

**A CASE STUDY ON PROFITABILITY INDEX OF
NEPAL INVESTMENT BANK LIMITED**

A Thesis

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Chapter – One

Introduction

1.1 Background of the study

Sandwiched between two Asian giants--China and India--Nepal traditionally has been characterized as "a yam caught between two rocks." Noted for its majestic Himalayas, which in Sanskrit means the abode of snow, Nepal is very mountainous and hilly. Its shape is roughly rectangular, about 650 kilometers long and about 200 kilometers wide, and comprises a total of 147,181 square kilometers of land. It is slightly larger than Bangladesh or the state of Arkansas. Nepal is a landlocked country, surrounded by India on three sides and by China's Xizang Autonomous Region (Tibet) to the north. It is separated from Bangladesh by an approximately fifteen kilometer -wide strip of India's state of West Bengal, and from Bhutan by the eighty-eight-kilometer-wide Sikkim, also an Indian state. Such a confined geographical position is hardly enviable. Nepal is almost totally dependent on India for transit facilities and access to the sea--that is, the Bay of Bengal--even for most of the goods coming from China.

Nepal commonly is divided into three broad physiographic areas: the Mountain Region, the Hill Region, and the Tarai Region. All three parallel each other, from east to west, as continuous ecological belts, occasionally bisected by the country's river systems. These ecological regions were divided by the government into development sectors within the framework of regional development planning.

Agriculture remains Nepal's principal economic activity, employing 80% of the population and providing 37% of GDP. Only about 20% of the total area is cultivable; another 33% is forested; most of the rest is mountainous

Economic development in social services and infrastructure has not made dramatic progress due to GDP dependency on India. A countrywide primary education system is under development, and Tribhuvan University has several campuses.

Major towns are connected to the capital by telephone and domestic air services. The export-oriented carpet and garment industries have grown rapidly in recent years and together now account for approximately 70% of merchandise exports.

Nepal was ranked 29th worst of 84 ranked countries (those with GHI > 5.0) on the Global Hunger Index in 2010, between Tanzania and Kenya.

1.1.1 Meaning of bank

A banker or bank is a financial institution that acts as a payment agent for customers, and borrows and lends money. In some countries such as Germany and Japan banks are the primary owners of industrial corporations while in other countries such as the United States banks are prohibited from owning non-financial companies.

According to Oxford Learner's Dictionary, "Bank is a establishment for depositing, withdrawing and borrowing money."

A banker is an individual, partnership or corporation, whose sole or predominating business is banking, that is the receipt of money on current and deposit account, and the payment of cheques drawn by and collection of cheques paid by a customer. (Halsbury's Law of England, 3rd Edition, Vol.II: 150)

Banks act as payment agents by operating current accounts for customers, honoring cheques drawn by customers on the bank, and collecting cheques deposited to customers' current accounts. Banks also enable customer payments via other payment methods such as telegraphic transfer, EFTPOS, and ATM.

Banks borrow money by accepting funds deposited on current account, accepting time deposits and by issuing debt securities such as banknotes and bonds. Banks lend money by making advances to customers on current account, by making installment loans, and by investing in marketable debt securities and other forms of lending.

Banks provide almost all payment services, and a bank account is considered indispensable by most businesses, individuals and governments. Non-banks that provide payment services such as remittance companies are not normally considered an adequate substitute for having a bank account.

Banks borrow most funds borrowed from households and non-financial businesses, and lend most funds lent to households and non-financial businesses, but non-bank lenders provide a significant and in many cases adequate substitute for bank loans, and money market funds, cash management trusts and other non-bank financial institutions in many cases provide an adequate substitute to banks for lending savings to.

In general, bank means an institution that accepts deposits in different accounts and provides loans of different types.

1.1.2 Origin of Bank

The modern notion of term bank cannot be traced back. But, in simple form there existed the proof of different forms of money in ancient society of Greece and Rome before 2000 BC. (Regmi, 2064:4). The term bank is originated from Italian word **Banco** which means bench. The money exchangers at that time kept heap of money on the bench from which came the use of words Banko. In the opinion of Macleod, since banko means bundle, it denotes the joint fund contributed by many persons. In 12th century, there are records of the development of banking in modern sense. The Bank of Venice founded in 1157 AD was the first public banking institution. Bank of Barcelona was established in 1401, and Bank of Genoa in 1408 as public bank. The history of modern banking had started from Bank of England established in England in 1694.

The concept of establishment of joint stock bank was started in 1834 by the establishment of The London and Westminster Bank after the introduction of new clause in legislation following the study of Joplin. (Regmi, 2064: 5)

1.1.3 Development of Bank in Nepal

The initiation of formal banking system in Nepal commenced with the establishment in 1937 of Nepal Bank Limited (NBL), the first Nepalese commercial bank.⁹ The country's central bank, Nepal Rastra Bank (NRB) was established in 1956 by Act of 1955, after nearly two decades of NBL having been in existence. A decade after the establishment of NRB, Rastriya Banijya Bank (RBB), a commercial bank under the ownership of His Majesty's Government of Nepal (HMG/N) was established. However, "the history of banking and currency in the country becomes definite only from the fifth century that is in the Lichhavi period, when the

first coins were minted." (Panta , 1964: 94). The history of money and coins dated back to the period of Lichhivi as 'Mannank' the coined issued by the King Manadev.

The reign of Jayasthiti Malla is recognized as the glorious age of the 14th century. He codified a law relating to commercial transaction and immovable property. This reform "has left a lasting impression upon the Nepalese Nation of even today; and it is from about Raja Jayasthiti Malla reign onward that the granting of loans against immovable property must have more commonly, if not newly, practiced in the country." (Panta , 1964: 8).

Tejarath is one of the important institutions which helped for the development of banking system in the country. This was established by Rana Prime Minister Ranodweep Singh for distribution of loan to the people in security of gold or other valuables in 1987. Other indigenious and unorganized institutions like, Shahukar, Mahajan, Tankadhari etc. were also there for the activities which are presently covered by banking companies. (Regmi, 2064: 6)

Nepal's first commercial bank, the Nepal Bank Limited, was established in 1937. The government owned 51 percent of the shares in the bank and controlled its operations to a large extent. Nepal Bank Limited's head office is in Kathmandu and has branches in other parts of the country. There were other government banking institutions. Rastriya Banijya Bank (National Commercial Bank), a state-owned commercial bank, was established in 1966. The Land Reform Savings Corporation was established in 1966 to deal with finances related to land reforms.

There were two other specialized financial institutions. Nepal Industrial Development Corporation, a state-owned development finance organization with head office in Kathmandu, was established in 1959 with United States assistance to offer financial and technical assistance to private industry. Although the government invested in the corporation, representatives from the private business sector were also included in the board of directors. The Co-operative Bank, which was subsequently changed into the Agricultural Development Bank in 1967, was the main source of financing for small agribusinesses and cooperatives. Almost 75 percent of the bank was state-owned; 21 percent was owned by the Nepal Rastra Bank and 5 percent by cooperatives and private individuals. The Agricultural Development Bank also served as the government's implementing agency for small farmers' group development projects assisted by the Asian Development Bank and financed by the United

Nations Development Programme. The Ministry of Finance of Nepal reported in 1990 that the Agricultural Development Bank, which is vested with the leading role in agricultural loan investment, had granted loans to only 9 percent of the total number of farming families since 1965.

In the mid-1980s, three foreign commercial banks opened branches in Nepal. The Nepal Arab Bank was jointly owned by the Emirates Bank International Limited (Dubai), the Nepalese government, and the Nepalese public. The Nepal Indosuez Bank was jointly owned by the French Banque Indosuez, Rastriya Banijya Bank, Rastriya Beema Sansthan (National Insurance Corporation), and the Nepalese public. Nepal Grindlays Bank was co-owned by a British firm called Grindlays Bank, local financial interests, and the Nepalese public.

Nepal Rastra Bank was established in 1956 as a central bank. Its function was to supervise commercial banks and to guide the basic monetary policy of the nation. Its major aims were to regulate the issue of paper money; secure countrywide circulation of Nepalese currency and achieve stability in its exchange rates; mobilize capital for economic development and for trade and industry growth; develop the banking system in the country, thereby ensuring the existence of banking facilities; and maintain the economic interests of the general public. Nepal Rastra Bank also was to oversee foreign exchange rates and foreign exchange reserves.

Prior to the establishment of Nepal Rastra Bank, Kathmandu had little control over its foreign currency holdings. Indian rupees were the prevalent medium of exchange in most parts of the country. Nepalese currency was used mostly in the Kathmandu Valley and the surrounding hill areas. The existence of a dual currency system made it hard for the government to know the status of Indian currency holdings in Nepal. The exchange rates between Indian and Nepalese rupees were determined in the marketplace. Between 1932 and 1955, the value of 100 Indian rupees varied between Rs71 and Rs177. The government entered the currency market with a form of fixed exchange rate between the two currencies in 1958. An act passed in 1960 sought to regulate foreign exchange transactions. In the beginning of 1960s, the government made special efforts to use Nepalese currency within the country as a medium of exchange.

Currently there are about 26 commercial A level banks in Nepal and the number is increasing. The names of banks are listed below.

Commercial Bank
Nepal Bank Ltd.
Rastriya Banijya Bank
Nabil Bank Ltd.
Nepal Investment Bank Ltd
Standard Chartered Bank of Nepal Ltd.
Himalayan Bank Ltd.
Nepal SBI Bank Ltd.
Nepal Bangladesh Bank Ltd
Everest Bank Ltd.
Bank Of Kathmandu Ltd.
Nepal Credit And Commerce Bank Ltd
Lumbini Bank Ltd.
Nepal Industrial and Commercial Bank Ltd.
Kumari Bank Ltd
Machhapuchhre Bank Ltd.
Laxmi Bank Ltd.
Siddhartha Bank Ltd.
Global Bank Limited
Citizen Bank Limited
Sunrise Bank Limited
Prime Bank Ltd
Bank of Asia Nepal
Development credit Bank Ltd
Agriculture Development bank

1.1.4. Commercial Bank

A financial institution that accepts demand deposits and makes loans and provides other services for the public is called commercial bank. Commercial bank is defined as a bank which exchanges money, accepts deposits, advances loans and performs other commercial transaction and which is not specifically established with the objective of specified purpose.

Commercial Banks in Nepal are governed under Commercial Bank Act 2031. In 2006 this act was annulled by Bank and financial Institution Act 2006 AD. In Nepal, Commercial bank are graded A category bank.

Thus commercial bank is established in view to collect deposits and employ them in productive sectors. And the main source of revenue of Commercial bank is Interest Income.

1.4.1 Functions of Commercial banks

The role commercial banks are wider than banking, and includes:

- issue of banknotes or credit money(promissory notes issued by a banker and payable to bearer on demand)
- processing of payments by way of telegraphic transfer, EFTPOS, internet banking or other means
- Issuing bank drafts and bank cheques.
- accepting money on term deposit
- lending money by way of overdraft, installment loan or otherwise
- providing documentary and standby letters of credit, guarantees, performance bonds, securities underwriting commitments and other forms of off balance sheet exposures
- safekeeping of documents and other items in safe deposit boxes
- currency exchange
- sale, distribution or brokerage, with or without advice, of insurance, unit trusts and similar financial products as a 'financial supermarket'

Revenue or **revenues** (**turnover** in Europe) is income that a company receives from its normal business activities, usually from the sale of goods and services to customers. Some companies also receive revenue from interest, dividends or royalties paid to them by other companies. Revenue may refer to business income in general, or it may refer to the amount, in a monetary unit, received during a period of time. Profits or net income generally mean total revenue minus total expenses in a given period. (Source – Wikipedia)

Profit generally is the making gain out of business activity for the benefit of the owners of the business. The word comes from Latin word which means "to make progress", is defined in two different ways, one for economics and one for accounting. (Source – Wikipedia)

The main objective of every business firm is to maximize profit, besides focusing on customer satisfaction. To maximize profit, revenue plays the crucial role in an organization. Profit is a tool through which efficiency of organization is measured.

Pure economic profit is the increase in wealth that an investor has by making an investment, taking into consideration all costs associated with that investment including the opportunity cost of capital. Accounting profit is the difference between retail sales price and the costs of acquisition (whether by harvest, extraction, manufacture, or purchase). A key difficulty in measuring either definition of profit is in defining costs. Accounting profit may be positive even in competitive equilibrium when pure economic profits are zero.

