

**COST VOLUME PROFIT ANALYSIS OF HIMALAYAN  
BANK LIMITED**

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## **INTRODUCTION**

### **General Background**

Nepal is a landlocked country surrounded by mountains and hills geographically. Nepal is divided into three regions on the basis of physical features, i.e. Himalayan region covers 15% area with 7.39% population and hilly region covers 68% area with 44.5% population and Terai region covers 17% area with 44.3% population. Population of Himalayan and hilly region is decreasing trend and Terai region population is increasing trend. Due to internal conflict and security, lack of physical infrastructure, education transportation, market, health as well as scarcity of agricultural land, 14.2% population stay at urban area and remaining at remote area. Literacy rate above 6 years is 54.1% in Nepal. 79.91% population engaged in agriculture and 20.09% population engaged in industrial sector.

Nepal has a dualistic economy and it is quite dynamic with favorable economic indicators, viz stable prices strong balance of payment position and average annual economic growth of more than 4% during the decade of 1990's. These descriptions however hide the fact that Nepal is a lower developed country (LDC) with widespread poverty and a gross national per capita income of US\$ 240 in FY 2007/08 and US\$ 311 in FY 2008/09 with the country ranking 136 out of 177 countries in the United Nations Development Program's Human Development Index.

-World Bank Report, 2010

### **Concept of Banking**

A bank is a financial or business institution, which was established by law. It deals with money. A bank takes deposits from general people, joint stock companies, government corporations etc. Similarly, the bank grants

loan to the needy party for this service it takes interest and appropriate mortgage.

In Thomson's dictionary of banking Italian word "Banco" a bench. The early bankers the Jews in Lombardy transact their business at benches in the market place. One of the earliest Italian bank the bank of Venice was originated the word "Monte" for the management of a public loan. German was master of a great part of Italy and the word bank is derived from German word "Back" which means to joint stock fund and terms word "Bank" came to used as its equivalent "Monte" and was established in to banco and the loans were came in different "Monti" or "Banchi". Hence "Back" in Germany language. "Banco" in Italian,"Banke" in French and "Bank" in England were used.

Despite strong criticism from the church regarding charging interest modern banking sowed its seed in the medieval Italy. Bank of Venice, set up in 1157 in Venice, Italy is regarding as the first modern Bank subsequently, Bank of Barcelona (1401) and Bank of Genoa (1407) were established. The Lombard's migrated to England and other parts of Europe from Italy are regarded for their role in the development and expansion of the modern banking. Bank of Amsterdam set up in 1609 was very popular then. The Bank of Hindustan established in 1770 is regarded as the first bank in India. (*Dahal;2002;10*)

In context of Nepal, first time the Nepal bank limited was established in 1994 and the central Bank of Nepal, Nepal Rastra Bank (NRB) was established in 2013.

According to Shorter oxford English dictionary "A bank is an establishment for the custody of money; its essential duty is to pay their draft on it. Its profit arises from its use of the money left unemployed by them."

According to Kent “A bank is an organization whose principal operations are concerned with the accumulation of the temporarily idle money of the general public for the purpose of advancing to other for expenditure.”

According to U.S. Law “Any institution offering deposits subject to withdrawal on demand and making loans of a commercial or business nature is a bank.’

According to G.S. Crowther “A bank is an institution which collects money from those who have in spare or who are saving it out of their income and lends this out to those who require it.”

Above various definitions of scholars we come to know that bank is a financial or business institution, which accept deposit, payment of cheque, granting loan, remittance, bank guarantee, and miscellaneous services to people.

### **Developing of Banking Sectors in Nepal**

In Nepalese context, our history of banking sector is rather slower evaluation. Even now banking sectors is still in the evolutionary phase. In comparison with other developing and developed country, the institutional development in banking system of Nepal is far behind. Nepal had to wait for a long time to come to this present banking position. The origin of bank in Nepal and its beginning of growth is controversial stage wise developing of banking can be presented as follows:

### **The First Phase of Banking Development**

Banking is concerned with debt, we may go back in the Nepalese history, a merchant named Shankhadhar had started the “New year” Nepal Sambat after freeing all the people of Kathmandu from the debt. This record proves the existence of money lending function at that time. King Jayasthiti Malla had given the responsibility to a caste of society called

“Tankadhari” while he had given the name of the castes their profession for the purpose of transaction of money in the society.

