

CHAPTER- I

INTRODUCTION

1.1 General Background of the Study

The speedy development of any country in this modern era depends upon to some extent with financial activities of the country. Financial activities play a role of catalyst in the process of economic development of the country. In Nepal financial sectors (banks, finance companies etc.) play a vital role in the economic development of the country. Unutilized natural sources, miserable agriculture, deficit trade, mass poverty, illiteracy and so forth characterize the current state of Nepalese economy. Agriculture is the main occupation of almost village people but no scientific methods of agriculture have yet been implemented. It is one of the richest countries in the world in terms of natural resources available here have remained unutilized due to reasons.

A tiny landlocked country is south Asia, Nepal remains as one of the 48 least developed countries in the world. The country's per capita income has been growing a little over two percent annum at a situation when more than two-fifth of the country's population is in absolute poverty. Nepal's current economic situation is best with nearly half of the population living below poverty line, and unemployment and disguised unemployment together depriving one half of the labor force.

Investments in productive sectors increase the economic activities. The unutilized financial resources should be diverted towards productive sector in order to increase the economic activities. To develop the Nepalese economy, the financial institutions should be established. The participations of the private sectors play ever more important role for the economic development. Hence, various banks, insurance companies, financial companies etc. have been established in the private

sector and government sector as well to develop the economy to develop the economy of the country, their providing their active participation for the economic development. But even with the rapid development and expansion of financial institutions, the country has not been able to achieve the desired income so far which is due to the poor capital market condition of our country and due to the early stage of economic growth.

As after mentioned, the financial institutions play a vital role in the economic development e.g. the banks, especially the commercial banks; financial companies and insurance companies have been established.

The profit planning and control mechanism is being widely practiced in manufacturing industries but it is relatively new in non-manufacturing/services, industries/sectors. However, this concept is equally applicable to any kind of business concern for the best utilization of the scarce resources and effectively and efficiently achieving goal. Every company or institutions are established based on the definite goals and objectives. According to the objectives, the company performs its tasks. Mainly two types of institutions such as profit oriented and service –oriented institutions are established, but most of them are profit is the lifeblood of the business, which not only keeps it alive but also assures the future and makes it sound. Profit planning is an important tool of the firm to achieve the objectives. Profit do not just happen, profits are managed (Lynch & Williamson, 1989:125). Therefore, to manage the profit, the management should follow various processes of profit planning because the management process and profit planning and control are interested to each other. Profit maximization is the basic objectives of a firm and to make it reliable service should render to its customers. Profit is a device to measure efficiency of a firm. Planning is the first essence of a management and all other functions are performed with the framework of planning. Planning means declining in advanced what is to be done in future.

Planning starts from forecasting and predetermination of future events. The main objective of planning in business is to increase the chance of making profit. The budget is the primary planning operation document committed to performance. In this sense budget is also called a profit planning.

Planning is the process of developing enterprises objectives and selecting a future course of action to accomplish them (Welsch et.al, 2001:45). The term comprehensive profit planning and control is defined as a systematic and formalized approach for performing significant phase of the management planning and control function (Welsch et. al., 2001: 45).

- The development and application of broad and long-range objectives of the enterprise.
- The specification of enterprise goals.
- A long-range profit plan developed in broad terms.
- A short-range profit plan detailed by assigned responsibilities (divisions, product, project etc.)
- A systematic periodic performance reports detailed by assigned responsibilities, and
- Follow-up procedures.

As like in the other profit-oriented organizations, a commercial bank has also to make reasonable profit for its survival. Most of the commercial banks are formed as a company with joint stock and the shares being traded at stock exchanges. Therefore, profit made by them is the important parameter for measurement of effectiveness efficiency of them.

1.2 History of Banking Development

The word 'Bank' is derived from the word 'Bunco', 'Bancus' or Basque' but the meaning is same that is bench. This refers that early bankers transacted their

money lending activities on branches in the market place exhibiting the coins of different denominations for the purpose of changing and or lending money. Some writers are of the opinion that the word 'Bank' came from the German word 'Banc' meaning joint stock fund (Varshney, 1993:169).

In its native form, banking is as old as in the authentic history and origins of the modern commercial banking are traceable in ancient times. In ancient Greece, around 2000 B.C., the famous temples of Ephesus, Delphi and Olympia were used as depositories for people surplus fund and these temples were the centers for money lending transactions. The priests of these acted as financial agents until public confidence was destroyed by the spread of disbelief in the religion. Later, however, for a few countries, banking as an organized system of money lending receded because of the religious belief that the charging of interest was immoral. However, the banking as we know today, made its first beginning around the middle of 12th century in Italy. The Bank of Vedic, founded in 1157 A.D. was the first public banking institutions. Following this, in 14th century, the Bank Genoa was established in 1401 A.D. and 1407 A.D. respectively (Vaish, 1996).

In England, start of Banking can be accounting for as far back as the region of Edward III. Those days, the Royal Exchanger used to exchange the various coins into British money and used to supply foreign money to the British men going out of the country. The bankers of Lombardy were famous in medieval Europe as the credit of planning the seed of modern banking in England goes to them when they settled in London in the locality now famous as the Lombard street.

The goldsmiths can be considered as the initial Bankers in England as they used to keep strong rooms with security guards employed. People entrusted their cash to them. The goldsmiths used to issue duly signed receipt of the deposits with the undertaking to return the money on demand charging some fee for safekeeping.

These undertakings helped in gaining a further confidence of the public therefore the money were kept with them for longer periods. They were thereby encouraged to lend some part of these funds, which became profitable business to them. Therefore, they started offering interest on the deposits to attract more funds. In the course of time independent banking concerns were set up. The Bank of England was established in 1694, under a Special Royal Charter. Further, in 1833 legislative sanction was granted for establishment of joint stock banks in London, which served as a big impetus to the development of joint stock banking. These banks took the initiative for extending current account facilities of withdrawals through cheques.

In India, the ancient Hindu scriptures refer to the Vedic period. During the Ramayana and Mahabharata eras, banking had become a full-fledged business activity and during the Smiriti period (after the Vedic period), the business of Banking was carried on by the members of varnish community. Manu, the great lawgiver of the time speaks of the earning of interest as the business of Bishyas. The bankers in the smiriti period performed most of those functions which the banks in modern times perform such as the accepting of deposits, granting loans, acting as the treasurer, granting loans to the king in times of grave crises and banker to the state and issuing banknotes to the state and issuing and managing the currency of the country (Varnish, 1992: 183).

1. In Nepal, although the monetary history dates back to 1st century (Lichhavi Dynasty), the banking history is comparatively very short. The development of organized banking has started in Nepal only from around the starting of 20th century of Bikram Sambat. Nepal bank limited, established in B.S. 1994 with an authorized capital of Rs.1 corer and paid up capital of Rs. 8 Lakh 42 thousand is the first organized bank established in Nepal (NRB, 2045). Although during the Prime Minister Ship of Rana Prime Minister Ranadwip Singh an office called “Tejarath Adda” was established for granting loans to

government officials and to the public against the security of gold, silver and other valuables, it could not be considered as Bank in real sense, as it did not collect deposit. Later after establishment of Nepal Banks, the functions of 'Tejarath Adda' were limited up to providing loans to government officials only (NRB Report, 2045;12). Banking development in Nepal found another break after the establishment of Nepal Rastra Bank, the central Bank of Nepal in 2013B.S. (NRB Report 2045;14). This has helped organizing the monetary system in the country before which the dual currency system (Indian and Nepalese currency) was prevailing in the system largest sector of economy was none monetized. In the course of organized development of banking sector, second commercial bank, Rastriya Banijya Bank was established in 2022B.S. at the state ownership (NRB Report, 2045;16). Later on, in F/Y 2039/40, the policy for allowing establishment of foreign joint venture banks was taken with an aim to having fair competition and skill development in banking sector, which had added new dimension in development of banking in Nepal. Accordingly, Nepal Arab Bank Ltd (presently renamed as Nabil Bank) has been established as the first joint venture bank in Nepal in 2041 B.S.(NRB Report, 2045; 17). (*www.Thehistorybank.com*)

Afterward, various commercial banks were opened with foreign joint venture under private sectors in Nepal, which had contributed a lot to bring the commercial banking at present day position. Till there are 27 commercial banks licensed under NRB in Nepal which are enlisted below.

Table 1.1
Lists of Commercial Banks in Nepal

S.No.	Name of Banks
1.	Nepal Bank Limited
2.	Rastriya Banjiya Bank
3.	Nepal Investment Bank Ltd.
4.	NABIL Bank Ltd.
5.	Standard Chartered Bank Ltd.
6.	Everest Bank Ltd.
7.	Bank of Kathmandu Ltd.
8.	Himalayan Bank Ltd.
9.	Nepal SBI Bank Ltd.
10.	Agriculture Development Bank Ltd.
11.	Nepal Bangladesh Bank Ltd.
12.	Bank of Asia Nepal Ltd.
13.	Sunrise Bank Ltd.
14.	Kist Bank Ltd.
15.	NMB Bank Ltd.
16.	Janta Bank Nepal Ltd.
17.	Prime Commercial Bank Ltd.
18.	Citizens Bank International Ltd.
19.	Lumbini Bank Ltd.
20.	Kumari Bank Ltd.
21.	Global Bank Ltd.
22.	Machhapuchhre Bank Ltd.
23.	Laxmi Bank Ltd.
24.	Siddhartha Bank Ltd.
25.	Nepal Credit & Commercial Bank Ltd.
26.	Nepal Industrial & Commercial Bank Ltd.
27.	Development Credit Bank Ltd.

(Source: www.nrb.org.np)

1.3 Importance of Financial Institution

Financial Institution can be considered as the catalyst to the economic growth of a country. The development process of a country involves the mobilization and

deployment of resource and financial institutions have become much more significant than ever. Their activities for the poor can be considered as the major role-played by the endeavor toward poverty alleviation.

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

1.4 Statement of the Problem

The Everest Bank Limited is one of the leading commercial bank in Nepal, which is earning profit since its establishment. However, in recent years the economic condition of Nepal is not satisfactory. All business activities are going downwards. 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 plan for future in order to take step to improve profitability. The main research questions are as under.

1. Does EBL have appropriate profit planning system?
2. Does the Bank mobilize the deposits and other resources at optimum cost?
3. Does the Bank deployment resources generating satisfactory yield?
4. Does the Bank giving proper attention towards non-funded business activities thereby generating satisfactory amount of other income?
5. What are the overall PPC problem of EBL Bank and what suggestions can be recommended for their proper solution?

1.5 Objectives of the Study

The basic objectives of this study are to appraise the application of comprehensive PPC system in Everest Bank Limited.

Thus, the major objectives are:

1. To observe EBL's profit planning based on overall managerial budgets by the Bank.
2. To analyze the variance of budgeted allocation and actual achievements.
3. To study the growth of the business of the Bank over the period.
4. To provide suggestion and recommendation for improvements of the overall profitability of the Bank.

1.6 Signification of the Study

Profit is the lifeblood of the any organization because the continuity or survival of the each any every organization is depends upon the earning capacity of that organization. This study is concerned with the profit planning in the commercial bank. It attempts to examine and analyze the applicability of profit planning system in the bank. Profit planning process significantly contributes to improve the profitability as well as the overall financial performance of an organization with the help of the best utilization of resources.

Profit planning is a part of an overall process and is an area in which finance function plays major role. It is now an important responsibility of financial manager while activities of those require an accounting background. It is also need knowledge of business principles, economics statistics and mathematics. Hence, profit planning represents on overall plan of preparation for a definite period. Profit planning is crucial for management. Profit is the most important indicators for judging managerial efficiency and does not just happen, for this every organization has to manage. Various functional budgets are the basic tools for proper planning of profit and control. Therefore, this study will be useful for those who want to know the profit-planning tool and for next researcher as a reference.

1.7 Limitations of the Study

The study no doubt has certain limitation of the following kinds:

1. This study covers the related data of the banks from F/Y 2006 to 2010.

2. Only profit planning aspect of Everest Bank Limited has been analyzed.
3. The primary data is collected only from some discussion with the personnel of the bank.
4. The result of the study may not be thoroughly applied over all types of commercial banks.
5. Time and money are also constraint for the study.

1.8 Design of the Study

The study is divided into the following five chapters.

Chapter I: Introduction

The first chapter deals the background of the study, history of banking development, importance of financial institution, statement of problem, objectives, significance and limitation of the study.

Chapter II: Review of Literature

The second chapter deals with the review of available literature. It takes in review of related books, journals, articles and previous unpublished Master Degree Dissertation etc.

Chapter III: Research Methodology

The third chapter is deals with the research methodology employed in this study. It includes research design, population and sample, data collection procedure and sources of data, data analysis techniques etc.

Chapter IV: Data Presentation and Analysis

The fourth chapter is the important chapter of the study, which implies the presentation, and analysis of data as well as major findings of the study.

Chapter V: Summary, Conclusions and Recommendations

The final chapter covers the summary of the study, the main conclusion that flows from the study and offers some recommendations as well as suggestions for further improvement.

In the final part of the study bibliography, appendix will be attained.

CHAPTER - II

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

2.1 Introduction

For all types of studies, review of literature is essential, which helps to find out what research studies have been conducted in ones chosen field of study and what remains to do. In fact, review of literature begins with a search for a suitable topic and continues throughout the duration of the research work. It is a path to find out what other research in this area has uncovered. It is the process of locating, obtaining, reading and evaluating the research literature in the area of the student's interest. It is also a means to avoid investing problems that are already been positively answerer. The main reason for a full review of research in past is to know the outcomes of those investigations in areas where similar concepts and methodologies had used successfully.

Review of literature means reviewing research studies or other relevant propositions in the related area of the study so that all the past studies, their conclusions and deficiencies many are know and further research can be conducted. The most important reason of literature review is to learn not researcher such as, what research has been done in the subject? What the ones have been developed? Methods approaches used by other researcher's area of agreement or disagreement etc.

2.2 Conceptual Framework of Profit Planning and Control

2.2.1 Concept of Profit Planning and Control

“The term comprehensive profit planning and control has recently come into existence in the business literature. It has its synonyms like comprehensive

budgeting, managerial budgeting and budgeting.” This term is broadly defined as a systematic and formalized approach for performing significant phases of the management planning and control includes the following matter:

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

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

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

“Profit planning is predetermined detailed plan of action developed and distributed as a guide to current operations and as a partial basis for the subsequent evaluation of performance. Thus it can say that profit planning is a tool which may be used by the management in planning the future course of actions and controlling the actual performance” (Gupta, 1994).

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

The basic concepts of PPC model includes: (Bajracharya, Ojha, Goet and Sharma, 2005)

- PPC is the plan prepared in advance comprising both short-range plans.
- PPC is the concept where participation and viewpoints of every members of the organization is taken into even though prepared by top management.
- PPC is management laid process comprising of all management functions from planning to controlling and providing feedback.
- PPC is focused towards the enterprises goals.
- PPC is totally based on formulating plans and controlling those plans that are formulated with the assistance of budgeting and
- Finally, follow up procedure is conducted to check whether it is along with the budgeted plan or not.

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

2.2.2 Profit

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

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

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

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

2.2.2.1 Long Range and Short Range Profit

Long range and short-range profit plans mean strategic and tactical profit plans respectively. The two types of profit plans are developed in PPC. “The strategic profit plan is broad and it usually encompasses five or more years in the future. The tactical profit plan is detailed and encompasses one-year time horizon the upcoming year. The development of strategic and tactical profit plans each year is a process that involves managerial decisions and ideally a high level of management participation” (Welsch, Hilton and Gordon, 2006:173). While preparing the strategic profit plan state of economy, political stability, population study etc are keep in considerations. Likewise, tactical profit plan is prepared for short period. By the time is prepared for a month, quarter, half year & a year.

2.2.3 Planning

Planning is the foundation of PPC. We should be clear in concept of planning

“According to Oxford Dictionary, planning means:

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

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

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

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

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

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

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

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

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

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

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

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

2.2.3.1 Long Range and Short Range Planning

Long range planning is closely concerned with the concept of the organization as long living institution. It most important for broad and long living enterprises. Long range planning varying five to ten years with the enterprises in some times extended to ten years. Strategic planning is one of the most difficult time span involve in planning as many problems in short range planning can be traced to the

absence of a clear sense of direction and the practices which a comprehensive long range plan provides. The short term planning is limited time dimension & usually it covers one year's time. The management as a substantial part of the long-range plan uses short term planning.

2.2.3.2 Corporate Planning

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

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

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

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

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

- Achieving objectives.

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

2.2.3.3 Role of Forecasting in Planning

Forecasting is an integral part of decision-making activities of management. An organization establishes goals and objectives seek to predict the environmental factors. The need for forecasting is increasing as management attempts to decrease its dependence on change and become more scientific in dealing with its environment. Since each area of organization is related to others. A good or bad forecast can affect the entire organization. Planning or budgeting is not nearly forecasting although forecasts form the basis of budgeting. Forecasting is the estimate of the future environment within the company will operate. Budgeting or planning on the other hand involves the determination of what should be done, how the goals may be reached and what individual or units are to assume responsibility and be held accountable.

Forecasting is indispensable in planning. Forecast is statement of expected future conditions definite statements of what will actually happen are patently impossible.

Expectation depends upon the assumptions made. If the assumptions are possible, the forecast has a better chance of being useful forecasting assumptions and techniques vary with the kind of planning needed.

The short term forecasting is needed in budget making. A budget set for the following year will be much useful. It is regarded to sales levels, which will

eventuate rather than current sales level. As budget distributed according to current sales may establish policy as to lines of emphasis, but will obviously, required successive adjustment if sales levels changes (Bratt, 1985:246).

2.2.4 Control

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

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

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

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

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

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

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

1. Compare actual performance for the period with the planned goals and standards.
2. Prepare a performance report that shows actual results, planned results and any difference between the two (i.e. variation above or below planned results.)
3. Analyze the variations and the related operations to determine the underlying causes of the variations.
4. Develop alternative course of action to correct any deficiencies and learn from the success.
5. Make a choice (corrective action) from the set of alternatives and implements it.
6. Follow up to appraise the effectiveness of the correction follow with feed forward for re-planning" (Welsch, 1999).

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

2.2.5 Budget and Budgeting

Budgeting is a forward planning and involves the preparation in advance for the quantitative as well as financial statement in indicate the intention of the management is respect of the various aspect of the business. “A budget is a comprehensive and coordinate plan expressed in financial term for the operation and source of an enterprise for some specific period in the future” (Pandey, 1991:98).

As regards the term ‘Budget it can be visualized as the end result of the budgeting. If budgeting is the procedure for preparing plan is respect of future financial requirements, the plan when presented in written form is called budget. Budgeting in facts is a managerial technique and a business budget is such a written in which all aspects of business operations with respect to definite future period are included. It is a formal statement of policy, plan, objectives and goals established by the top-level management in respect of some future period (Gupta, 1994). “Budgeting is a forward planning. It serve as a device for management control, it is a pivot of any effective scheme of control. Budgeting is the principal tool of planning and control offered to management by accounting functions” (Welsch, Hilton and Gorden, 1999).

A budget is forecast, in detail of the result of an officially recognized programmed of operations based on the highest reasonable expected operating efficiency. “Budget is designed as a comprehensive and coordinated plan, expressed in financial terms for the operations and resources of enterprises for some specified period in the future” (Fregmen, 1976:256). According to his definition the essential elements of a budget are:

- Plan
- Operations and Resources
- Financial Terms
- Specified future period
- Comprehensiveness
- Co-operation.

Therefore, we can say that budget is a tool, which may be used by the management in planning the future course of action and in controlling the actual performance.

2.2.6 Budgeting: As a Device of Profit Plan

Budgeting is a forward planning. It as a device (tool) for management, control; it is rather pivot of any effective scheme of control. Budgeting is the principal tool of planning and control offered to management by accounting functions (Welsch et. al., 1999: 346). The prime objective of budgeting is to assist in systematic planning and in controlling the operations of the enterprises. IN fact budgeting is best sources of communication and an important tool in the hands of management. Since, budgeting deals with fundamental policies and objectives it is prepared by top management. A formal budget by itself will not ensure that a firm’s operations will be automatically geared to the achievement of the goals set in the budget. For this to happen, the top-level managers and lower level employees have to understand the goals and support them and co-ordinate their efforts to attain them.

