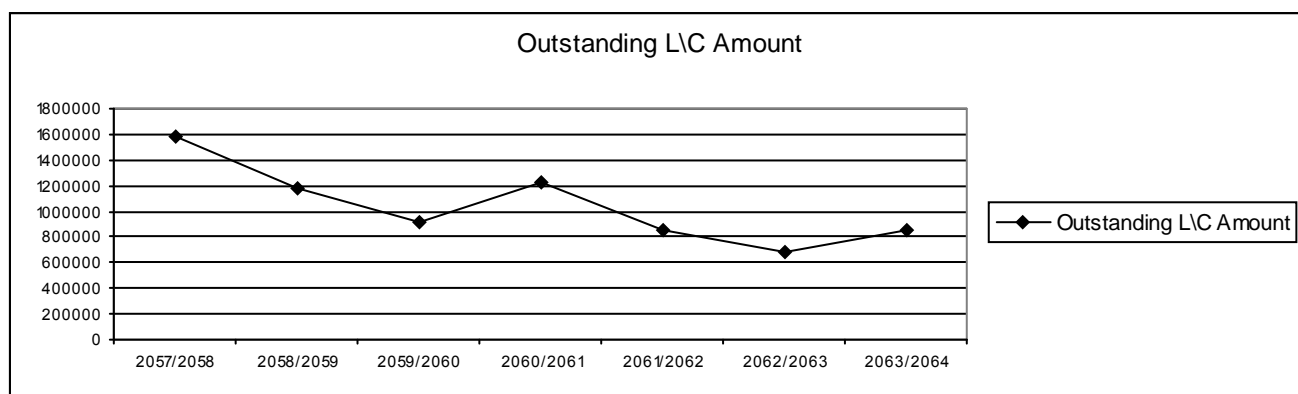
Fiscal Year	Outstanding L\C Amount	Increased Amount	Growth %
2057/58	15,85,753	8,30,124	109.85
2058/59	11,76,743	4,09,010	25.79
2059/60	9,11,864	2,64,879	29.04
2060/61	12,29,670	3,17,806	25.84
2061/62	8,59,858	3,69,812	43.0
2062/63	6,80,444	(1,79,414)	20.86
2063/64	84,57,72	16,53,28	24.29

(Sources: NB Bank, Annual Reports, 2001 to 2007)

The above table showed that the Letter of Credit outstanding were in decreasing trend each year. It had a record growth of 109.85% in the fiscal year 2057/58 and 24.29 growth in the fiscal year 2063/64.

The growth of L\C business of the Bank has been presented in the Bar Diagram as below.

Diagram No:10 Scatter Diagram of Growth of L\C Business of NB Bank



4.3.2. Bank Guarantee

Bank issues the bank guarantee on behalf of their customer for bidding and/or performing any activities by the latter in favor of the employer of the activities. It is a guarantee letter issued by the bank agreeing to pay a certain sum of money in case of any default done by the party while performing the activity.

The following table shows the outstanding bank guarantee liability as of the end of the fiscal year over study period and the change in the subsequent year:

Table No.14 Yearly growth in Bank Gurantee liability

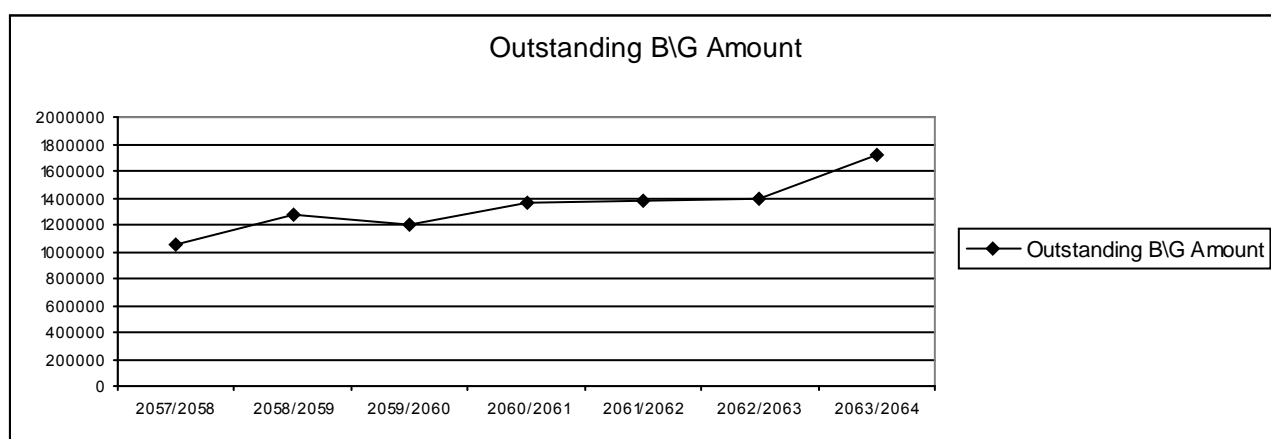
Amount in Rs “000”

Fiscal Year	Outstanding B\G Amount	Increased \Decreased Amount	Growth %
2057/58	10,52,566	(4,36,924)	(29.33)
2058/59	12,76,698	2,24,132	21.29
2059/60	12,01,592	(75,106)	(5.88)
2060/61	13,63,097	1,61,505	13.44
2061/62	13,80,260	17,163	1.25
2062/63	13,94,843	14,583	1.05
2063/64	17,25,458	3,30,615	23.70

(Sources: NB Bank, Annual Reports, 2001 to 2007)

The above table shows that the Bank guarantee outstanding liability decreased each year .The growth in L/C business of the bank has been presented in the bar diagram as below:

Diagram No.11 : Scatter Diagram of Bank Gurantee liability



4.4. Expenditure Planning of NB Bank

Planning for expenses is most essential to maintain reasonable levels to support the objectives & planned programs of the Bank. Expenses planning focus on the relationship between expenditure & the benefits derived from these expenditures. NB Bank has started preparing expenditure and revenue budget from the F/Y 2054/055. The following table shows the status of expenditure incurred by the Bank for the study period:

Table No.15 Yearly Cost Structure of NB Bank

Amount in Rs “000”

Expenses	057/58	058/59	059/60	060/61	061/62	062/63	063/64
Interest Expenses	5,15,848	5,52,743	5,97,880	6,25,361	5,47,943	5,18,094	4,32,219
Employee Expenses	50,746	61,362	69,897	76,624	95,884	1,40,662	1,12,548
Operational Expenses	67,446	77,198	1,01,403	1,13,762	1,61,344	1,19,905	1,14,326
Non-operating Expenses	0	Nil	Nil	Nil	22,393	(11,105)	2,42,000
Provision for staff Bonus	31,548	11,198	21,277	11,072	Nil	Nil	Nil
Loan Loss Provision	1,30,483	2,69,346	2,61,874	4,00,733	9,05,143	2,71,575	34,277
Provision for Income Tax	85,180	35,000	1,20,000	97,000	1,00,000	71,290	1,84,198
Total Expenses	8,81,251	10,06,847	11,72,331	13,24,552	18,32,707	11,10,421	11,19,568

(Sources: NB Bank, Annual Reports, 2001 to 2007)

The above table shows that the each type of expenditure decreased over the period. As the expenses for interest payment was the highest portion of total cost for each year. The total expenses were segregated into interest expense and expenses other than interest (other expenses) for our study.

4.4.1. Interest Expenses

Interest expenses are the expenditure incurred for making payment of interest to the deposit-mobilized bank. As the customer deposit holds a major share on total resources of the Bank interest expenses is also higher among others in total expenses of the Bank. The interest expenses to total deposit mobilized by the Bank are given in following table:

Table No.16 Yearly Status of Interest Expenses to total Deposit (Cost of Deposit)

Amount in Rs “000”

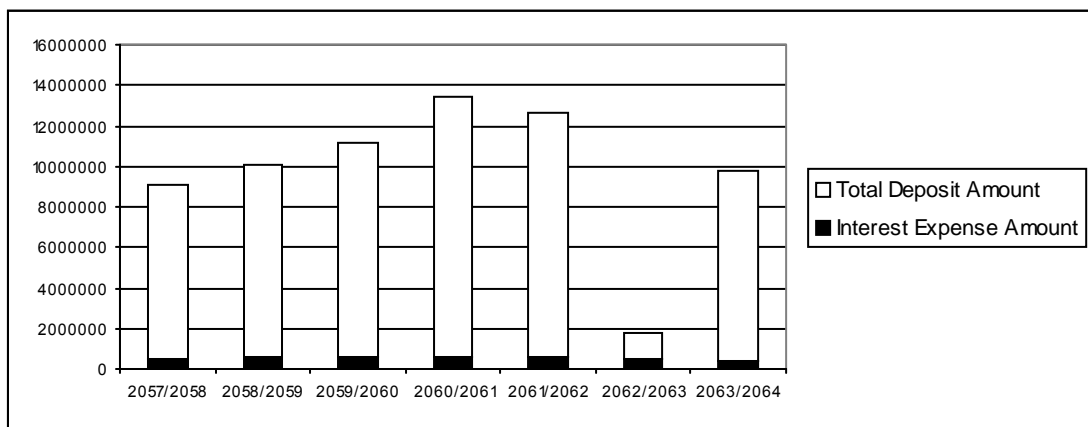
Fiscal Year	Interest Expense Amount	Total Deposit Amount	Cost of deposit Percentage
2057/58	5,15,848	86,00,812	6%
2058/59	5,52,743	95,34,220	5.7
2059/60	5,97,880	1,05,80,648	5.6
2060/61	6,25,361	1,28,07,376	4.8
2061/62	5,47,943	1,21,25,578	4.5
2062/63	5,18,094	13,01,536	3.9
2063/64	4,32,219	93,85,949	4.6

(Sources: NB Bank, Annual Reports, 2001 to 2007)

As said earlier, the customer deposit is one of the major sources for resources mobilization by the bank. For the deposit taken by the bank, it has to pay interest. There are various kinds of deposit accounts comprising interest free deposit to varying interest deposit accounts. The average cost incurred by the bank for making interest payment to the depositors is called cost of deposit (COD) of the Bank, The lower COD referred to better position in terms of profitability.