In 1933 B.S. Tejarath Adda was established by government. It is used to provide loans to government officials and the people against deposit of gold and silver. It had also extended its branches outside Kathmandu valley for giving loan. But this office had no right to accept deposit of public and it had no characteristics of modern banks. The establishment of this institution marked the beginning of organized financial institution of Nepal. After having concluded a treaty with British India in 1980 B.S. Nepal could trade over sea freely for the diversification of trade. As a result in 1993 (1936) the draft of the company act and banking act were prepared commercial and industrial sector as well as institutional banking system had been started together at a time in Nepal.

### **The Second Phase of Banking Development**

The second phase of banking development was described with the establishment of the following commercial bank.

- (a) **Nepal Bank Limited:-** Nepal bank limited was established on 30<sup>th</sup> Kartik, 1994 (1938), as a first modern bank of Nepal. Since Aswin 1<sup>st</sup> 2002, the notes of 5, 10 and 100 were brought into use from Sadar Mulukikhana of his majesty government.
- (b) **Nepal Rastra Bank(Central Bank):-** Nepal Rastra Bank was established in 2013(1957), Baishakh 14<sup>th</sup> in Nepal under Nepal Rastra Bank Act 2012. This bank is the central bank of Nepal started issued notes on 7<sup>th</sup> Falgun 2016 B.S for the first time.
- (c) **Rastriya Banijya Bank:-** This bank was established in government sector in 2022(1966) under Banijya Bank Act 2021 according to the recommendation of the Nepal Rastra bank.

- (d) **Agricultural Development Bank:-** As the agricultural is the basic occupation of major Nepalese. The development of this sector plays prime role in the economy. So separate agriculture development bank was established on 2024 (1968) 7<sup>th</sup> Magh. This is the 1<sup>st</sup> institution in agricultural financing.

### **The Third phase of Banking Development**

For more than two decades, no more banks have been established in the country, after declaring free economy and privatization policy. HMG encouraged the foreign bank for joint venture in Nepal. After that following bank are established.

- (a) **Nabil Bank Limited:** - Nepal Arab Bank Limited (Nabil) is the first bank established in joint venture investment in Nepal. Nabil bank was established under the commercial bank act 2031(1974)and the companies act 2021(1965)
- (b) **Nepal Investment Bank Limited:-**Nepal Indosuez bank limited was second bank which established in joint investment in 2042 B.S. (1985) but now it name is Nepal investment bank limited.
- (c) **Standard Chartered Bank Nepal Limited:-** Another joint investment grindlays bank limited was registered in 2043 (1986), under Commercial Bank Act 2031(1974) and the company act 2021(1965). It has earned a lot of popularity in banking field by opening many branches by managed its function well. Grindlays bank name replaced by the Standard Chartered Bank Nepal Ltd.
- (d) **Himalayan Bank Limited:-**This bank is a joint venture with Habib Bank of Pakistan. It started its operation in 2049 B.S. from establishing period. It has earned a lot of profit.

- (e) **Nepal SBI Bank Limited:-**This bank was established with the joint investment of the state bank of India and Nepal in 2050 (1993), After the establishment of Nepal SBI bank the monetary transaction between Nepal and India have been carried out through this bank.
- (f) **Nepal Bangladesh Bank Limited: -** This bank was formed in joint investment of the international finance investment and commerce, Bangladesh in 2051(1994).
- (g) **Everest Bank Limited:-**This bank entered in to joint venture with Punjab national bank of India (PNB), PNB holds 20% equity stake in the bank. It was opened in 2051(1994) under commercial bank act 2031(1974) and company act 2021(1965).
- (h) **Bank of Kathmandu Limited:-** Bank of Kathmandu was established in a joint venture with Siam Bank of Thailand, It has branch offices. This bank is getting good profit and it has given employment to the Nepalese people.
- (i) **Nepal Credit and Commerce Bank Limited: -** Nepal bank of Ceylon limited was opened in Nepal under the joint investment of Nepalese investors and Srilankan investors have sold their share to the Nepal bankers group of Nepal and its name has been changed to Nepal credit and commerce bank limited.
- (j) **Lumbini Bank Limited:-**It was established in the year 2055B.s in Narayangarh. This is 1<sup>st</sup> regional bank of Nepal.
- (k) **Nepal Industrial and Commercial Bank:-**It was established in 2055B.S. it does not have any joint venture yet. But it has employed senior managers from India to handle its operation.