Budgeting is a device of a planning and control that serves as a guide to conduct operation and a basis for evaluating actual results. Actual results can be judged being satisfactory or unsatisfactory in the light of the relevant budgeted data and in the light of changes in conditions. Company controls operations through its budgeting and responsibility reporting system. Top executive are able to country every area of the organization through a system of budgetary planning and control reporting by responsibility area. Budgets are an important tool of profit planning. The main objectives of budgeting are:

- Explicit statement of expectations
- Communication
- Co-ordination
- Expectation as a framework for judging performance.

2.2.7 Essentials of an Effective Budgeting

An Effective budgeting system should have some essential feature to ensure best results. The following are the chief characteristics of an effective budgeting.

Sound Forecasting

Forecasts are the foundation of budgets; these forecasts are discussed by the executives and when most profitable combinations of forecasts are selected they becomes budgets. The sounder are the forecasts better result would come out of the budgeting system.

An Adequate and planned Accounting System

There should be proper flow of accurate and timely information in the enterprise, which is, must for the preparation of budgets. This can be ensured only by having an adequate and planned accounting system in the firm.

Efficient organization with Definite Lines of Responsibility

An efficient adequate and best organization is imperative for budget preparation and its operation. Thus, a budgeting system should always be supported by a sound organization structure demarcating clearly the lines of authority and responsibility. Not only this, there should be a true delegation of authority from top to low levels of management. This will provide adequate opportunity to all executives to make decisions and also to participate on the function of budget preparation. Thus, an efficient organization helps not only in budget co-ordination but in it also plays important role in budget co-ordination and operation.

Formation of Budget Committee

As mentioned earlier, budget committee receives the forecasts and targets of each department as well as periodic reports and finalizes. And approves the departmental budgets. Thus in order to make a budgeting system more and more effective, a budget committee should always be set up.

Clearly Defined Business Policies

Every budget reflects the business policies formulated by the top management. In other words budgets should always prepare taking in to account the policies set for particular department or functions. However, for this purposes, policies should be precise and clearly defined swell as free from any ambiguity.

Availability of Statistical Information

Since budgets are always prepared and expressed in quantitative terms. It is necessary that sufficient and accurate relevant that should be made available to each department. Such data may not be available from accounting system alone and therefore they may be processed through statistical technique. These data should be as far' as possible, reliable, accurate and adequate.

Support of Top Management

If a budget program is to be made successful, the sympathy of each member of the management team, it should start preferably from top level (chairperson). The enthusiasm for budget operation as well as direction for it should initiate and come from top.

Good Reporting System

An effective budgeting system also requires the presence of a proper feedback system. As work proceeds in the budget periods, actual performance should not only be recorded but it should also be compared with budgeted performance. The variations should be reported promptly and clearly to the appropriate levels of management.

Motivational Approach

All the employees or staff other than executives should be strongly properly motivate towards budgeting system. In an organization, it is needed to make each staff member. Feel too much involved in the budgeting system. To meet this end motivational approach towards budgeting should be followed.

2.2.8 Basic Assumptions and Limitations of Profit Plan

Profit planning systems are more common in business organization. However, there are so many assumptions of using profit-planning program. Firstly, the basic plans of the business must be measured in items of money, if there is to be any assurance that many will be available for the needs of the business. Secondly, it is possible to plan for the future of a business, in a comprehensive way, coordinating every aspect of the business, with every other aspect of establishes optimum profits goals. Thirdly, profit planning is preplanning not merely what to do if things work out as forecasted, but also what to do if things work out differently

from the forecast. In developing, using a profit planning, and control (PPC) program, the following limitations should consider:

1. Profit plan is based on estimates.
2. A PPC program must be continually adapted to fit changing circumstances.
3. Execution of a profit plan will not occur automatically the profit plan is not a substitute for management.

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

2.2.9 Resources Mobilization Plan or Budget

Planning for resources mobilization is the foundation for planning in a bank. The all other planning is based on it. The major and the sustainable resource of a bank are the customer deposits. Therefore, the plan for resources mobilization has a primary focus on the customer deposit mobilization. The lending and investment activities are depended on the deposit mobilized by the Bank. Therefore, the deposit mobilization or collection plan is the starting point in preparing the other different plan.

Deposit mobilization is the primary function of a bank, which has major contribution in the total resources of the bank. In terms of cost for the Bank, customer's deposits are of two kinds, viz. (i) interest free deposits i.e. current deposits, margins deposits etc. and (ii) interest bearing deposit i.e. saving deposits, fixed deposits of various tenure, call deposits etc. The interest free deposits are

cost free but are generally volatile in nature. Those can be withdrawn without restriction from the bank, thus cannot be invested into higher income yielding assets. Further, interest bearing deposits involve cost of deposit but their retention ratio with the bank are much better so they can be put to high income yielding assets having longer tenure. Therefore, a proper mix of cost free and costly deposits corresponding to short term and long-term deposits are to be maintained by the bank in its deposit mix in order to minimize its average cost of deposit at the same time having comfortable mix of income yielding assets. The cost of deposit of banks is also affected by the prevailing deposit interest rate of other banks in the market.

Budgeted targets for deposit mobilization during a particular year is set in advance with each view of optimizing the cost of deposit and the same are allocated to the different branches of the banks. Such allocations may be regarded as the tactical plan for deposit mobilization of the banks. Banks resources other than customer deposits are the borrowing from other banks and the capital fund. Generally banks borrows from other banks to meet temporary requirement of liquidity which may occur, sometimes, during the occurs of banking operation caused due to unexpected withdrawals of deposit or deferment in loan repayments by the borrower by some reason or other. Such activities are managed from the tied office with the least possible cost.

Among the capital fund, the equity capital is formed generally one time during opening of the bank. The central bank (NRB) may from time to time instruct the bank to enhance the paid up capital to improve the capital adequacy of the bank. Further, the bankers may choose by themselves whether to increase the owner's capital by raising the other item included in capital funds beside paid up capital and general reserves. It is always better to have a higher capital fund base of a

bank because, creation of bank's assets and the size of lending to any particular borrower are tied up with the capital adequacy requirement by the central Bank.

2.2.10 Resources Deployment Plan or Budget

Planning for development of resources starts from assessment of nature of resources to be mobilized. That is the assets are allocated based on the nature of resources. This approach of deployment of resources is called asset allocation approach. The fundamental criterion, which must be followed in allocating funds for acquiring different types of assets, is that the velocity turnover rate of different sources of supply of fund determines the appropriate maturity of the assets acquired through fund utilization, for instance while relatively stable fund, like saving deposits, fixed deposits and paid up capital could be used to buy long dated high yielding securities, demand deposits which are more volatile, could be used to acquire relatively liquid assets like cash or money at call and short notice on which little or no return is made by the bank (Vanish, 1996:365). Funds kept as cash in vault and as balance with NRB and other banks in current account are the liquid assets of the bank. Normally banks have to maintain certain fixed percentage of their deposit liability in this form as directed by the central Bank from time to time. There is no yield in the fund deployed as liquid assets.

Deployment for lower income yielding assets are generally placing the funds in short term securities, treasury bills etc. which provide reasonable liquidity to the bank as well as yield some return although they are at very low rate. Major portion of the income of the Bank comes as interest income from the resources deployed to loans advances and Bill discounting (LDO). As the most part of the resources are for LDO. Banks make its lending budgets in advance as per their lending policies. Lending targets are fixed at various sectors of economy for various kinds of trades and commercial activities and to various borrowers ensuring well diversification

of the assets. The targets are allocated to the branches, which are generally operated as separated profit centers.

2.2.11 Planning for Non-Funded Business Activities

Other activities of commercial banks where it does not have to involve its fund yet it can generate other income are called non-funded business activities of the bank. They are usually letter of credit and Bank guarantee insurance business of the bank where the bank undertakes payment liabilities, which are contingent in nature and the banks charges certain percentage of commission on such transaction to their client who are availing these facilities from the bank. The bank fixed annual target for such business and those are allocated to the branches of the bank.

Expenditure Planning

Express planning and controlling are very necessary for supporting the objectives and planning programs of the firm. An expense is related with profit. It is real fact, that the minimization of cost is maximization profit. Therefore, the expenses must be planned carefully for developing a profit plan. In a Bank there are generally following types of expenses:

- a. Interest Expenses.
- b. Personnel Expenses.
- c. Office Operating Expenses.
- d. Expenses meeting the loss in Exchange Fluctuation.
- e. Non-operating Expenses.
- f. Expenses for provision for loan loss.
- g. Expenses for provision for staff bonus.
- h. Expenses for provision of income tax.

The interest expenses are incurred while paying for the deposit mobilized by the bank and include the expenses incurred for interest payment in all kinds of interest

bearing deposit as per the agreed rate between the bank and the borrower. In the total expenses of a bank, the portion of interest expenses is quite higher. Therefore, the expenses are categorized into interest expenses and other expenses while the latter includes other expenses as mentioned above except the interest expense.

Interest expenses in a bank depend on the average cost of deposit (COD) mobilized by the bank. Lower the COD, lower the interest expenses and thus higher the profitability. Therefore, from a profitability point of view, banks plan their COD at the lowest possible level. The nature of interest expenses is that of variable expenses. The net earnings from interest income of a bank, deducting the interest expenses for the deposit mobilized, is called "Spread" which is similar to the 'Contribution Margin' in sales of commodities by a manufacturing unit.

Other expenses are the administrative expenses that are generally incurred by the bank during the course of its operation. Higher the volume of business transactions of a bank, higher will be the amount of its other expenses. Therefore, the expense should be related with the business activities, which ultimately should yield income for the bank. Such other expenses are a burden to the profitability as they consume the spread earned. Therefore, budgets are prepared with an aim of reducing the burden as far as possible. The expense budgets are formulated in correlation with the activities of the banks and the targets are allocated to different branches.

Revenue Plan

Revenue of a bank is generated from the income-yielding activities of the bank. Therefore, while preparing the resources deployment plan and non-funded business activities plan, the banks make the estimation of the revenue in advance.

during the period for which the plan is developed. Revenues of a bank are generated in the following forms:

- a. Interest income.
- b. Commission and discounts.
- c. Dividend.
- d. Other income
- e. Foreign exchange income.
- f. Non-operating income.

Generally, the interest income of a commercial bank holds a major source of earning of a bank. Therefore, total income of a bank is categorized in two-type viz. interest income and other income, while the later including other income items as listed above except the interest income. The interest income is earned by charging interest on the fund deployed in interest earning assets such as loan and advances, overdraft, investments in government securities, debenture etc. For this study, the income from Bills discounting has also been treated as interest income, as we consider loans overdraft and bills discounting together as a single asset portfolio as LDO.

As the average rate of interest on LDO are comparatively higher than any other kind of income yielding assets, from the profitability point of view, higher asset allocation into LDO, higher will be the income. The other income are generate from other activities of the bank such as issuance of L/C Bank Guarantees, from remittance charges, services charges, commitment charges, trading gain on foreign exchange, revaluation gain on foreign exchange reserves etc. The amount of other income of a bank greatly contributes in lowering the burden on the profitability. Higher the other income earned by the bank, lower will be the net burden amount and thus better will be profitability of the bank.

Income of a bank is essentially activity based i.e. the volume of business. Higher the income generating activities of a bank, higher will be the amount of its revenue. Therefore, the bank develops its plans for various activities in such a way that it optimizes its revenue.

2.2.12 Performance Reports

Performance reporting is an important part of a comprehensive PPC system. Its phase of comprehensive PPC program significantly influences the extent to which the organization has planned goals and objectives are attained. Performance reports deal with control aspect of PPC. The control function of management defined as the action necessary to assure the objectives plans, policies and standards are being attended. Performance reports are one of the vital tools of management to exercise its control function effectively.

Special external reports, reports to owner and internal reports are specially presented in the organization. Performance reports include in internal reports groups. It is usually prepared on a monthly basis and follows a standardized format. Such reports are designed to facilitate internal control by management. Fundamentally, actual results of reports are compared with goals and budget plans. Frequently they identify problems that require special attention since these reports are prepared to pinpoint both efficient and inefficient performance.

Features of Performance Reports

In comprehensive PPC, performance report is very important. The main objective of performance reports is the communication of performance measurement, actual results and the related variances. Performance reports offer management essential insights in to all the facts of operational efficiencies. Performance reports should be:

1. Tailored to the organizational structure and focus of controllability (that is by responsibility centers)

2. Designed to implement the management by exception principle.
3. Repetitive and related to short term period.
4. Adapted to the requirements of the primary users.
5. Simple understandable and reports only essential information.
6. Accurate and designed to pinpoint significant distinctions.
7. Prepared and presented promptly.
8. Constructive in tone.

Aspects of Performance Reports

The various managers use their performance reports depends on many factors, some behavioral and some technical. One important factor is the extent to which the performance reports serve the management and decision-making needs of the users. Top management needs reports that give a complete and readily comprehensive summary of the overall aspects of operations and identification of major events.

Middle management needs summary data as well as detailed data on day-to-day operation. Similarly, lower level management needs reports that must be detailed, simple, understandable, and limited to items having a direct bearing on the supervisor's operational responsibilities.

In the design and preparation of performance reports, careful attention must be given that titles and headings should be descriptive; column headings and side captions should clearly identify the data, and the technical jargon should be avoided. Reports should not be too long and complex; tabulations should be avoided. Performance reports should be standardized to a reasonable degree and if they should be relevant.

Performance reports should be available on a timely basis. To attain a realistic balance between immediate reporting and the costs of detailed reporting, monthly performance reports are widely used on the organization.

2.3 Profile of Everest Bank Limited

2.3.1 Introduction

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

2.3.2 Establishment

Everest Bank Limited (EBL) has been established with an objective of extending professional banking services to various sections of society in the kingdom of Nepal and thereby contributes for the economic development of the country. The bank had come into formal operations from 18th October 1994 (1st Kartik 2051 B.S.). EBL is a joint venture with Panjab National Bank (PNB) one of the largest commercial banks in India. PNB has the century old history of successful banking, is known for its financial strength, and laid down modern banking system and procedures. PNB is providing the top management services agreement signed between two institutions. EBL thus has advantages of currently with 41 branches in the various parts of the kingdom of Nepal. EBL operated with the objectives of providing the full range of quality banking services to both the business community and the common person.

2.3.3 Joint Venture Agreement

Whereby Panjab National Bank was required to buy 20% shares in EBL but this agreement was not expired.

2.3.4 Technical Services Agreement

EBL & Panjab National Bank as per ten domical services agreement between later has the authority to appoint up to five executives including managing director of EBL. EBL is to pay a certain sum of money as management fee to PNB itself. However, EBL is responsible to provide accommodation facilities, transportation facilities and education allowance for the children of these executives.

2.3.5 Share Capital

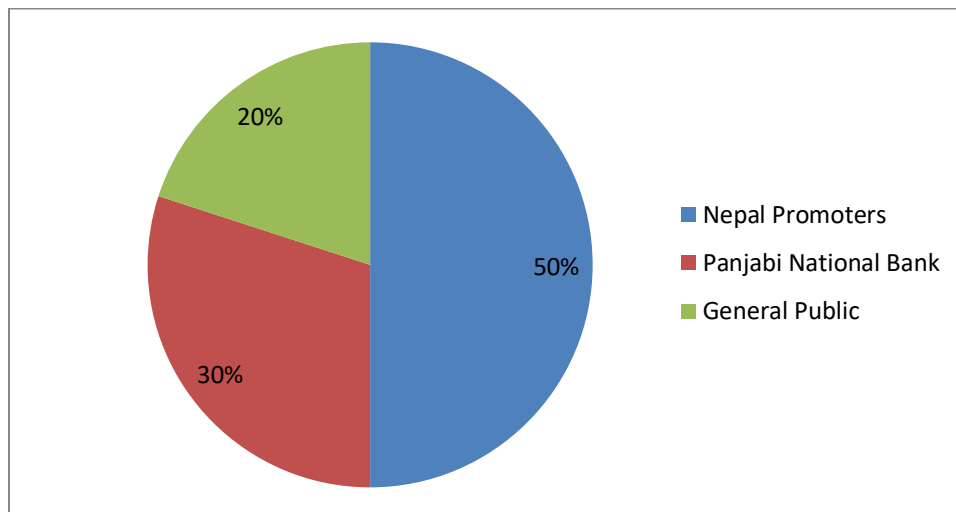
The bank was started with an authorized capital of Rs.240.00 million paid up capital of Rs. 120.00 million. Over the years the authorized capital has been increased to Rs. 615.21 million and paid up capital has been increased to Rs. 316.90 million. The beginning share holding patterns of EBL was as follows:

A group of companies holding 50% of the capital Nepal promoters. Panjab National Bank holding 30%. The remaining 20% being held by the General Public (*www. EBL. com. np*).

The share holding pattern EBL is shown in pie chart below:

Figure 2.1

Pie Chart Showing Status of Deployment



Source: www.ebl.com.np.

2.3.6 Management Personnel & Branches

Everest Bank Limited has the largest local network in the country. The bank is under the control of central bank of Nepal. It has an employee composition of 568 staffs. The head office of the bank is located at Lazimpat, Kathmandu. Besides, the head office, the bank has 37 branches with in the country. The bank is planning further more branches in the country. Branch details are as follows:

Table 2.1

List of Total Branch of EBL

Kathmandu Head Office Durbarmarg, Kathmandu	
New Baneshwor Branch	New Baneshwor, Kathmandu
New Road Branch	New Road, Kathmandu
Teku Branch	Teku, Kathmandu
Lazimpat Branch	EBL house, Lazimpat, Kathmandu
Chabhil Branch	Chabhil, Kathmandu
Naya Bazar Branch	Naya Bazar, Balaju, Kathmandu
Golphutar Branch	Golphutar, Kathmandu
Maitidevi Branch	Maitidevi, Kathmandu
Thamel Branch	A one business complex, Kathmandu
Kalimati Branch	Kalimati, Kathmandu
Satungal Branch	Satungal, Kathmandu
Kritipur Branch	Nayabazar, Kritipur, Kathmandu
Pulchowk Branch	Pulchowk, Lalitpur
Gwarko Branch	Lalitpur, Nepal
Lagankhel Branch	Lagankhel, Lalitpur
Bhaktapur Branch	Suryabinayak, Bhaktapur
Tatopani Branch	Tatopani, Sinddhupalchowk
Birtamode Branch	Sanishchare Road, Biratnagar
Biratnagar Branch	Mangala Devi Supermarket, Hanuman Daash Road Biratnagar
Duhabi Branch	Duhabi, Sunsari
Itahari Branch	Itahari, Sunsari
Janakpur Branch	Mills Area, Janakpur
Birgunj Branch	Aadarshanagar, Birgunj
Simara Branch	Simarachowk, Simra
I.C.D. Branch	Dryport, Parsa

Narayangadh Branch	Shahidpath, Narayangadh
Pokhara Branch	New Road, Pokhara
Lekhnath Branch	Talchowk, Lekhnath, Kaski
Besishahar Branch	Besisahar, Lamjung
Kushma Branch	Sahidchowk, Kushma, Parbat
Baglung Branch	Aawa Road, Baglung
Butwal Branch	Malli Complex, B.P. Path, Butwal
Bhairawa Branch	Parbat Tole, Sidhartha Nagar
Nepalgunj Branch	Surkhet Road Dhomji, Nepalgunj, Banke
Surkhet Branch	Birendra Chowk, Birendranagar
Tulsipur Branch	BP Chowk, Tulsipur, Dang
Dhangadhi Branch	Dhangadhi, Kailali

Source: www.ebl.com.np/branch-network.html

Table 2.2

Board of Directors

S.N	Name	Post
1.	Bishnu Kumar Shrestha	Chairman
2.	Bed Krishna Shrestha	Member
3.	Arunman Sherchan	Member
4.	Dr. Bal Gopal Baidha	Member
5.	S.P. Swarnakar	Member
6.	Jagat Ram	Member (Punjab National Bank)
7.	P.K. Mahapatra	Member (Punjab National Bank)
8.	Shivsharan K.C.	Member (Shareholder)
9.	Muskan Shrestha	Member (Shareholder)

Source: www.ebl.com.np

Table 2.3

Management Personnel of EBL

S.N.	Name	Post
1.	P.K. Mahapatra	CEO
2.	P.K. Pradhan	Deputy General Manager
3.	Jagadish Kumar Arora	Deputy General Manager
4.	Humnath Gurung	Assistant General Manager
5.	Pramod Raj Sharma	Company Secretary

Source: www.ebl.com.np

2.3.7 Broad Objectives and Goals of EBL

Everest Bank Limited has defined its objectives and goal in its mission and vision statement, which states as follows:

Vision

The vision of the bank has been stated as “Bankers with profitability, professionalism and excellence.” It is mentioned that the profitability is the core vision that shall be achieved with professionalism and excellence.