In economics, a firm is said to be making a **normal profit** when total revenues equal total costs. These normal profits then match the rate of return that is the minimum rate required by equity investors to maintain their present level of investment. Economically, the "normal profit" is thus treated as a **cost**, and recognized as one of the two components of the cost of capital. (Source: – Wikipedia)

An **economic profit** arises when its revenue exceeds the total (opportunity) cost of its inputs, noting that these costs include the cost of equity capital that is met by "normal profits." A business is said to be making an **accounting profit** if its revenues exceed the accounting cost that the firm "pays" for those inputs. Economics treats the normal profit as a cost, so when deducted from total accounting profit what is left is economic profit (or economic loss). (Source :- [http://en.wikipedia.org/wiki/Profit_\(economics\)](http://en.wikipedia.org/wiki/Profit_(economics)))

Business managers are continually involved in organizing, planning and controlling the operation of both large and small business organization. Profit planning is one of the most important management tools used to plan and control business operations. Budgets or the profit plans are financial plans prepared as a guide to and control future operations. Part of the financial planning includes forecasting of future business condition and activities. A financial plan must, then, be designed to serve as a guide or road map for the activities during the budget period. Best results are obtained when the planning period is the same as the

company's fiscal year. Months, weeks, and days of operations may then, break down the annual profit. The plan should be designed to co-ordinate the effort of sales department, production department and all other departments.

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

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

1.1.4.2 Overview of Nepal Investment Bank Limited

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

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

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

- A group of companies holding 50% of the capital
- Rashtriya Banijya Bank holding 15% of the Capital.

- Rashtriya Beema Sansthan holding the same percentage.
- The remaining 20% being held by the General Public (which means that NIBL is a Company listed on the Nepal Stock Exchange). (Source:- www.nibl.com.np)

1.2 Statement of the Problem

The Nepal Investment Bank Limited is one of the leading commercial bank in Nepal, which is earning profit since its establishment. But in recent years the economic condition of Nepal is not satisfactory. All business activities are having down trends. As a result there is less investment opportunities and increment in collection of deposit. This may effect on profitability of the bank. So the bank has to prepare the profit/revenue plan for future in order to take step to improve profitability. The main research questions are as under:

1. Is Nepal Investment Bank's profitability index satisfactory in the present context of economic crisis?

1.3 Objectives of the study

The main objectives of the study are to study and analyse the profitability of Nepal Investment Bank. This study would also help to identify how the banking sector is affected by the current economic crisis.

1. To analyse the profitability of Investment Bank Limited for a period of 6 fiscal years from 2061/62 to 2066/67.
2. To evaluate how the present economic crisis has affected the NIBL profit margin.

1.4. Significance of the Study

The study of profitability of NIBL may be useful to all parties who are interested on revenue / profit planning. It may help the concerned parties of the bank to develop future plan for maximizing the profit. It may give guideline to follow the profit planning process in any banking sector. It not only helps the banking sectors but also other large and small business firms like finance companies, cooperative, manufacturing companies, etc. As I could not find a lot of research done on the profitability of commercial banks focusing on the current

economic crisis, this research would play a crucial role in this field to find the current scenario of banking sector that would facilitate to maximise the utilization of its optimum resources to earn profit.

1.5 Limitations of the Study

1. The study covered the period of 6 fiscal years from till the fiscal year 2063/64.
2. It was based on the published financial statement of NIBL, along with other related journals.
3. The result of the study may not be thoroughly applied over all types of commercial banks.

1.6 Scheme of Study

Chapter I covered background of the study, the statement of problems, objectives of study. It also included brief introduction of NIBL.

Chapter II deals literature review about Revenue planning; profit planning, origin of PPC, elements of PPC, its usefulness etc. It also included review of the previous studies and research gap between this study and the previous studies.

Chapter III contained research methodology adopted for the study. The method used for the collection of data.

Chapter IV included the analysis of data and presentations of the data.

Chapter V covered on summary, conclusions, and recommendations

Chapter TWO

REVIEW OF LITERATURE

2.1. Definition of Profit

In business, revenue or revenues (turnover in Europe) is income that a company receives from its normal business activities, usually from the sale of goods and services to customers. Some companies also receive revenue from interest, dividends or royalties paid to them by other companies. Revenue may refer to business income in general, or it may refer to the amount, in a monetary unit, received during a period of time, as in "Last year, Company X had revenue of \$32 million." For non-profit organizations, annual revenue may be referred to as gross receipts. This revenue includes donations from individuals and corporations, support from government agencies, income from activities related to the organization's mission, and income from fundraising activities, membership dues, and financial investments such as stock shares in companies. For government, revenue includes gross proceeds from income taxes on companies and individuals, excise duties, customs duties, other taxes, sales of goods and services, dividends and interest.

In accounting and financial analysis, revenue is often referred to as the "top line" due to its position on the income statement at the very top. This is to be contrasted with the "bottom line" which denotes net income, which are revenues minus expenses. Profit or revenue is one of the objectives of the company as the motto of the company is working together to achieve profit.

2.1.1 Revenue of Bank

Revenue of Bank refers to interest charges, commission charges, transfer charges, income from safety lockers, exchange gain etc. Similarly Bank generates income from bank guarantee transaction, issuing L/C, cheques/drafts collection etc. In such activity, banks fund don't involve and those are the charges taken by bank for providing services. But, bank needs to involve fund to generate income from Interest charges.

2.2 Profit planning and control

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

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

According to Welsch in Profit Planning and Control-Profitability is it is the only comprehensive approach to manage. So far developed that if utilized with sophistication and good judgments, fully recognizes the dominant role of the manager and provides a framework for implementing such fundamental aspects of scientific management as management by objectives, effective communications, participative management, dynamic control, continuous feedback, responsibility accounting, management by exception and managerial flexibility.

The budget is applied to a system of management and accounting control by which all operations and output are forecasted as far ahead as possible and actual results when known are compared with the budget estimates. The institute of cost and management accountants, England has defined budgetary control as the establishment of budgets relating the responsibilities of executives to the requirements of a policy, and the continuous comparison of actual with budgeted results, either to secure by individual action the objectives of that policy or to provide a firm basis for its revision.

There definitions about PPC which are given by some authors which are as follows:

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

As state by Richard M. Lynch - A budget detailed quantitative plan to guide its operation in the near future.

Comprehensive profit planning and control is a systematic and formalized approach for accomplishing the planning, co-ordination and control responsibilities of management, as defined by (Welsch, 2000:30)

2.2.1 Origin of PPC

National budget for the fiscal year 1922/23 was prepared in USA towards the end of 1921. With the introduction of national budget in USA businessmen started realizing the importance of budgeting. National budget covers or implies on the following:

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

During that time USA businessmen were not untouched by the difficulties and were also suffering from the problem of co-ordination between expenses for material, rent and labour etc and receipt from sales, so they started thinking about adaptation of budget. Slowly and gradually they started adopting of budget. This can be considered as origin of PPC.

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

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

2.2.2 Purpose of PPC

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

1. To state the firm's expectation (goal) in clear and formal terms to avoid confusions and to facilitate their attainability.
2. To communicate expectation to all concerned with the management of the firm so that they understand, support and implement.
3. To provide details plan of action for reducing uncertainty and for its proper direction of individual and group efforts to achieve goals.
4. To co-ordinate the activities and efforts in such a way that the use of resources is maximized.
5. To provide a means of measuring and controlling the performance of individuals and units and to supply information based on which the corrective action can be taken. (Goel, 2005:6)

2.2.3 The Basic Elements OF PPC

The basic elements of PPC are as follows:

1. Comprehensive and co-ordinate plan: PPC is the plan for future expectation of firm's budget for all departments. It is prepared after co-coordinating them for various segments of the enterprise. That budget is known as comprehensive budget for profit planning.
2. Expressed in financial terms: PPC is always quantified in financial terms. Initially budgets must be developed in terms of various quantities, but finally they must be expressed in the monetary units i.e. Rupee, Dollars, Pounds etc.

3. Plan for operational resources and expenses: PPC is a mechanism to plan for the firm's operations or activities. The two aspects of every operation are revenue and expenses. The PPC must plan for revenues and expenses related to a specific operation. The planning for resource will include planning for assets and source of funds.
4. Long term future plan: PPC should be meaningful only when it related to a specified period of time. The budget estimates will be relevant only for some specific period.
Comprehensive and co-ordinate plan: PPC is the plan for future expectation of firm's budget for all departments. It is prepared after co-coordinating them for various segments of the enterprise. That budget is known as comprehensive budget for profit planning.
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7. Long term future plan: PPC should be meaningful only when it related to a specified period of time. The budget estimates will be relevant only for some specific period.

2.2.4 How Is It Used?

The profit plan is used in the following ways:

1. Evaluating operations: Each time you prepare an income statement, actual sales and costs are compared with those you projected in your original profit plan. This permits detection of areas of unsatisfactory performance so that corrective action can be taken.
2. Determining the need for additional resources such as facilities or personnel: For example, the profit plan may show that a sharp increase in expected sales will overload the company's billing personnel. A decision can then be made to add

additional invoicing personnel, to retain an EDP service, or to pursue some other alternative.

3. **Planning purchasing requirements:** The volume of expected sales may be more than the business' usual suppliers can handle or expected sales may be sufficient to permit taking advantage of quantity discounts. In either case, advance knowledge of purchasing requirements will permit taking advantage of cost savings and ensure that purchased goods are readily available when needed.
4. **Anticipating any additional financing needs:** With planning, the search for needed funds can begin as early as possible. In this way, financial crises are avoided and financing can be arranged on more favourable terms.
5. **Evaluating operations:** Each time you prepare an income statement, actual sales and costs are compared with those you projected in your original profit plan. This permits detection of areas of unsatisfactory performance so that corrective action can be taken.
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2.2.5 Advantages of Profit Planning

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

1. **Awareness of responsibilities:** With the profit plan, personnel are readily aware of their responsibilities for meeting sales objectives, controlling costs, and the like.
2. **Performance evaluation:** The profit plan provides a continuing standard against which sales performance and cost control can quickly be evaluated.
3. **Cost consciousness:** Since cost excesses can quickly be identified and planned, expenditures can be compared with budgets even before they are incurred, cost consciousness is increased, reducing unnecessary costs and overspending.
4. **Disciplined approach to problem-solving:** The profit plan permits early detection of potential problems so that their nature and extent are known. With this information, alternate corrective actions can be more easily and accurately evaluated.
5. **Thinking about the future:** Too often, small businesses neglect to plan ahead; thinking about where they are today, where they will be next year, or the year after. As a result, opportunities are overlooked and crises occur that could have been avoided. Development of the profit plan requires thinking about the future so that many problems can be avoided before they arise.
6. **Financial planning:** The profit plan serves as a basis for financial planning. With the information developed from the profit plan, you can anticipate the need for increased investment in receivables, inventory, or facilities as well as any need for additional capital.
7. **Confidence of lenders and investors:** A realistic profit plan, supported by a description of specific steps proposed to achieve sales and profit objectives, will inspire the confidence of potential lenders and investors. This confidence will not only influence their judgment of you as a business manager, but also the prospects of your business' success and its worthiness for a loan or an investment.
8. **PPC performance is more relevant than past performance.** Since performance is based on historical factors, which are constantly changing.
9. **PPC improves the quality of communication.** The objectives, goal, plans, authority and responsibility of enterprise are clearly written and communicated through PPC to all individuals in the enterprise, which can be better to all among managers and subordinates of enterprise.
10. **PPC increases the morale and the productivity of the employees** by seeking their meaningful participation in the formulation of plan and policies, bringing harmony between individual goals and the enterprise objectives.
11. **PPC helps to optimize the use of the firm's resources** i.e. Capital and manpower

12. PPC develops an atmosphere of profit mindedness and cost consciousness. PPC focus management attention on significant matters through budgetary reports, it facilitates management by exception and save management time and energy considerably.
13. PPC measures efficiency, permits management self-evaluation and indicates the progress in attaining the enterprise objectives.
14. Performance evaluation: The profit plan provides a continuing standard against which sales performance and cost control can quickly be evaluated.
15. Awareness of responsibilities: With the profit plan, personnel are readily aware of their responsibilities for meeting sales objectives, controlling costs, and the like.
16. Cost consciousness: Since cost excesses can quickly be identified and planned, expenditures can be compared with budgets even before they are incurred, cost consciousness is increased, reducing unnecessary costs and overspending.
17. Disciplined approach to problem-solving: The profit plan permits early detection of potential problems so that their nature and extent are known. With this information, alternate corrective actions can be more easily and accurately evaluated.
18. Thinking about the future: Too often, small businesses neglect to plan ahead; thinking about where they are today, where they will be next year, or the year after. As a result, opportunities are overlooked and crises occur that could have been avoided. Development of the profit plan requires thinking about the future so that many problems can be avoided before they arise.
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20. PPC performance is more relevant than past performance. Since performance is based on historical factors, which are constantly changing.
21. PPC improves the quality of communication. The objectives, goal, plans, authority and responsibility of enterprise are clearly written and communicated through PPC to all individuals in the enterprise, which can be better to all among managers and subordinates of enterprise.
22. PPC helps to optimize the use of the firm's resources i.e. Capital and manpower.
23. PPC measures efficiency, permits management self-evaluation and indicates the progress in attaining the enterprise objectives.