- (l) **Machhapuchre Bank Limited:-**The bank started its operation from 2056 B.S its head office is established in Pokhara.
- (m) **Kumari Bank Limited:-** It was established in 2056 B.S. its head office is in Kathmandu. This bank introduced internet banking which is a Hi-tech banking system of the world.
- (n) **Laxmi Bank Limited:-**It was established in 2058 B.S its head office situated in Birgunj, Parsa.

### **The Fourth Phase of Banking Development**

After the restoration of democracy in Nepal, there is tremendous development in banking sector; Rural Development bank are formed in Nepal. It is the matter of pleasure to open such banks. Five rural development banks are in operation in Nepal. They are as follows.

- (a) Eastern Rural Development Bank Ltd in Biratnagar.
- (b) Far Western Rural development Bank Ltd. In Dhangadhi.
- (c) Western rural Development Bank Ltd. In Butwal.
- (d) Mid Western Rural Development Bank Ltd in Nepalgunj
- (e) Middle Rural Development Bank ltd. in Janakpur.

The main objectives of these banks is to uplift the living standard of the people by providing them the necessary training and banking services and providing loan without security in group basis as well as personal basis to operate an income generating business.

### **The Fifth Phase of Banking Development**

Before the Nepal Development Bank Act 2052 (1995) was enacted, only the Nepal industrial Development corporation and the Agricultural Development Bank Established. After these act many development bank have been opened in different place of Nepal. They are performing their function according to their objectives. These banks have given benefit to

their owners and they are also helping, the people and the nation for the economic development directly and indirectly, Name of development bank are as follows:

- a) Development Bank in Kathmandu.
- b) The industry Development Bank in Chitwan.
- c) Nirdhan Development Bank in Siddharthanagar.
- d) Malika Development Bank in Kailali.
- e) Rural Micro finance Development center in Ktm.
- f) Siddhartha development bank in Butwal.
- g) Cottage and small industry Development Bank.
- h) Development Credit Bank Ltd.
- i) Dipokra Development Bank Ltd.

#### **Introduction of Himalayan Bank Ltd:**

Himalayan Bank was established in 2049 B.S. by a few distinguished business personalities of Nepal in partnership with Employees provident fund and Habib Bank Limited, One of the largest commercial bank of Pakistan. It is the first bank of Nepal whose maximum share are held by the Nepalese private sector. Besides commercial banking services, the bank also offers industrial and merchant banking services. Bank was established with authorized capital Rs. 120 million, issued capital Rs. 60 million and paid up capital is Rs. 30 million. In which, Nepali founder invested 51 % share, Habib Bank of Pakistan invested 20% share, employee provident fund invested 14% share and remaining 15% share issued for public. Its head office lies in Karmachari Sanchaya Kosh Bhawan, Tridevimarga Thamel.

There are some branch offices of this bank. At present there are five branches inside the Kathmandu valley namely Newroad, Thamel, Pulchowk, Maharajgunj, Suryaninak, (moved from Nagarkot). Beside this it has ten

branches outside kathmandu valley namely Biratnagar, Banepa, Birgunj, Hetauda, Dharan, Pokhara, Tandi, Narayangarh, Butwal and Bhairawa.

HBL is committed to be a Bank where “**The Power to Lead**”

Mission of the HBL is to become the preferred provider of quality financial services in the country. Vision of the bank is to become a leading bank of the country by providing premium products and services and then ensuring attractive and substantial returns for the stakeholders. An objective of the bank is to become the bank of first choice.