Mission

The mission of bank states “we at Everest Bank Limited our goals is to aim and achieve the highest standard of professionalism and service to create a lifelong relationship with our client by providing customized financial products and services through proactive management.” It further states “our multinational team of innovative and dynamic master minds march across the geographical and cultural boundaries with contemporary, competitively designed and differentiated quality financial products and services or achieve strategic advantages in a dynamic environment.”

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

- To aim and achieve highest standard of professionalism.
- To aim and achieve to provide highest standard of customized products and services to their clients.
- To maintain management proactively.
- To achieve strategic advantages in the dynamic environment over their contemporary with their competitively designed and differentiated quality financial products.

Corporate Philosophy

The objective of the bank has been further reflected in the corporate philosophy of the bank that states as follows:

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

2.4 Review of Related Studies

Commercial banks came into the existence mainly with the objectives of collecting the idle funds mobilizing them into proactive sector and causing on overall economic development. Any institution accepting deposits subject to withdrawal on the demand and granting loans to the different sector, creation of credit is done by a bank. As far as the study concerned with the profit planning of commercial banks, there are various study have been available in the field of profit planning of commercial banks in Nepalese context, so of them have been analyzed in this section:

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

Objectives:

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

Major Findings:

- Bank is awarded by 'Bank of the year 2002 Nepal.'
- Bank management policy is very strong. It keep minimum number of employees and highly qualified for maintain the job.
- The Bank always adopted new technology.
- The Bank is provides ATM and 365 days and services for customers.
- The Bank provides funds for NGOs and Scholarship for the schools.
- The Bank is adopting new Accounting policy prescribed by NRB.
- Customer deposit collection is the main resources mobilization of the bank.
- Loan, Allowance and Bill purchasing hold the highest outlet of resources deployment.
- There is no significant relationship between budgeted and actual LABP.
- Bank's actual deposit is more variable than actual outstanding LABP. Hence, the coefficient of variation of actual deposit is highest than actual outstanding liability LABP.
- LABP holds highest outlet resources deployment among the various portfolios.
- Actual LABP are increasing trend.

Roshan Thapa (2004) has conducted a research work on the topic of “*A study on profit planning and control of Nepal SBI Bank Limited*” has objectives and major findings are as follows:

Objectives:

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

Major Findings:

- Nepal SBI does not prepare long-term strategic profit plan. It only prepares short-term profit plan, which is usually referred as budget time period of this budget covers one fiscal year.
- The budget is not based on past performance but on targeted growth, which is very optimistic in the budgeted year.
- Nepal SBI has not made any in depth analysis of its strength and weakness.
- Its mission and objectives have not clearly defined and delegated to the lower levels.
- The bank has not been able to maintain a minimum level of co-ordination between the departments and staff.
- The profit budget is extremely ambiguous. It is not based on scientific method or past trend analysis but based on a specific target put forward by the governing board.
- The bank is facing competition from increasing number of financial institutions in these years. These had led to substantial decrease in interest rates in the market thus attributing to lower yield.

- Budget is prepared just to fulfill the formalities but these are not used effectively from the profit planning process.

Tirtha Bahadur Thapa (2006) has study on *“Profit Planning in Merchandising Company: A case study of National trading Limited”*

Objectives:

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

Major Findings:

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

Sushank Kharel (2008) has conducted a research on *“Profit Planning of Commercial Banks in Nepal: A Comparative study of Everest Bank Limited, Nabil*

Bank Limited and Bank of Kathmandu Limited” his objectives and major findings are as follows:

Objectives:

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

Major Findings:

- The liquidity position of EBL is comparatively better than that of NABIL and BOK. In spite of the current ratio is average between the other two banks. EBL has maintained the cash and bank balance to meet the customers demand.
- EBL has invested highest sectors like government securities then BOK and lesser portion than that of NABIL.
- From the analysis of assets management ratio, it can be found that EBL is in better position as compared to that of NABIL and BOK.
- EBL has invested the highest portion of total working fund on government securities as compared to NABIL and BOK.
- Due to more efficient loan policy, NABIL suffers less from loan loss provision.
- BOK has higher invested on shares and debentures to total working fund ratio.
- The interest earned to total outside assets and return on total working fund ratio of EBL is lowest of all.

- The return on loan and advances ratio and return assets of EBL is lowest of all. The ratio suggests that the earning capacity of the bank's loan and advances is satisfactory.
- The total interest paid to working fund ratio is less than the interest earned to total working fund ratio. Therefore, it is profitable position as it is getting higher return than interest cost.
- The degree of risk is average on EBL. The credit risk ratio is higher than the compared banks. However, the lowest C.V. of liquidity risk ratio and capital ratio over the study period provided for the assurance of consistency of the degree of risk.
- EBL has showing its good performance by increasing the total deposit loan and advances and investment in profitable sectors interested earnings by providing loan to clients.
- The trend of the total investment, total deposit loan and advances net profit of EBL shows better position than that of NABIL and BOK.

Kamal Rimal (2008) has study on *“Profit Planning and Control of Nepal Bangladesh Bank,”* his objectives and major findings are as follows:

Objectives:

- To analyze the trend of profit.
- To highlight the current profit planning premises adopted and its effectiveness in NB Bank.
- To observe NB Bank's profit planning on the basis of overall managerial budgets developed by the Bank.
- To analyze the variance of budgeted allocation and actual achievements.
- To study the growth of the business of the Bank over the period.

- To provide suggestion and recommendations for improvements of the overall profitability of the bank.

Major Findings:

- The general trend of bank's profit is growing stage but cost is not quite been able to make up to its profit potentiality.
- NB Bank lacks active and organized planning department to undertake innovative products R & D works.
- Lack of staff training.
- The major resources of NB bank are cost bearing deposit.
- Major portion of resources has been deployed in loan and advances.
- LDO ratio & CD ratios of the bank are at higher position.
- Lending policy as well as some restriction provided by NRB seems to be in the way of Bank to reach its major objectives.

Him Bahadur Chhetri (2010) is conducted a research entitled "*Profit Planning of Commercial Banks; A case study of Everest Bank Limited, Nabil Bank Limited and Bank of Kathmandu Limited*" his objectives and some of major findings are listed below:

Objectives:

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

- To provide suggestions and possible guidelines to improve investment policy and its problems.

Major Findings:

- Profit is fluctuating based on various related variables.
- Coefficient correlation between variables is positive.
- The trend analysis shows that all are in increasing trend.
- The assets quality & ratios of the bank is higher side.
- Lending policy as well as some restriction provided by NRB seems to be in the way of the bank to reach its objectives.

2.5 Research Gap

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

Most of past research studies about profit planning system are basically related to the profit planning system of manufacturing organization or production oriented activities. The researcher could find some study far that has been related to profit planning system of commercial bank in Rastra Banijya Bank, Himalayan Bank, Standard Chartered Bank, Nepal Bangladesh Bank. All the dissertations have pointed out that there is no proper profit planning system recommend for the effective implementation of profit planning system in the concerned institution. Through many affiliate researchers have been done in this area but these have been very few excusive researchers on this subject. This study may be a new study in this field as no study has been made profit planning of NIBL. In the past

financial institution were depends only the interest margin in present economic dynamism only the interest margin is not sufficient to improve profitability so this researcher has tried to analyzed the extraordinary items of income generation in financial intuition. To bring the forth the new developments and to bridge the gap between the past research and the present situation, I set out to conduct the research in this stimulating topic. I have been through many literature reviews and given my best to fulfill this work. In many research effort had been made to understand the profit planning and control in commercial bank and I hope this research will be fruitful for future researchers as reference.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

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

This study has intense relation with application of planning and control in a commercial bank with a specific reference to Nepal Investment Bank regarding the objectives to analyze, examine and interpret the application of profit planning in the Bank. The Research methodology includes:

- Research Design
- Population and Sample
- Hypothesis
- Nature and sources of Data
- Data Collection Procedure
- Research Variable
- Time Period of Profit Plan
- Methods of Data Analysis
- Method of Presentation

3.2 Research Design

This study is a case study in nature. A true research design is concerned with various steps to collect the data for analysis and draw a relevant conclusion. Recommendation is another important aspect of design strategy. The research design allows the researchers to take an appropriate measure and direction towards the predetermined goals and objectives. A research design is the arrangement of conditions for the collection and analysis of data in a manner to combine relevance to the research purpose with economy in procedure. Research design is the plan, structure and strategy of investigation imagines obtaining answers to research questions and controlling various things. This study is an examination and evaluation of budget process in profit planning program of Everest Bank Limited. Various Functional budgets and other related accounting information and statement of Bank are the materials to analyze and evaluate the profit planning system of the Bank. Descriptive as well as analytical research designs have been adopted in this research. This is a case study research.

3.3 Population and Sample

This research aims to studying the profit planning aspect of commercial bank taking the case study of a single bank. Everest Bank limited Bank, and data have been analyzed for five years. Therefore, the fix year's data have been taken as sample for this case study.

3.4 Hypothesis

In the light of the objective of the study, following null and alternative hypothesis have been developed for this research

Null hypothesis; H_0 ; $\mu_1 = \mu_2$ there is he significant difference in profit planning and control of EBL.

Alternative Hypothesis, H_1 ; $\mu_1 \neq \mu_2$ there is significant different in profit control of EBL. (Two-tailed)

3.5 Nature and Sources of Data

Although present study is basically conducted on secondary data, primary sources have used in few cases. Depending on the nature of data and information, Following sources have been utilizing for the research purpose.

- a. Primary Sources: Basically direct interview and supplementary, questionnaire have been used.
- b. Secondary Sources: The main sources of secondary data are quarterly and annual financial reports, official, records, web site, published and unpublished reports, Magazines publication, personnel dialogues, prospectus and other relevant publications of EBL, NRB, central Bureau of Statistic and relevant publications. From these sources, the relevant historical data are gathered for analysis purpose.

3.6 Data Collection Procedure

Secondary data have been collected from the annual reports of EBL. Similarly other necessary data have been collected from the publication of coordination. Council of ministry of finance, Central bureau of statistic, National Planning Commission, official accounting and planning records of EBL publication of the Nepal Rastra Bank, the Central Bank of Nepal and related publication. For the reference of materials, the researcher visited library of Shankar dev Campus, Nepal commerce Campus and Central Department of T.U.

3.7 Data Processing

Data obtained from the various sources cannot be directly used in their original form. Further, they need to be verified and simplified for the purpose of analysis.

Data, information's, figures and facts. So obtained need to checked, rechecked edited and tabulated for computation.

3.8 Research Variable

Loans / Advances; overdraft and bill discounted (LDO), customer deposits, total deployment, outstanding balance of letter of credit and bank guarantees, interest expense, interest income, other income etc of EBL are research variable of present study.

3.9 Time Period of Profit Plan

As per NRB, directives all the commercial Banks have identically to follow the accounting year of twelve months. Beginning from first Shrawan to end of Asadh which covers the last nine months of year (B.S)to the first three months of succeeding year (B.S.) EBL prepare the profit plan for twelve months of upcoming year which includes the business budget expenditure and profit plan for the year.

This study covers 5 years period from year 2061/62 (2004/05) to 2066/67 (2009/10) for this analysis. For the case of specific year study, the data of fiscal year 2066/067 (2009/10) are have to analyze.

3.10 Methods of Data Analysis

Data collected from different source are in raw form and in the initial stage as judging independently does not help much. Thus, the help of various financial and statistical tools to achieve the objectives converts these data.

Financial Tools

Under this heading following financial ratios are calculated:

1. Liquidity Ratios:

- a. Current Ratio.
- b. Cash and bank balance to current assets ratio.

- c. Investment on government securities to current assets.
- d. Loan and advance to current assets.
- e. Cash and bank balance to total deposit ratio.

2. Activity Ratio:

- a. Loan and advances to total deposit ratio.
- b. Total investment to total deposit ratio.
- c. Loan and advances to total assets employed ratio.

3. Profitability ratio;

- a. Return on equity.
- b. Interest earned to total assets employed ratio.
- c. Interest paid to total assets employed ratio.
- d. Interest earned to opening income ratio.
- e. Return on total assets employed ratio.
- f. Return on loan and advances ratio.
- g. Earnings per share.

Statistical Tools

Under this heading following statistical tools are calculated:

- a. Percentile increment
- b. Mean
- c. Standard Deviation
- d. Coefficient of variance
- e. Regression Analysis.
- f. Test of goodness of fit of the Regression Estimation.
- g. Correlation Coefficient
- h. Probable Error.

3.11 Method of Presentation

Results are presented in tabular form and clear interpretation on it is given simultaneously. All the method of analysis and presentation are applied as simple as possible. Detail calculations are presented in appendices at the end of report. To make report simple and easily understandable Figures, diagrams and graphs have been used. Summary, conclusion and recommendation are presented finally.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

The whole research is based on the analysis and interpretations of collected data. Without analysis, interpretations and presentations of the primary and secondary data the thesis don't give any meaning.

In this chapter, various elements and variables related with profit of bank are analyzed. This study is mainly focused on analysis of revenue collection, deposit, loan and advances, investment, assets etc. by using financial and statistical tools, such as mean, standard deviation, coefficient of variation, variance analysis. For this purpose,, data of 5-years period from F/Y 2005/06 to 2009/10 of EBL are used.

4.2 Corporate Planning System of EBL

EBL has applied the profit plan in the whole sector. EBL has analyzed the SWOT analysis by individual branch and sector before preparing a profit plan. Following are the SWOT identified by management.

Strength

It is present in the internal environment. Strength facilitates profitable performance. The following elements are included under the strength.

- Increasing goodwill of bank.
- Quality service system.
- Low cost under urban sector investment.
- Adequate internal sources.
- Large scale network of loan flow.

- High development of physical facility of bank.
- Adequate and well trained human resource.
- Corporate good governance.
- Development oriented work system.

Weakness

It also present in the internal environment. Weakness facilitates to improve the performance of the bank. The following elements are included under the weakness.

- Lack of effective project analysis.
- Lack of knowledge of market.
- Lack of investigation and development.
- High operating cost.
- Low productivity of employee.
- Lack of professional employees.

Opportunity

It is present in the external environment. Environmental scanning should be done to identify opportunity of the bank. It involves:

- Umbrella Law adopted by Nepal Rastra Bank.
- Increasing Computerized System.
- High possibility of non-agricultural sector market expansion.
- Extend marked.

Threat

It also present in the external environment threat leads to determination in profit planning. It includes:

- Brain drain
- High work lead at District head quarter.

- External invasion for running program.
- No elasticity at interest rate.
- High bargaining power of customer from the high competition.
- Increasing competition.
- WTO policies.

After the SWOT analysis of EBL analyzes previous data with different component. After analyzing the previous data each branch office will find out the good or bad sector. After that EBL does the portfolio analysis. Under the portfolio analysis EBL selects the good portfolio and make a resource management, first of all EBL has made plan from the following facts:

- EBL considers the vision, mission, objectives and process conduct.
- Concept of plan formulation method and process are considered :
- Plan formulation process should be simple and flexible.
- Latest accurate statistics are considered.
- After making plan appraisal is compulsory.
- Market portfolio is considered.
- Relevant stakeholder is considered.

Core Planning Team

Core planning team is the managerial level team which formulates strategic, objectives and goals for the concerned time period. They mainly focus on efficient managerial system, utilization of resources and mobilization of those resources to the concerned level of the bank. EBL has three types of core planning teams.

- Central Core planning Team (CCPT): CCPT is the managerial level team of central office which formulates corporate plan and annual plan. The head of this team is the director for Budgeting section of EBL, who prepare plan and

present it to board of director meeting to section it. It is prepared with the help of RCPT and BCPT reports.

- Regional core planning TEAM (RCPT): RCPT is formulated to make plan, Policy, program and budget for the regional level office. It processed its reports with recommendations to CCPT.
- Branch core planning Team (BCPT): BCPT is formulated to make plan for main branch and other branches. It formulates income and expenses budget for their respective branches.

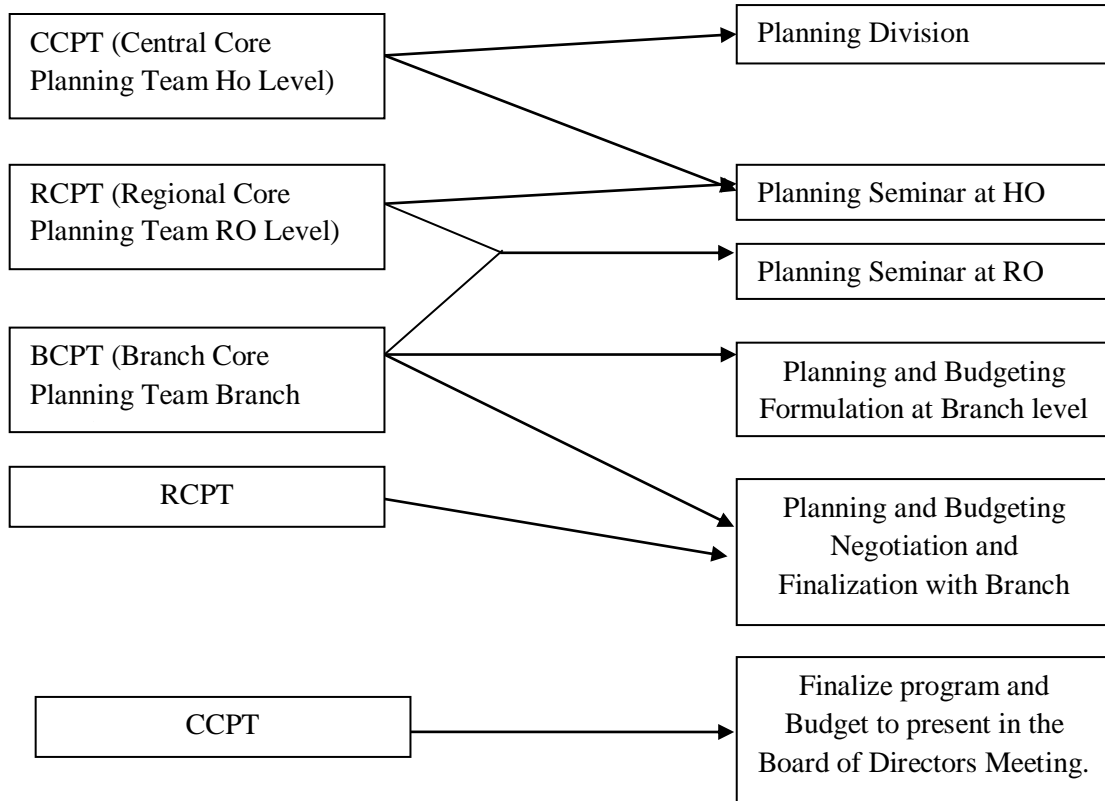
Planning Formulation Methodology

Planning formulation methodology: Planning formulation methodology is as follows.

- As reported earlier, CCPT is the corporate managerial level planning team. They conduct the seminar at the head office for making plan formulation process/method, duties and function of work team. Then, they set objectives and goals for the certain timeframe and make goals for the certain timeframe and make plan and policies to fulfill those goals. They make policies for utilization and mobilization of resources of the bank.

Likewise regional and branch level team sets the plans and policies as per the directions given by the top level management.

Figure Planning Formulation Process Flow Diagram



(Source: Planning and program Directives of EBL)

After making plan, EBL formulates the profit plan in order to achieve maximum level of profit by reducing overhead cost, provisioning fund and non-performing assets.