24. PPC increases the morale and the productivity of the employees by seeking their meaningful participation in the formulation of plan and policies, bringing harmony between individual goals and the enterprise objectives.
25. PPC develops an atmosphere of profit mindedness and cost consciousness. PPC focus management attention on significant matters through budgetary reports, it facilitates management by exception and save management time and energy considerably.

2.2.6 Limitations of Profit Planning

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

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

Finally, profit plans must be changed from time to time to meet changing conditions. There is no point in trying to operate a business according to a plan that is no longer realistic because conditions have changed.

2.3 Review of the Previous thesis'

Banking sector is one of the most profitable institutions running in Nepal. The year 2011 has been declared as the "Visit Nepal 2011" where government is taking all initiation for the promotion of tourism sector in Nepal and the rapid economic depression existence in the world has adversarial affect in the every aspect of the world. There is belief that the world has been turned into small village due to rapid technological development and the effect of the economic crisis, Nepal cannot be untouched too. But, the claims of the banking sector are sound enough to believe that the banking sector is untouched with the economic crisis. Now, the interesting question set forth to study whether the profitability of the banking sector is untouched by the economic crisis.

The study profitability in particular commercial bank seems to be new area of research in the current scenario. There are some studies carried out on manufacturing enterprises. Those researchers had tried to elaborate about cash management and revenue planning.

Kamal Raj Joshi (2004) has conducted research on the topic “Revenue planning and cash management of Nepal Electricity Authority” an unpublished Master Level Thesis submitted to Shankher Dev Campus, Faculty of Management, T.U.. The objective of the study was to elaborate the revenue planning procedure in Nepal Electricity Authority. The major findings of the research were as following.

- Target sales revenue is increased by small figure but the actual sales revenue is highly increased than budgeted in both internal and external sales market in the FY. 2056/57
- NEA has a practice to increase 10 percent in past year figure to forecast next year’s figure as a basis for forecast.
- . Net fixed assets and total assets turnover ratio shows that the huge amount has been invested to purchase fixed and current assets have not been utilized properly.
- Revenue per employee ratio indicates that the employees’ contribution on revenue of NEA is in increasing trend.
- Return on assets and return on equity capital are very poor. It is observed that NEA is seriously suffering to maximum utilization of available sources. In other word, NEA must minimize the high operating cost.

Uday Kishore Tiwari (2005) has conducted research on Profit planning in commercial Banks- A case study of Standard Chartered bank Nepal limited is an unpublished Master Level Thesis submitted to Shankher Dev Campus, Faculty of Management, T.U.. The main objective of this study was examining system of profit planning applied in Standard Chartered Bank Nepal Limited. Following were findings of the study.

- Major concentration of resources mobilization of SC bank is at deposit mobilization. In this respect they are incurring higher cost toward deposit mobilizations.
- 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
- Interest expenses amount is the highest among total expense items of the bank every year.

- Interest income amount of the banks is the highest among other income items in the total revenue.
- The other income of bank is also in increasing trend.
- The rate of growth of spread is higher than of burden the profitability of the bank is in increasing position.

Lekh Prasad Panta (2006) had conducted research on study on “A study of revenue planning in manufacturing Enterprise”, A case study of Royal Drug Limited, an unpublished Master Level Thesis submitted to Shanker Dev Campus, Faculty of Management , T.U.. The main objective of this study was to find out the Revenue planning in Royal Drug Limited. Following were findings on that research.

- A comprehensive and complete profit planning and budgeting is not in practice at RDL. Only some of budgets they use to prepare for budgeting. And these budgets are also prepared on ‘ad-hoc basis’ than systematic and realistic analysis.
- RDL has started to plan for capital expenditure. It is good sign for managing fixed assets and controlling investments in fixed assets.
- RDL has not classified all its costs into variable and fixed portion. Due to this it is impossible to monitor the costs incurred in RDL. All the costs has been classified on the basis pf personal decision as manufacturing costs are variable costs and administrating costs are fixed costs
- Sensitivity analysis revealed that operating activity of Royal Drugs Limited is highly sensitive over change in selling price compared to fixed cost and variable cost.
- From different ratio analysis, it is found that liquidity or solvency and profitability ratios are very poor. These are indicating poor condition of RDL in respect to liquidity, productivity, and profitability.

Gita Lama (2008) has conducted research work on “ Profitability of Nabil Bank Limited with comparison to other Joint Venture Banks”, an unpublished Master Thesis submitted to Shanker Dev Campus, Faculty of Management, T.U. The main objective of this study was to find out the profitability of Nabil Bank. Following were findings on that research.

- Net Profit Ratio:

Profitability reveals the degree of success in achieving desired profit. From return on equity of Nabil Bank, it is found that the operating efficiency of the bank is in increasing trend.

- The EPS of Nabil Bank is very good during the period of which shows the better position of bank in the market.
- The Net profit margin ration has been decreasing till fiscal year 2061/62 and then slightly decreased though there is low fluctuation, Nabil Bank has been able to mobilize the resources generated from the operation.
- Income Expenses Ratios:
The Interest payout ratio of Nabil Bank is lower. The main reason of low ratio is low volume of NPAS and high cost deposit.
- Nabil Bank has lowest loan loss provision to total income. It means it has low volume of NPAS and is successful in mobilizing the loans.
- The operating expenses of Nabil Bank has been remained comparatively low consistently over the years. The management of the operating expenses in Nabil Bank should be said to be highly efficient.

Akhil Maharjan (2009) has conducted research work on “ Profitability of Commercial Banks”, A Case Study Rastriya Banijya Bank and Nepal Bank Limited, an unpublished Master Thesis submitted to Shanker Dev Campus, Faculty of Management, T.U. The main objective of this study was to find out the profitability of commercial banks. Following were findings on that research.

- Bank has been recovering from the past heavy loss the net profit margins of both the banks were not consistent. The net profit margin of Nepal Bank Limited were in decreasing trend in last two fiscal years.
- ROE and ROCE of both Rastriya Banijya Bank (RBB) and Nepal Bank Limited (NBL) were negative throughout the five fiscal years period. The negative ROE and ROCE was due to high out of negative reserve maintained by both the banks and also due to heavy loss suffered by the bank in the past year from which the bank has been still recovering.
- RBB and NBL had very low net interest margin. Although the net interest margin of RBB was higher than NBL, the net interest margin of NBL.

- RBB and NBL had very high interest payout ratio of 107.298% and 72.09% respectively. The main reason was due to high volume of NPAs and high cost deposit.
- The net operating margin of RBB was better than NBL but the ratio of RB was very inconsistent in comparison to NBL.

Anima Khadka (2011) has conducted research work on “ Profitability Position of Nabil Bank Limited ”, an unpublished Master Thesis submitted to Shanker Dev Campus, Faculty of Management, T.U. The main objective of this study was to find out the profitability of Nabil Bank. Following were findings on that research.

- Fixed deposit to total deposit ratio is increased and Current Deposit Ratio is in fluctuating trend which increased rapidly in fiscal year 2009/10. So, it is observed that liquidation position of this bank is better.
- Return of total assets ratio is in increasing trend. Nabil’s Total investment to Total deposit ratio is in fluctuating trend.
- The growth rate of total assets of Nabil is in fluctuating trend over the reviewed period. The average growth of assets is 25.02%.
- Likewise, capital to total deposit and capital to total assets is in increasing trend.

Lokendra Bahadur Kunwar (2012) has conducted research work on “ Profitability Analysis of Commercial Bank”, A Case Study of Lumbini Bank Limited, an unpublished Master Thesis submitted to Shanker Dev Campus, Faculty of Management, T.U. The main objective of this study was to find out the profitability of Lumbini Bank. Following were findings on that research.

- The net profit margin ratio of Lumbini Bank Limited is fluctuating. Fiscal year 2063/064 to 2064/65 there is high growth ratio and after the year it is decreasing last fiscal year and it is improved.
- The return on total assets of Lumbini Bank Limited indicates that the minimum ratio is 3.37% and maximum 5.33% in the year 2063/064 and 2064/065 it is trying to increase constant level.

- The return on total assets of Lumbini Bank Limited indicates that the minimum ratio 3.37% and maximum 5.33% in the year 2063/064 and 2064/065 it is trying to increase constant level.
- The return on equity of Lumbini Bank Ltd. is negative in fiscal year 2063/064 at 44.78 after that it has high increase in next fiscal year after that it is decreasing.
- The return on capital employed of Lumbini Bank Limited is near constant level of growth rate except fiscal year 2063/064 which is lower. It shows the managerial capacity of external funds to generate profit which is the highest during the study period.
- The commission and discount ratio of Lumbini Bank is highest in 2063/064 after that it has decreased except fiscal year 2065/066. It is necessary to improve it's that aspect of income.

2.4 Research Gap

Most of the earlier researches were carried out on Profit planning Topics. The study on Profitability of bank has not been considered also the measurement of the effect of economic depression throughout world on banking sector is not addressed.

This study has been carried out to find out the profitability situation of banking sector in this current scenario. This study has focused on profitability of the commercial bank which is essential to lead such type of financial institution most profitability in competitive business environment.

CHAPTER- THREE

RESEARCH METHODOLOGY

3.1 Introduction

The research methodology in this research study is doctrinal and analytical study where mostly secondary sources of information like Annual Reports of Nepal Investment Bank Limited, Banking related books and previous thesis papers where as some primary sources of data has been utilized as Nepal Rastra Bank Publication and publication of Ministry of Finance.

Also, various forms of graphical methods and chart diagrams have been used to justify the notion carried by the research.

3.2 Population and Sample

This study aims at studying the revenue planning of NIBL. It is not concerned with any specific branch of NIBL. So there is not any difference in the population and sample terms of this study. NIBL is sample and population itself.

3.3 Period Covered

The data presented in this study are secondary type. The annual reports of the concerned bank are the major sources of data for the study. Besides the annual reports of the concerned bank, the following sources of data shall were also used in this study.

1. NRB reports, Publication of Ministry of Finance of Government of Nepal.
2. Various publications dealing in the subject matter of the study.
3. Various articles published in the newspaper.

Annual reports of the bank were collected from the concerned bank, especially from their corporate office. Reports of NRB such as economic bulletin, annual reports were collected from NRB head office. Some of data were collected from Central library at T.U. as well as some data's are obtained from the various websites.

3.4 Research Variables

The research variable of this study is mainly related with the accounting statement of the bank. Interest income, non-interest income, total income, interest expenses, deposit, loan and advance etc are the research variables of this study

3.5 Analysis of Data

Data collected from various sources were managed, analyzed using various financial and statistical tools. Interpretation and explanations of results were made wherever necessary. Financial tool used in this study is mainly analysis. Statistical tools used in this study were trend analysis and correlation analysis. Similarly the test of variance analysis is also used in this study.

Chapter - FOUR

Data Analysis and Presentation

4.1 Data Presentation and Analysis

This research study covered the revenue activities of NIBL for six fiscal year 2061/62 to 2066/67 fiscal years. It is a doctrinal research which is based on the annual reports of Nepal Investment Bank Limited, hence the main source of data presentation and analysis are annual reports of 6 fiscal years. Different statistical tools along with graphical approach were used to analyze the profits of NIBL.

4.2 Major sources of Revenues

Bank is a financial institution that operates for profit along with providing service to general public. According to Black's Law Dictionary, a bank is defined as "a financial establishment for the deposit, loan, exchange, or issue of money and for the transmission of funds". Profit or revenue is the earning of bank. The various sources of revenues of NIBL are as follows:

4.2.1 Interest Income

Interest income is one of the most important sources of income of bank. The study shows that the interest income is one of the major sources of revenue of NIBL. The deposits collected by bank are mobilized in various sectors to earn interest. The bank provides loans, advances and overdrafts facilities to earn interest. Bank also makes investment in various sectors to generate revenue. Some of examples of investment are Government securities, Treasury bills, Development bonds, Investment in Foreign securities etc. Interest is earned from various investment and loan.

Bank also earns interest on agency balance as well as money at call and short notices with local banks and institutions as well as foreign banks. Other sources of revenue from interest are certificate of deposit; interbank / financial institution loan etc.

4.2.2 Commission and discount

Commission and discount are the second major source of revenue of NIBL. Bills purchase from foreign banks generates also revenues. There are various sources from which bank

generate revenues in the form of commission. Commissions are received from letter of credit, guarantees, collection fees, remittance fees, commission from cards and agency commission.