The yearly COD of NB bank ranged from 3.9% to 6% in various years the average COD for the period of this study was 5.01%. The status of total deposit and the COD is shown in the Bar diagram as below:

Diagram No.12 : Bar Diagram of Interest Expenses to total Deposit (Cost of Deposit)



It is significant to analyze the relationship between deposit and interest expenses. The figures of actual deposits amount and interest expense amount can be presented in tabular form. In order to find out the variability of actual deposits and actual interest expenses of different years the arithmetic mean, standard deviation and coefficient of variation and correlation of coefficient were calculated .The detail calculations of these statistical tools are presented in appendix no 4.

Table No.17 Summary of Actul deposits and actual outstanding LDO

Amount in Rs “000”

Statistical tool's	Actual Deposits in Rs X in “000”	Interest Expenses amount in Rs. Y in “ 000”
Mean	5,41,442	91,90,875
Standard deviation()	57,975	35,12,607
C.V	0.10	0.38

The above results show that the actual outstanding deposit is more variable than the actual interest expenses incurred. Hence the coefficient of variation of actual outstanding deposit is higher than the actual interest expenses. Another statistical tool, correlation coefficient can be used to analyze the relationship between actual outstanding deposits and actual interest expenses. There should be positive correlation between actual outstanding deposits and interest expenses. In other words the actual deposits increase as the actual interest expenses increase or vice versa. To find out correlation between actual deposits and actual interest expenses, the Karl person's coefficient of correlation was used to examine whether there is positive correlation between actual deposits outstanding and actual interest expenses or not. For this purpose actual deposits (X) was assumed to be independent variable and actual interest expenses (Y) was assumed to be dependent variable. After this the significance of 'r' was tested with probable error of r. The details calculation of 'r' and probable of 'r' was presented in appendix 4. From this appendix the value of r and P.E were respectively 0.40 and 0.21. Since $r > 6 \text{ P.E}$ ($0.40 > 6 * 0.002$) the value of 'r' was significant. There is perfect correlation between actual deposits and actual interest expenses incurred.

4.4.2. Expenses Other than Interest Expenses

The operating expenses incurred by the Bank for other than interest payments are included in other expenses for this study. Such expenses include:

1. Expenses for employees
2. Operational expenses
3. Non-operating expenses
4. Loan loss provision

Besides the above, profit appropriation toward staff bonus provision and income tax provision were included in 'Other expenses'. The amount of other expenses incurred by the Bank in various years is as shown in the earlier table no.15.

4.5. LDO Verses Loan Loss Provision

The commercial banks are required to set aside some amount from their operating profit at a fixed ratio against the outstanding LDO of the Bank as prescribed by the NRB from time to time. Such amount provided by the bank against the loan is called loan loss provision. The ratio of the loan loss amount against the LDO is based on the classifications of the loans. As per NRB's current directives, banks are required to classify their outstanding LDO on the basis of aging into four categories and the amount of provisioning that have to be made with effect from F/Y 2061/062 which are as follows:

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

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

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

Loss: All loans and advances past due for a period of more than one year, are included in this category, loan loss provision equal to 100% of the falling under this category shall be maintained by the commercial banks.

All classified loans except 'pass' are called non-performing loan. The higher amount of non-performing loan consumes the profit of the Bank, as they require higher amount of provisioning toward loan loss. Therefore banks have to make reasonable effort for regularizing their loans to keep them performing in order to reduce the amount of loan loss provisioning and thereby enhancing the profitability.

The loan loss provision to total LDO mobilized by the Bank in the following table, diagram and graph:

Table No.18 Yearly Status of Loan Loss Provision to total LDO

Amount in Rs "000"

Fiscal Year	Loan Loss Provision	Total LDO	Loan Loss Provision to LDO
2057/58	2,83,926	73,58,838	3.86%
2058/59	2,69,346	76,32,418	3.5%
2059/60	2,61,874	72,47,980	3.6%
2060/61	4,00,733	86,48,744	4.6%
2061/62	9,05,143	77,87,690	11.6%
2062/63	2,71,575	64,60,247	4.2%
2063/64	34,277	44,09,013	0.78%

(Sources: NB Bank, Annual Reports, 2001 to 2007)

The above table showed the loan loss provision and total LDO decreased in each year. It showed the increasing trend for few years then it stated to decrease.

Diagram No.13 : Bar Diagram of Loan Loss Provision to total LDO

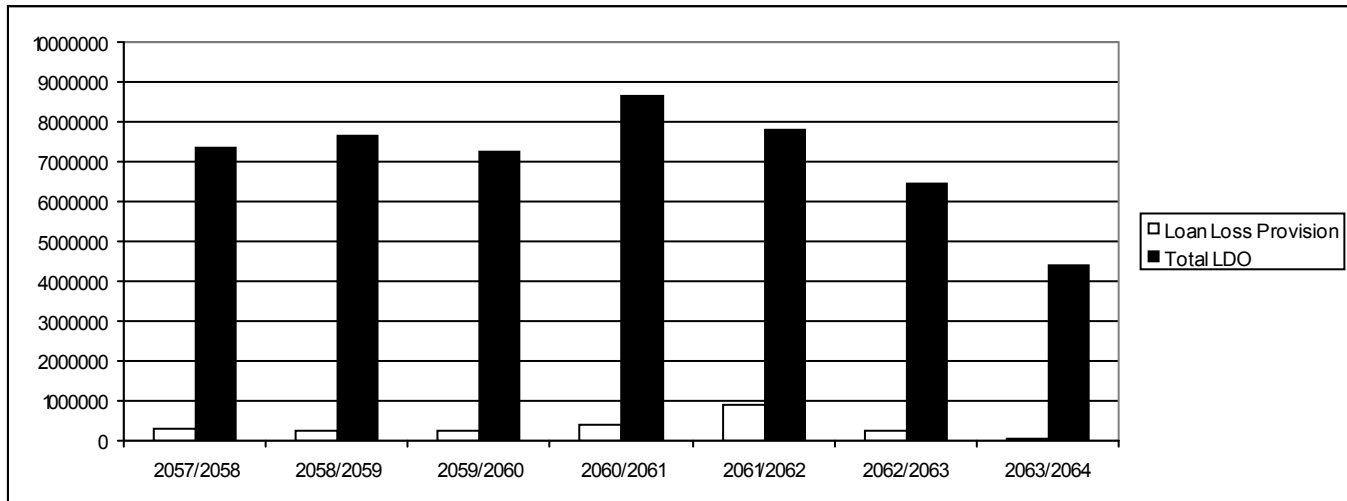
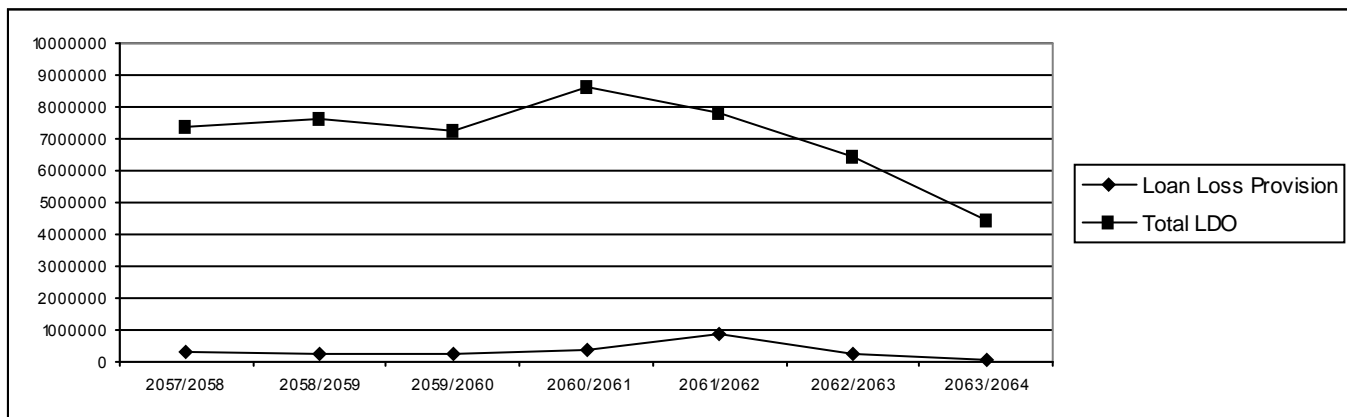


Diagram No.14 : Scatter Diagram of Loan Loss Provision to total LDO



The above table and diagram show that loan loss provision increased up to 11.86% of total LDO. The Bank should control such loan in order to improve its profitability.