4.2.1 Human Resources and Branch Offices of EBL

There are altogether 568 employees in EBL as F/Y 2009/10 the following table shows the status of personnel of EBL.

**Table 4.1
Status of Personnel in EBL**

F/Y	2005/06	2006/07	2007/08	2008/09	2008/10
No. of Employees	306	393	449	539	568

There are altogether 41 branches in including head office of EBL as of end of F/Y 2009/10 the following table shows the status of branches of EBL:

Table 4.2
Status of Branches of EBL

F/Y	2005/06	2006/07	2007/08	2008/09	2008/10
No. of Branches	18	21	26	32	41

(Source: Annual Report of EBL)

4.2.2 Resource Mobilization Planning

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

Table 4.3
Status of Available Resources of EBL

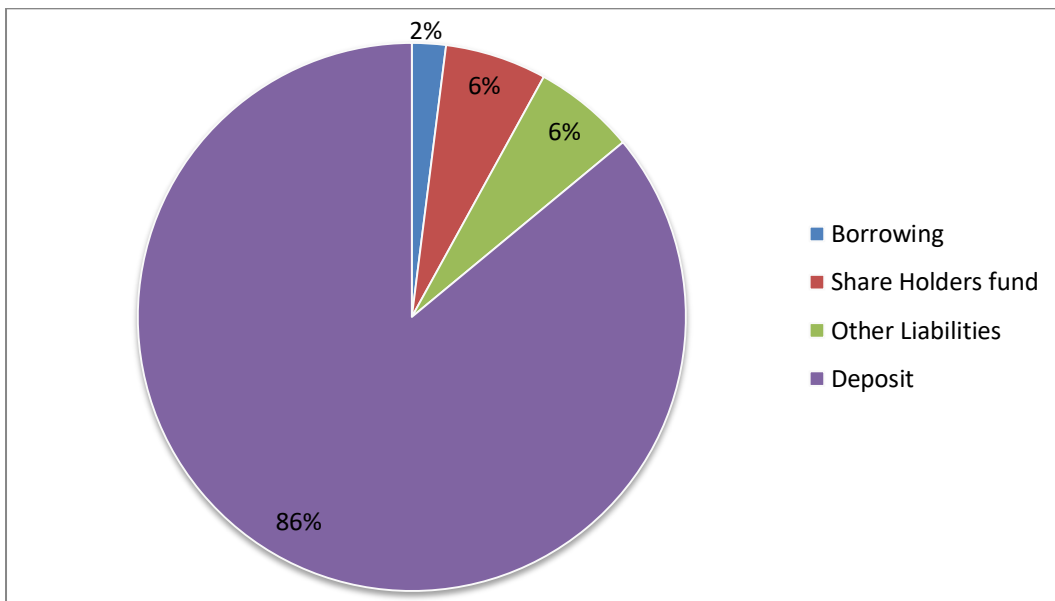
(Rs. In lakh)

F/Y	Deposit		Borrowing		Shareholders Fund		Other Liabilities		Total Resources Year wise
	Amount	%	Amount	%	Amount	%	Amount	%	
2005/06	138024	84.71	3000	1.84	9628	5.91	12288	7.54	162940
2006/07	181862	83.23	3000	1.37	12015	5.50	21634	9.90	218511
2007/08	239763	86.72	3000	1.09	19212	6.95	14490	5.24	276465
2008/09	333229	88.86	6120	1.63	22036	5.88	13632	3.64	375017
2009/10	369323	87.97	7046	1.68	27591	6.57	15868	3.78	419828
Total of Resources	1262201		22166		90482		77912		

(Source: Annual Report of EBL)

The above table shows the status of total resources of EBL. The resources are collected from customer deposits shareholder fund (Capital fund), other liabilities and borrowing if required. The major source resource collection is customer deposit since it has higher figure in the above table. For the more analysis purpose the resource plotting in the figure below.

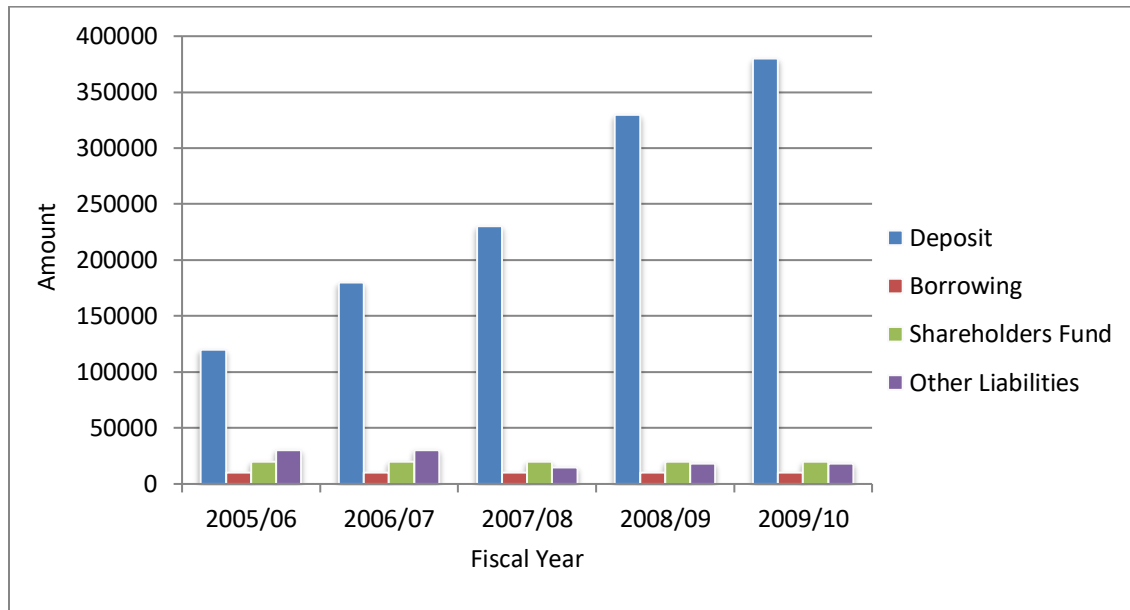
Figure 4.1
Pie Chart Showing Status of Total Available Resources



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

Figure 4.2

Bar Diagram Showing Fiscal Year Wise Available Resources



The above table, pie-chart, bar diagram shows the deposit collection is a major source of resource collection. So we have divided total resource in two parts. One is deposit collection and another is other resources (other than deposit).

- Customer Deposit Collection
- Other Resources

4.2.3 Customer Deposit Collection

As deposit collection is major activities of commercial bank this is the important source of resources mobilization. As per the data F/Y 2005/06 to 2009/10 the customer deposit is as high as 88%. These deposits are collected from different sectors individual and corporate customer. Deposits are collected as per the bank's rules. Some deposits into two types is as follows:

- 1) Interest Bearing Account:
 - a) Saving Account
 - b) Call Deposit Account

- c) Fixed Deposit Account
- d) Certificate of a Deposit
- 2) Interest Free Account
 - a) Current Deposit Account
 - b) Margin Deposit Account
 - c) Other Deposit Account

4.2.4 Deposit Collection Budget of EBL

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

Table 4.4
Status of Budgeted and Actual Deposit Collection

(Rs. in Lakhs)

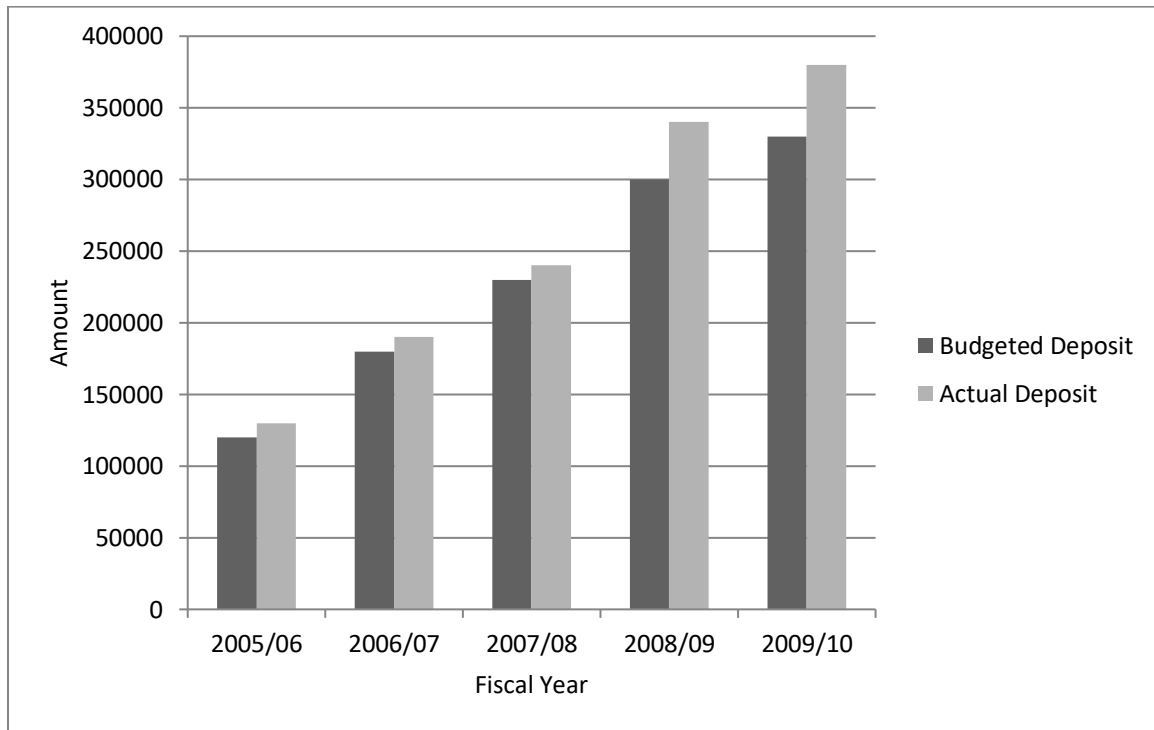
Fiscal Year	Budgeted Figure	Actual Figure	Achievement
2005/06	130000	138024	106.17
2006/07	175500	181862	103.63
2007/08	230000	239763	104.24
2008/09	300000	333229	111.08
2009/10	325000	369323	113.64

(Source: Annual Report & Budget Statement of EBL)

The above table shows the status of budgeted and actual deposit collection of EBL. The bank has achieved its objectives of deposit collection every year more than 100%. The achievement ranged between 103.63% to 113.64% throughout the five year of study period. The data of table are presenting in bar-diagram from the analysis purpose.

Figure 4.3

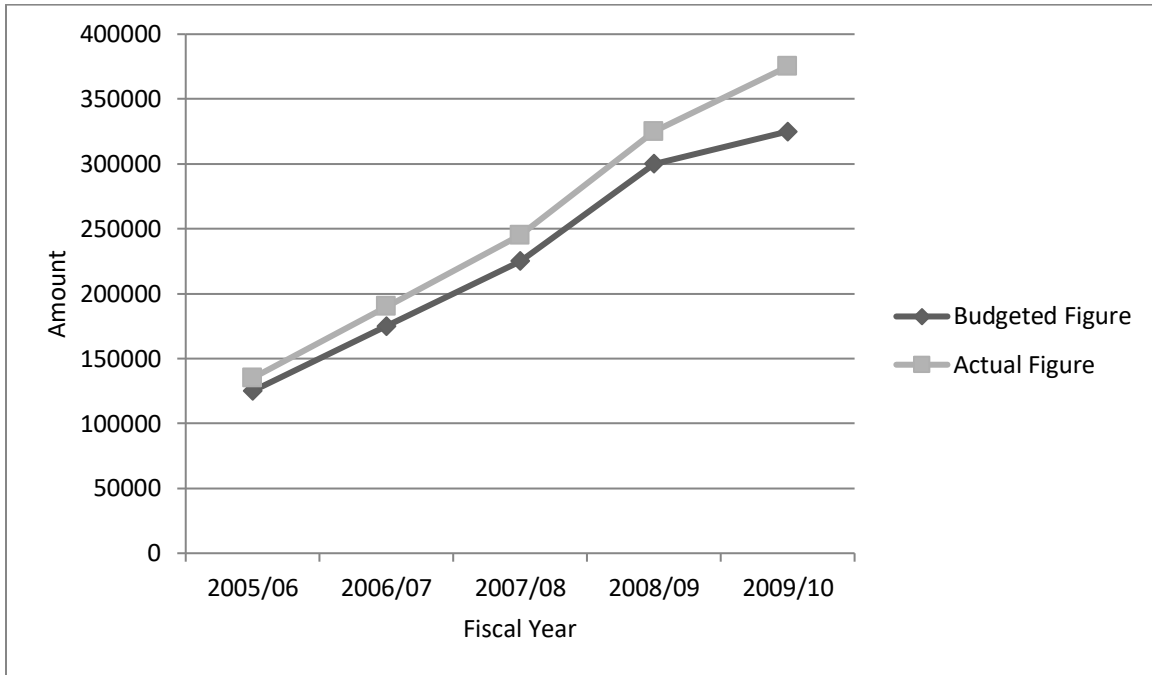
Bar Diagram Showing Budgeted and Actual Deposit Collection



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

Figure 4.4

Scatter Diagram Showing Budgeted and Actual Deposit Collection



The above scatter diagram shows that the actual deposit line is on the higher side compared to budgeted deposit line. This shows that EBL is able to meet its objective of deposit collection every year showing high level of achievement in deposit collection. The overall aspects of deposits are considered it can be said that management have prepared very optimistic budget to show its efficiency. The estimated budgeted figures are very low. In fact management is playing games with the stakeholder by underestimating the budgeted figure to show their better performance. Thus, it can be said that deposit collected EBL is at minimum satisfactory level compared to what it has planned in advance and what the true picture is.

4.2.5 Movement in Deposit Collection of EBL

Table 4.5

Movement of Deposit Collection of EBL

(Rs. In Lakh)

Fiscal Year	Deposit Amount	Growth In Amount	Growth in Percentage
2005/06	138024	-	-
2006/07	18162	43838	31.76 %
2007/08	239763	57901	31.84 %
2008/09	333229	93466	39.98 %
2009/10	369323	36094	10.83 %

The above table shows the growth trend of deposit collection of EBL. F/Y 2005/06 is the base year for the growth calculation. In F/Y 2006/07 the deposit collection is the base year for the growth calculation. In F/Y 2006/07 the deposit collection is increased by the 31.76% in the comparison with 2005/06. The amount of deposit collection is in increasing trend where as the increasing percentage is fluctuating as a result in F/Y 2009/10 the percentage has decrease in 10.83% from 38.98% of F/Y 2008/09 and in F/Y 2008/09 the trend of growth is 38.98% with comparison of F/Y 2007/08. In F/Y 2009/10 the deposit is decreasing in EBL because it has lack of effective mechanism tool of management and political instability of the country.

4.2.6 Other Resources of EBL

Other resources of EBL contribute 14.0% in total resources. It is formed of shareholder fund and other liabilities except deposit collection. The budgeted and actual other resources of EBL presented in the following table.

Table 4.6
Other Resources of EBL

(Rs. In Lakh)

Fiscal Year	Budgeted Amount	Actual Amount	Achievement (%)
2005/06	20000	21916	109.58
2006/07	30000	33649	112.16
2007/08	35000	33702	96.29
2008/09	25000	35668	142.67
2009/10	40000	43459	108.65

(Source: Annual Report & Budget Statement of EBL)

(The detail of calculation in Appendix – I)

The above table shows more than 100% achievement in resources other than deposit except in the F/Y 2007/08. The achievement trend of other resources is in increasing in the amount where as the increment ratio is in declining trend. The bank has increment ratio is in declining trend. The bank has highest achievement in F/Y 2008/09 likewise budgets are prepared but the actual figure doesn't match accordingly. The achievement percentage is ranged between 96.29% to 142.67% below 100% indicate the lower achievement of budgeted figure. The status of resources other than deposit figure. The status of resources other than deposit presented in BAR & Scatter diagram.

Figure 4.5

Bar Diagram Showing other Resources of EBL

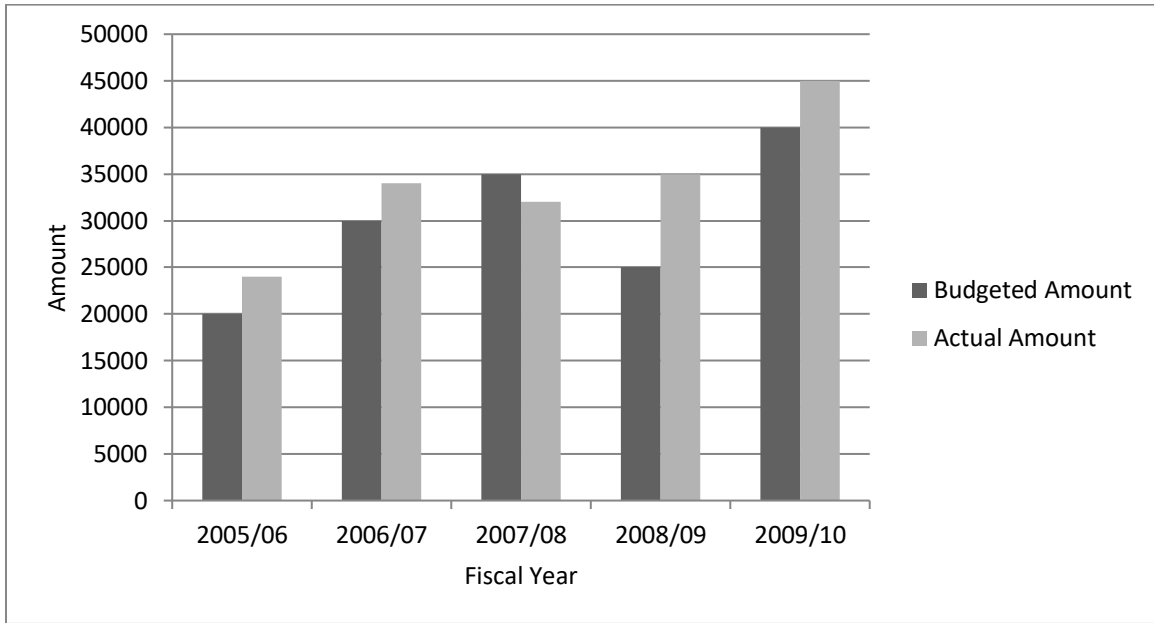
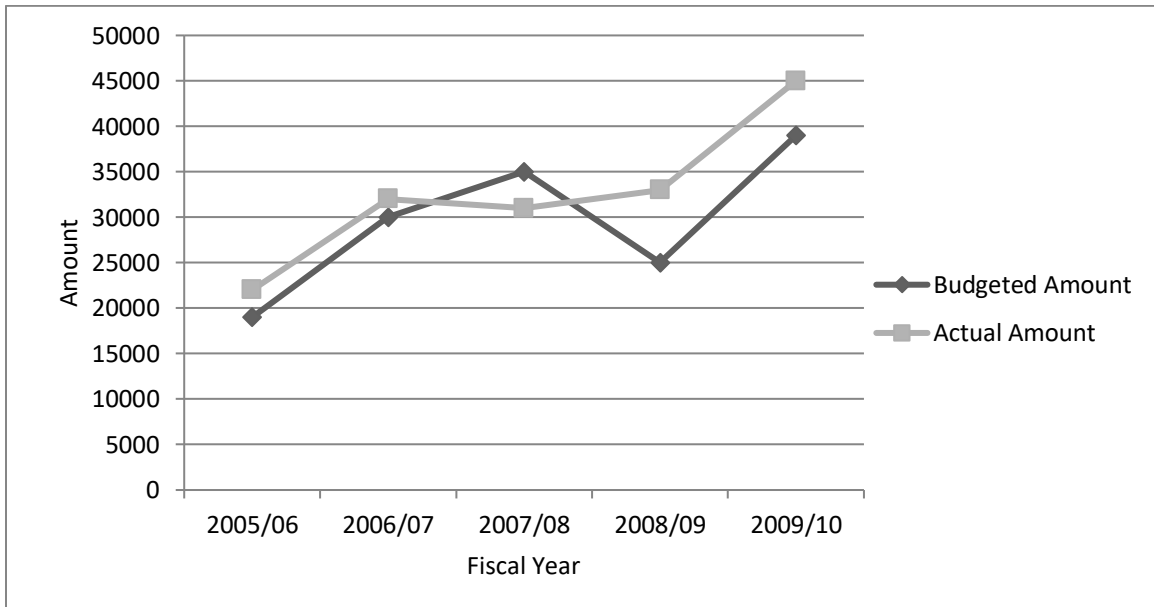


Figure 4.6

Scatter Diagram Showing Other Resources of EBL



From the above table and diagrams we can find the status of budgeted and actual resources of EBL. The actual resources is higher than budgeted in the bar diagram except the year 2007/08 in higher position than budgeted except year 2007/08.