### **Product and Services Provided by HBL:**

Himalayan Bank Ltd has been the innovator in introducing many products. To illustrate, the bank has implemented up to the following products now.

**a) Credit Card:-** HBL has been a pioneer in introducing a Nepalese domestic card. Encouraged by the demand for credit cards, the bank has introduced “Himalayan Bank Gold Card”. HBL is also a member of Visa and MasterCard International. The Bank issues all ranges of Visa cards and MasterCard.

**b) Tele Banking:-** To provide more prompt and efficient services to customers, HBL has been pioneering in instituting tele banking services. Dialing a pre-specified telephone number, clients are able to make balance and statement inquiries, to order statements and cheque books, to request instant faxing of statements and to get information on foreign exchange rates, interest rates etc.

Since this service is not available at present it is removed. Once the Globus system is in full-fledged operation, internet services will be gradually introduced to make up for this loss.

**c) Any Branch Banking System (ABBS):-** This service integrated with the core banking system has enabled to make certain operations like

withdrawal and deposit of cash and cheque from any of branches possible. Customers maintaining account with any of branches can walk in to any of the branched convenient to them for operation of the account.

- d) Automatic Teller Machine(ATM):-**ATM established in the premises of main branch, Maharajgunj Branch, New road branch and Patan branch have enabled to extend services for 24 hour, currently customers can utilize ATMs at Maharajgunj branch and New road branch, Patan Branch, Thamel and make withdrawal at any time round the clock. ATMs of the remaining branches are under tasting phase of interfacing with ATM switching software to enable all the ATMs of the bank to allow any branch and international transaction of the customers. To use this facility, the customers must request for an ATM card form any branches.
- e) PSA Deposit:-**The Premium saving account scheme (PSA) provides incentives for accounts with balance Rs 50,000/- PSA holders are served through a special counter in all branches. The participants of this scheme can receive Himalayan Bank Gold card, ATM card along with tele-banking facilities, free of charge. The customers under this scheme are given preference in providing safe deposit lockers. They also enjoy 20% discount in rental charges on small size lockers, interest on all such accounts is calculated on daily balance basis. PSA holder maintaining average balance of over Rs. 1,00,000/- are eligible to participate.

**Statement of the Problem:**

There is no control by the nation in the component of economy ideology, technology, culture and information on globalization. Every country has interdependency among other countries. So, now a day 'world without

borders' concept is famous. It said that today's world has become interdependent in economies, in Communication; in human dreams and so on. Commercial bank like Himalayan bank ltd established due to liberalization policy of government. But it is hard to sustain at unhealthy economic environment, present crisis, insecurity. This type of commercial bank is established and operated for the profit as well as service. Success is not matter of chance, profit does not happen. It is to be planned and managed. CVP analysis is a supplementary tool of planning for profit. Based on annual report published, performance of the HBL can be considered as satisfactory. Good performance is the outcome of good planning, controlling, organizing, and decision making.

### **Objectives of the Study:**

The Primary objective of this study is to identify and evaluate the current practice of CVP analysis and it's effectiveness in commercial banks in Nepal, with special reference to HBL.

The specific objectives of study are:-

- (1) To analyze the relationship of cost-volume-profit as an applicable tools of budgeting.
- (2) To evaluate the profitability, financial position and sensitivity analysis of HBL.
- (3) To analyse the cost, volume and profit of the commercial banks and its impact in profit planning.
- (4) To examine the behavior of the cost.

### **Research Questions**

This study is basically designed to solve the following research questions:

- (1) Is the HBL practicing CVP analysis tools to carryout planning, decision-making and controlling function?

- (2) What are the major difficulties in the application of CVP analysis in Commercial Banks?
- (3) In which area of the bank operation, CVP analysis can be applied to improve the competitiveness and performance of the commercial Banks?
- (4) Which part (i.e. CM, BEP, MOS, etc) of CVP analysis is mostly practiced till now?