4.6. Revenue Planning of NB Bank

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

1. Income from Commission & Discounts
2. Dividend received from investment in shares
3. Income from foreign exchange transactions
4. Various kinds of service Fees & charges etc

Table No.19 Yearly Income Structure of NB Bank

Amount in Rs “000”

Revenue	057/58	058/59	059/60	060/61	061/62	062/63	063/64
Interest Income	8,10,050	8,50,525	10,13,711	10,95,501	8,76,508	7,58,132	9,82,197
Comission & Discount	1,43,605	1,08,840	1,09,046	1,05,058	92,997	85,299	85,219
Dividend	0	0	0	0	0	0	0
Other Income	18,395	47,732	64,771	63,152	73,997	47,846	1,17,653
Foreign Income	1,02,097	69,706	56,300	56,159	39,671	63,957	40,962
Non oprating income\ (loss)	5,856	47,732	64,771	63,152	73,996	(11,105)	24,200
Total Revenue	10,80,003	11,24,535	13,08,599	13,83,022	11,57,169	9,44,129	12,50,231

(Sources: NB Bank, Annual Reports, 2001 to 2007)

The above table shows that the revenues increased each year. Income from interest is the highest among the others in total revenue for each year.

4.6.1. Interest Income

As interest income contributes the major portion of total revenue mix, this study attempts to analyze the interest income amount with other relevant data. Interest income is generated out of the loan and advances made by the bank. Therefore this is probably called yield on Fund (YOF). Bills discounting is also one form of advances therefore, for this study purpose, are grouped into the out-standing Loan, Advances & Overdraft and the Bills discounted together to call LDO and included the bills discounting commission too into the total interest income amount (YOF). The comparative status of total YOF with the total LDO with the total LDO were presented with the help of following table and bar, Scatter Diagrams.

Table No.20 Yearly Status of Loan Loss Provision to total LDO

Amount in Rs “000”

Fiscal Year	Interest Income	Total LDO	Average Yield in LDO
2057/58	8,10,051	73,58,838	11.0%
2058/59	8,50,525	76,32,418	11.14
2059/60	10,13,711	72,47,980	13.98
2060/61	10,95,501	86,48,744	12.66
2061/62	8,76,508	77,87,690	11.25
2062/63	7,58,132	64,60,247	11.73
2063/64	98,2,197	44,09,013	22.27

(Sources: NB Bank, Annual Reports, 2001 to 2007)

Diagram No.15: Bar Diagram of Interest Income to total LDO

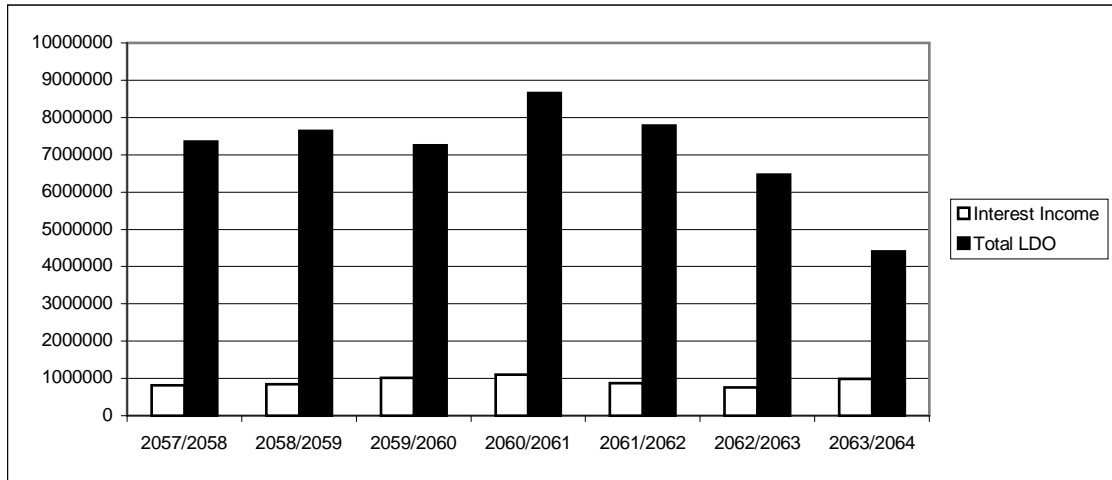
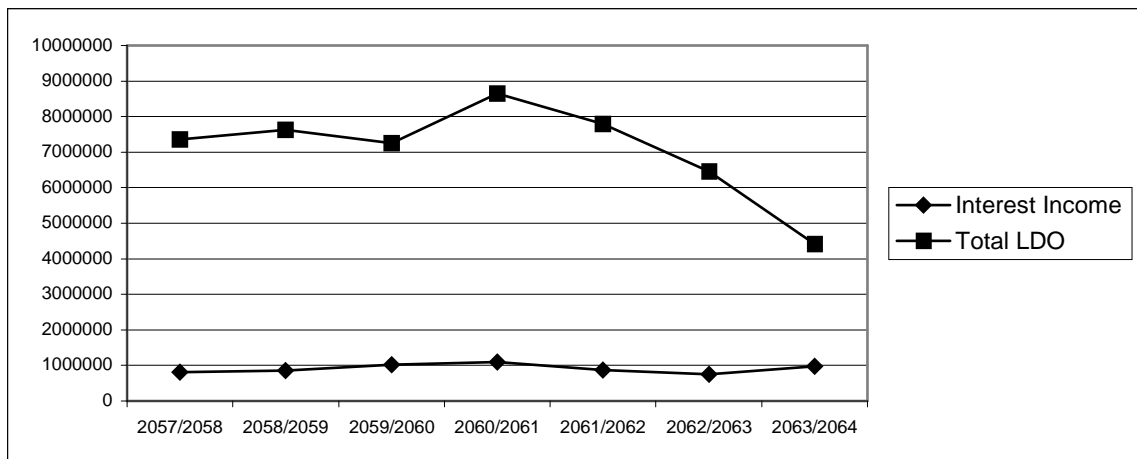


Diagram No.16 : Scatter Diagram Interest Income to total LDO



The above table shows that the yearly YOF of NB Bank ranges from 11% to 22.27% in various years. The average YOF for the period of study was 13.43%.

It is significant to analyze the relationship between Outstanding LDO and interest income (YOF). The figures of LDO amount and interest expense amount were presented in tabular form above. In order to find out the variability, of actual LDO and actual Interest income of different years were calculated the arithmetic mean, standard deviation and coefficient of variation technique and correlation of coefficient. The detail calculations of these statistical tools were presented in appendix no.5

Table No.21 Summary of Actul deposits and actual outstanding LDO

Amount in Rs “000”

Statistical tool's	Actual LDO in Rs X in “000”	Interest Income amount in Rs. Y in “ 000”
Mean	9,12,376	70,77,848
Standard deviation()	1,12,156	1,24,349
C.V	0.12	0.17

The above results show that the actual outstanding LDO are more variable than interest income. Hence the coefficient of variation of actual outstanding LDO was higher than of interest income. Another statistical tool, correlation of coefficient can be used to analyze the relationship between actual outstanding LDO and interest income. There should be positive correlation between actual outstanding LDO and interest income. In other words the actual LDO increased as the interest income increase or vice versa. To find out correlation between Interest Income and actual outstanding LDO with the help of Karl Persons coefficient of correlation and it is denoted by ‘r’ to examine whether there is positive correlation between Interest Income and actual LDO outstanding or not.

For this purpose actual LDO (X) was assumed to be independent variable and Interest Income (Y) assumed to be dependent variable. So that increase in LDO will support to increase in Interest Income and vice versa. After this significance of ‘r’ was tested with probable error of ‘r’ the detail calculation of ‘r’ and probable of ‘r’ was presented in appendix 5 From this appendix the value of e and P.E 0.127 and 0.250 respectively were calculated. Since $r < 6p.E$ ($0.127 < 6 \times 0.250$) the value of ‘r’ was insignificant. There was not perfect correlation between actual deposits and actual LDO.

The calculation shown in appendix 5, were obtained the value of r being 0.12. Now the coefficient of determination which explained the change in ‘Y’ variable i.e. interest income by X variable i.e. LDO can be calculated as the square of (r).

4.6.2. Income Other Than Interest Income

Income earned by bank other than interest income is called other income. Most part of such incomes are earned from non fund based activities in the form of commissions, fees, charges, profit, on foreign exchange sale, revaluation gains, commitment charges, remittance

fees, service charges etc. The amount of other income earned by the Bank in various years is as shown in the earlier table no.18.

4.7. Interest Spread

Interest spread is the difference amount obtained by subtracting total interest expenses amount from the total interest earned. In other words, it is the margin on interest or net interest income of the Bank.

The following table gives the status of interest income. Expenditure and spread of the Bank during the study period.

Table No.22 Yearly Spread of NB Bank

Amount in Rs “000”

Fiscal Year	Interest Income	Interest Expenses	Interest Spread
2057/58	8,10,051	5,15,848	2,94,203
2058/59	8,50,525	5,52,743	2,97,782
2059/60	10,13,711	5,97,880	4,15,831
2060/61	10,95,501	625,361	4,70,140
2061/62	8,76,508	5,47,943	3,28,565
2062/63	7,58,132	5,18,094	2,40,038
2063/64	9,82,197	4,32,219	5,49,978

(Sources: NB Bank, Annual Reports, 2001 to 2007)

The above table shows the interest income and expenses till fiscal year 2063/64. The trend of both income and expenses was increasing. Increment in income was more till fiscal year 2060/61 which is fruitful to the bank.