4.2.3 Other Operating Income

Other income includes income from safe deposits lockers as well as issue and renewal of credit cards. This also includes issue and renewal of ATM cards/ Debit cards as well as telex charges.

4.2.4 Exchange gain/ loss

Exchange gain/loss is also a source of income of a bank. It is good source of earning from different foreign currency exchange. NIBL exchange gain plays significant role in total revenue. The Table 1 shows the total revenue generated during the fiscal years 2061/62 to 2066/67 by NIBL. The total revenue is in increasing trend during the fiscal years 2061/62 to 2066/67.

Table no: 1 Total revenue trend of NIBL

(in Rs 000)

Fiscal Years	Total revenue	Change in Rs.	Trend %
2061/62	11,45,628	-	-
2062/63	14,50,333	3,04,705	26.60
2063/64	19,31,560	4,81,226	33.18
2064/65	26,41,783	7,10,222	36.76
2065/66	38,03,634	11,61,851	43.97
2066/67	5,131,070	13,27,435	34.89
Mean	19,14,351	8,06,087	35.08

(Source: Audited Annual Report of NIBL for 6 fiscal years)

Figure no. 1 Bar diagram of Total revenue and change in revenue in 6 fiscal years of NIBL

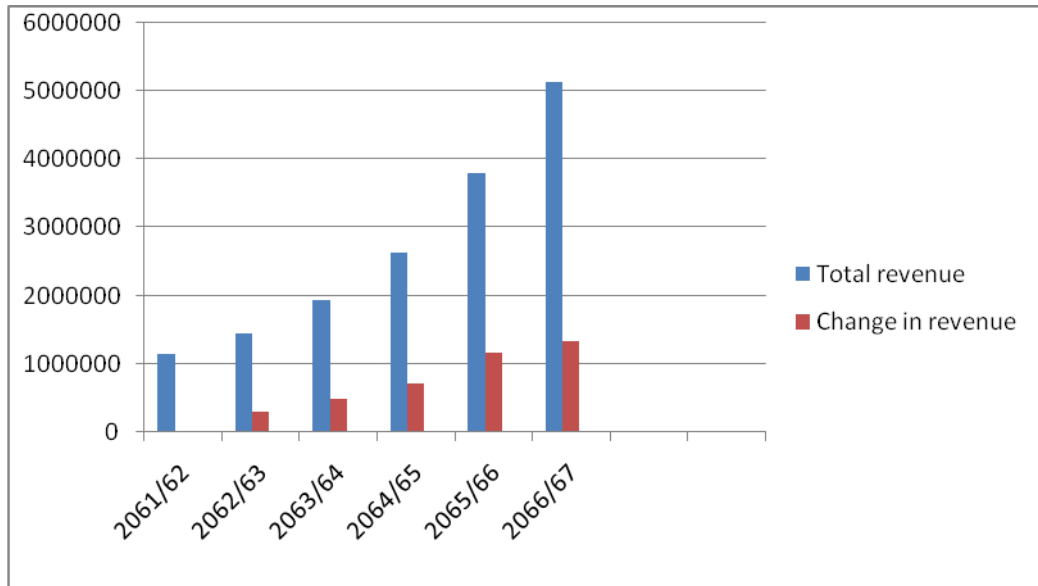
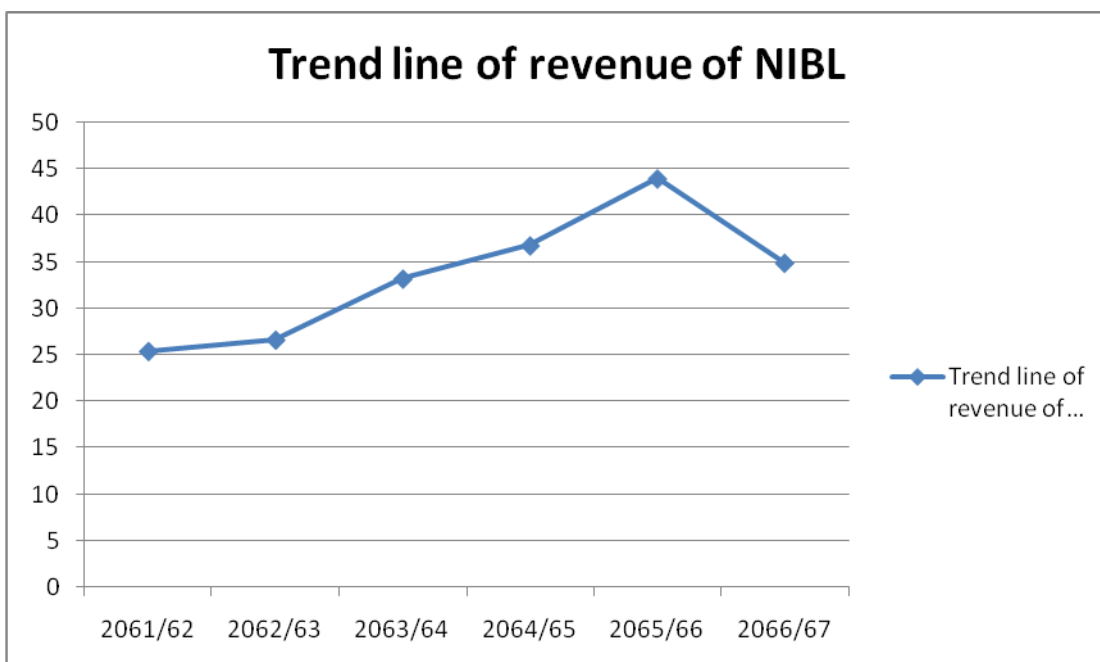


Figure no: 2 Trend line of revenue of NIBL



The trend of revenue for 6 fiscal years show that the revenue of NIBL increased till year fiscal year 2065/66, while the revenue decreased in the fiscal year 2066/67. This can be presumed that NIBL was not out of touch of economic depression or that NIBL performance was low in terms of customer satisfaction. But, I think globalization is reality and Nepal cannot be out of touch as like before ‘Shangrila’, thus decrease in revenue is result of economic depression.

4.3. Analysis of Various Revenues of NIBL

Table no. 2: Various revenues and their share

(in Rs ‘000’)

Fiscal Years	Interest Income	%	Commission & Discount	%	Exchange Gain	%	Non Operating Other Income	%	Total (in Rs)
2061/62	8,86,799	77	93,550	8	1,02,517	9	62,759	5	11,45,628
2062/63	11,72,742	81	1,15,942	8	1,25,747	9	35,902	2	14,50,333
2063/64	15,84,987	82	1,63,899	8	1,35,355	7	47,318	2	19,31,560
2064/65	21,94,275	83	2,15,292	8	1,65,838	6	66,376	3	26,41,783
2065/66	32,67,941	86	2,62,791	7	1,85,327	5	87,574	2	38,03,634
2066/67	46,53,521	90.69	2, 42,886	4.73	2,24,056	4.36	10,606	.206	51,31,070
Mean	22,93,377	83.28	18,2,390	7.28	1,28,640	6.72	51,755	2.33	26,84,001

(Source: Audited Annual Report of NIBL for 6 fiscal years)

The major sources of revenues are interest income, commission and discount, exchange gain and non-operating other income. Table no. 2 shows the share of various revenues during 6 fiscal years. The aggregate interest income for the study period is 83.28% whereas commission and discount covers 7.28% of total revenues. Likewise, Exchange gain and non-

operating other income covers each 6.72% and 2.33% of total revenue respectively. Figure 3 also shows the increase or decrease pattern of various revenues.

Figure no. 3: Graphical Presentation of Various revenues and their shares

(in Rs. '000')

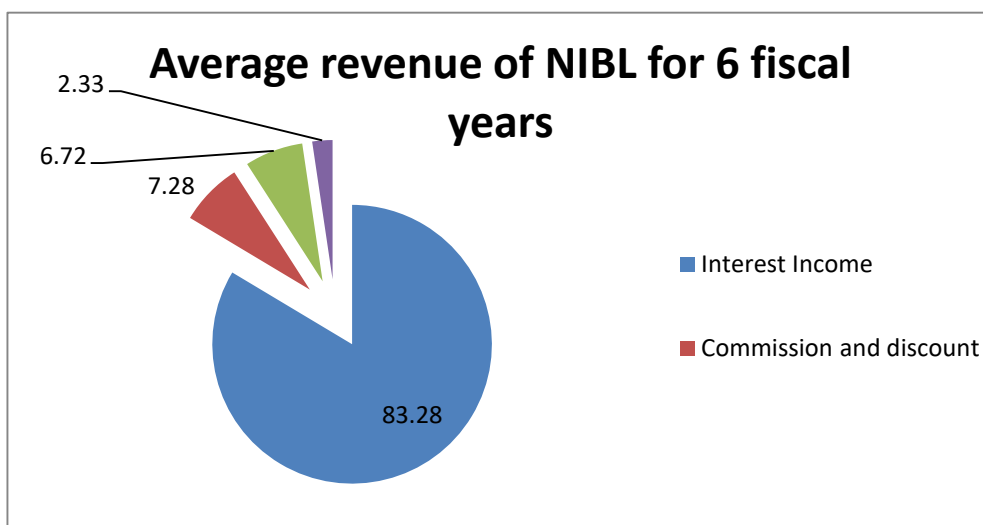
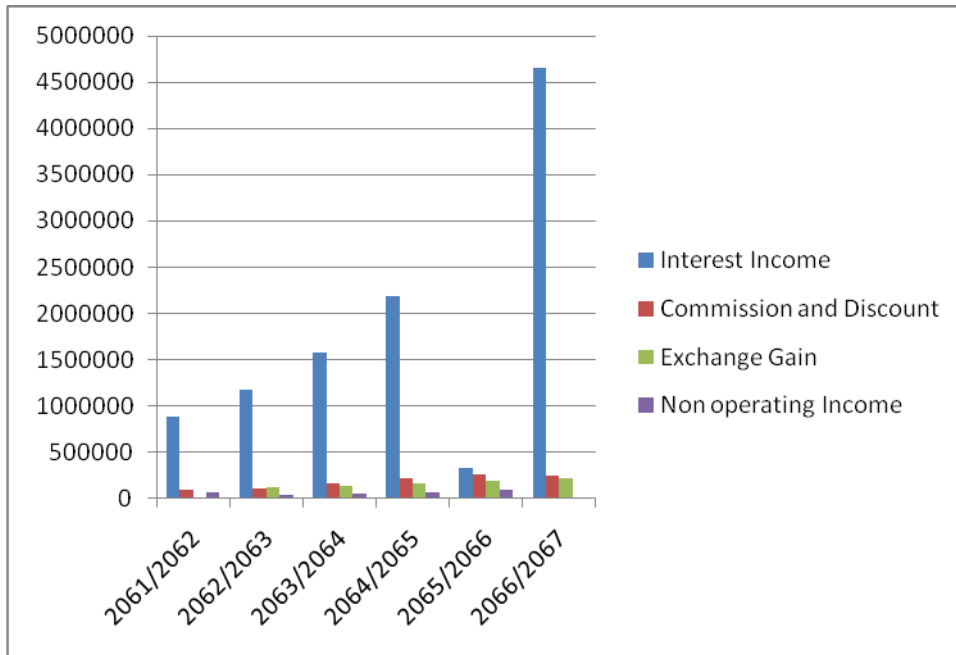


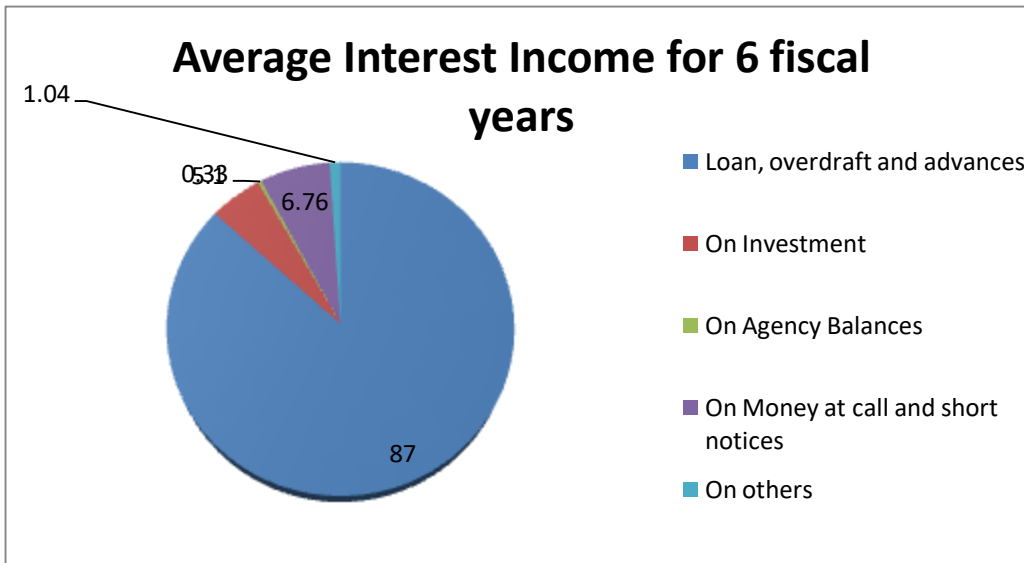
Figure no. 4: Average revenue of NIBL for 6 fiscal years