### **Significance of the Study**

CVP is one of the powerful management tools to show relationship between the element of profit planning and use for decision making in certain situation. Very few studies have been made in the profit planning and control of commercial bank. CVP analysis is one of the tools of PPC is hardly studied; so this study will be significant in the following ways.

- (1) It highlights the relationship of CVP as applicable tools of budgeting.
- (2) This study would be very useful to the potential managers, accountants, policy makers and researchers, because it deals with practice of CVP analysis of commercial bank as very important tools of PPC.
- (3) It is also useful to interested parties like, loan investors, shareholders and entrepreneur who want to take loan from Bank.
- (4) This study is helpful to the related department of the commercial Bank by providing necessary recommendations.

### **Limitation of the Study**

The study is bounded in certain limitations, which are as follows.

- (1) The study covers the data of seven years only i.e. from FY 2005/06 to FY 2011/12.
- (2) Primary data based on HBL's staff only.
- (3) This study is based on only HBL as a representative of commercial Banks.

- (4) This study is only focused on the cost-volume-profit analysis of HBL.
- (5) Secondary data are also used for result interpretations. So the accuracy of the finding depends on the reliability of the available information.
- (6) The Comprehensibility and accuracy of the study is based on the data available and true response from management of the Bank.

### **Research Gap**

All the previous research which is studying above was done on PPC of manufacturing company. The research have recommended for effective implementation of PPC. Some research was done on CVP analysis as a important tool of PPC and the study has recommended CVP analysis will be used necessarily. But all the study was undertaken at manufacturing sector. Now a days, bank have emphasized for application of CVP analysis an important of PP to improve competitiveness and performance in the time of globalization. So this study have played important role to fulfill the gap between previous study had done and research need to be done on the CVP analysis of bank. This study would be of different value as it focused on specific area of overall profit planning. i.e. CVP analysis of commercial bank of Nepal with reference to Himalayan Bank Limited. It examines the current practices of CVP analysis in the banking sector as important tools of PCC to improve the performance of the bank in the context of Nepal.

### **Major Findings**

From the above analysis of investment, loan and bill purchase, profitability ratio, CVP analysis, PV ratio and BE analysis it can be easily know the HBL is earning higher profit each year. The problem arises in the banking performance and profit due to the tough competition on banking field. So bank need to be adopted the systematic and scientific

techniques in the process of formulating and implementing plan. The finding of this study based on the analysis of data are presented below.

- HBL's contribution margin has fluctuating trend. The CM ratio for FY 2005/06 was 49.85%, 52.53% in FY 2006/07, 58.35% in FY 2007/08, 59.18% in FY 2008/09, 58.41% in FY 2009/10, 55.87% in FY 2010/11 and 57.26% in FY 2011/12 respectively.
- Bank's BEP sale under assumption was Rs. 13,88,47,691 in FY 2005/06; Rs.15,60,24,601 in FY 2006/07; Rs. 23,09,71,928 in FY 2007/08; Rs. 47,16,64,493 in FY 2008/09; Rs. 27,71,46,975 in FY 2009/10; Rs. 39,41,93,694 in FY 2010/11 and Rs. 24,17,93,697 in FY 2011/12.
- BEP sales of Bank under assumption 2 was Rs. 41,78,63,605, Rs. 44,25,51,100, Rs. 48,76,89,364, Rs. 77,81,80,624, Rs. 80,10,32,503, Rs.91,72,34,543, Rs. 93,31,96,345 in FY 2005/06 to 2011/12 respectively. BEP sales covered only small part of actual sales.
- Margin of safety of Bank under assumption 1 (i.e. including sundry income) was Rs.1,11,18,54,924 in FY 2005/06 and Rs. 1,92,47,42,133 in FY 2011/12.
- Margin of safety of Bank under assumption 2 (i.e. excluding sundry income) was Rs. 83,28,39,010 in FY 2005/06 and Rs. 1,23,33,39,485 in FY 2011/12.
- Margin of safety is very high than BEP sales. It shows well performance of Bank.
- Bank's net profit margin ratio lies between 16% to 24% range. It is higher in latest year.