Diagram No.1 7: Bar Diagram of Yearly Spread of NB Bank

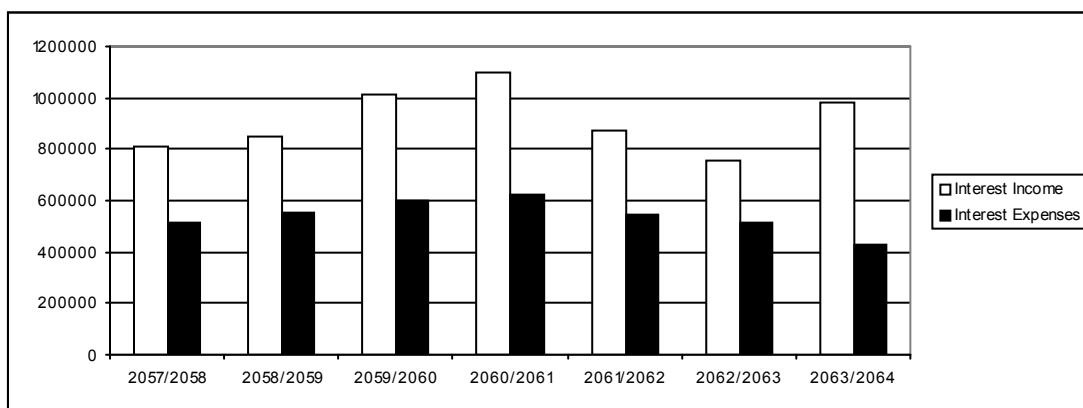
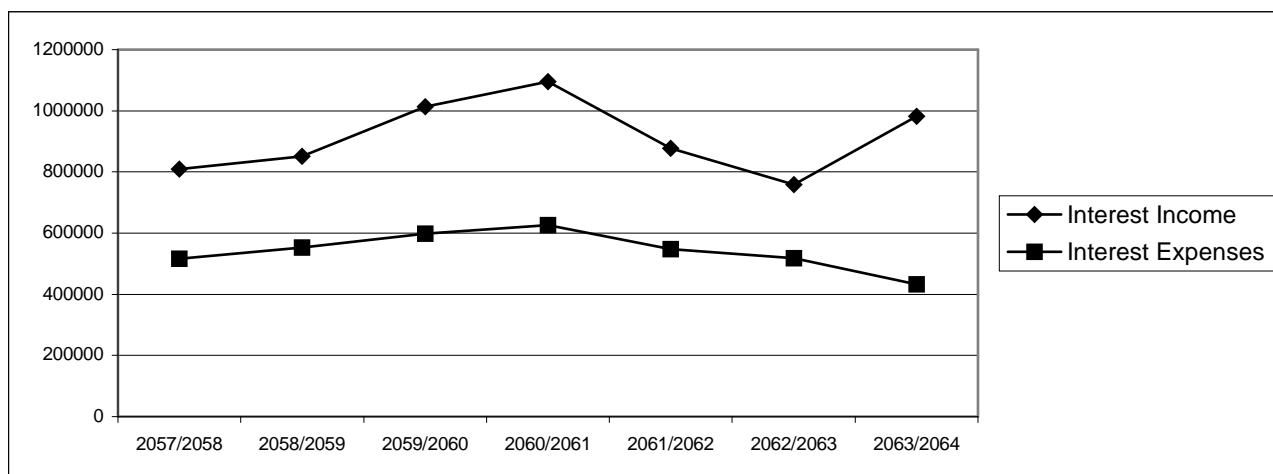


Diagram No.1 8: Scatter Diagram of Yearly Spread of NB Bank



4.7.1. Burden

Burden is the overall expenses of the Bank excepting interest expenses incurred for the payment of deposit interest. That is the operating cost of the Bank excepting interest cost is called the burden. The net burden is the net amount of burden cost obtained which is the difference between other expenses and other income.

The nature of this cost is semi fixed where as interest cost is variable cost. The following table shows the status of net burden in the Bank over the period of study:

Table No.23 Table showing burden of NB Bank

Amount in Rs “000”

Fiscal Year	Other Expenses	Other Income	Net Burden
2057/58	3,67,403	2,69,952	97,451
2058/59	3,38,936	47,732	2,91,204
2059/60	4,45,107	64,771	3,80,336
2060/61	12,82,835	63,152	12,19,683
2061/62	2,19,373	73,997	20,45,376
2062/63	9,37,427	47,846	8,89,581
2063/64	15,45,012	1,17,653	14,27,359

(Sources: NB Bank, Annual Reports, 2001 to 2007)

The above table showed the expenses and income of the bank during the study period. Expenses showed the increasing trend than income which was not good for the bank.

Diagram No.19: Bar Diagram showing burden of NB Bank

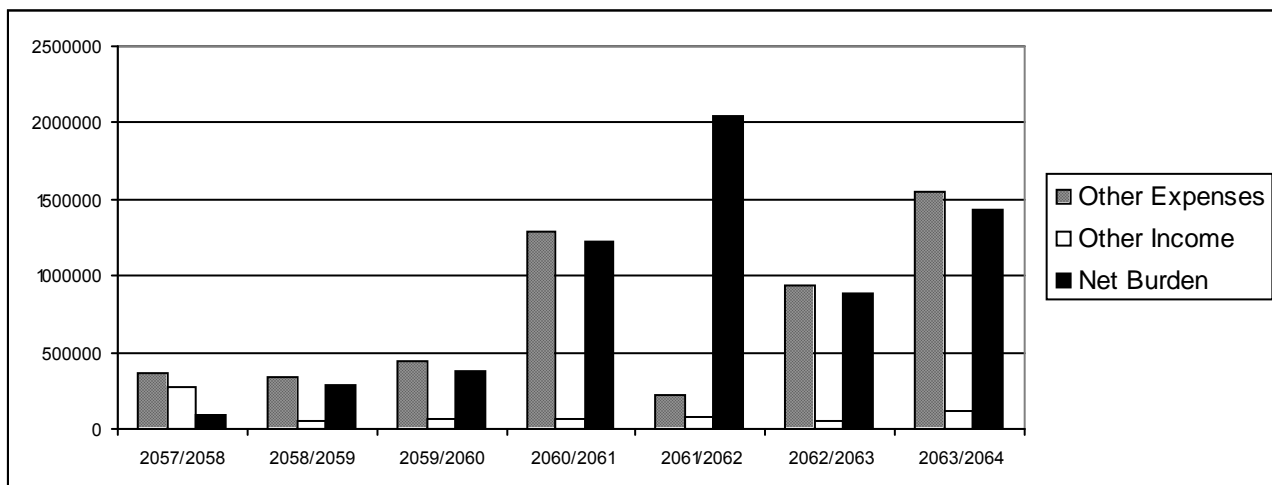
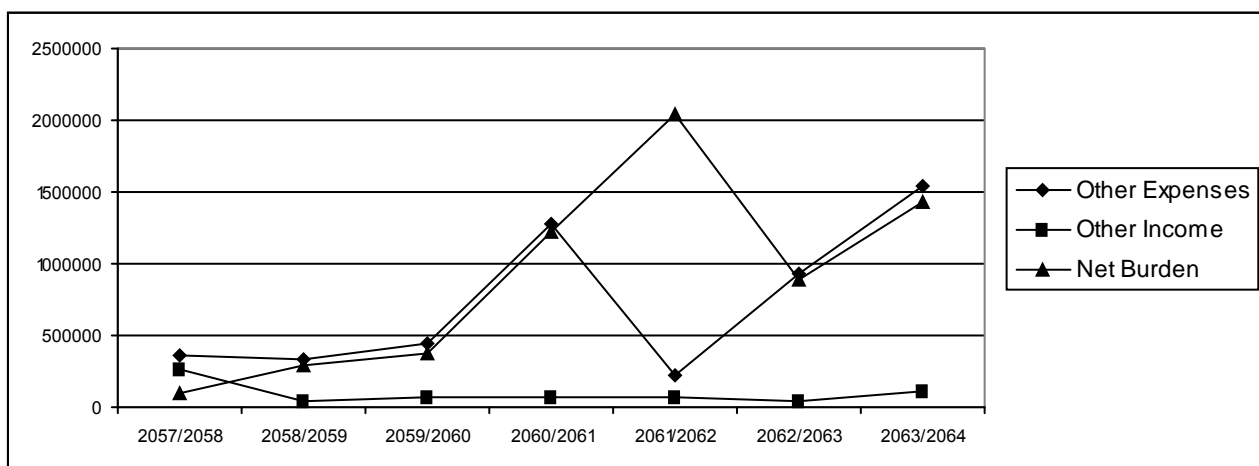


Diagram No.20: Scatter Diagram showing burden of NB Bank



4.7.2. Net Profit

Profit is excess of income over expenses. In this context, the net profit was taken being the excess spread over the net burden. Spread is the net interest income (excess interest income over the interest expenses), and the net burden is the difference amount from other expenses and other income.

The following table and graphs show the status of spread, Burden and Net Profit of various year of the study.