4.3.1 Income from Interest

Interest income is the major source of revenue in NIBL. Among different interest income, interest from loans, advances and overdrafts is the highest. It covered 87% of total interest income in aggregate. Likewise average interest from investment is 5.10% where as average; Money at call and short notices is 6.76%. Similarly 0.28% and 1.04% interest income is generated from agency balance and others. These data are shown in below tab

Table no. 3 Total revenue generated from Interest Income

Ye ar	Loan, overdraft and Advances	%	On Investment	%	On Agency Balances	%	On Money At call and short notices	%	On others	%	Total Interest
2061/62	76,91,95,061	87	5,65,50,194	6	3840739	0	46937649	5	10276316	1	88,67,99,959
2062/63	96,46,89,365	82	8,24,20,193	7	7858831	1	106421948	9	11351856	1	1,17,27,42,193
2063/64	1,30,21,21,998	82	7,84,93,554	5	10126583	1	183067186	12	11178043	1	1,58,49,87,364
2064/65	1,90,72,61,454	87	9,99,91,095	5	8892605	0	161035500	7	17095068	1	2,19,43,75,722
2065/66	2,90,60,54,774	89	14,06,97,625	4	68,26,224	0	17,51,42,952	5	39219567	1	3,26,79,41,142
2066/67	4,30,33,11,186	92	16,96,19,945	3.64	4,29,399	0	12,02,37,282	2.58	5,99,23,526	1.28	4,65,35,21,338
	Mean	87		5.10				6.76		1.04	



The above pie chart show average interest income for 6 fiscal years of various categories like loan, overdraft and advance; investment; agency balances; money at call and short notices and other incomes. It evidently shows that loans advances and overdraft is the highest interest earning category.

4.3.1.1 Interest from Loan overdraft and advances

Deposits collected are mobilized on loans, overdraft and advances on various sectors.

Table 4: Trend of Interest from Loan, overdraft and advances (in Rs ‘000’)

Above Table 20 shows net profit to total revenue of last 6 years of study period. Net profit to total revenue ratio is in increasing trend upto year 2064/65. But ratio trend line decreased in the corresponding year 2065/66. This shows that the ratio is in increasing except in year 2065/66. The total amount of total revenue and net profit is increasing every year but the ratio has decreased in year 5 of study. Thus study replicates that net profit ratio are satisfactory which indicates the sound financial position of NIBL till the last year.

This shows that about 24.18% of total revenue is net profit and banks has been decreasing its expenses and increasing net profit. This indicates that from 20.26% profit of total revenue in year 1, profit has reached 24.67% of total revenue in year 6 of study is very good work of bank.

4.5.2 Interest Income vs. Interest Expenses and Net Income

Interest income refers to all the revenue derived from interest to the loan amounts as house loan, educational loan, term loan, working capital loan, overdraft etc.. Interest income is the major source of revenue and interest expense is also the major expenditure in the bank. The difference between interest expense and income is profit. Interest income to net interest income shows the difference between interest income and interest expenses. The following is the interest rates served against deposit to its customers in various deposits like saving or fixed and interest rates charged against the service provided to its customer by Nepal Investment Bank Limited.

Interest Rates

Deposit Interest Rates	
Saving Accounts	% per annum
Savings*	4.50 - 6.00
Ezee Savings*	5.00
Saving Bonanza*	6.50

Fixed Deposit		
	Prime (%)	Others (%)
1 month	6.00	5.50
3 months	6.50	6.00
6 months	7.00	6.50
1 year	7.50	7.00
2 years	8.00	7.50
Above 2 years	8.50	8.00
Special Deposit Account	10.00	9.00
NIBL Special Fixed Deposit	11.00	10.50
Special Bulk Fixed Deposit Account	11.50	11.00
Lending Rates		
Corporate/Multinational	% per annum	
Overdraft	15.00	
Working Capital	15.00	
Short term Loan/Time Loan	16.00	
90 Days Cash Credit	15.00	
Term Loan	16.00	
Export Credit	13.00	
Trust Receipt	Level 1	Level 2
90 Days	13.00	15.00
120 Days	13.50	15.50
Corporate/Multinational	Prime	Others
Term Loan	16.50	17.00
Export Credit	15.00	15.50
Overdraft	17.00	18.00
Working Capital	17.00	18.00

Short Term Loan / Time Loan	17.00	17.50
Trust Receipt 90 days	15.50	16.50
Trust Receipt 120 days	16.00	17.00
Deprived Sector	11.00	12.00
Hire Purchase Loan	15.00	16.00
Loan Against Govt. Bonds**	14.00	
Loan Against 1st Class Guarantee	14.00	
Loan Against Fixed Deposits held with our Bank	3% above the coupon rate	
Loan Against USD Pledge	11.00	12.50
Other Loans	18.00	
Housing Loan (Up to 5yrs)	15.00	
Housing Loan(Above 5yrs)	16.00	

(Source : website- Nepal Investment Bank Limited)

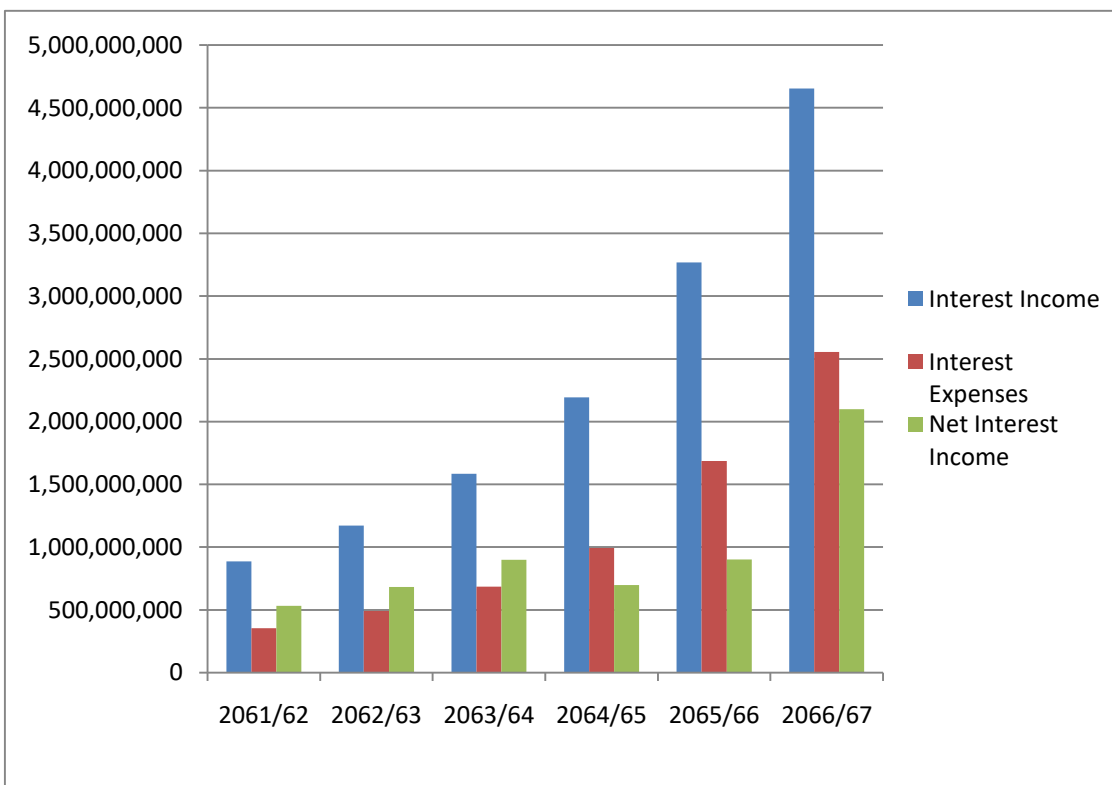
For the further studies of the NIBL financial status various ratio analyses have been computed as follows:

Table 21: Interest Income vs. Interest Expenses and net Interest income

Fiscal Years	Interest Income	Interest Expenses	Net Interest Income	Net Interest Income to Interest Income Ratio
2061/62	886,799,959	354,549,307	532,250,652	60

2062/63	1,172,742,193	490,946,961	681,795,232	58
2063/64	1,584,987,354	685,530,264	899,457,090	57
2064/65	2,194,275,722	992,158,398	696,731,516	32
2065/66	3,267,941,142	1,686,973,130	900,619,072	28
2066/67	4,653,521,338	255,384,7497	2,099,673,841	45
			Mean	46.67

Figure 23: Interest Income vs. Interest Expenses and net Interest income



In the Above figure 23 and table 21 the study shows that Interest income is consistently increasing along net interest Income is also growing in the same direction which shows the positive correlation between the interest income and net interest income a perfect situation any bank wants to be. Net income ratio decreased during 4th and 5th year, but at the last year

the ratio has increased to 45 %, satisfactory situation when there exists worldwide economic depression and bankruptcy and job loss ratio increasing in different part of the world.

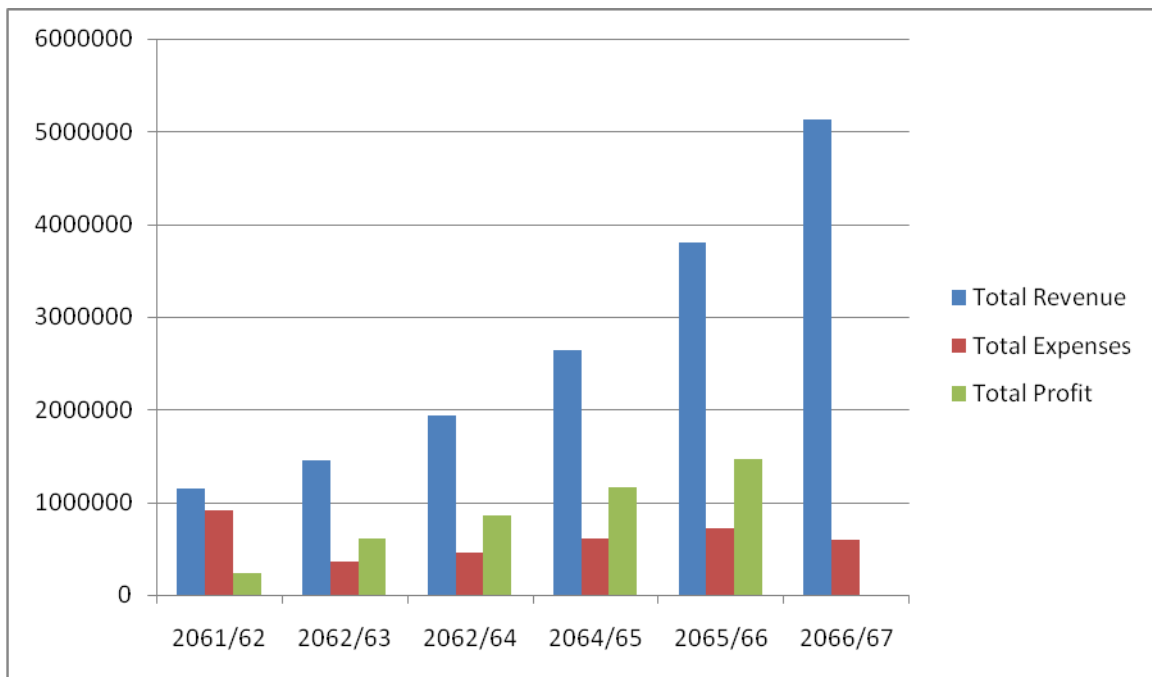
4.5.3 Total expenses to total revenue ratio and total profit to total revenue

Total expenses to total revenue ratio shows the relationship between total expenses and total revenue. The lesser total expenses ratio is good for bank. This shows the percentage of expenses on total income over expenditure. Likewise total profit to total ratio shows the ratio of profit on total revenue. It shows the percentage of profit on total revenue.