- Operating ratio is fluctuating trend and it is declining in latest year shows well performance of Bank. There are more gap existing between actual sales and operating expenses.
- Net profit to total assets ratio is fluctuating trend.
- Higher passive loan is worst condition in the Bank performance Bank enables to decline its passive loan to total loan ratio gradually. It is good symbol for Bank.

### **Summary**

A comprehensive profit planning and controlling is a systematic and formalized approach for stating and communicating the firm's expectation and accomplishing management in such a way as to maximize the case of a profit plan and achieve the maximum benefit from the resource available to an organization over the particular span of time. It serves basically as tools for management control. The effective operation of a business concern resulting in to the excess of income over expenditure fully depend up on as to what extent the management. Follow proper planning, effective coordination and dynamic control. Organization can not achieve its goals with out proper planning and implementation. So profit planning is one of the most important mgmt. tools for planning and controlling business operation.

People invest huge amount of money in the business to earn profit, but future is uncertain which create risk and only the good mgmt. can reduce risk CVP analysis is a systematic method and analytical technique for examining the relationship between changes in activity, change in total sales revenue, expenses and net profit which helps manage future costs and profit. CVP analysis is a powerful and helpful tool for managerial decision making, cost control and profit planning in certain situation. The whole picture of profit planning is association with CVP relationship.

CVP analysis is a way of quick answer a number of important questions about profitability of a Bank's service.

The main objectives of the present research study are to examine the practice of CVP analysis and its effectiveness in commercial Bank. So this study is focused the CVP analysis of the commercial Bank. CVP analysis of commercial bank is express by the study of HBL, which Bank is one of the successful modern commercial Bank in Nepal. In this study the secondary data have been used mostly and related other information has collected by informal interview for segregating cost, cost analysis, contribution margin analysis, PV ratio analysis and Break even analysis, profitability ratio. The data are distributed and tabulated whenever necessary.

The study has covered seven years period i.e. FY 2005/06 to FY 2011/12 and divided in five main chapters which consists of (1) Introduction (2) Review of Literature (3) Research methodology (4) Data presentation and analysis (5) Summary, conclusion and Recommendation.

### **Conclusion**

On the basis of the different analysis observation, reached in the following conclusion.

- CVP analysis has no practiced yet.
- All the level of management is not involved in profit planning and decision making of the bank.
- There is no complete and comprehensive budgeting system.
- HBL's lending is in increasing trend.
- Income from interest is increasing trend in later stage of study period.
- HBL's sundry income is in fluctuating rate. HBL is trying to maintain the rate at fixed.
- Margin of safety is very high than BEP sales. It means well performance of Bank.

- Lack of the system of SWOT analysis, Liberalized policy of Government, Skill manpower, good management team, use of computer technology etc, are strength of Bank where as unable to provide service in rural area, market competition, conflict in nation, Industries and business closed down are weakness and threat.

### **Recommendation**

On the basis of this study, Bank should develop, implement and improve the process of CVP analysis for profit planning and control. Nepal has become member of WTO which helps Nepal to enter the globalization foreign Banks may be establish here and create more competition. Application of CVP analysis with advanced profit planning and control tools can help to achieve Bank goal in strong competition. Based on the finding of the research the following recommendation seems to be fruitful to the management of the Bank and other concerned parties.

- The delegation of authority and responsibility should be clear among the different level of management.
- Bank should develop separate planning and control department. The trained and qualified planning experts should be recruit and the entire employee should be well trained.
- BEP analysis should be done while planning.
- Cost should be segregate in to fixed and variable. The effective and scientific method should be used to segregate cost.
- HBL should recruit skilled manpower form the job market by using effective selection process.
- HBL should spent sufficient amount for research and development to carried the new technology and invested new product.
- Bank should be used CVP analysis tools for profit planning.
- HBL should try to reduce it fixed cost.

- HBL should try to erase its passive loan by effective loan lending management.
- HBL should invest its money as a portfolio basis. HBL should increase its investment at share, debenture and bond of successful private company or business which helps to increase profit.
- HBL should increase its investment and loan & Bill purchase to earn higher interest income and to maintain higher increasing rate of interest income.