Table No.24 Yearly Net profit Status of NB Bank

Amount in Rs “000”

Fiscal Year	Spread	Burden	Net profit
2057/58	2,94,203	97,451	1,96,752
2058/59	2,97,782	2,91,204	65,784
2059/60	4,15,831	3,80,336	71,495
2060/61	4,70,140	12,19,683	(7,49,543)
2061/62	3,28,565	20,45,376	(17,16,811)
2062/63	2,40,038	8,89,581	(6,49,543)
2063/64	5,49,978	14,27,359	(8,77,381)

(Sources: NB Bank, Annual Reports, 2001 to 2007)

The above table showed the position net profit of the bank. It followed the decreasing trend. It might be because of bank's much investment in non performing assets.

Diagram No.21 : Bar Diagram of Yearly Net profit Status of NB Bank

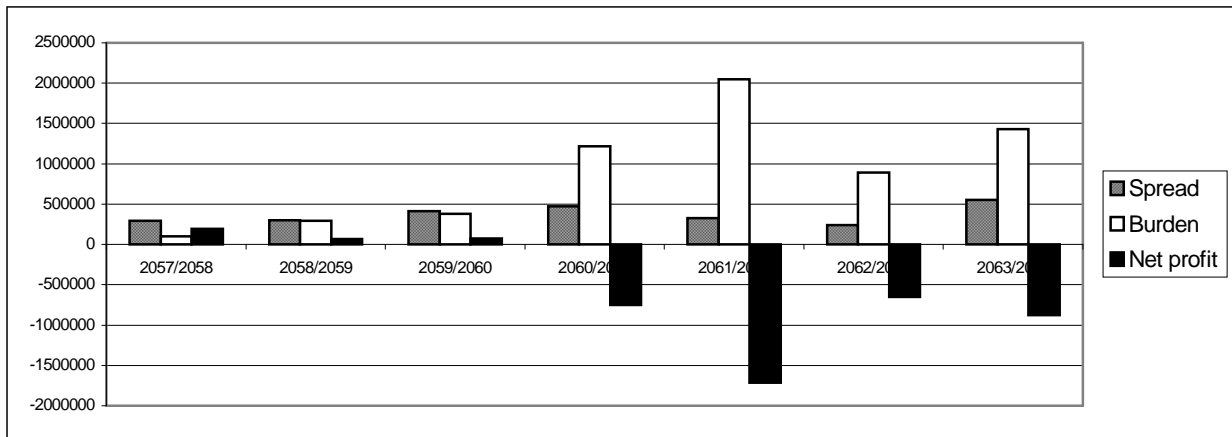
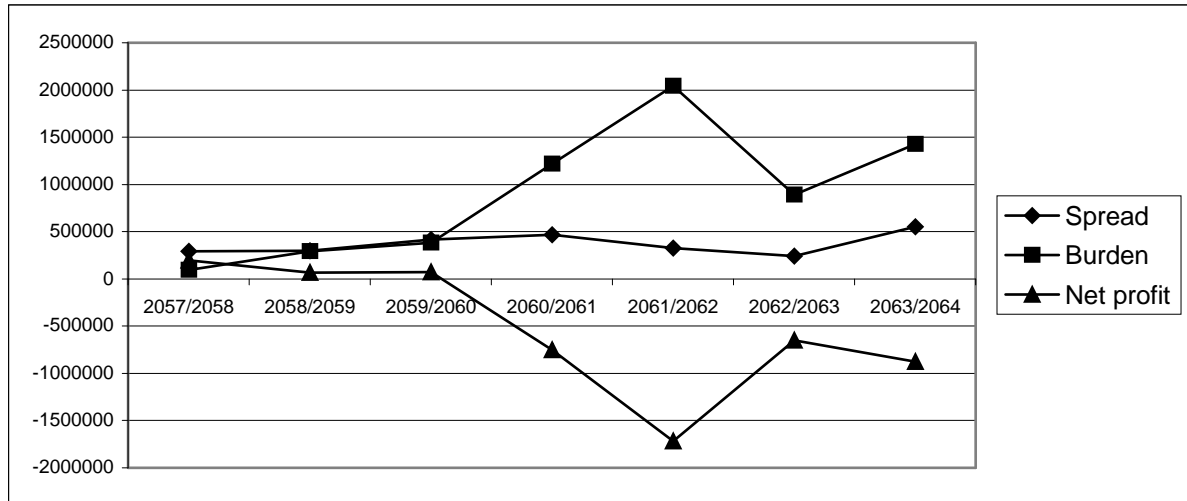


Diagram No.22 : Scatter Diagram of Yearly Net profit Status of NB Bank



4.8. Performance Evaluation of NB Bank

The performance evaluation for internal management use is an important aspect of a comprehensive profit planning & control-system (Welsch-1999). All companies regardless of their size have reporting requirements to show their overall performance.

Performance reporting is an important phase of control process. The various techniques & criteria were used to evaluate performance of NB Bank, which are as follows:

1. Ratio Analysis
2. Cost Volume Profit Analysis.

4.8.1. Ratio Analysis

An arithmetic relationship between two figures is known as ratio. Ratio Analysis is a financial device to measure the financial positions, major strengths, and weaknesses of a firm. To evaluate the performance of an organization by creating the ratios from the figures of different account consisting in balance sheet and income statement is known as ratio analysis. Ratio can be classified for the purpose of exposition into four broad groups:

- a. Liquidity Ratio
- b. Capital Structure Ratio
- c. Activity Ratio
- d. Profitability Ratio

4.8.1.1. Liquidity Ratio

The ability of a firm to meet its obligation in the short term is known as liquidity. It reflects the short-term financial strength of the firm. Now the current ratio to measure relationship of current assets & current liabilities of NB Bank were used. It is calculated by dividing the total current assets by current liabilities.

Table No.25 Calculation of Liquidity ratio

Amount in Rs “000”

Fiscal Year	Current Assets	Current Liabilities	Current Ratio
2057/58	85,89,642	35,79,834	2.40:1
2058/59	1,10,10,725	1,04,75,730	1.05:1
2059/60	1,18,52,878	1,12,34,576	1.06:1
2060/61	1,41,66,795	1,36,01,395	1.04:1
2061/62	1,30,87,844	1,22,46,278	1.07:1
2062/63	1,15,36,956	1,32,00,865	0.87:1
2063/64	71,13,741	96,48,711	0.74:1

(Sources: NB Bank, Annual Reports, 2001 to 2007)

The table no 25 represents the detailed charts of liquidity ratio of NB Bank for the years from fiscal year 2057/058 to 2063/064. The standard of current ratio is 2:1. The Current ratio of NB Bank was remarkable because it was more than standard ratio. It showed that Bank’s solvency position was better.

4.8.1.2. Capital Structure Ratio

To judge the long-term financial position of NB Bank the leverage ratio were calculated. The following two ratios are calculated in Capital Structure Ratio.\

1. Debt Equity Ratio
2. Interest Coverage Ratio

4.8.1.3. Debt equity ratio: The relationship between borrowed fund and owner’s equity is known as debt equity ratio. The amount of fixed deposit was taken as long-term debt for the Bank.

Table No.26 Calculation of Debt Equity Ratio

Amount in Rs “000”

Fiscal Year	Fixed Deposit	Capital Fund	Debt equity Ratio
2057/58	52,36,788	5,95,122	8.8:1
2058/59	4,17,139	3,57,252	1.1:1
2059/60	4,01,840	3,59,924	1.1:1
2060/61	3,79,414	3,59,924	1.0:1
2061/62	2,50,472	7,19,852	0.3:1
2062/63	28,66,914	7,19,852	3.9:1
2063/64	15,78,131	7,19,852	2.1:1

(Sources: NB Bank, Annual Reports, 2001 to 2007)

The above table no 26 shows debt equity ratio. The Bank’s one of the major function is to accept customer deposit, it is obvious that the bank will have higher debt equity ratio.

4.8.1.4. Interest Coverage Ratio: This ratio measures the Interest payment capacity of NB Bank. It is computed by dividing Net Profit before interest & Tax by interest cost amount.

Table No.27 Calculation of Interest Coverage Ratio

Amount in Rs “000”

Fiscal Year	Net Profit before Interest and Tax	Interest Expenses Amount	Times
2057/58	7,12,600	5,15,848	1.38
2058/59	6,18,526	5,52,743	1.11
2059/60	6,28,004	5,97,880	1.05
2060/61	2,03,601	6,25,361	0.32
2061/62	1,01,601	5,47,943	0.18
2062/63	11,98,717	5,18,094	2.31
2063/64	4,45,163	4,32,219	1.02

(Sources: NB Bank, Annual Reports, 2001 to 2007)

Interest coverage Ratio of NB Bank was in increasing trend year by year, which was favorable for NB Bank

4.8.1.5. Employee Productivity ratio (Activity Ratio)

The relationship between various activities and the number of employees are indicated by employee productivity (activity) ratio. These ratios reflect how efficiently the organization is utilizing its manpower. These are expressed as LDO per employee, deposit per employee and non-funded activities per employee.