4.3 Resources Deployment Plan of EBL

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

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

a) Deployment to Maintain Liquidity Position

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

b) Development for Income Generating Activities

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

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

LDO refers Loan, Advances, Old Bills Purchase of Discount and other loan which generates income in terms of interest other investment includes investment in securities, Treasury bill, etc.

Table 4.7
Total Income Generating Deployment of EBL

(Rs. In lakh)

Fiscal Year	Other Investment		Loan and Advance		Total
	Amount	Percentage	Amount	Percentage	
2005/06	42674	29.63%	101362	70.37	144036
2006/07	49843	26.14%	140827	73.86	190670
2007/08	54056	22.30%	188364	77.70	242420
2008/09	59485	19.56	244696	80.44	304181
2009/10	50083	15.10	281564	84.90	331647

(Source: Annual Report of EBL)

Other Investment = Investment + Money at call and short notice.

The above table shows the status of income generating deployment of EBL. The major portion of deployment of the bank covers by the loan and advance. The range of loan and advance is 70.37% to 84.90% where as the range of other investment is 15.10% to 29.63%.

c) Investment of Other Assets

Assets needs in the organization to show the performance of business such assets may be fixed or current. These assets can't give returns directly but without these others activities can't be run smoothly. Fixed assets subject to write off at certain period of times expenses.

4.3.1 Total Deployment of EBL

Table 4.8

Total Resources Deployment of EBL

(Rs. In lakh)

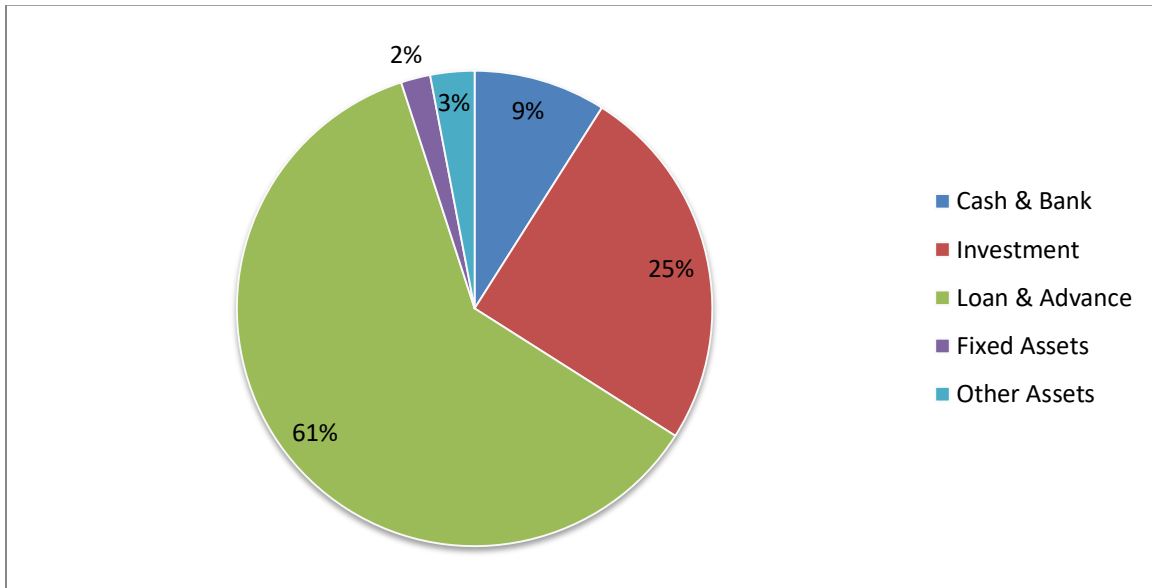
Fiscal Year	Cash & Bank Balance		Inv. & Money at call		Loan and Advance		Fixed Assets		Other Assets		Total year wise
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
2005/06	15529	9.38	42674	25.79	101362	61.26	2535	1.53	3375	2.04	165475
2006/07	23913	10.74	49843	22.38	140827	63.25	4152	1.86	3928	1.74	222663
2007/08	26679	9.37	54056	18.99	188364	66.19	8125	2.85	7366	2.59	284590
2008/09	61644	16	59485	15.44	244696	63.53	10151	2.64	9192	2.39	385168
2009/10	78188	18.09	50083	11.59	281564	65.15	12341	2.86	9993	2.31	432169
Total Sector wise	205953		256141		956813		37304		33854		

(Source: Annual Reports of EBL)

Above table shows the total deployment of funds in various sectors of EBL. The range of cash and bank balance of EBL throughout the study period is 9.37% to 18.09%, it means the bank use their fund to maintained liquidity position 9.37% to 18.09% out of total deployment. The trend of cash and bank balance slightly fluctuating trend. Likewise the bank uses their fund in investment 11.59% to 25.79% over the period. The trend of investment is in fluctuating trend in the F|Y 2005/06 the percentage of investment is 25.79% where as in decreased in year 2009/10 is 11.59%. Other three years are in average. The highest use of resource in the loan and advances the range of loan and advance is 61.26% to 66.19%. Out of total deployment over the five years period. In the F/Y 2005/06 the percentage is 61.26% and in it increased in F/Y 2007/08 to 66.19%, but in F/Y 2008/09 it slightly decreased in 63.53% again in the F/Y 2009/010 it increased than F/Y 2008/09 to 65.15% but could not recover the percentage of F/Y 2007/08. Even though the range of loan and advance is fluctuating trend in terms over the study period. EBL use the resources in fixed assets and other assets in nominal

percentage out of total deployment. The range of fixed assets is 1.53% to 2.86% and other assets are 1.74% to 2.59% out of total deployment over the study period. For the analysis purpose the total deployment of EBL is presented in pie-chart and bar diagram below:

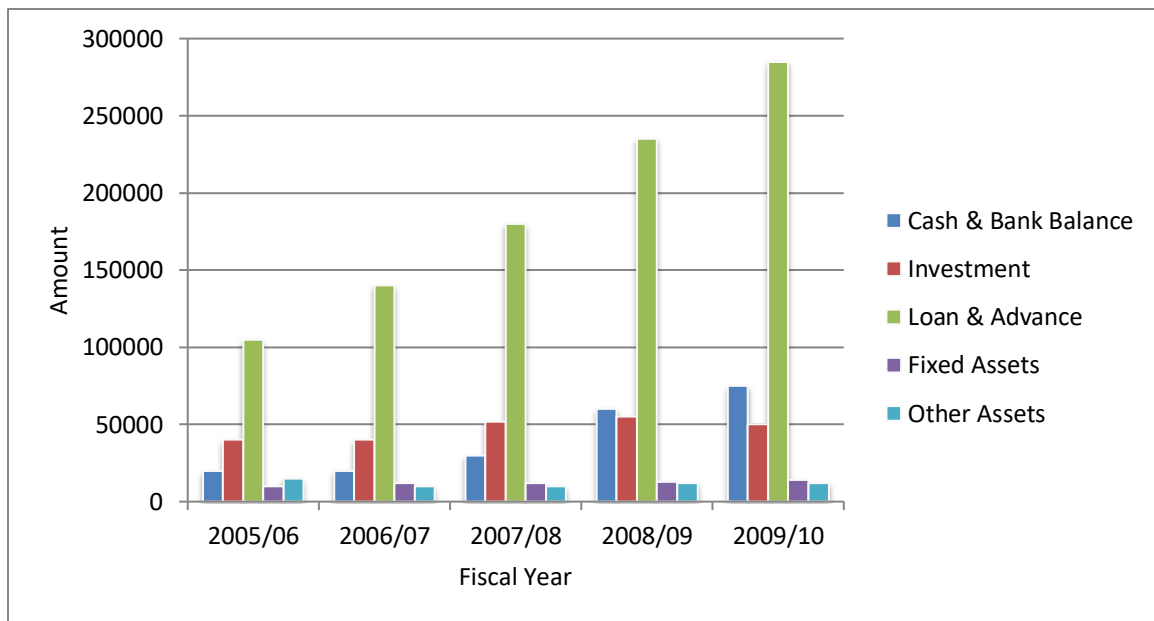
Figure 4.7
Pie Chart Showing Status of Deployment



The above pie chart shows the total deployment of EBL in various sectors. The loan and advances holds the highest area of the Figure since it has 64% of deployment out of total deployment. This means the bank deploy more of their resources in the deployment of loan and advance than other. Like wise investment is 25% out of total deployment. The third highest sector of investment is cash and bank balance this shows the bank keeps the liquidity of 9% out of total deployment in average over the five year of study period. Similarly, the bank uses their resources in fixed assets and other assets 2% and 3% respectively over the five years period.

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

Figure 4.8
Bar Diagram Showing the Status of Deployment



The above shows the deployment of Banks available resources at various portfolios among which LDO is in highest position throughout the study period the trend is in increasing over the period. Likewise the trend is in increasing over the period. Likewise the cash and bank balance is in second position out of total deployment amount the trend of cash and bank balance is increasing trend over the five years of study. The third position of deployment holds by investment is in increasing trend expected the year 2009/10. The other assets and fixed assets hold the fourth and 5th position but it is in fluctuating trend over the five years of time period.

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

- Deployment in LDO
- Deployment in other sector NLDO

4.3.2 Budgeted and Actual LDO of EBL

Since the LDO is a major sector of where the bank invests more, thus the researcher going to analyze about the position of LDO of EBL Following table shows the budgeted amount of LDO and the same achieved actually.

Table 4.9
Comparative Table showing Budgeted and Actual Loan, Discounted, Overdraft of EBL

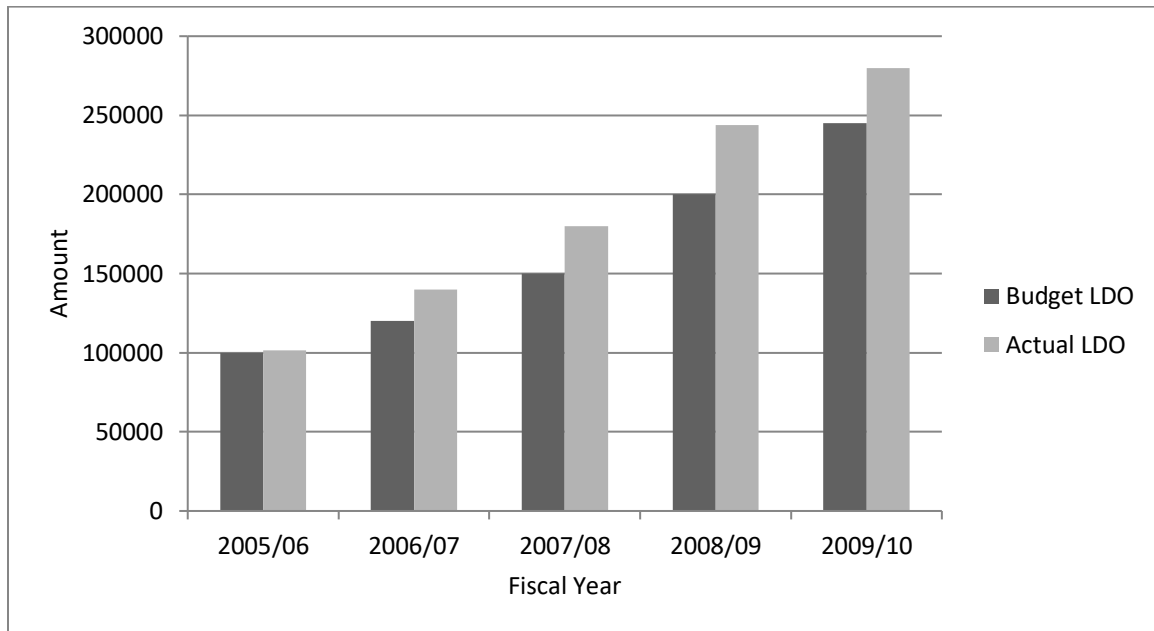
Fiscal Year	Budgeted Amount	Actual Amount	Achievement (%)
2005/06	1,00,000	101362	101.36
2006/07	120000	140824	117.36
2007/08	150000	188364	125.58
2008/09	200000	244699	122.35
2009/10	220000	281564	127.95

(Source: Annual Report & Budget Statement of EBL)

Above table shows that status of budgeted and actual LDO of EBL. The actual achievement of LDO is more than the 100% in every year. The investment in LDO is increasing trend in terms of amount where as the achievement percentage with budgeted figure is fluctuating trend. The range of achievement over the five year period is 101.36% to 127.98% it shows that EBL has meet the targeted investment level in each year. For the study purpose the figure of LDO are presented in Bar and Scatter diagram and draw some conclusion accordingly.

Figure 4.9

Bar Diagram Showing Budgeted and Actual LDO of EBL

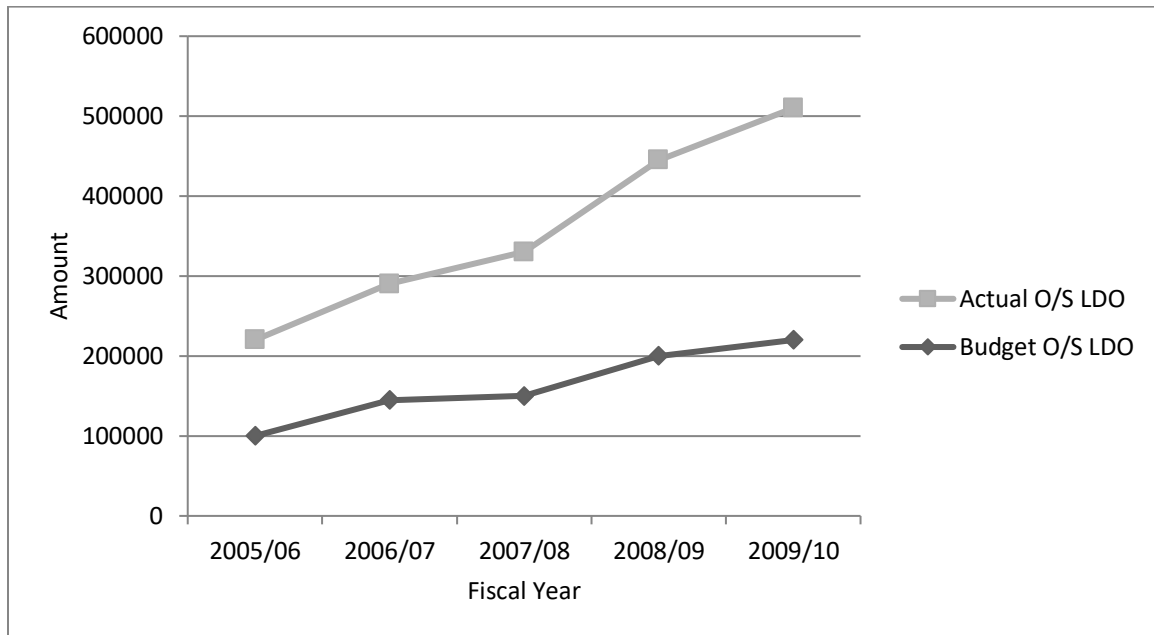


The above bar diagram shows the trend of budgeted and actual investment of resources in the sector of LDO provided by EBL in five different years to its customers. The actual LDO are over the budgeted LDO suggesting that EBL has met its objective of investing LDO every year. It shows that actual LDO is more than 100% every year which is considered good for EBL for generating income every year. For more analysis the budgeted and actual LDO figures are presented in scatter diagram to shows the relationship between budgeted figure and actual achievement throughout the study period.

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

Figure 4.10

Scatter Diagram Showing Status of Budgeted and Actual LDO of EBL



The above scatter diagram shows the actual LDO line is on the higher side compared to budgeted LDO line. This shows that EBL is able to meet its objective of investing is able to meet its objective of investing LDO every year. This shows high level of achievement of EBL is dispersing loan to its customer. But if the overall aspects of LDO are considered then it can be said that management have prepared very optimistic budget to show its efficiency. The estimated budgeted figures are very low. In fact management is playing games with the stakeholder by underestimating the budgeted figure to show their better performance. Thus, it can be said that LDO provided by EBL is at the minimum satisfactory level compared to what it has planned in LDO and what the true picture is.

4.3.3 Movement in LDO of EBL

Table 4.10

Table Showing Movement in LDO of EBL

(Rs. In lakh)

Fiscal Year	LDO Amount	Growth in Amount	Growth in %
2005/06	101362	-	-
2006/07	140827	39465	38.93%
2007/08	188364	47537	33.76%
2008/09	244699	56335	29.91%
2009/10	281564	36865	13.09%

(Source: Annual Reports of EBL)

The above table shows the movement of LDO of EBL. The base year to calculate the growth rate of EBL is F/Y 2005/06. The increment rate is 38.96% in 2006/07 in comparison with F/Y 2005/06. The rate of growth is declining trend in the period of study.

4.3.4 Resources Deployment in Other Sector (NLDO)

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

Table 4.11

Status of Budgeted and Actual Deployment in Other Sector (NLDO)

(Rs. In lakh)

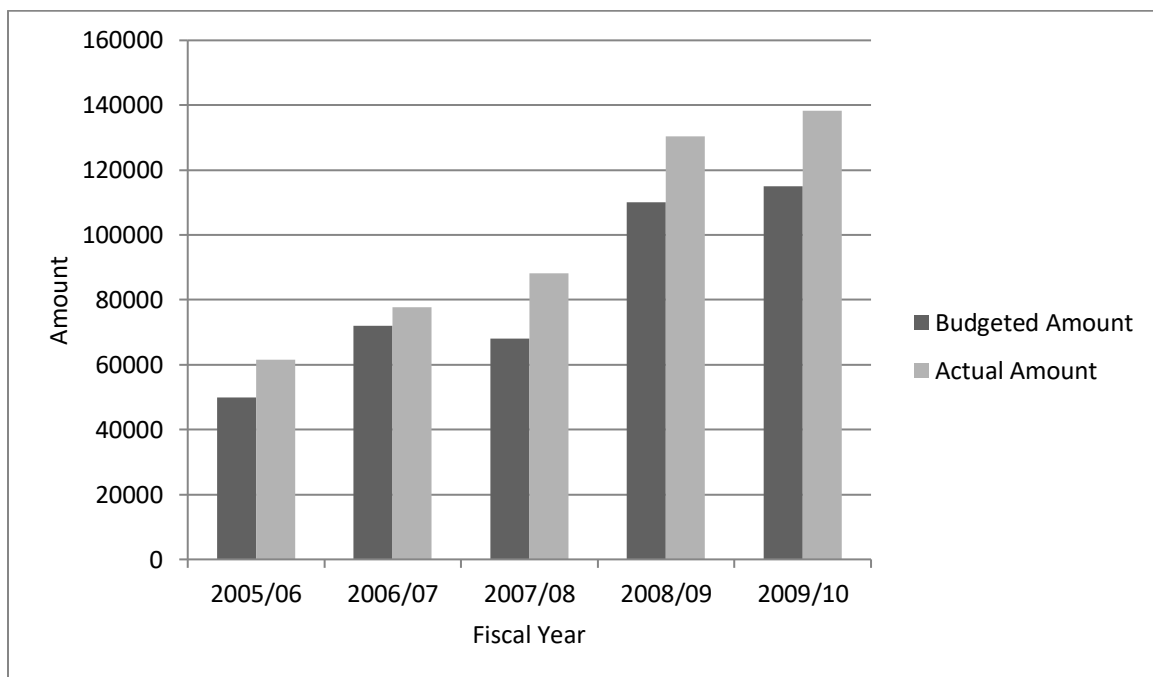
Fiscal Year	Budgeted Amount	Actual Amount	Achievement (%)
2005/06	50000	61578	12.16
2006/07	72000	77684	107.89
2007/08	68000	88101	129.56
2008/09	110000	130321	118.47
2009/10	115000	138264	120.23

(Source: Annual Reports & Budget Statement of EBL)

The above table shows the status of budgeted and actual deployment in other sector than LDO (NLDO). The actual achievement of investment in other sector has more than the 100% each year. The rate of such achievement in fluctuating trend over the study period. The achievement is 123.16% in F/Y 2005/06 and it decreased in F/Y 2006/07 to 107.89%. Again in F/Y 2007/08 in increase to 129.56% and slightly fluctuating up to F|Y 2009/10. The average rate of achievement over the five year is 119.86% this indicate that the bank achieved its target by 20% approximately. For the analysis purpose the status of budgeted and actual NLDO is presenting in diagram below.