Table 22: Comparison of Total revenue, total expenses and total profit

Fiscal Years	Total revenue	Total Expenses	Total Profit	Total expenses to total Income ratio	Total Profit to total revenue ratio
2061/62	1,145,628	913,481	2,32,147	80	20
2062/63	1,450,333	361760	6,08,722	59	42
2063/64	1,931,560	4,61,139	8,53,094	54	44
2064/65	2,641,783	6,02,300	11,55,950	52	43
2065/66	3,803,634	7,16,115	14,64,802	48	38
2066/67	5,131,070	5,94,269	19,01,267	31	37

Figure 24: Comparison of Total revenue, total expenses and total profit



In the Table 22 and Figure 24 it is clearly seen that Total revenue collected, total expenses and Total profit is continuously increasing year by year.

From the table Researcher can find out total Expenses to income ratio and total revenue to total profit ratio. From the ratio Researcher can find that total expenses percentage is in decreasing trend that is bank is lowering its expenses which are increasing total profit. In year 1, 86% of total revenue is expend to generate profit of 14%. Similarly in year 2, total expense was decreased to 80% generating total profit 20% of total revenue collected. Likewise, in final year of study Researcher can find that total expenses decreased to 74% of total revenue generating total profit of 26% of total revenue which is very good figure indeed. Like wise Total profit to total revenue is in increasing trend in overall. In the 1st year of study there was only 14% total profit of total revenue where as in year 6, this has reached 26%. This implies that 26% of total revenue generated by NIBL is total profit.

Thus Researcher can say bank is in good position and Bank is decreasing its expenses year by year. There are various reasons behind decrease in total expenses like continuous decrease in

employee expenses, operating expenses etc. which is increasing net profit. From 86% expenses of total revenue in year 1 of study, it has reached 74% expenses of total revenue in year 6 is very good task performed by bank in decreasing expenses.

4.5.4 Total Deposit to Total Revenue ratio

Deposit collection and lending is known as basic business of banking companies. Technically, the term 'deposit' is used by the banking industry in financial statements to describe the liability owed by the bank to its depositor, and not the funds which are shown as an asset to the bank. But, in general deposit means the money deposited by the customer in their bank account which can be invested by the bank. The Bank and financial institution act, 2063 also defines deposit with the same spirit. Section 2 (w) of the BFI Act, mentions that – Deposits means amounts deposited in current, savings or fixed accounts of a bank or financial institution.

NIBL also provides various deposits as

- A) Current A/C

- B) Saving A/C :
 - i) Normal Saving Account
 - ii) Keta Keti Bachat Khata
 - iii) Social Deposit Account
 - iv) Lotus Saving
 - v) E-Zee Saving account
 - vi) Afnai Bachat Khata
 - vii) NIBL Savings Bonanza
 - viii) E-Zee Student Account
 - ix) NIBL Saving Bonanza

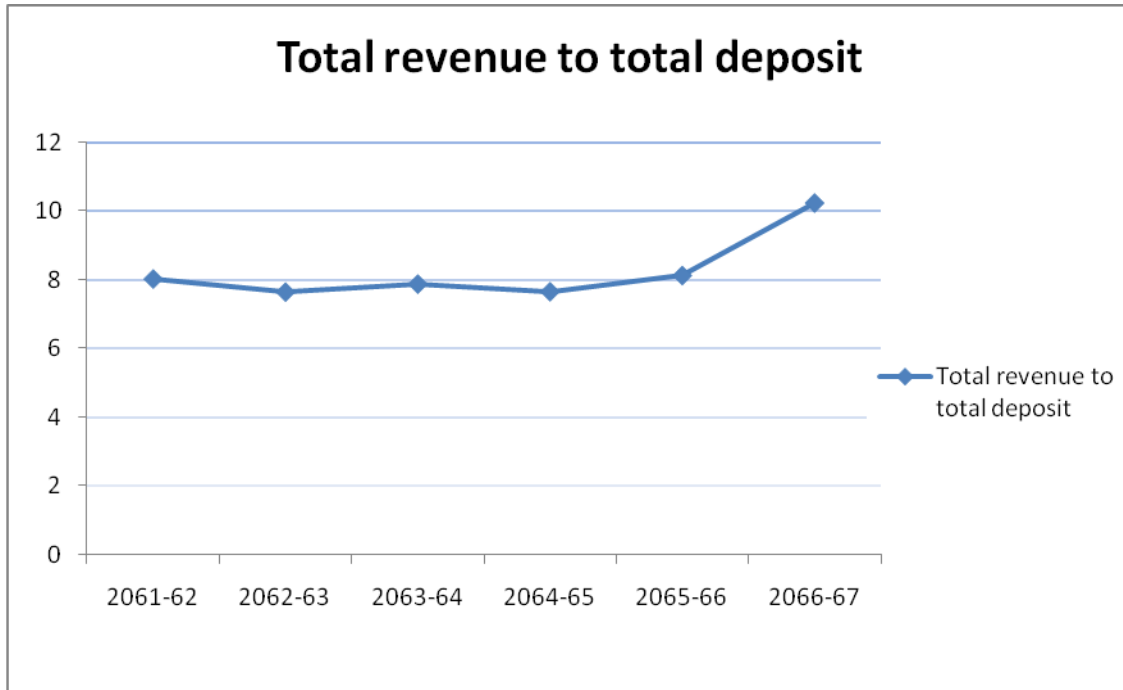
C) Fixed Deposit

This ratio shows the percentage of revenue against total deposits collected throughout the year. Deposit is major source of fund and the main revenue of bank is collected by mobilizing deposit to priority sectors.

Table 23: Total deposit to total revenue ratio

			Total revenue to
Fiscal Years	Total revenue	Deposits	Total deposit
2061/62	1,145,628,453	14,254,573,663	8.04
2062/63	1,450,333,956	18,927,305,974	7.66
2063/64	1,931,560,529	24,488,855,696	7.89
2064/65	2,641,783,322	34,451,726,191	7.67
2065/66	3,803,634,711	46,698,100,065	8.14
2066/67	5,131,070,491	50,094,725,497	10.24
		Mean	8.14

Figure 25: Total deposit to total revenue ratio



In the figure 25 Researcher can see that total revenue is very close to 8.14% of total revenue in 6 consecutive research periods. In the first fiscal year total revenue was 8.04% which increased in 6th fiscal year to 10.24%. This implies that total revenue has increased in the last 6th fiscal years.

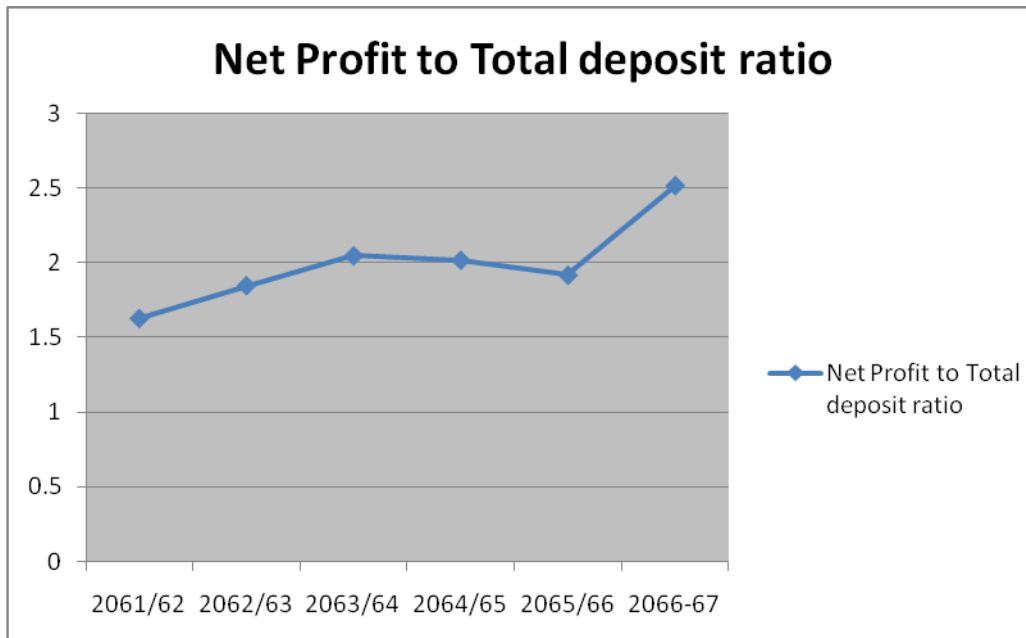
4.5.5 Net profit to Total deposit ratio

Net profit to total deposit shows the relationship between the total deposits versus net profit. This ratio shows the percentage of net profit on total deposits.

Table 24: Net profit to Total deposit ratio

Fiscal Years	Deposits	Net Profit	Net profit to Total Deposit ratio
2061/62	14,254,573,663	232,147,098	1.63
2062/63	18,927,305,974	350,536,413	1.85
2063/64	24,488,855,696	501,398,853	2.05
2064/65	34,451,726,191	696,731,516	2.02
2065/66	46,698,100,065	900,619,072	1.92
2066/67	50,094,725,497	1,265,949,588	2.52
		Mean	1.99

Figure 26: Net profit to Total deposit ratio



In comparison net profit is about 1.99% of total deposits collected for the entire period of 6 fiscal years. Net profit was 1.63% in year 1 of study and in final year of study this has grown to 2.52%. In 5th fiscal year, the profit declined to 1.92% and thereafter the profit rate is growing continuously.

This implies that net profit is comparatively in sound position. The resources have been mobilized in profitable area. Though, the deposit collection has decreased in ratio to last fiscal years.

4.5.6 Net Profit to Total Assets Ratio

Net profit to total Assets ratio shows the efficiency of assets for generating income. Proper utilization of asset is defined by this ratio. Higher ratio shows high efficiency on utilization of assets.

Table 25: Net Profit to Total Assets Ratio

Fiscal Years	Net Profit	Assets	Net Profit to Assets Ratio
2061/62	232,147,098	16,274,063,706	1.43
2062/63	350,536,413	21,330,137,542	1.64
2063/64	501,398,853	27,590,844,761	1.82
2064/65	696,731,516	38,873,306,084	1.79
2065/66	900,619,072	53,010,803,126	1.69
2066/67	1,265,949,588	57,305,413,482	2.20
		Mean	1.76

In the above table 25, net profit to total assets ratio of 6 study period is given. This ratio is in growing trend till third year of study and decreased in the fourth and fifth year, however the ratio drastically increased in last year of the study 2066/67. In first year it is 1.43 where as in the final year this has reached to 2.20. The increasing trend indicates that efficient utilization of assets. The volume of net profit is growing in comparison of Total Assets.

4.5.7 Cost of Deposit – Interest expenses to total Deposit Ratio

Cost of deposit – interest expense to total deposit ratio shows the cost of deposits. Interest has to be paid to various accounts holder against the deposits. We can say this ratio shows aggregate interest rate provided to deposit accounts. There are other costs also which is associated with deposits like staffs, machinery used for collecting deposits etc. But only interest was available for the study purpose. There were data associated with employees, but segregation was not possible. Therefore an interest expense is only assumed as cost of deposits.

Table 26: Interest expenses to total Deposit Ratio

Fiscal Years	Interest Expenses	Deposits	Cost of Deposit
2061/62	354549307	14,254,573,663	2.49
2062/63	490946961	18,927,305,974	2.59
2063/64	685530264	24,488,855,696	2.80
2064/65	992,158,398	34,451,726,191	2.87
2065/66	1,686,973,130	46,698,100,065	3.61
2066/67	2,553,847,497	50,094,725,497	5.09
		Mean	3.24

In the above table 26, cost of deposit of last 6 fiscal study years is given. In the 1st year it was 2.49 where as in 2nd year of study it increased to 2.59. Again in year 3 of study it reached to 2.80 and finally reached to 5.09 in 6th fiscal year. It shows the increasing trend of cost of deposit ratio. Thus we can see that interest rate is fluctuating year by year.

Nepal Rastra Bank is the central and regulatory bank of Nepal; hence the rate of interest depends upon the guidance and regulatory actions from Nepal Rasta Bank. Therefore these types of fluctuations are seen in interest expenses.

4.5.8 Interest Expenses to Total Revenue Ratio

Interest income plays the major role out of Total revenue. Thus Interest expenses to total revenue ratio measures productivity of Interest Expenses in generating total revenue. Interest expenses cover the highest portion of expenses. Lower the interest expenses, higher total profit. Therefore this ratio should be lowered to maximize total revenue and profit.