Table No.28 Calculation of employee Productivity ratio of NB Bank

Amount in Rs “000”

Fiscal Year	Deposit Collected	LDO Deployed	Non-funded Business	No. of employees	Deposit per Employee	LDO per Employee	Non-funded Business per Employee
2057/58	86,00,812	73,58,838	26,38,319	362	23,759	20,328	7,288
2058/59	95,34,220	76,32,418	24,53,441	365	26,121	20,911	6,722
2059/60	1,05,91,081	72,47,980	21,13,456	351	30,174	20,650	6,021
2060/61	1,28,07,376	86,48,744	25,92,767	435	29,442	19,882	5,960
2061/62	1,21,25,578	77,87,690	22,40,118	410	29,575	18,994	5,464
2062/63	13,01,5136	64,60,247	20,75,287	365	35,658	17,699	5,686
2063/64	93,85,950	44,09,013	25,71,230	365	25,715	12,079	7,044

(Source: NB Bank, Annual Reports, 2001 to 2007)

The above table shows that deposit per employee and LDO per employer were in increasing trend and non-funded business per employer were in stable condition which indicated that the productivity of NB Bank was remarkable.

4.8.1.6. Profitability Ratio

It shows the overall efficiency of the organization. The relation of the return of the firm to either its sales or its equity, or its assets is known as profitability.

Table No.29 Calculation of Profitability Ratios

Amount in Rs “000”

Fiscal Year	Net profit	Total Assets	Return on assets	Total capital fund	Return on capital
2057/58	1,96,752	99,62,696	1.97%	5,95,122	33.06%
2058/59	65,784	1,11,02,233	0.59%	3,57,252	18.41%
2059/60	71495	1,19,32,612	0.60%	3,59,924	19.86%
2060/61	(7,49,543)	1,43,57,973	-5.22%	3,59,924	-208.25%
2061/62	(17,16,811)	1,32,77,151	-12.93%	7,19,852	-238.49%
2062/63	(6,49,543)	17,09,281	-38.00%	7,19,852	-90.23%
2063/64	(8,77,381)	72,54,548	-12.09%	7,19,852	-121.88%

(Sources: NB Bank, Annual Reports, 2001 to 2007)

The table no 29 shows the results of return on assets & capital fund of NB Bank, the returns were remarkable. It indicates that net profit of NB Bank was in increasing trend. The profitability ratio of NB Bank was sound and strong. Its profit ratio indicated of the higher overall efficiency of the NB Bank and better utilization of total resources.

4.9. Cash Flow Analysis

Following table presents cash flow statement of the Bank for last four years, which gives the satisfactory picture of cash inflow to meet the required cash out flow within the bank for the period

NEPAL BANGLADESH BANK LIMITED
CASH FLOW STATEMENT

<i>Particulars</i>	2062/063	2063/064
A. CASH FLOW FROM OPERATING ACTIVITIES	(291,62,458)	45,91,54,846
1. Cash Receipt	81,51,29,765	1,22,60,31,468
1.1 Interest Income	63,73,20,790	98,21,96,609
1.2 Commission and Discount Income	8,44,47,709	8,52,19,362
1.3 Income from foreign exchange Transaction	4,55,15,555	4,09,62,270
1.4 Recovery from loan written off	-	-
1.5 Other income	4,78,45,711	11,76,53,227
2. Cash Payments	84,42,92,223	76,68,76,622
Interest Expenses	51,80,93,984	43,22,18,705
Staff Expenses	14,06,62,463	11,2547,763
Office overhead Expenses (less non-cash expenses)	9,43,49,457	9,35,80,522
Income tax paid	-	-
Other expenses	9,11,86,319	12,85,29,632
	-	-
CASH FLOW before change in working capital	16,90,75,820	(1,17,79,29,516)
<u>Increase\Decrease of current Assets</u>	(69,02,85,245)	2,40,45,55,995
1. (Increase)\ Decrease in Money at call and Short Notice	(3,00,28,767)	(1,99,71,233)
2. (Increase)\ Decrease in other short term investment	(26,23,98,774)	1,64,61,38,616
3. (Increase)\ Decrease in Loans, Advance and Bills Purchase	(44,10,44,124)	62,69,42,493
4. (Increase)\ Decrease changes in other assets	4,31,86,420	15,14,46,119
<u>(Increase)\ Decrease in Current liabilities</u>	85,93,61,065	(3,58,24,85,511)
1. (Increase)\ Decrease in Deposits	88,82,41,622	(36,291,86,561)
2. (Increase)\ Decrease in Certificate Deposit	13,16,232	-
3. (Increase)\ Decrease in Short term Borrowing	-	-
4. (Increase)\ Decrease in Other liabilities	(3,01,96,789)	4,67,01,050

B. CASH FLOW FROM INVESTING ACTIVITIES	7,97,08,509	2,91,42,909
	(19,19,496)	-
1. (Increase)\ Decrease long term Investments	(9,99,959)	2,67,67,909
2. (Increase)\ Decrease in Fixed Assets	8,22,95,464	-
3. Interest Income on Long term Investment	3,32,500	23,75,000
4. Dividend Income	-	-
5. Others	-	-
C. CASH FLOW FROM FINANCING ACTIVITIES	7,32,96,644	15,,90,00,000
	-	-
1. (Increase)\ Decrease in long term Borrowing (Bond, Debenture etc.)	-	-
2. (Increase)\ Decrease in shareholders capital	22,96,644	-
3. (Increase)\ Decrease in other liabilities	7,10,00,000	15,90,00,000
4. (Increase)\ Decrease in refinance \facilities received from NRB	-	-
D. Income and loss from change in Exchange Rate in cash and Bank balance	-	-
E. Current year's CASH FLOW from all activities	29,29,18,515	(53,06,31,761)
F. Opening cash and Bank Balances	1,40,17,66,369	1,69,46,84,884
G. Closing Cash and Bank Balances	16,94,68,48,84	1,16,40,53,123

(Sources: NB Bank, Annual Reports, 2001 to 2007)

4.10. Major Findings

The major findings of this research study on profit planning of Nepal Bangladesh Bank are as follows:

1.Resource Mobilizations

- Major resources mobilization of NB Bank was at deposit. In this respect they incurred higher cost toward deposit mobilizations.
- Deposit mobilized by the Bank was found to be considerably growing every year. The average growth over the period of last seven years beings as high as Rs.10865736.
- The targets set for deposit mobilization by the bank were being well met every year.
- From the data analysis of deposit budget and actual achievements, by coefficient of variance, it is found that, the actual deposits were less variable than the budgeted one.

2.Resources Deployment

- a. Bank's resources deployment for non-yielding liquid assets (cash and bank balance) increased every year. Thus making supportive to meeting liquidity requirements of the Bank.
- b. Major portion of the resources were deployed in LDO.
- c. The targets of deployment of fund on LDO were met every year.
- d. LDO of the Bank were in increasing trend for few years, with an average growth recorded as high as 8648744 over the period of last seven years.
- e. From the analysis of Budgeted and Actual LDO with the help of co-efficient of variance, it was found that, the actual LDO was less variable than the budgeted one.
- f. CD Ratio (Credit to Deposit Ratio, ratio of LDO on total Deposit expressed in percent term) of the Bank was high. The average CD ratio of the Bank for the period of last seven years was as high as 66.05%
- g. The data analysis of LDO and deposit, with help of Karl Person's co-efficient of correlation showed that, the deposit and the LDO were not perfectly correlated.
- h. The data analysis of Deposit and LDO with the help of coefficient of variation showed that LDO was less variable than the Deposit.

3.Non Funded business activities

- a. Outstanding Letter of Credit liability of the bank showed the growth which was not constant.
- b. Outstanding guarantee liability of the bank was in increasing trend every year.

4.Expenditure

- a. Interest expenses amount were the highest among total expenses item of the Bank every year.
- b. The interest expenses of the bank were found decreasing each year corresponding to the increase in deposit. The interest expenses were perfectly and positively correlated with deposit.
- c. Average cost of deposit (calculated as the ratio of total interest expenses during a year on the outstanding deposit as of the year and expressed in percent term) of the bank was found to be increasing during the first four years of operations but it has reduced gradually from 6% to 3.9%.
- d. Other expenses of the bank were also in increasing trend every year.

5. Revenue

- a. Interest income amount of the Bank was the highest among other income items in the total Revenue.
- b. The amount of interest increased every year corresponding to increase in LDO. There is perfect and positive correlation between interest income and LDO.
- c. Average yield on LDO (ratio of interest on total LDO expressed in percent term) was the lowest level of 3.86% in the first year, which increased afterwards and reached up to 11.6% during fiscal year 2061/062. During fiscal year 2063/064 it reached up to 0.78%. The average yield on LDO for last seven year remained at 4.59
- d. The other income of Bank was also in increasing trend.
- e. The interest spread or the amount of interest margin was found to be increasing every year.
- f. Net burden of the Bank was in increasing trend every year, but as the average rate of other income was higher than that of other expenses, it can be expected that it would not hamper much to the profitability if the same trend was continued.

6. Ratio Analysis

- a. The average current ratio of the bank found to be always higher than the standard ratio of 2:1, which showed the satisfactory liquidity position of the bank.
- b. Generally the debt equity ratio of the bank was higher because they mobilized fixed deposit much more times of their capital fund. NB bank was also not exception to it.
- c. The average Interest Coverage Ratio of the bank was 1.22 times during the study period.
- d. From the study of total number of manpower and total volume of overall activities of the bank, it was found that the volume of business per employee increased every year, which suggested increase productivity of manpower.
- e. From the profitability ratio, it was found that the ROC (Return on capital) was negative and this trend followed the same trend over the study period. This maybe due to higher rate of increase in capital fund than that of the net profit.