Figure 4.11

Bar Diagram Showing Status of Budgeted and Actual NLDO of EBL



The above bar diagram shows the budgeted and actual NLDO provided by EBL in five year different years. The actual NLDO are over the budgeted NLDO suggesting that EBL has met its objective of investing NLDO every year. It shows that actual NLDO is more than 100% every year which is considered good for EBL for generating income every year.

4.4 Planning for Expenditure of EBL

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

Table 4.12
Status of Expenditure of EBL

(Rs. In lakh)

Expenditure	2005/06		2006/07		2007/08		2008/09		2009/10	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Interest Exp.	4014	48.40	5172	47.79	6326	45.29	10129	52.57	15728	58.17
Employees Exp.	710	8.56	941	8.69	1580	11.31	1869	9.70	2264	8.37
Mgmt Exp.	1436	17.32	1775	16.40	2337	16.73	2920	15.16	3525	13.04
Provision for Risk	705	8.50	897	8.29	993	7.11	931	4.83	770	2.85
Employees Bonus	345	4.16	455	4.20	659	4.72	891	4.62	1188	4.39
Income Tax	1083	13.06	1583	14.63	2074	14.85	2527	13.12	3562	13.17
Yearwise Total	8293		110823		13969		19267		27037	

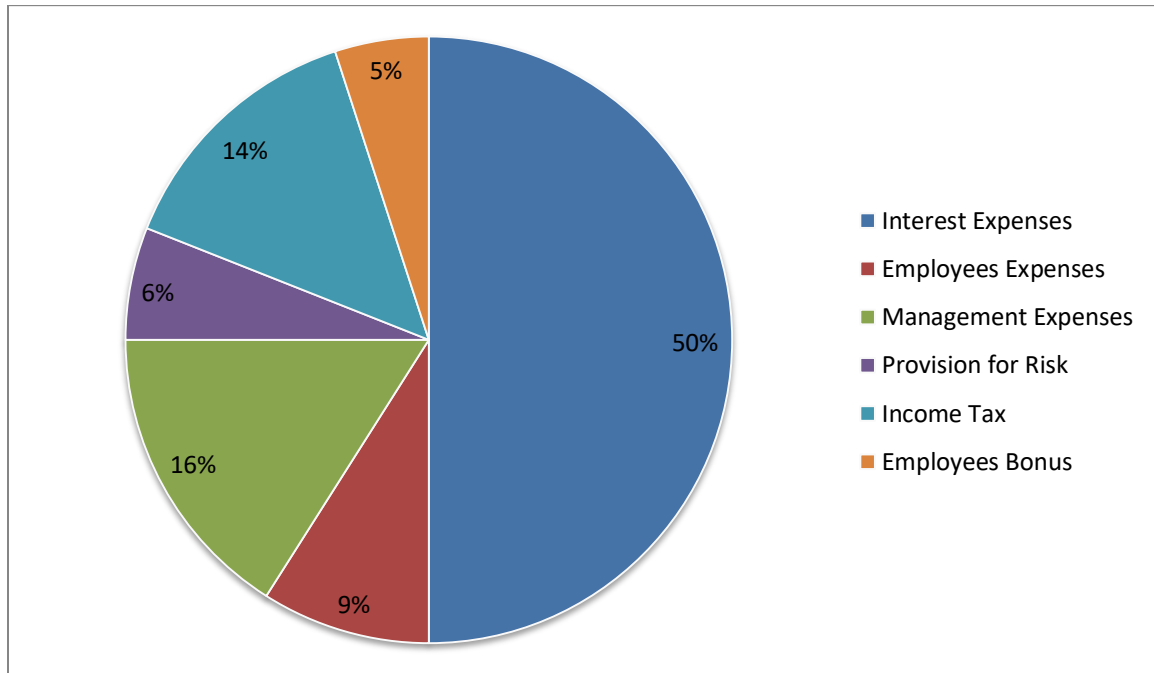
(Sources: Annual Report of EBL)

The above table shows the total expenses of EBL. The trend of all expenses is in increasing as per the overall volume of business increased. The major expense of bank is interest expenses it ranged 45.29% to 58.17% out of total expenses of EBL throughout the five years of time period. The another expenses of bank is employees of expenses ranged between 8.37% to 11.31% the amount of employees expenses increasing every year likewise the management expenses, provision for Risk, employees bonus and tax ranged between 13.04% to 17.32%,

2.85% to 8.50%, 4.16% to 4.72% and 13.06% to 14.85% respectively out of total expenses. The expenditure of EBL has analyzed by the help of pie chart below.

Figure 4.12

Pie Chart Showing Status of Total Expenses of EBL



By the above and pie chart the researcher can find out the major expenses of EBL is Interest on deposit it holds the 50% out of total expenditure. Likewise employee's expenses, management expenses, provision for risk, employee's bonus and income tax has 9%, 16% 6%, 5% and 14% respectively. For the analysis purpose we have divided the total expenses in two categories these are as follows.

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

4.4.1 Interest Expenses

The bank amount collected from various sources. Among them some are non cost bearing and some are cost bearing sources. Interest expenses incurred for making payment as cost of such deposit amount, which are interest bearing nature. The

interest holds highest portion of total available resources. The bank may have different interest rate in different types of account. Here, the researcher going to analyze the average cost of deposit throughout the study period.

Table 4.13
Status Average Cost of Deposit

(Rs. In Lakh)

Fiscal Year	Interest Expenses	Total Deposit	Cost of Deposit (%)
2005/06	4014	138024	2.91
2006/07	5172	181862	2.84
2007/08	6326	239763	.64
2008/09	10129	333229	3.04
2009/10	15728	369323	4.36

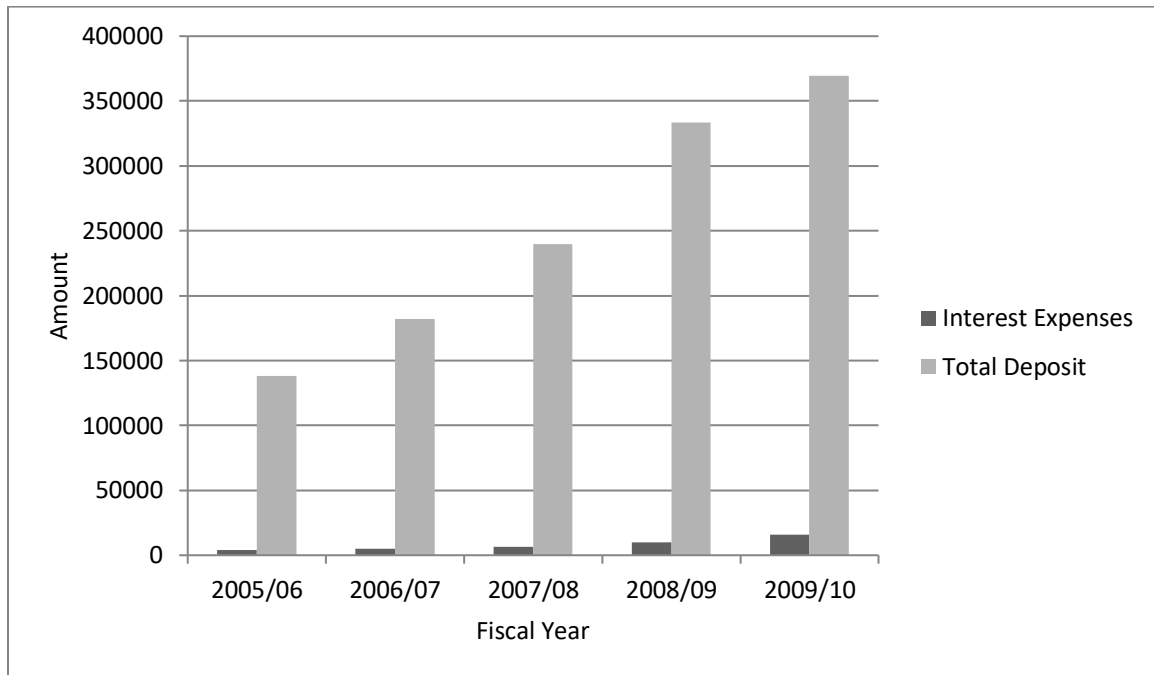
(Sources: Annual Report of EBL)

COD= Cost of Deposit

The above table shows the total deposit and interest expenses of respective year. The deposit and interest expenses of respective year. The deposit amount is increasing trend likewise the interest. The table shows the cost of deposit in percentage. The EBL cost of deposit (Interest) range between 2.64 % to 4.26% over the study period. The COD of the bank is slightly fluctuating trend the highest cost of deposit is 4.26% in the year 2009/10. The relation between COD and total deposit can be shows on the bar diagram below.

Figure 4.13

Bar Diagram Showing Status of Total Deposit and Interest Expenses



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

4.4.2 Non – Interest Expenses

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

- Employees Expenses
- Management Expenses
- Provision for risky Loan
- Employees Bonus
- Income Tax

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

Table 4.14
Status of Non-Interest Expenses of EBL

(Rs. In Lakh)

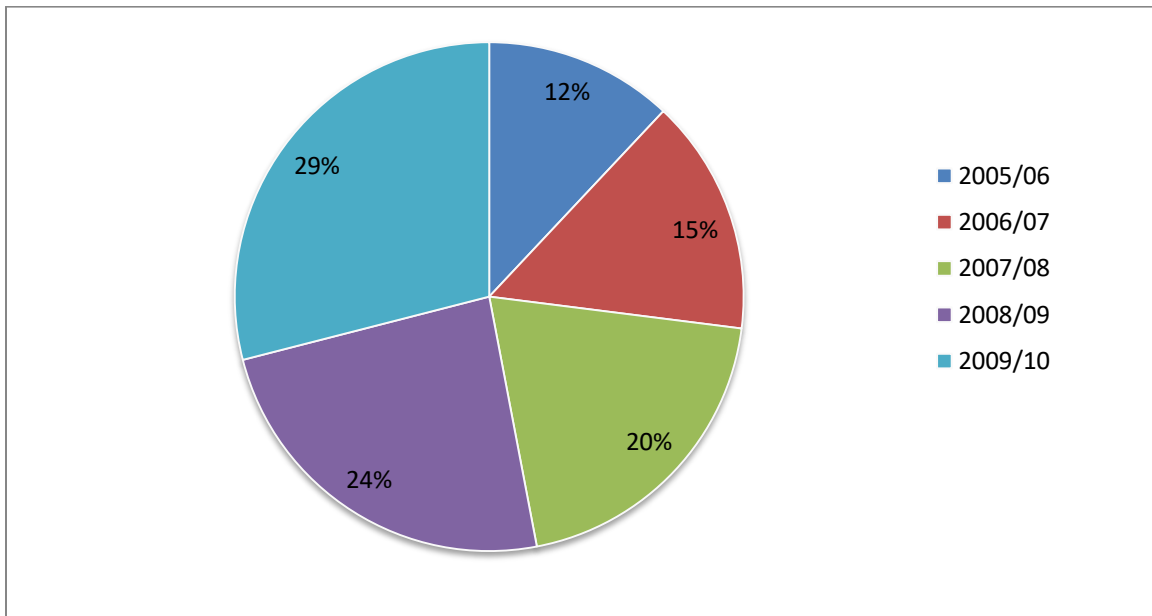
Expenditure	2005/06		2006/07		2007/08		2008/09		2009/10	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Employees Exp.	710	9.64	941	12.78	1580	21.46	1869	25.38	2264	30.74
Management Exp.	1436	11.97	1775	14.80	2337	19.49	2920	24.35	3525	29.39
Provision for Risky Loan	705	16.41	897	20.88	993	23.11	931	21.67	770	17.92
Employees Bonus	345	9.75	455	12.86	659	18.63	891	25.18	1188	33.58
Income tax	1083	10	1583	14.62	2074	19.15	2527	23.34	3562	32.89
Total	4279		5651		7370		9138		11309	

(Source: Annual Report of EBL)

The above table shows the non interest expenses of EBL over the five year period. Employees are in increasing trend every year the range of employees expenses is 9.64% to 30.74% in the F/Y 2005/06 and 2009/10 respectively. The management expenses in 11.97% to 29.39% in 2005/06 respectively. The trend of risky loan is fluctuation. The trend of bonus to employees is in increasing it is 9.75%. This means the bank paying bonus to employees in increasing figure every year. The trend of tax is also increasing trend because income tax pays from the profit. The researcher going to present in Pie-chart to analysis the non interest expenses below.

Figure 4.14

Pie Chart Showing Year wise Non-Interest Expenses of EBL



The above pie chart shows the status of yearly non-interest expenses of EBL over the study period. The rate of non-interest expenses is in increasing trend. The range between F/Y 2005/06 to 2009/10 is 12% to 29% respectively in between it is 15%, 20%, 24% in F/Y 2006/07, 2007/08, 2008/09 respectively.

4.5 Revenue Planning of EBL

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

4.5.1 Interest Income

Interest income also called return of LDO contributes major portion of total revenue mix. Now, researcher going to analyze the comparative status of total returns on LDO with the help of table & figure.

Table 4.15
Status of Average Return on LDO

(Rs. In Lakh)

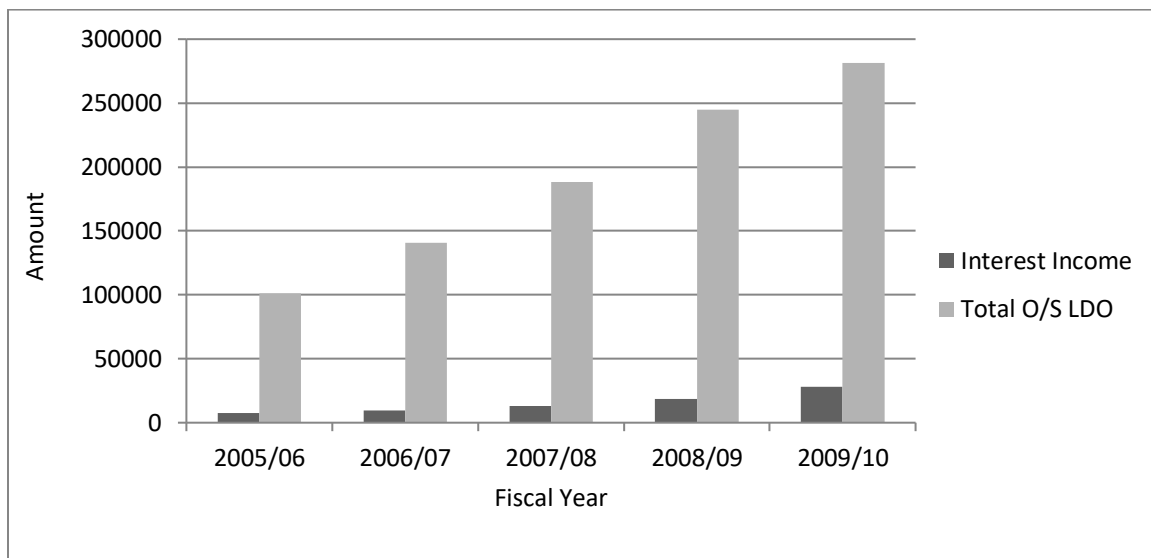
Fiscal Year	Interest Income	Total O/S income	Average Rate of Return
2005/06	7703.51	101362	7.60
2006/07	9674.81	140827	6.87
2007/08	13298.50	788364	7.06
2008/09	18523.49	244699	7.57
2009/10	28015.62	281564	9.25

(Sources: Annual report of EBL)

The above table shows the comparative status of interest income with the O/S LDO and the return on same LDO. The interest income is in increasing trend as the LDO. The interest income is in increasing trend as the LDO has increased where as the rate of return on LDO is fluctuating trend. The range of rate of return lies between 6.87% to 9.95% over the five year period. For the more analysis purpose the data of interest income and O/S LDO presenting in bar diagram.

Figure 4.15

Bar Diagram Showing Status of Interest Income and Total O/S LDO



From the Figure, it becomes clear that the yearly total interest income is in increasing trend based on the increasing amount as per the O/S LDO. In the term of rate of return it is in fluctuating trend.

4.6 Performance Evaluation of EBL

Performance evaluation will help to study the strength and weakness of management and help to improve the weakness of management and to energize to accomplishment of organizational goal. Following are the some of the financial tools which has been used to measures the performance of EBL.

4.6.1 Ratio Analysis

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

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

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

4.6.1.1 Liquidity Ratio

Liquidity Ratio is ability of a firm to pay short-term liabilities. Liquidity ratio reflects the short- term financial strength of a firm. This ratio is calculated by the

help of current liabilities. Here the researcher is going to calculate the current ratio of EBL. Current ratio is calculated dividing current assets by current liabilities. The details of current assets and current liabilities shown on appendix No III.

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

Table 4.16
Current Ratio of EBL

(Rs. In Lakh)

Fiscal Year	Current Assets (X)	Current Liabilities (Y)	Current Ratio (X/Y)
2005/06	117560	150312	0.78:1
2006/07	164740	203496	0.84:1
2007/08	218503	254253	0.86:1
2008/09	306340	346861	0.88:1
2009/10	359752	385191	0.93:1

(Sources: Annual Report of EBL)

(The detail of calculation is in Appendix No III)

The above table shows the liquidity position of EBL. Higher the current ratio better the liquidity position for the many types of business 2:1 is considered to be an adequate ratio. If the current ratio of a firm is less than 2:1, it means the firm has difficulty in meeting current obligation. If the current ratio is more than 2:1 the company may have an excessive investment in current assets that do not produce satisfied return. In the time of study period current ratios are increasing trend from 2005/06 to 2009/10. As the current ratio is below the normal standard however it can be conclude that the liquidity position is poor as it is only quantitative measures not qualitative and the situation of the bank is quite different than that of general business enterprise. The relationship presenting in the bar diagram for the analysis purpose.

4.6.1.2 Leverage Ratio

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

- Debt- equity Ratio
- Interest coverage ratio

4.6.1.3 Debt-Equity Ratio

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

$$\text{Debt-Equity Ratio} = \text{Borrowings} / \text{Shareholder's Equity}$$

Table 4.17

Debt Equity Ratio of EBL

(Rs. In Lakh)

Fiscal Year	Borrowings (X)	Shareholders' Equity(Y)	Debt Equity (X/Y)
2005/06	3000	3780	0.79:1
2006/07	3000	3780	0.79:1
2007/08	3000	4914	0.67:1
2008/09	6120	6388	0.95:1
2009/10	7046	8305	0.85:1

(Source: Annual Report of EBL)

The above table shows the debt equity ratio of EBL. The column x shows the figure of borrowing and column y shows the figure of shareholder's Equity. By dividing to column x by y is the result of debt equity ratio. Here the range of debt

of debt equity ratio is fluctuating every year. EBL has portion of equity than long-term debenture where as for a banking sector fixed deposit also consider as long term obligation but in above analysis researcher have calculated only borrowing long-term debt. The above table and Figures shows that EBL's financial weakness is very poor it has not more internal fund to repay debt and shareholder's equity is presenting in bar diagram below.