Table 27: Interest Expenses to Total Revenue Ratio

Fiscal Years	Interest Expenses	Total revenue	Interest expenses to Total Revenue Ratio
2061/62	354549307	1145628453	30.95
2062/63	490946961	1450333956	33.85
2063/64	685530264	1931560529	35.49
2064/65	992158398	2641783322	37.55
2065/66	1686973130	3803634711	44.35
2066/67	2553847497	5131070491	49.77
		Mean	38.66

In the above Table 27, interest expenses in average are aggregate 38.66% of total revenue. This implies the total interest expenses that have spend to earn total revenue is 61.34%. In the first fiscal year this ratio was 30.95 whereas it increased to 33.85 in 2nd fiscal year of study. Similarly in 3rd fiscal year this decreased to 35.49 in 4th fiscal year and again reached 49.77 in 6th fiscal year of study period. In the recent year interest expenses is growing in comparison to increase in total revenue. In last year the ratio is the highest in comparison of other years which shows the interest expenses has increased; an interest expense is growing as the bank has been increasing the interest rate to deposit holders

4.5.9 Interest Income to Total Revenue

Interest Income to total revenue shows the portion of interest income on total Revenue. Interest is the main source of income of bank so the interest income should be increasing yearly. The high ratio implies the high contribution of interest income in lending activities.

Table 28: Interest Income to Total Revenue

Fiscal Years	Interest Income	Total revenues	Interest income to total Revenue
2061/62	886,799,959	1,145,628,453	77.41
2062/63	1,172,742,193	1,450,333,956	80.86
2063/64	1584987,354	1,931,560,529	82.06
2064/65	2,194,275,722	2,64,17,83,322	83.06
2065/66	3,267,941,142	3,803,634,711	85.91
2066/67	4,653,521,338	5,131,070,491	90.69
		Mean	83.33

In the year 1 of study, interest contribution in total revenue was 77.41 where as increased 80.86, 82.06, 83.06, and 85.91 in year 2, 3, 4 and 5 of the study respectively. The highest ratio of interest income to total revenue is in year 2066/67 i.e. 90.69. The mean average of ratio of interest income to total revenue is 83.33%.

4.5.10 Total Revenue to Total Assets Ratio

Total revenue to total assets ratio shows the relationship between total revenue and total assets. It shows the percentage of total revenue earned against total assets. The higher ratio implies portion of total revenues against assets. We can say that this ratio shows the percentage of total revenue in comparison to assets.

Table 29: Total Revenue to Total Assets Ratio

Fiscal Years	Total revenue	Total Assets	Total Revenue to Total Assets
2061/62	1,145,628,453	16,274,063,706	7.04
2062/63	1,450,333,956	21,330,137,542	6.80
2063/64	1,931,560,529	27,590,844,761	7.00
2064/65	2,641,783,322	38,873,306,084	6.79
2065/66	3,803,634,711	53,010,803,126	7.17
2066/67	5,131,070,491	57,305,413,482	8.95
		Mean	7.25

4.5.11 Employee Expenses to Total Revenue

Employee expenses to total revenue ratio shows the contribution of employee expenses to generate total revenue by bank. Staff expenses play vital role in profitability, the higher the ratio, lower the profit. Therefore bank needs to minimize this ratio.

Table 30: Employee Expenses to Total Revenue

Fiscal Years	Employee Expenses	Total revenue	Employee Exp to Total Revenue
2061/62	97,004,160	1,145,628,453	8.47
2062/63	120,663,710	1,450,333,956	8.32

2063/64	145,370,601	1,931,560,529	7.53
2064/65	187,149,985	2,641,783,322	7.08
2065/66	225,721,490	3,803,634,711	5.93
2066/67	279,851,360	5,131,070,491	5.45
		Mean	7.13

In the table 30 shows the employee expense to total revenue ratio. In the 1st year of study ratio was 8.47 which decreased to 8.32%. Thereafter this ratio has been decreasing every year reaching 5.45% in year 6 of study. The aggregate employee expense is 7.13% out of total revenue generated.

NIBL is continuously decreasing the employee's expenses which ultimately lead to increase in profit. This also indicates that NIBL is maximum utilizing the number of staffs to achieve its organizational goal.

4.5.12 Loan Advances and Bills purchased to Deposit Ratio

Loans advances and bills purchased are the major areas of deposit mobilization of the any commercial banks. Loans advances and bills purchased are the first type of application of fund and are more risky in compare to investment. This ratio shows how well is deposit mobilized in earning sectors which increases total revenue. Optimum usage of deposit increases the profit of bank.

Table 31: Loan Advances and Bills purchased to Deposit Ratio

Fiscal Years	Loan Advances and Bills Purchased	Deposits	Loans to Deposits
2061/62	10,126,055,623	14,254,573,663	71.04
2062/63	12,776,208,037	18,927,305,974	67.50
2063/64	17,286,427,389	24,488,855,696	70.59

2064/65	26,996,652,258	34,451,726,191	78.36
2065/66	36,241,206,558	46,698,100,065	77.60
2066/67	40,318,308,062	5,009,472,5497	80.48
		Mean	74.26

In the 1st year of study, loans, advances and bills purchased to total deposit ratio was 71.04%. This shows that 71.04% of deposit collected are mobilized in loan, advances and bills purchased. This ratio decreased in year 2 and increased to 70.59% in year 3 of study. Thus loans, advances and bills purchased to total deposit ratio is fluctuating and is not consistent. The aggregate of this ratio for 6 study years is 80.48%. The ratio is in increasing trend and fluctuating in some years.

4.5.13 Total Investment to Total Deposit Ratio

Investment are also kind of deposit mobilizing sector and is more secure than loan and advances, are less productive and collects less revenue than loans and advances. This ratio also shows the mobilizing pattern of deposit in investment.

Table 32: Total Investment to Total Deposit Ratio

Fiscal Years	Investment	Deposits	Investment to Deposit Ratio
2061/62	3,934,188,708	14,254,573,663	27.60
2062/63	5,602,868,649	18,927,305,974	29.60
2063/64	6,505,679,987	24,488,855,696	26.57
2064/65	6,874,023,625	34,451,726,191	19.95
2065/66	7,399,811,700	46,698,100,065	15.84
2066/67	8,635,530,125	50,094,725,497	17.23

		Mean	22.80
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27.60% of total deposit was mobilized in investment in year 1 of study whereas this ratio decreased to 26.57% in year 3. Then afterwards the investment to deposit ratio has been gradually decreasing. In year 6 of study it increased to 17.23 Thus study shows the proper mobilization of deposit in investment is not consistent. The aggregate of 6 study years is 22.80%. As the investment depends upon the issue of treasury bills and government bonds, this is being fluctuating.

4.5.14 Earning Per Share

Definition of earning per share

Earnings per share is the income for 1 share in a particular fiscal year. This is derived from dividing net profit by number of total share. This used as tool for measuring organizational performance. Net profit determines how effectively organization is running. Therefore higher EPS shows the good performance as well as goodwill of the organization.

Table 33: Earning Per Share

Year	Net Profit	Number of Share	EPS
2061/62	232147098	5,877,385	39.5
2062/63	350536413	5,905,860	59.35
2063/64	501398853	8,013,526	62.57
2064/65	696,731,516	12,039,154	57.87
2065/66	900,619,072	24,070,689	37.42
2066/67	1,26,59,49,588	24,090,977	52.54

		Mean	51.54
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In this study shows that EPS is increasing year by year except in year 4 of study. In year 4, EPS decreased from 62.57 to 57.87. In year 5, it again decreased to 37.42 and at last year of the study EPS increased 52.54.

4.6 Trend Analysis

Definition of trend analysis

Trend analysis is a comparison of current year data with last year data to find out the increase or decrease percentage. We analyze trend to find out the increasing / decreasing pattern of that particular category.

4.6.1 Profit Trend

What it indicates?

Profit trend shows the pattern of profit. It shows what the ratio of increase / decrease in profit is. Profit is excess of income over expenses. The major determinant of profit is income and expenses. To maximize profit income should be maximized where as expenses should be minimized.

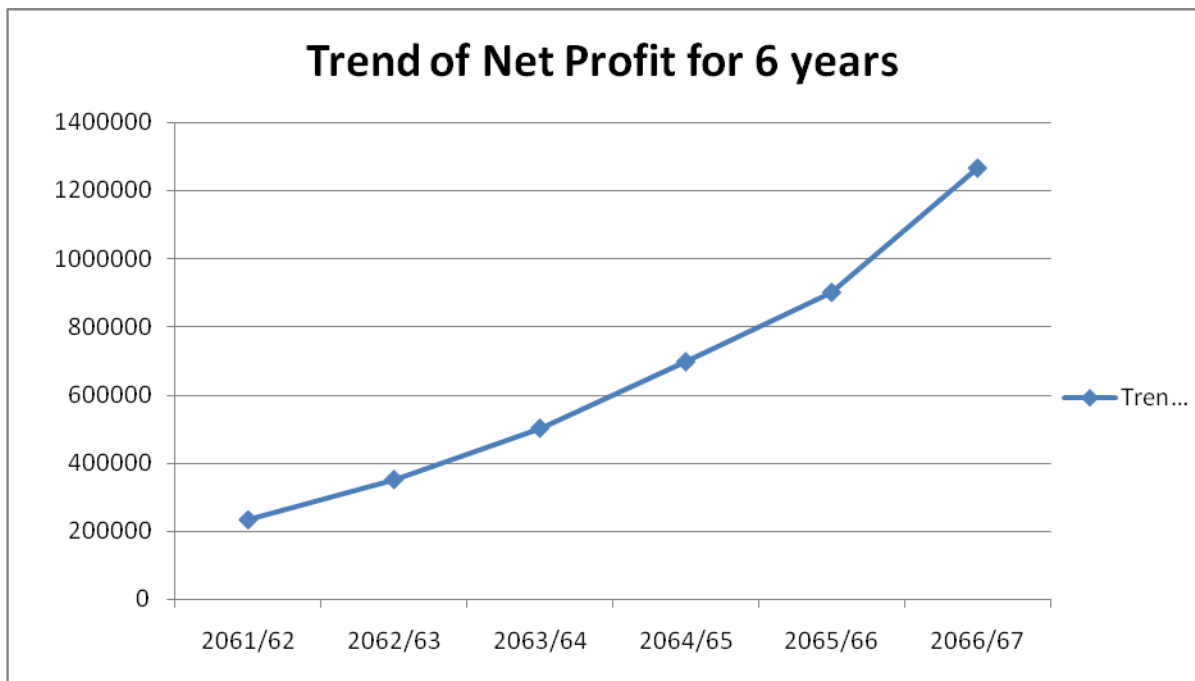
Table 34: Profit trend

Fiscal Years	Net Profit	Trend %
2061/62	232147098	52.06
2062/63	350536413	51.00
2063/64	501398853	43.04
2064/65	696,731,516	38.95
2065/66	900,619,072	29.26

2066/67	1265949588	40.56
	Mean	42.47

Table 34 and figure shows the trend of profit. We can see that the trend of profit is in fluctuating form. The rapid decrease in profit trend was in year 2065/66 which was 29.26% and hike in next year to 40.56% is good performance by the NIBL, which replicates the trust of people towards the NIBL.

Figure 27: Profit trend



4.6.2 Deposits Trend

Deposits trend show the trend of deposits. It shows the increase / decrease of deposits in study years.