Chapter- V

Summary, Conclusion & Recommendations

Generally speaking, loan is classified as non-performing loans only after it has been arrears at least 3 months. The details and classification standards of non performing loans may vary from country to country as the country put in place norm as per requirements of their own banking system. In Nepalese case the three month's above over due rule has been adopted. It will be imperative to understand terms non-performing assets and non- performing loans. Generally, non -performing assets relates to non -performing financial assets. In this context, non -performing assets are defined as debt instrument whose obligors are unable to discharge their liabilities as they become due. The term debt instrument refers to both loans and bonds. Therefore, non-performing loan is referred to distressed loans classified as per regulation of central bank.

Loans means loans and bills purchased and discounted by banks and financial institutions. Since the loans being the significant component on financial assets portfolio, non performing loans and non performing assets are used interchanging, but if there is no other asset other than loans to denote, it will be better to say non performing loans. A loan is classified as non performing if the borrower doesn't pay dues in the form of principal and interest for period of 180 days past due. With a view to moving towards international best practices and to ensure greater transparency, it has been decided to adopt the 90 days overdue norm for identification of NPAs, with the affect from March 2004, default status would be given to borrower if dues are not paid for 90 days. Non performing Assets means an asset or account of borrower, which has been classified by a bank or financial institution as sub standard, doubtful or loss asset, in accordance with the directions or guidelines relating to asset classification issued by central bank of the country.

One should not forget that the banks are faced with the problem of increasing liquidity in the system. Further, Central Bank is increasing the liquidity in the system through various rate cuts. Banks can get rid of its excess liquidity by increasing its lending but, often shy away from such an option due to the high risk of default. The lending to the borrowers with the proper analysis of loan proposal increases the chances of bad loan to the commercial banks. Nepal Bangladesh Bank went in risk due to the improper analysis of loan proposal and increases the bad loan, which indirectly decreases the public faith towards the bank after the management hand over to Nepal Rastra Bank.

Non-performing assets has wreck the bank's profitability both through a loss of interest income and write of the principal loan amount and withdrawal of the money from bank and closing of account because of uncertainty of bank .It degrade the public faith towards bank as a result it customer switch on other in search of secure future. In the context of Nepal, loans classified as substandard, doubtful and bad are regarded as non-performing assets.

"Non performing assets are non income generating assets, including loans that are past due for 90 days or more change off on the other hand are loans that have been declared worthless by the banks and written off from its books. If some of these loans ultimately generate income for the banks, the amount recovered is deducted from gross change off to yield net change off. As both of above ratio rise, the banks exposure to credit risk grows and bank failure may be just around the corner. The final two credit risk indicators ratios reveal extends to which a bank is preparing for loans losses by building up its loan reserve through annual charge against current income.

On the basis of the study on profit planning of NB Bank, the following suggestions are recommended to improve the Profit Planning system of the Bank:

A. In the internal management and personnel part

1. Level wise specific job description and responsibility assignment should be mentioned clearly.
2. Bank management should adopt the policy of appropriate authority delegation at all level of management in order to save the valued time of the chief executive officer for other productive use.
3. Employee training at advance level should be given more focus in order to keep the manpower updated with the changing practices and technologies.
4. It is suggested to the bank to form a specific Planning and Research Department, which shall be responsible for developing new innovative products, further development and up gradation of existing products, which in turn ensure better profitable business for the bank.
5. Branch monitoring and controlling mechanism should be made at the regional level also in order to ensure the better functioning of the branch offices located at such locations, which are far from the Head office.

6. Objectives of the Bank should be clearly defined in order to avoid the risk of it being misinterpreted.

B .In the Business Part

1. The average cost of deposit of the Bank is high, therefore Bank should try to lower it by mobilizing more and more low cost or cost free deposits thereby reducing the interest cost because due to the high cost of deposit, bank is forced to invest its fund more on highly yielding assets, which are generally not liquid and obviously risky for the Bank.
2. Banks CD ratios are high, which is rather a compulsion for the bank to meet the cost of high cost deposits. Higher CD ratio although gives better return in short term, it hampers the liquidity and is more risky for the bank also get hampered on the long run, Therefore the Bank should improve its position from lowering the deposit cost and increase the investments in liquid assets although they are of low yield.
3. LDO of the bank has increased significantly but the part of proper loan assessment and monitoring aspects are not well developed and the infrastructures required (such as trained manpower, logistics etc.) are not adequate. Therefore with such poor infrastructures, it is not advisable to go aggressively in LDO. The Bank should keep adequate required infrastructures to support its objectives.
4. The Nepal Rastra Bank has put the restriction on the difference of average rate of interest income and average rate of interest expenses of the Bank (i.e. Spread) not to exceed 5%. Therefore the bank has to put more focus on the other kind of non-funded activities by which it shall increasing income from other sources than interest to increase its profitability.
5. Expenses cannot be avoided and always are growing with increasing activities, but it should be optimize and should be related with the income generating activities. Bank should minimize those expenses, which are not related to income earning. Other expenses than interest from a burden to the gross profit margin (interest margin) of the bank, therefore lowering the other expenses the bank shall enhance its profit.
6. Net profit of the Bank is the amount, which is obtained by subtracting the amount of net burden from the amount of gross interest margin. Therefore, NB bank shall attempt

to lower the burden cost, by increasing the other income and decreasing the other expenses. At the same time it should take a policy to make the interest margin at the maximum extent as allowed by the central Bank's norm.

7. Bank should implement its activities with prior planning; there must be budgeting system, which enables it to achieve its objectives.
8. Non performing assets could wreck bank's profitability but while lending to the borrowers proper analysis of the loan proposal must be done which will decrease the chances of bad loan to the bank.

With the abovementioned summary, Major Findings from the study and the recommendations suggested, the report is concluded.

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APPENDICES

ANNEX I

Least square linear trend of Budgeted Deposit

Fiscal Year	Budgeted Deposit (Y)	X	X ²	XY
2057/58	800000	-3	9	-2400000
2058/59	10620000	-2	4	-21240000
2059/60	13080000	-1	1	-13080000
2060/61	14344800	0	0	0
2061/62	15609600	1	1	15609600
2062/63	16874400	2	4	33748800
2063/64	18139200	3	9	54417600
Total	Y= 89468000	X=0	X ² =28	XY = 67056000

Fiscal Year	Actual Deposit (Y)	X	X ²	XY
2057/58	8600812	-3	9	-25802436
2058/59	9534220	-2	4	-19068440
2059/60	10591081	-1	1	-10591081
2060/61	12807376	0	0	0
2061/62	12125578	1	1	12125578
2062/63	13015136	2	4	26030272
2063/64	9385950	3	9	28157850
Total	Y= 76060153	X=0	X ² =28	XY = 10851743

Calculation of Standard Deviation and C.V.

Fiscal Year	Budgeted Deposit (X)	$x = X - \bar{X}$	x^2
2057/58	8,00,000	-1,19,81,143	14,35,47,78,75,86,449
2058/59	1,06,20,000	-21,61,143	46,70,53,90,66,449
2059/60	1,30,80,000	2,98,857	89,31,55,06,449
2060/61	1,43,44,800	15,63,657	24,45,02,32,13,649
2061/62	1,56,09,600	28,28,457	80,00,16,90,00,849
2062/63	1,68,74,400	40,93,257	1,67,54,75,28,68,049
2063/64	1,81,39,200	53,58,057	2,87,08,77,48,15,249

Where as: mean = $X/N = 1,27,81,142$

$$\text{Standard deviation } (\dagger) = \sqrt{\frac{1}{n} \sum x^2} = 54,01,275$$

$$\text{Coefficient of Variation (C.V)} = \dagger / \bar{X} = 0.42$$

ANNEX II

Least square linear trend of Budgeted LDO

Fiscal Year	Budgeted LDO (Y)	X	X ²	XY
2057/58	6120100	-3	9	-18360300
2058/59	8500000	-2	4	-17000000
2059/60	10310050	-1	1	-10310050
2060/61	11311055	0	0	0
2061/62	12312060	1	1	12312060
2062/63	13313065	2	4	26626130
2063/64	14314070	3	9	42942210
Total	Y= 76180400	X=0	X ² =28	XY = 36210050

Fiscal Year	Actual LDO (Y)	X	X ²	XY
2057/58	7358838	-3	9	-22076514
2058/59	7632418	-2	4	-15264836
2059/60	7247980	-1	1	-7247980
2060/61	8648744	0	0	0
2061/62	7787690	1	1	7787690
2062/63	6460247	2	4	12920494
2063/64	4409013	3	9	13227039
Total	Y= 49544930	X=0	X ² =28	XY = -10654107

Calculation of Standard Deviation and C.V.

Fiscal Year	Budgeted LDO (X)	x = X - \bar{X}	x ²
2057/58	61,20,100	-47,62,814	22684397198596
2058/59	85,00,000	-23,82,914	5678279131396
2059/60	1,03,10,050	-5,72,864	328173162496
2060/61	1,13,11,055	4,28,141	183304715881
2061/62	1,23,12,060	14,29,146	2042458289316
2062/63	1,33,13,065	24,30,151	5905633882801
2063/64	1,43,14,070	34,31,156	11772831496336

Where as: mean = $\bar{X} = \frac{\sum X}{N} = 1,08,82,914$

$$\text{Standard deviation } (t) = \sqrt{\frac{1}{n} \sum x^2} = 26,34,797$$

$$\text{Coefficient of Variation (C.V)} = \frac{t}{\bar{X}} = 0.24$$

ANNEX III

Least square linear trend of Interest Expenses and Actual Expenses.