4.6.1.4 Interest Coverage Ratio (ICR)

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

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

Table 4.18
Calculation of Interest Coverage Ratio

Fiscal Year	EBIT(V)	Interest Expenses (Y)	Times
2005/06	3455	4014	0.86
2006/07	4547	5172	0.88
2007/08	6586	6326	1.04
2008/09	8913	10126	0.88
2009/10	11880	15728	0.16

(Source: Annual Reports of EBL)

The above table shows the position of interest coverage ratio (ICR) of EBL. The ICR is 0.86 times in F/Y 2005/06 this means EBIT is 0.86 times less than interest expenses. Likewise the ICR reached to 0.88 times in F/Y 2006/07 and 1.04 times in 2007/08 this result represents the EBL increased its EBIT. The rate decreased to 0.88 is F/Y 2008/09 and the rate decreased to 0.76 in F/Y 2009/10. The interest coverage ratio of EBL ranges between 0.76 to 1.04 times. It means that the bank is not capable to pay the interest expenses.

4.6.1.5 Activity Ratio

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

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

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

Table 4.19
Showing the Activity Ratio of EBL

(Rs. In Lakh)

Fiscal Year	Deposit Collected (A)	LDO Deployed (B)	No. of Employees (C)	Deposit Per employees (D)=VC	LDO per employees (E) =B/C
2005/06	1380247	101362	306	451.06	331.25
2006/07	181862	140827	393	462.75	358.34
2007/08	239763	188364	449	533.99	419.52
2008/09	333229	244699	531	627.55	460.83
2009/010	369323	281564	568	650.22	495.71

(Source: Annual Reports of EBL)

The above table shows the relationship of major activities of bank with its human resources. The number of employees increasing every year likewise the major activities of EBL is increasing trend. In the above table column A, B,C shows deposit collection, LDO deployed and No. of employees. The relationship with such activities is calculated dividing to column A, B by column C.

4.6.1.6 Profitability Ratio

Profitability ratio is related to profit. It shows the overall efficiency of the business concern. The overall efficiency of the business concern. The earning capacity of a business is measured by profitability ratio. Maximization of profit is the main objectives of each and every business concern. It is very necessary to earn maximum profit for the successful running of a business concern. Here, this researcher going to measure of EBL profitability by total assets and total capital fund to net profit. It is computed by dividing to Net profit. Total assets and net profit to capital fund.

Table 4.20
Profitability Ratio of EBL

(Rs. In lakh)

Fiscal Year	Net Profit after Tax(A)	Total Assets (B)	Return On Assets (C)=A/B	Total Capital Fund (D)	Return on Capital (E) = A/D
2005/06	2372	162940	1.46%	9628	24.64%
2006/07	2964	218511	1.36%	12015	24.67%
2007/08	4512	276465	1.63%	19212	23.49%
2008/09	6387	375017	1.70%	22036	28.98%
2009/10	8318	419828	1.95%	275.91	30.15%

(Sources: Annual Report of EBL)

The above table shows the status of return on capital employed of EBL. The ratio shows the relation of net profit after tax with the total assets and total capital employed. The rate of return of an assets is increasing trend expect 1.36% in F/Y 2006/07, it is ranged between 1.36% to 1.98% throughout the five year period. Likewise the return on capital ratio presenting the relation of net profit with the capital employed. The range of return on capital employed. The range of return on capital employed is 23.49% to 30.15% it is fluctuating trend through five years of study period.

4.7 Statistical Tools

Under this heading some statistical tools such as coefficient of correlation analysis between different variables, trend analysis of deposit, and net profit are used to achieve the objectives of the study.

4.7.1 Coefficient of Correlation Analysis

Under this chapter Karl Pearson's coefficient is used to find out the relationship between deposit and loan advances, deposit and total investment and deposit and net profit.

a) Coefficient of Correlation between Deposit and Loan and Advances

Deposit have played a very important role in performance of commercial bank and similarly loan and advances are important to mobile the collected deposits. Coefficient of correlation between deposit and loan and advances measures the degree of relationship between these two variables.

In this analysis, deposit is independent variable (X) and loan and advances is dependent variables (Y). The main objectives of computing 'r' between two variables are to justify whether deposits are significantly used on loan and advances in a proper way or not. The following table shows the value of 'r' r² probable Error (P.Er) and 6 P.Er between deposit and loan and advances for the study period 2005/06 to 2009/10.

Table 4.21
Correlation between Deposit and Loans and Advances

Evaluation Criteria			
r	r²	P.Er	6. P.Er
0.9971	0.9942	0.0017	0.0105

(The detail of calculation is in Appendix – IV)

The above table 4.21 shows that coefficient of correlation between deposit and loan and advances are 0.9971, which shows higher positive correlation between these two variables. Similarly the value of coefficient of determination (r^2) is to be found 0.9942, which shows that 99.42% in the dependent variable has been explained by the independent variable. More over by application of P.Er i.e. 0.0017, which means the relation between deposit and loans and advances is significant. In other words EBL is successful to mobilize its fund in proper way in loan and advances. Similarly considering the value of (r) i.e. 0.9971 and comparing it with 6.P.Er. i.e. 0.00105, we can say that the value of r is more than 6.P.er. This reveals that there is significant relationship between deposit and loan and advances.

b) Coefficient of Correlation between Deposit and Total Investment

Coefficient of correlation between deposit and total investment measure the degree of relation between these two variables. Here, deposit is independent variable (X) and total investment is dependent variable (Y). The purpose of computing coefficient of correlations between deposit and total investment to find whether deposit is significantly used as investment or no.

The following table shows the variable of r , (r^2), P.Er and 6.P.Er between deposit and total investment for the study period 2005/06 to 2009/10.

Table 4.22
Correlation between Deposit and Total Investment

	Evaluation Criteria		
r	r^2	P.Er	6.P.Er
0.6974	0.4864	0.1547	0.9282

(The detail of calculation is in Appendix-V)

From the above table 4.22, it is found that coefficient of correlation between deposits (independent) and total investment (dependent) value of r is 0.6974. It shows negative relationship between two variables however by application of coefficient of determination the value of (r^2) is 0.4864, which indicates that the 48.64% of the variation of dependent variable (total investment) has been explained by the independent variable (deposits moreover by considering the probable error since the value of r is i.e. 0.6974 is less than six times of P.Er. i.e. 0.9282. So, it can say that there is no significant relationship between total deposits and total investments.

Lastly it can be said that the bank has followed the policy of minimizing the investment of their deposits.

c) Coefficient of Correlation between Deposits and Net Profit

Coefficient of correlation ‘ r ’ between deposit and net profit measures the degree of relationship between these two variables. Here deposits are independent variable. Here deposits are independent variable (X) and net profit is dependent variable (Y). The purpose of computing coefficient of correlation between deposits and net profit is to find out whether the net profit is significantly correlated with respective total deposit or not.

The following table shows the value of $r, r^2, p.Er$ and $6 p.Er$. between deposits and net profit for the study period 2005/06 to 2009/10.

Table 4.23
Coefficient of Correlation between Deposits and Net Profit

	Evaluation Criteria		
r	r^2	$p.Er$	$6.p.Er$
0.9860	0.9722	0.0084	0.0504

(The detail of calculation is in Appendix-VI)

From the above table 4.23 it has been found that the coefficient of correlation between total deposit (independent) and net profit (dependent) is 0.9860, which indicates positive correlation between these two variables. Considering the value of coefficient of determination is r^2 i.e. 0.9722 indicates that 97.22% of the variation in the dependent variables (net profit) has been explained) moreover by considering the probable error, we can further say considering the probable error, we can further say that there is significant relationship between total deposit and net profit because the value of r i.e. 0.9860 is greater than six times P.Er. i.e. 0.0504.

It indicates that EBL is capable of earning net profit by mobilizing its total deposit.

4.7.2 Trend Analysis and Projection for Next Five Years

The measurement used in financial management analysis may be classified into two groups those who measure in the relation among the items. Insight set of statements and those measure the analysis in these items in successive statement. The first is a static analysis is necessary for a comprehensive interpretation, since it is important to know not only the proportion as on a certain date but also the trends on the enterprise.

Here, in this study the trend analysis of the financial condition are presented which is objected to provide the insight of the bank position.

In this study, the method of least square is used for the least square is used for the analysis of the bank's total deposit trend net profit trend.

- The main assumption is that other things being will remain unchanged.
- The bank will run in the present situation.
- The economy will remain in the present stage.

- The forecast will be true only when the limitation of least square method is carried out.
- Nepal Rastra Bank will change its guide lines to commercial banks.

a) Trend Analysis of Total Deposit

Under this topic an effort has been made to calculate the trend value of deposit for five years from 2005/06 to 2009/010 and forecast for next four years till next 2014/15.

The following table shows the trend values of 10 years from 2005/06 to 2014/15.

Table 4.24
Trend Line of Total Deposit

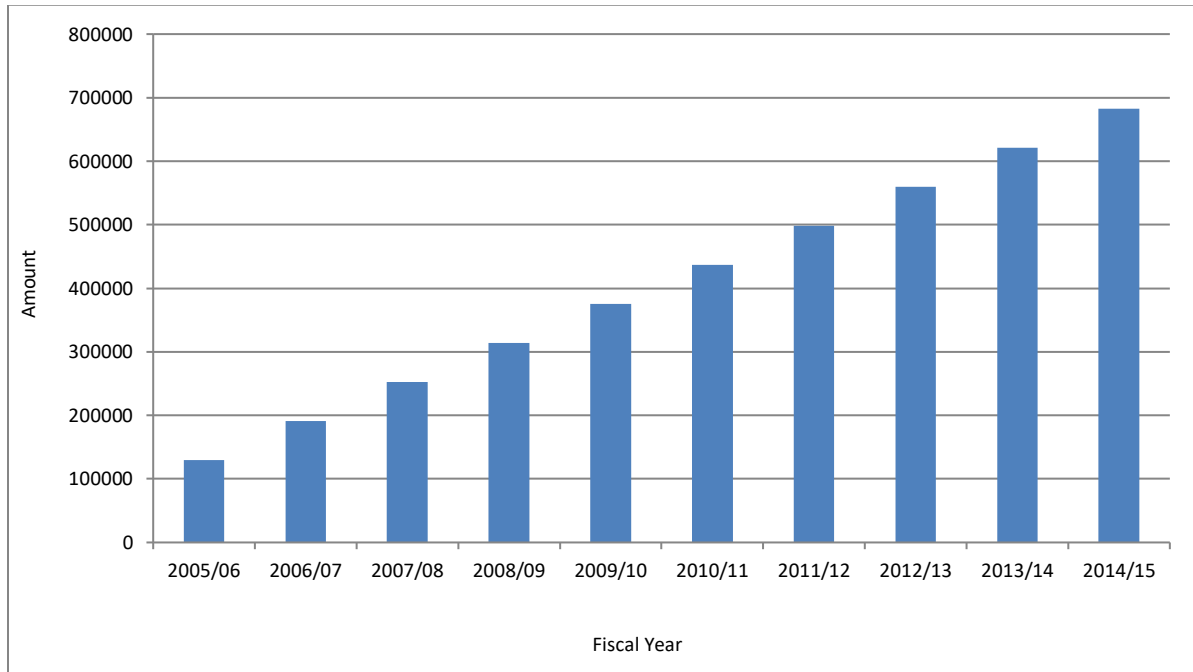
Year	Trend Value
2005/06	129647.2
2006/07	191043.7
2007/08	252440.2
2008/09	313836.7
2009/10	375233.2
2010/11	436629.7
2011/12	498026.2
2012/13	559422.7
2013/14	620819.2
2014/15	682215.7

(The details for the calculation is given Appendix-VII)

The above table shows the trend of deposits collected by EBL. The bank has collected higher amount of deposits every year compared to previous year. This signifies that EBL deposits trend is EBL in collecting deposits from it's customers. EBL is quite been able to collect huge amount of deposits because of it's high interest rate provided to the customers introduce various new schemes and offer to

attract the potential customer. This has provided a great positive impact on the deposits growth. This can also be explained with the help of following bar diagram.

Figure 4.16
Trend Value of Total Deposit



From the above diagram, it is clear that the trend line of deposits of EBL is always increasing every year. The performance of EBL in collection deposits from its customers is improving. EBL deposits are moving upward fast pace which suggests that the bank has been able to collect enough deposits. This is a good sign for EBL in the road of success because with these amounts bank generates its income for as will make higher amount of profit to show its position in the market with the increment it can be said that the bank is in the path of success and in near future bank will perform well in respect of deposits. Thus, it can be said that EBL has satisfactory amount of deposits in recent year.

b) Trend Analysis of Net Profit

Under this topic the trend values of net profit have been calculated for five years from F|Y 2005/06 to 2009/10 and the forecast for next 5 years up to 2014/15.

Table 4.25
Trend Values of Net Profit

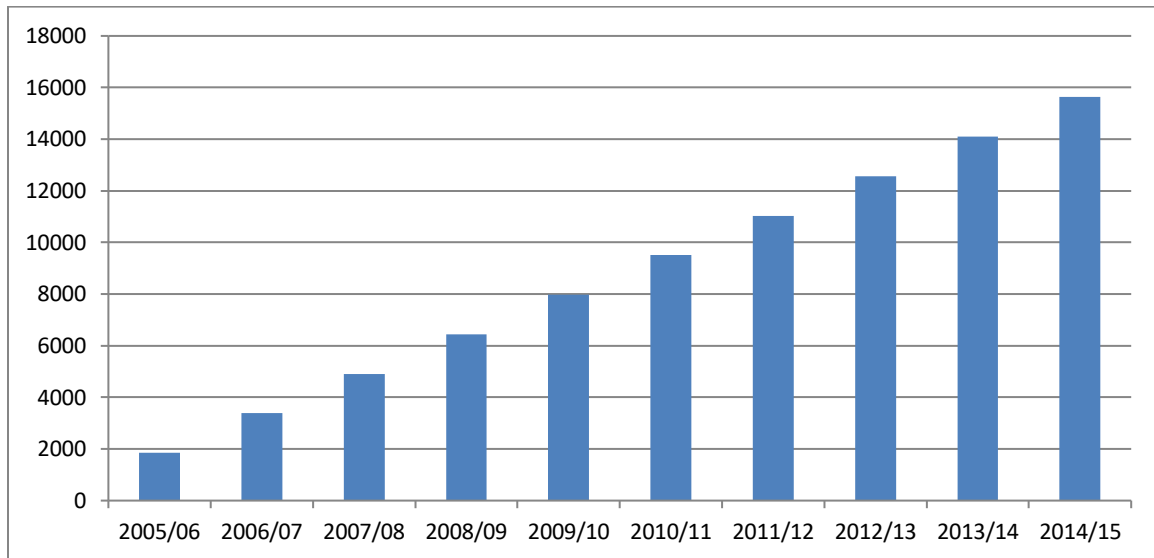
(Rs. In Lakh)

Year	Trend Value
2005/06	1847.6
2006/07	3379.1
2007/08	4910.6
2008/09	6442.1
2009/10	7973.6
2011/12	11036.6
2012/13	12568.1
2013/14	14099.6
2014/15	15631.1

(The details for the calculation is given Appendix-VIII)

The above table shows the trend of net profit earned by EBL. The bank has earned higher amount of net profit every year. This signifies that EBL profit trend is always increasing trend which is good sign for EBL. The management committee along with management techniques and better performance, services has surely contributing to the increment of profit by the bank. According to that trend it can be said that the net profit of EBL is always increasing which shows EBL performance is very good provide different services. This can also be explained with the help of following diagram.

Figure 4.17
Trend Value of Net Profit



From the above diagram, it is clear that the trend line of net profit of EBL is always increasing every year. The EBL profit line Improving upward fast pace which suggests that the bank has been able to earn enough profit. This is a good sign for EBL since net profit is not fluctuating so much in recent year. It helps in maintaining good position of EBL in the banking sector. Thus, it can be said that the net profit of EBL is at satisfactory level in every years.

4.8 Cash Flow Statement

Cash flow shows the overall flow of funds and sources in one Figure with the help cash flow analysis, researcher can find out the liquidity position of the bank. Following table represents cash flow statement of the bank for last two years, which gives the satisfactory picture of cash inflow to meet the required cash outflow within the bank for the period.

Table 4.26**Cash Flow Statement of Everest Bank Limited**

(Amount in Rs.)

Particulars	2008/09	2009/10
A. Cash Flow From Operating Activities	3695545034	1655253393
1. Cash Receipt	2440224660	3433963614
1.1 Interest Income	2071386385	3024662273
1.2 Commission and Discount Income	202094446	208123481
1.3 Income from foreign exchange Transaction	55861850	55361763
1.4 Recovery from loan written off	-	-
1.5 Other Income	110881979	145816097
2. Cash Payments	1744322546	2476046094
2.1 Interest Expenses	1002376829	1532618007
2.2 Staff Expenses	163027617	212262121
2.3 Office overhead Expenses	215578404	263355227
2.4 Income tax paid	297471016	378678868
2.5 Other Expenses	65868680	89131871
Cash Flow before change in working capital	695902114	957917520
(Increase)/Decrease of current Assets		
1. (Increase)/Decrease in money at call and short notice	346000000	-
2. (Increase)/Decrease in other short term investment	(697050061)	774630621
3. (Increase)/Decrease in loans, Advance and Bills purchase	(5638672934)	(3748036793)
4. (Increase)/Decrease changes in other assets	(67616369)	(63119067)
Increase/Decrease in Current Liabilities		
1. Increase/(Decrease) in Deposits	9346647711	3609363762
2. Increase/(Decrease) in Certificate Deposits	-	-
3. Increase/(Decrease) in Short term Borrowing	-	-
4. Increase/(Decrease) in other liabilities	(289665427)	124497350
B. Cash Flow From Investing Activities	(240569259)	168669612
1. Purchase of Share and Debenture	(882500)	-
2. Purchase of Fixed Assets	(144259524)	(130957160)
3. Receipt from sales of Fixed Assets	2016538	8378631
4. (Increase)/Decrease in Government Securities	(190996168)	165542063
5. Cash Receipt from sale of Non-Banking Assets	2025555	26514056
6. Interest Income from Long-Term Investment	91372640	97681454

7. Dividend Income	148200	1510568
8. Others	-	-
C. Cash Flow From Financial Activities	34758588	(161997369)
1. Increase/(Decrease) in Long term Borrowing (Bond, Debenture etc.)	312000000	(312000000)
2. Increase/(Decrease) in Share Capital	-	-
3. Increase/(Decrease) in Share Premium	(140000000)	-
4. Dividend paid	(126611886)	(212885683)
5. Interest paid on Loan	(10629526)	(41711686)
6. Increase/(Decrease) in refinance/facilities received from NRB	-	404600000
D. Income and expenses from change in Exchange Rate in Cash and Bank balance.	6664969	(7481796)
E. Current Year's Cash Flow from all activities (A+B+C+D)	3496399332	1654443840
F. Opening Cash and Bank Balances	2667971831	6164371163
G. Closing Cash and Bank Balances	6164371163	7818815003

(Sources: Annual Report of EBL)

The Cash flow table is observed that the cash flow from operating activities was subsequently decreased to Rs. 1655253393 in F/Y 2009/10 from negative cash flow of Rs. 2040291641 in F/Y 2008/09.

The major contributors for operating cash flow were interest income, non-operating income and deposits and that of outflow were interest expenses, staff expenses, office overheads and loan and bills purchased.

The cash flow from investing activities was Rs. (240569259) in F/Y 2008/09 it was increased to positive Rs. 168669612 in F/Y 2009/10. Investment in fixed assets was higher that year. Cash flow from financial activities was Rs. 34758588 in F/Y 2008/09 but it was decreased to negative Rs. 161997369 in F/Y 2009/10. Dividend paid to shareholder was higher that year.

Overall, the cash and bank balance of the bank has been increased from Rs. 6164371163 to Rs. 7818815003. Due to interest income, commission and discount income, sale of fixed assets other income; the bank has increased its cash balance in F/Y 2009/10. This cash flow indicates that bank should maintain its cash balance to fulfill short-term obligations.