Table 35- Deposit Trend

Fiscal Years	Deposits	Trend %
2061/62	14,254,573,663	23.69
2062/63	18,927,305,974	32.78
2063/64	24,488,855,696	29.38
2064/65	34451726191	40.68
2065/66	46698100065	35.54
2066/67	50094725497	7.27
	Mean	28.22

Figure 28: Deposit trend

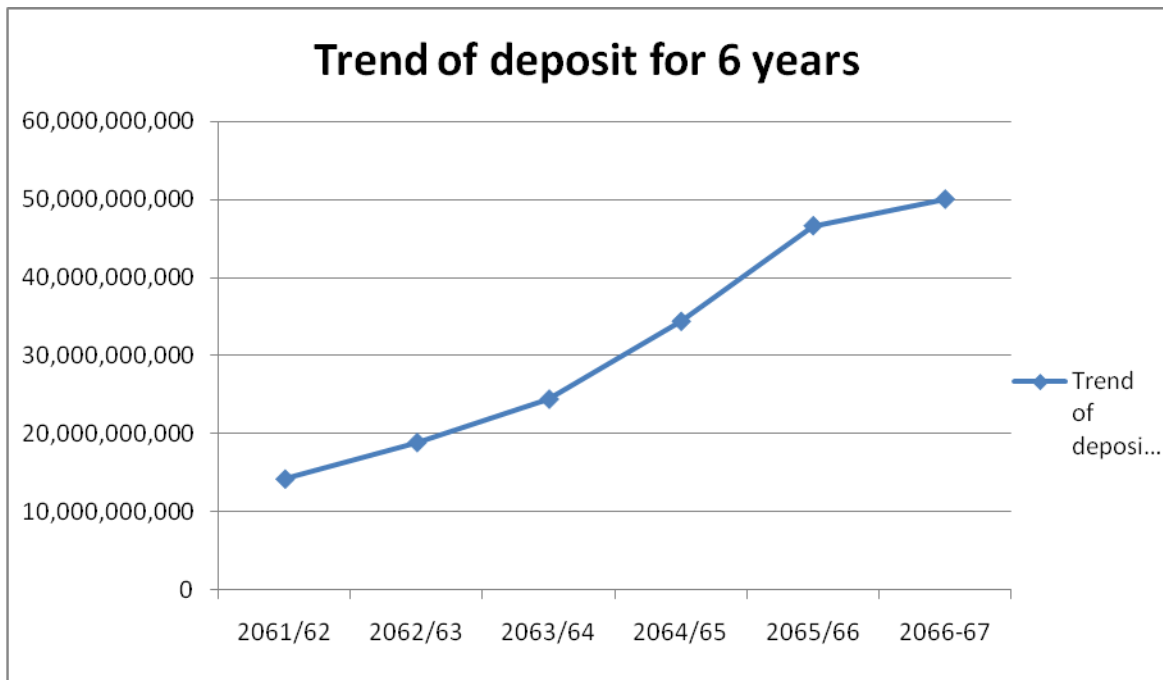


Table 35 and figure 28 show the trend of deposits for study years. Trend of deposits is in increasing till 2065/66 where the trend of deposit was positive during year 2066/67 but the increasing trend was slow compare to other years.

Deposit trend showing increasing trend and profitability ratio is also satisfactory which indicates that the financial position in average of Nepal Investment Bank Limited is positive. Hence, though the there is economic depression the depression has slowed down the Nepalese prosperity however has not made negative impact on the profitability of NIBL.

Loan and advances as the major portion of interest income is covered. The trend of this interest income is fluctuating where as in fiscal 2066/67 the trend has decreased to 48.08% which remained low compared to past fiscal year 2065/66. This has impacted the profitability of NIBL however the impact is minimal.

4.7 Major Findings

4.7.1 Branch Office

- Bank is operating 19 branches and planning to increase couple of branches more soon. Bank has planning to open branches in Dhangadi, Birtamode, Mahendranagar and in Baneshwor. Bank has plan to open 50 branches by 2010.

4.7.2 Personnel and management

- There are 514 staffs working in NIBL.
- 289 staffs were sent for seminars and trainings including 18 staffs trained abroad.

4.7.3 Revenue

- Revenue collection is increasing every year. Interest income is the highest contributor in the total revenue. The aggregate contribution of interest income is about 80% for the study years.
- Revenue collection from other than interest is also in growing trend. Other revenue collection contribution is made by commission and discount, exchange gain and other income. Their contributions are 7%, 9% and 5% respectively.
- Net Profit of NIBL is also in increasing trend. The net profit is about 20.151% of total revenue in aggregate. Bank is reducing other costs which are ultimately increasing the percentage of net profit.
- Net interest income is about 58.16% in aggregate. The aggregate difference of interest income and interest expenses is higher which shows the good position of bank in terms of earning profit.

4.7.4 Ratio Analysis

- The average cost of deposit is 2.70%. The bank has been reducing its cost of deposit.
- The aggregate interest expenses to total revenue are 33.31% which is the highest expenses of bank to generate net profit.
- The average employee expenses in comparison to total revenue is 9.12%.
- The aggregate of 67.55% of total deposit collected is mobilized as loan and advances. This shows that collected deposits are mobilized properly.

4.7.5 Financial status

- The share capital of NIBL is increasing. The share capital of NIBL was 80 crores in fiscal year 2063-64.

- Earning per share of bank is also increasing despite of increase in number of share.

4.7.6 Expenditure

- The major portion of expenses is covered by interest expenses. Other expenses like operating expenses, employee expenses etc. also play the significant role.
- The trend of expenses is also in increasing trend.

4.7.7 Miscellaneous

- Bank has planned to provide various value added services like facility of recharging from ATM's and internets.
- Bank has started workouts to use new international standard software.
- Bank has planned to increase number of remittance agent to 150 by the end of 2064/65.

Chapter 5

Summary, Conclusion and Recommendations

5.1 Summary and Conclusion

Bank and financial institutions are one of the pillars for the economic growth of the nation. Its role in developing country like Nepal is note worthy in each and every sector of development. In response to the economic growth of Nepal, the role of commercial bank in Nepal is very important. The commercial bank role in the economy leads country to achieve goals and economic prosperity. By collecting idle funds and mobilizing them to productive sector is the major role played by any commercial bank.

Bank and Financial institution is also a company that provides service to customer to earn profit. Understanding of the profitability of a commercial bank helps to understand the status of commercial bank.

Nepal Investment bank is one of the oldest bank of Nepal which was previously known as Nepal Indosuez Bank established in 1986 AD in joint venture. In 2002 AD, the name of the bank was changed and there were change in share capital structure.

This research study has tried to cover the revenue activities of NIBL from the fiscal year 2061-62 to 2066-67 for 6 fiscal years.

5.2 Conclusions.

Bank is a financial institution that operates for profit along with providing service to general public. According to Black's Law Dictionary, a bank is defined as "a financial establishment for the deposit, loan, exchange, or issue of money and for the transmission of funds". Profit or revenue is the earning of bank.

Bank mobilizes its deposit on various sectors. NIBL has invested on Government securities like treasury bills, development bonds and foreign securities.

This research study has tried to cover the revenue activities of NIBL from the fiscal year 2061-62 to 2066-67 for 6 fiscal years. It is a doctrinal research which is based on the annual reports of Nepal Investment Bank Limited. On the basis of annual reports of NIBL, the major sources of revenues are interest income, commission and discount, exchange gain and non-operating other income. The aggregate interest income for study period is 83.28% where commission and discount covers 7.28% of total revenues. Likewise, Exchange gain and non-operating other income covers 6.72% and 2.33% of total revenue respectively.

Interest income is the major source of revenue in NIBL. The various interest incomes are interest from investment; interest income on agency balance; interest from money at call and short notices; commission and discount. Among these different interest incomes; interest from loans, advances and overdrafts is the highest. It covered 87% of total interest income in aggregate. Likewise average interest from investment is 5.10% where as on average; Money at call and short notices is 6.76%. Similarly .28% and 1.04% interest income is generated from agency balance and others.

NIBL has invested on Government securities like treasury bills, development bonds and foreign securities. Investment on securities depends upon the policies of NRB.

Interest income from agency balance represents .33% in average of total interest in 6 fiscal years. NIBL earns interest from agency balance in foreign banks as well as Local banks and financial institution. NIBL earns interest from various banks acting as agency

Interest earned from money at call and short notices covers about 6.76% of total interest income generated by NIBL. There is inconsistency in trend under this category.

Commission and discount is another major source of revenue of NIBL. It covers about 7.28% of total revenue earned by NIBL. Commission from letter of credit, bank guarantees, remittance commission, and card commission are the major sources of commission and discounts. The trend of commission and discount is in increasing trend.

Income from commission and discount is categorized in bills purchase and discount, commissions and others. The average share of bills purchase and discount for entire study period is about 1.242% where as average share of commission is 78.75%. Income from others occupies about 20.002% share.

Commission plays the major role under commission and discount category. There are different headings like commission for letter of credit, guarantees commission, remittance commission, cards commission and other commission like collection fee, agency fee, exchange fee etc. The average L/C collection for study period is 22.57% where as Guarantee commission covers about 22.05% share. Likewise remittance commission covers 10.81% and card commission covers about 30%.

Non operating incomes are profit on sales of investment / Assets. Such income can be dividend received from different banks where NIBL has invested in terms of share capital by purchasing shares. Non operating incomes are also subsidies received from Nepal Rastra Bank.

Other incomes includes rental on safe deposit lockers, issue and renewals of cards, telex / TT charges, service charges, renewal charges, loan provision written back and others. The trend of non operating / other income is fluctuating.

Income generated from hiring deposit lockers to its costumer is kept under this category. Bank takes certain charge for keeping valuable things in safe deposit lockers.

The Income from Telex / TT is increasing trend of this income up to 3rd year and slow down in 4th year and rapid growth in 5 year and disappointing position in the last year 2066-67. The major reason for this is that the remittance from abroad is fluctuating due to the economic depression.

The income from exchange gain is also increasing year by year. The main reason behind this is the increase in use of US dollars. The number of persons going abroad is increasing and thus banks holding of US dollar as well as other foreign currency are growing.

Ratio Analysis

Net Profit to Total Revenue Ratio

Net profit to total revenue ratio is in increasing trend upto year 2064-65. But ratio trend line decreased in the corresponding year 2065-66. This shows that the ratio is in increasing except in year 2065-66. The total amount of total revenue and net profit is increasing every year but the ratio has decreased in year 5 of study. Thus study replicates that net profit ratio are satisfactory which indicates the sound financial position of NIBL till the last year.

This shows that about 24.18% of total revenue is net profit and banks has been decreasing its expenses and increasing net profit. This indicates that from 20.26% profit of total revenue in year 1, profit has reached 24.67% of total revenue in year 6 of study is very good work of bank.

Total Deposit to Total Revenue ratio

In the first fiscal year total revenue was 8.04% which increased in 6th fiscal year to 10.24%. This implies that total revenue has increased in the last 6th fiscal years.

Net profit to Total deposit ratio

Net profit is about 1.99% of total deposits collected for the entire period of 6 fiscal years. Net profit was 1.63% in year 1 of study and in final year of study this has grown to 2.52%. In 5th fiscal year, the profit declined to 1.92% and thereafter the profit rate is growing continuously.

This implies that net profit is comparatively in sound position. The resources have been mobilized in profitable area. Though, the deposit collection has decreased in ratio to last fiscal years.

Loan Advances and Bills purchased to Deposit Ratio

In the 1st year of study, loans, advances and bills purchased to total deposit ratio was 71.04%. This shows that 71.04% of deposit collected are mobilized in loan, advances and bills purchased. This ratio decreased in year 2 and increased to 70.59% in year 3 of study. Thus loans, advances and bills purchased to total deposit ratio is fluctuating and is not consistent. The aggregate of this ratio for 6 study years is 80.48%. The ratio is in increasing trend and fluctuating in some years.

Total Investment to Total Deposit Ratio

27.60% of total deposit was mobilized in investment in year 1 of study whereas this ratio decreased to 26.57% in year 3. Then afterwards the investment to deposit ratio has been gradually decreasing. In year 6 of study it increased to 17.23 Thus study shows the proper mobilization of deposit in investment is not consistent. The aggregate of 6 study years is 22.80%. As the investment depends upon the issue of treasury bills and government bonds, this is being fluctuating.

On the overall, the bank has very good position in regards to profitability. Deposit mobilization is sound and profit earning in terms of investment is sound in current economic crisis scenario.

5.3 Recommendation

On the basis of the study on profitability index of NIBL, the following suggestions are recommended to improve overall systems related to revenues of bank.

5.3.1 The internal Management

- As the banking sector is being more and more competitive due to entrance of new commercial banks, NIBL should invest in R &D department to launch innovative product to serve its customers.
- Bank should know their customers as to update it, under the NRB directives to serve its obligation as well as to improve better customer relationship.

5.3.2 Business Part

- The net profit to total revenue ratio of the bank for the final fiscal year of the study seems satisfactory as it was about 24.18% also bank has been decreasing its expenses and increasing net profit. The performance in terms of net profit is appreciable though there was sign of economic depression throughout the world. The best utilization of human and other resources to minimize the cost or expenses should be done.

- In the first fiscal year total revenue was 8.04% which increased in 6th fiscal year to 10.24%. This implies that total revenue has increased in the last 6th fiscal years. To increase the

deposit, bank should introduce innovative products and provide the best customer satisfaction and assurance that the money deposited is as safe as in their home.

- Net profit is about 1.99% of total deposits collected for the entire period of 6 fiscal years. This implies that net profit is comparatively in sound position. The resources should be mobilized in profitable area like hydro projects.

- The aggregate of loan advances and bills purchased to deposit ratio for 6 study years is 80.48%. The loan advances are the source of income of the bank, however proper evaluation of loan and advances against collateral should be done to minimize the doubtful debts/

- The aggregate of total investment to total deposit ratio for 6 study years is 22.80%. As the investment depends upon the issue of treasury bills and government bonds, this is being fluctuating. More productive and secure area should be selected for the investment.

5.3.3 General

- The numbers of branches increasing but the bank should also promote its banking facilities to remote area of Nepal for the overall development of Nepal.