Fiscal Year	Interest Expenses (Y)	X	X ²	XY
2057/58	5,15,848	-3	9	-1547544
2058/59	5,52,743	-2	4	-1105486
2059/60	5,97,880	-1	1	-597880
2060/61	6,25,361	0	0	0
2061/62	5,47,943	1	1	547943
2062/63	5,18,094	2	4	1036188
2063/64	4,32,219	3	9	1296657
Total	Y= 37,90,088	X=0	X ² =28	XY = -370122

Fiscal Year	Total Deposit (Y)	X	X ²	XY
2057/58	8600812	-3	9	-25802436
2058/59	9534220	-2	4	-19068440
2059/60	10580648	-1	1	-10580648
2060/61	12807376	0	0	0
2061/62	12125578	1	1	12125578
2062/63	1301536	2	4	2603072
2063/64	9385949	3	9	28157847
Total	Y= 64336119	X=0	X ² =28	XY =-12565027

Calculation of Standard Deviation and C.V.

Fiscal Year	Interest Expenses (X)	x = X - \bar{X}	x ²
2057/58	5,15,848	-25593	655001649
2058/59	5,52,743	11302	127735204
2059/60	5,97,880	56439	3185360721
2060/61	6,25,361	83920	7042566400
2061/62	5,47,943	6502	42276004
2062/63	5,18,094	-23347	545082409
2063/64	4,32,219	-109222	11929445284

Where as: mean = $\bar{X} = 5,41,442$

$$\text{Standard deviation } (\dagger) = \sqrt{\frac{1}{n} \sum x^2} = 57,975$$

$$\text{Coefficient of Variation (C.V)} = \dagger / \bar{X} = 0.10$$

ANNEX IV

Least square linear trend of Interest Income and Total LDO.

Fiscal Year	Interest Income (Y)	X	X ²	XY
2057/58	810051	-3	9	-2430153
2058/59	850525	-2	4	-1701050
2059/60	1013711	-1	1	-1013711
2060/61	1095501	0	0	0
2061/62	876508	1	1	876508
2062/63	758132	2	4	1516264
2063/64	982197	3	9	2946591
Total	Y= 6386625	X=0	X ² =28	XY = 194449

Fiscal Year	Total LDO (Y)	X	X ²	XY
2057/58	7358838	-3	9	-22076514
2058/59	7632418	-2	4	-15264836
2059/60	7247980	-1	1	-7247980
2060/61	8648744	0	0	0
2061/62	7787690	1	1	7787690
2062/63	6460247	2	4	12920494
2063/64	4409013	3	9	13227039
Total	Y= 49544930	X=0	X ² =28	XY = -10654107

Calculation of Standard Deviation and C.V.

Fiscal Year	Budgeted LDO (X)	x = X - \bar{X}	x ²
2057/58	61,20,100	-47,62,814	22684397198596
2058/59	85,00,000	-23,82,914	5678279131396
2059/60	1,03,10,050	-5,72,864	328173162496
2060/61	1,13,11,055	4,28,141	183304715881
2061/62	1,23,12,060	14,29,146	2042458289316
2062/63	1,33,13,065	24,30,151	5905633882801
2063/64	1,43,14,070	34,31,156	11772831496336

Where as: mean = $\bar{X} = 1,08,82,914$

$$\text{Standard deviation } (\dagger) = \sqrt{\frac{1}{n} \sum x^2} = 26,34,797$$

$$\text{Coefficient of Variation (C.V)} = \dagger / \bar{X} = 0.24$$

ANNEX V

Nepal Bangladesh Bank Ltd.

Profit and loss account from Shrawan 2057/58 to 2063/64

Expenditure	057/58	058/59	059/60	060/61	061/62	062/63	063/64
Interest Expenditure	51,58,48,249	55,27,42,875	59,78,80,522	62,53,61,453	54,79,42,836	518093984	432218705
Employ expenses	5,06,45,881	6,13,61,521	6,98,97,249	7,66,22,761	9,58,83,693	140662463	112547763
Office overhead	6,74,46,408	7,71,98,399	10,14,03,602	11,37,62,027	16,13,43,875	94349457	93580522
Exchange loss	-	-	-	-	-	-	-
Non operating expenses	-	41,49,205	-	-	2,23,93,152	-	-
Bad debt written off	-	22,670	-	-	-	-	-
Loan loss provision	13,04,83,005	26,93,45,536	26,18,74,591	4,00,73,3051	90,51,53,491	34277429	271574711
Provision for staff Bonus	3,15,47,991	1,11,98,183	2,12,77,225	1,10,71,272	-	-	-
Provision for income tax	8,51,79,576	3,50,00,000	12,00,00,000	9,70,00,000	10,00,00,000	91186319	128529632
Net Profit carried down	19,87,52,345	6,57,83,645	7,14,95,022	2643245	(749543073)	(649543)	(877381)
Total	1,08,00,03,455	1,07,68,02,034	1,24,38,28,211	1,32,71,95,009	1,83,27,17,044	87,85,69,652	1,03,84,51,333

Income	057/58	058/59	059/60	060/61	061/62	062/63	063/64
Interest Income	81,00,50,676	85,05,25,067	1,01,37,11,793	1,09,55,01,012	87,65,08,406	7,58,13,16,94	98,21,96,609
Commission and Discount	12,39,10,721	12,44,21,537	10,90,45,765	10,50,58,031	9,29,97,982	8,52,98,580	8,52,19,362
Exchange Gain	10,20,96,783	6,97,05,631	5,62,99,680	5,61,59,382	3,96,70,668	6,39,57,418	4,09,62,270
Non-Operation Income	58,76,164	-	-	73,24,291	-	1,11,05,059	2,42,00,015
Other Income	3,80,59,111	3,21,49,799	6,47,70,973	6,31,52,293	39,96,918	4,78,45,711	11,76,53,227
Net loss Carried Down	-	-	-	-	74,95,43,073	6,49,543	8,77,381
Total	1,08,00,03,455	1,07,68,02,034	1,24,38,28,211	1,32,71,95,009	1,83,27,17,044	87,85,69,652	1,03,84,51,333

(Source: NB Bank, Annual Reports, 2007 to 2007)

ANNEX VI

Nepal Bangladesh Bank Ltd.

Balance Sheet from Shrawan 2057/58 to 2063/64

Capital and Liabilities	057/58	058/59	059/60	060/61	061/62	062/63	063/64
1. Share Capital	238163000	357252000	359924500	359924500	719852000	719852000	719852000
2. Reserve Funds	356959204	269251385	324007650	296654411	(485276173)	(485276173)	(282435547)
3. Borrowing	-	287500000	63819474	6722500	-	-	-
4. Deposits Account	8600812128	9514457399	10591081091	12807376325	12125578259	-	71000000
5. Bills Payment	41553604	42728651	63929221	150923502	41661901	12125578259	13015136113
6. Other Liabilities	420723948	631044033	511246592	575869750	875334691	77535288	140267559
Total	9658211884	11102233468	11918508528	14257973488	13277150678	12437689374	13663820125

Assets	057/58	058/59	059/60	060/61	061/62	062/63	063/64
1. Cash Balance	242811540	864617950	309789847	352152614	300848610	300848610	354456
2. Balance with Banks	756158572	1394687286	589722887	1084320245	1100917759	794165890	1157837732
3. Money at Call and Short Notice	397632500	100000000	100000000	-	-	306751869	30028767
4. Investments	691084386	1008642434	2168923095	2699166702	2411720070	2411720070	2661833500
5. L & A and B & P	7074911847	7632418042	7247980132	8648743601	7787690374	7787690374	6460246398
6. Fixed Assets	91699408	91508596	80730869	191178140	189307245	189307245	172325040
7. Other Assets	403913631	510356160	1421361698	1282412186	1486666620	543014384	484697097
Total	9658211884	11102233468	11918508528	14257973488	13277150678	12437689374	13663820125

(Source: NB Bank, Annual Reports, 2007 to 2007)

ANNEX VII

Nepal Bangladesh Bank Ltd.

Trend Analysis

Calculation of trend line of deposit of NB Bank (Rs. Million)

F/Y	Deposit (Y)	Deviation of F/Y	Deviation of F/Y from 2059/60 = X	X ²	XY
2055/56	3080000		-2	4	- 6160000
2056/57	5324000		-1	1	- 5324000
2057/58	800000		0	0	0
2058/59	10620000		1	1	10620000
2059/60	13080000		2	4	26160000
	Y=32904000		X= 0	X²=10	XY=25296000

Where,

a = average deposit

a = 6580800

b = rate of change on deposit

b = 2529600

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

Here,

The normal equation for estimation a and b are

$$Y = Na + b \sum x \dots\dots\dots (i)$$

$$XY = a \sum x + b \sum x^2 \dots\dots\dots (ii)$$

By, Substituting the value of the table in normal equations, we get,

$$Y = Na + b \sum x \dots\dots\dots (i)$$

$$a = 6580800$$

$$XY = a \sum x + b \sum x^2 \dots\dots\dots (ii)$$

$$b = 2529600$$

F/Y	Deviation of F/Y	Trend Line	Trend Value
2060/61	5	$Y = a + bx$	14344800
2061/62	6	$Y = a + bx$	15609600
2062/63	7	$Y = a + bx$	16874400
2063/64	8	$Y = a + bx$	18139200