4.9 Major Finding of the Study

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

- EBL has followed profit plan at different component.
- EBL performs SWOT analysis before prepare profit plan
- EBL has three types of core planning team to make plan, policy, program and budget.
- The bank is conscious about the human resources due to rapid growth and advent new branches. Develop skills to employee's further advanced courses. Currently there are 568 employees over the 41 branches of EBL and bank has aim to rise up to 70 branches with in the year 3013 A.D.
- The Bank is awarded "Bank of the year 2007 and 2008" by London based Financial Times group is the banker.
- The bank has 86% average contribution of customer deposit in the resources mobilization as per the data F|Y 2005/06 to 2009/10 and uses the other resources of 14% in average.
- EBL is well performing in the deposit collection. Actual figure higher than the budgeted figure.
- The researcher fined that the 100% of achievement of targets in resources other than deposit.

- The status of income generating deployment of loan and advances is in increasing trend over the period. The average ratio of loan and advances is 77.45%.
- The deployment among which LDO hold the highest percentage i.e. 61% in average out of total deployment amount throughout the five years of study period.
- The researcher fined that the 100% of achievement of target in deployment resources like LDO and NLDO.
- The interest holds highest percentage of expenses amount as deposit is the major resources of the bank. It holds the 50% out of total expenditure over the study period .The LOD of EBL is in the range of 2.64% to 4.26%, it means the banks pays the interest 3.14% in average over the period.
- The status of non-interest expenses is in increasing trend. The range of 12% to 29%, it means major activities of EBL are increasing trend.
- The yearly interest income is in increasing trend in amount as per the O/S LDO is also increasing. In the term of average rate of return is fluctuating trend it is ranges of 6.87% to 9.95% the average rate of return over the period is 7.8%.
- The current ratio of EBL has not met 2:1, it means the firm has difficulty in meeting current obligation. If the current ratio is more than 2:1 the company may have an excessive investment in current assets that do not produce satisfied return.
- Debt-Equity ratio shows that the EBL's financial weakness is very poor it has not more internal fund to repay the borrowing capital.
- Interest coverage ratio of EBL ranges between 0.76 to 1.04 times. It means that the bank sufficiently not capable to pay the interest expenses.
- The number of employees increasing every ear likewise the major activities of EBL is increasing trend.

- The rate of return on assets is increasing trend except 1.36% in F|Y 2006/07, it is ranged between 1.36% to 1.98% and range of return of total capital fund is 23.49% to 30.15% over the period.
- EBL is successful to mobilize its fund in proper way in loan and advances. The researcher have find (r) is 0.9971 and P.Er is 0.0017. The figure 'r' shows that there is positive perfect correlation between deposit and Loan and advances. The relation of PE with r is $r > 6pe$, it is significant so the deposit and loan and advances going on same direction.
- EBL is not well performing in the investment sector. The researcher have find (r) is 0.6974 and PE is 0.1547. The figure of 'r' shows that there is negative correlation between deposit and investment. The relation of PE with r is $r < 6PE$, it is no relationship between the total deposit and total investment.
- EBL is capable of earning net profit by mobilizing its total deposit. The researcher have find (r) is 0.9860 and P.Er is 0.0084. The figure 'r' shows that there is positive perfect correlation between deposit and net profit. The relation of PE with r is $r > 6PE$ it is significant so, the deposit and loan and advances going to same direction.
- The trend analysis of deposit and net profit shows the increasing trend thought the study period and the forecasting for next five years has also seen increasing trend.
- Cash flow analysis of the bank shows the sources of cash inflow are adequately met by the bank for the cash outflow.
- Deposit mobilization is the major contributor for cash inflow in the bank.
- Loan and advances is the major cash outflow factor of the bank.

CHAPTER -V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter is focused on the findings and conclusions obtained from the study of “Comprehensive Budgeting in commercial banks: A case study of Everest Bank Limited.” This chapter is comprised of three sections, the first section deals with the summary of the study, second sections draws the conclusion of the study. Lastly, the third section process the suggestions to problem observed on the basis of the findings.

5.1 Summary

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

The economic growth of a country cannot imagine without financial institutions. Commercial bank’s play a vital role as a financial institution, which plays a quite important role of every economy by providing capital for the development of industry trade and business. Commercial bank pools between savers and users thereby raising employment opportunity. Besides the economic contribution commercial banks are also recognizing its social responsibilities by contributed to various social and welfare organization.

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

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

5.2 Conclusion

On the basis of major finding of study, some conclusion has drawn about the EBL. The bank is more conscious about its human resources as they have the policy of skill development programs reward system and other motivation activities. EBL is awarded the bank of the year by London based Financial Times Group's. EBL increasing its internal fund by increasing capital year by year this means, strengthen their capability internally. EBL is able to meet the it's targeted deposit collection, deployment of LDO. The relationship between deposit and loan & advances is positively correlated.

The bank 100% of achievement of target in deposit, deployment resources like LDO and NLDO. The interest holds highest percentage of expenses amount as

deposit is the major resources of the bank. The major income source is interest is in increasing trend every year.

The liquidity position of EBL has poor position bank has not maintained the cash & bank balance to met the current obligations. Debt equity ratio shows that the EBL's financial condition is very poor it has not more internal fund to repay the borrowing capital. The return on assets and return on capital is satisfactory of EBL; it shows the good earning capacity of the bank. Trend analysis of deposit & net profit shows the increasing trend thought the study period and the forecasting for next five years has seen increasing trend. However, the result of the study shows the overall performance of EBL is Satisfactory and progressive.

5.3 Recommendations

This researcher would like to provide some suggestion for the better improvement of bank in future. This recommendation based on the study on Comprehensive Budgeting of EBL these are as follows:

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

5. Every business concerns have one another obligation i. e. corporate, social responsibility, so EBL needs more involvement in social activities in the coming days.
6. EBL's major source of resources collection is deposit. Since this is the cost bearing sources the bank is suggest increasing cost free resources too, and reducing the burden of the bank.
7. Branch monitoring and controlling mechanism should be made at the regional level also in order to ensure the better functioning of the branch offices located at such locations, which are far from the head office.
8. Marketing department must be well trained about the competitors.
9. EBL invest in LDO 61% out of total available resources. The over come from the situation it is recommended to follow liberal lending policy, invest more in secured loan and advances, and maintain stability on the investment policy.
10. The bank should be mechanism made for the purpose of achieve mission, vision and goal.
11. Expenses grow as the volume of activities increases, so it cannot be avoided but can be controlled. The bank can minimize those expenses not related for income generating activities. Therefore, the bank enhances its profitability.
12. People in rural area of Nepal still out of banking services so EBL is suggested to take bold steps to expand and upgrade its network to reach such area with their products and services.
13. Commercial banks are the profit motive banks: they cannot keep their eyes closed from profit. They should be careful in increasing profit actually to maintain the confidence of shareholder's depositors and their customer. So, it is strongly recommended to utilize its risky assets a shareholders fund to gain highest profit margin.
14. The "Global Economic Crisis 2008" started from banking sector of USA this crisis may affects to Nepalese financial sectors too so the EBL suggested to make some policy to be safe from this crisis.

15. As NRB's publications are the major sources of data and information regarding this topic, untimely and late publication makes the researcher wait long and even individual banks do not put available information regarding interest rate structure on their published report. So, NRB and even individual joint venture banks are suggested to publish all necessary publication in time and in their publications respectively for the convenience of researcher and other interested people.
16. The government before issuing license for the commercial banks should make a market study for the background and reputation of the people establishing a bank. This will help in avoiding the corrupt banking in the country and existing commercial banks will get benefit from these policies because they do not have to face false competition policies launched by the corrupt banks.
17. Lastly, the financial sector has become full competitive especially in the JVBs. Therefore, the banks should improve and change their servicing and operational behavior and should invite modern technologies accord to the situation. For this purpose, a research department should be built, keeping skilled and efficient workers. It helps to analyze market of the banks from different dimensions. It also helps in improving management, operation and investment policy.

The size of Nepali banking market is increasing day by day. The increase in number of financial institutions indicates to increasing competition in financial market. The monitor with proper regulation this even more, the government had to bring new strategies. The central bank of Nepal (NRB) should make some policies toward the banking sector to comfort and able to complete with this ever increasing financial institutions.

The researcher report is concluded with the above-mentioned major findings, summary, conclusion and recommendations.

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APPENDICES

Appendix – I Calculation of other Resources

(Rs. In lakh)

Items	Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
Shareholder's Fund	9628	12015	19212	12036	27591
Other Liabilities	12288	21634	14490	13632	15868
Total	21916	33649	33702	35668	43459

Appendix - II Calculation of Total Resources Deployment in other Sector (NLDO)

(Rs. In Lakh)

Items	Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
Cash & Bank Balance	15529	23913	26679	61644	78188
Investment	42005	49843	50596	59485	50083
Money received in call	669	-	3460	-	-
Other Assets	3375	3928	7366	9192	9993
Total	61578	77684	88101	130321	138264

Appendix – III Calculation of Current Assets & Current Liabilities

Current Assets = Cash & Bank + Creditors + Money at Call

Current Liabilities = Deposits + Other Liabilities

Year	Current Assets			Total	Current Liabilities		Total
	Cash & Bank	Creditors	Money at Call		Deposits	Other Liabilities	
2005/06	15529	101362	669	117560	138024	12288	150312
2006/07	23913	140827	0	164740	181862	21634	203496
2007/08	26679	188364	3460	218503	239763	14490	254253
2008/09	61644	244696	0	306340	333229	13632	346861
2009/10	78188	281564	0	359752	369323	15868	385191

Appendix – IV
Calculation of Correlation between Deposit and Loans & Advances
(Rs. In Lakh)

F/Y	Deposit (X) Rs.	252440.2 dx=x-	ax ²	Loan & Advances (Y)	dy = y- 191363.2	dy ²	dx * dy
2005/06	138024	-14416.2	13091066822.44	101362	-90001.2	8100216001	10297595299.45
2006/07	181862	-70578.2	4981282315.24	140827	-50536.2	2553907510	3566754030.84
2007/08	239763	-12677.2	160711399.84	188364	-2999.2	8995200.64	38021458.24
2008/09	33329	80788.8	6526830205.44	244699	53335.8	2844707562	4308935279.04
2009/10	369323	116882.8	13661588935.84	281564	90200.8	8136184321	10542922066.2
Total	∑X = 1262201	∑dx = 0	∑dx ² = 38421479678.8	∑Y = 956816	∑dy = 0	∑dy ² = 21644010594.64	∑dx * dy = 2875422233.73

$$X \text{ Mean} = 252440.20$$

$$Y \text{ mean} = 191363.2$$

Now, we have N = 5

$$\sum dx = 0$$

$$\sum dx^2 = 384214796788$$

$$\sum dy = 0$$

$$\sum dy^2 = 21644010594.64$$

$$\sum d * dy = 28754228133.73$$

Correlation of Coefficient can be calculated by following formula.

$$r = \frac{N \sum dx * dy - (\sum dx) (\sum dy)}{\sqrt{[N \sum dx^2 - (\sum dx)^2] [N \sum dy^2 - (\sum dy)^2]}}$$

$$= \frac{[5 \times 28754228133.73] - [-0] [0]}{\sqrt{[5 \times 38421479678.8 - (0)^2] [5 \times 21644010594.64 - (0)^2]}}$$

$$= (0.9971)^2$$

$$r^2 = 0.9942$$

$$P.Er = 0.6745 \times 1 - r^2 / \sqrt{N}$$

$$= 0.6745 \times 1 - 0.9942 / \sqrt{5}$$

$$= 0.0017$$

$$6 P.Er = 6 \times 0.0017$$

$$= 0.0105$$

Appendix – V
Calculation of Correlation between Deposits & Total Investment

(Rs. In Lakh)

F Y	Deposti (X) (Rs.)	Dx = X- 252440.20	dx ²	Total Investment (Y)	dy = y- 50408.8	dy ²	dx X dy
2005/06	138024	-114416.2	13091066822.40	42013	-8395.8	70489457.64	960615531.96
2006/07	181862	-70578.5	498128215.24	49851	-557.8	311140.84	39368519.96
2007/08	239763	-12677.2	160711399.84	50612	203.2	41290.24	-2576007.04
2008/09	333229	80788.8	6526830205.44	59485	9076.2	82377406.44	733255306.56
2009/10	369323	116882.8	13661588935.84	50083	-325.8	106145.64	-38080416.24
Total	Σx = 1262201	Σdx =	Σdx ² = 38421479678.8	Σy = 252044	Σdy = 0	Σdy ² = 153325440.8	Σdx * dy = 1692582935.2

$$x \text{ mean} = 252440.2$$

$$y \text{ mean} = 50408.8$$

Now, We have N = 5

$$\sum dx = 0$$

$$\sum dx^2 = 38421479678.8$$

$$\sum dy = 0$$

$$\sum dy^2 = 153325440.8$$

$$\sum dx * dy = 1692582935.2$$

Correlation of coefficient can be calculated by following formula

$$r = \frac{N \sum dx * dy - (\sum dx) (\sum dy)}{\sqrt{[N \sum dx^2 - (\sum dx)^2][N \sum dy^2 - (\sum dy)^2]}}$$

$$= \frac{5 \times 1692582935.2 - 0 \times 0}{\sqrt{[5 \times 3842147968.8 - (0)^2][5 \times 153325440.8 - (0)^2]}}$$

$$r = 0.6974$$

$$r^2 = (0.6974)^2$$

$$r^2 = 0.4864$$

$$P.Er = 0.6745 \times \frac{1-r^2}{\sqrt{5}}$$

$$= 0.2293$$

$$6 P.Er = 6 \times 0.1547$$

$$= 0.9282$$

Appendix – VI
Calculation of Correlation between Deposit & Net Profit

(Rs. In Lakh)

F/Y	Deposit (X) (Rs.)	dx = x - 252440.2	dx ²	Net Profit (Y) (Rs.)	dy = y - 4910.6	dy ²	dx * dy
2005/06	138024	-114416.2	13091066822.44	2372	-2538.6	6444489.96	290456965.3
2006/07	181862	-70578.2	4981282315.24	2964	-1946.6	3789254.56	137387524.10
2007/08	239763	-12677.2	160711399.84	4512	-398.6	158881.96	5053131.92
2008/09	333229	80788.8	65268305205.44	6387	1476.4	2179756.96	119276584.3
2009/10	369323	116882.81	13661588935.84	8318	3407.4	11610374.76	398266452.7
Total	∑x = 126220	∑dx = 0	∑dx ² = 38421479678.8	∑y = 24553	∑dy = 0	∑dy ² = 24182755.203	∑dx * dy = 950440658.32

$$x \text{ mean} = 252440.2$$

$$y \text{ mean} = 4910.6$$

Now, we have

$$\sum dx = 0$$

$$\sum dx^2 = 38421479678.8$$

$$\sum dy = 0$$

$$\sum dy^2 = 24182755.203$$

$$\sum dx * dy = 950440658.32$$

Correlation of coefficient can be calculated by following formula.

$$r = \frac{N\sum dx * dy - (\sum dx)(\sum dy)}{\sqrt{[N\sum dx^2 - (\sum dx)^2][N\sum dy^2 - (\sum dy)^2]}}$$

$$= \frac{5 \times 950440658.32 - [(0)(0)]}{\sqrt{[5 \times 3842147968.8 - (0)^2][5 \times 24182755.203 - (0)^2]}}$$

$$r = 0.9860$$

$$r^2 = 0.9722$$

$$P.Er = 0.6745 \times \frac{1-r^2}{\sqrt{N}}$$

$$= 0.6745 \times \frac{1-0.9722}{\sqrt{5}}$$

$$= 0.0084$$

$$6.P.Er = 6 \times 0.0084$$

$$= 0.0504$$

APPENDIX – VII
The Trend Value of Total Deposit

(Rs. In Lakh)

Year (t)	Total Deposit (y) (in Rs.)	X = [t-2007/08]	X ²	X * Y	YC = a + bx
2005/06	138024	-2	4	(246047)	129647.2
2006/07	181862	-1	1	(181862)	191043.7
2007/08	239763	0	0	0	252440.2
2008/09	333229	1	1	333229	313836.7
2009/10	369323	2	4	738646	375233.2
Total	∑y = 1262201	∑x = 0	∑X ² = 0	∑xy = 613965	

$$a = \sum y / n = 1262201 / 5 = 252440.2$$

$$b = \sum xy / \sum x^2 = 613965 / 10 = 61396.5$$

Now,

Straight line trend of total Deposit

$$Y_c = a + bx = 252440.2 + 61396.5x$$

Year (t)	X = [t-2007/08]	Yc = a + bx
2010/11	3	436629.7
2011/12	4	498026.2
2012/13	5	559422.7
2013/14	6	650819.2
2014/15	7	682215.7

Appendix – VIII
The Trend Value of Net Profit

Year (t)	Total Net Profit (y) (in Rs.)	X = [t-2007/08]	X ²	xy	YC = a + bx
2005/06	2372	-2	4	(4744)	1847.6
2006/07	2964	-1	1	(2964)	3379.1
2007/08	4512	0	0	0	4910.6
2008/09	6387	1	1	6387	6442.1
2009/10	8318	2	4	16636	7973.6
Total	$\sum y = 24553$	$\sum x = 0$	$\sum X^2 = 10$	$\sum xy = 15315$	

$$a = \sum y / n = 24553 / 5 = 4910.6$$

$$b = \sum xy / \sum x^2 = 15315 / 10 = 1531.5$$

Now,

Straight line trend of total Deposit

$$Y_c = a + bx = 4910.6 + 1531.5x$$

Year (t)	X = [t-2007/08]	Yc = a + bx
2010/11	3	9505.1
2011/12	4	11036.6
2012/13	5	12568.1
2013/14	6	14099.6
2014/15	7	15631.1

Appendix – IX
Balance Sheet of EBL
Year end Ashad

(Amount in Rs.)

S.No.	Capital and Liabilities	2008/09	2009/10
1.	Share Capital	1030467300	1279607490
2.	Reserve and Fund	1173157755	1479530365
3.	Debentures and Bonds	300000000	300000000
4.	Outstanding Loan and Advance	312000000	404600000
5.	Deposits	33322946246	36932310008
6.	Bills payable	148655592	145514679
7.	Proposed Dividend	218080345	276252862
8.	Income Tax liability	20522280	(1136458)
9.	Other liabilities	391019136	566081795
Total Capital and Liabilities		36916848654	41382760711
S.No.	Assets		
1.	Cash Balance	944695793	1091500407
2.	Balance with Nepal Rastra Bank	4787163541	5625113849
3.	Balance with Banks/Financial Institution	432511829	1102200747
4.	Money at call and Short Notice	-	-
5.	Investments	5948480273	5008307589
6.	Loan Advances and Bills purchase	23884673616	27556356032
7.	Fixed Assets	427157451	463094391
8.	Non-Banking Assets	-	-
9.	Other Assets	492166151	536187696
Total Assets		36916848654	41382760711

Appendix – X
Profit and Loss Account of EBL
Year end Ashad

(Amount in Rs.)

S.NO.	Particulars	2008/09	2009/10
1.	Interest Income	2186814992	3102451484
2.	Interest Expenses	1012874353	1572790306
Net Interest Income		1173940639	1529661178
3.	Commission and Discount	202094446	208123481
4.	Other Operating Income	106403694	142311427
5.	Exchange Fluctuating Income	62526819	47879967
Total Operating Income		1544965598	1927976053
6.	Staff Expenses	186919870	226364009
7.	Other Overhead Expenses	292010522	352511231
8.	Exchange Fluctuating Loss	-	-
Operating Profit Before Provision for possible loss		1066035206	1349100813
9.	Provision for possible loss	(93084880)	(77010625)
Operating Profit		972950326	1272090188
10.	Non-Operating Income/Loss	5005256	12338972
11.	Loan Loss Provision written Back	8044170	83553461
Profit from Regular activities		985999752	1367982621
12.	Profit/Loss from Extra-ordinary Activities	(5549170)	(61192476)
Net Profit after considering all Activities		980450582	1306790145
13.	Staff Bonus Provision	89131871	118799104
14.	Tax Provision		
	• This Year	276864301	357020130
	• Previous Year	-	-
	Deferred tax for this year	(24278347)	(794721)
Net Profit /Loss		638732757	831765632