PROFIT PLANNING AND RISK MANAGEMENT OF NEPALESE DEVELOPMENT BANKS

(With Reference to MBBL and ODBL)

By:

Sabitri Upreti

International College

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RECOMMENDATION

This is to certify that the thesis

Submitted by

Sabitri Upreti

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has been prepared as approved by this department in the prescribed format of faculty of management. This thesis is forwarded for evaluation.

.....…………………...........	.....…………………...........
Mr. Kapil Deb Subedi	Mr. Kapil Deb Subedi
Thesis Supervisor	Chairman, Research Committee

……………....…............

Mr. Bhisma Raj Pathak

Campus Chief

Date:

VIVA-VOCE SHEET

We have conducted the Viva-Voce examination of the

Thesis presented by

Sabitri Upreti

Entitled

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and found the thesis to be the original work of the student and written according to the prescribed format. We recommended the thesis to be accepted as partial fulfillment of the requirement for

Master Degree in Business Studies (MBS)

<u>VIVA-VOCE COMMITTEE</u>

Chairperson, Research Committee: ……………………….

Member (Thesis Advisor): ……………………….

Member (External Expert): ……………………….

Date:

DECLARATION

I hereby declare that the work done in this thesis entitled "Profit Planning and Risk Management of Nepalese Development Banks" submitted to International College, Faculty of Management, Tribhuvan University is my original work. It is done in the form of partial fulfillments of the requirement of the degree of Master of Business Studies (MBS) under the supervision and guidance of Mr. Kapil Deb Subedi, Associate Professor of International College.

Date: ....

Sabitri Upreti
International College

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Date:

Sabitri Upreti

International College

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ABBREVIATIONS

BS	=	Bikram Sambat
CA	=	Current Assets
CETR	=	Capital Employed Turnover Ratio
CL	=	Current Liabilities
CPPC	=	Comprehensive Profit Planning & Control
CV	=	Coefficient of Variation
DDC	=	Dairy Development Corporation
FY	=	Fiscal Year
Govt.	=	Government
i.e.	=	That is
Ltd.	=	Limited
MBBL	=	Muktinath Bikas Bank Limited
NRB	=	Nepal Rastra Bank
ODBL	=	OM Development Bank Limited
PE	=	Probable Error
PPC	=	Profit Planning & Control
SD	=	Standard Deviation
TD	=	Total Deposit
TU	=	Tribhuvan University

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Risk as the volatility of corporation's market value. To be a bit more specific risk is future event (or series of events) with a probability of occurrence and the potential for loss or impact on objectives that can be either positive or negative. In all types of undertaking, there is the potential for events and consequences that constitute opportunities for benefit (upside) or threats to success (downside). This view allows the possibility that risks can be turned into opportunities if managed effectively (Bhandari, 2011).

Profit planning is very important part of any business plan structure for a small or medium business. The goals of small business owners include ensuring that the business makes profits year-over-year, and that it is sustained over a period of time for growth. The business plan includes a forecast that tries to anticipate the business growth and determine the revenue that could be generated in that particular year (Pandey, 2011).

Profit planning and forecasting enables a comparison between projected costs and spends, and the actual costs that your business is incurring. This can help your team decide on improving cost efficiency and closing up the gaps. It also enables better decision-making like which resources to invest in or cut costs from. Proper profit planning will ensure that the business does not spend more than is necessary or end up not investing enough in resources that are required (Kulkarni, 2010).

Profit planning also estimates the number of personnel required the work they generate which has a bearing on the company’s revenue and profits. Planning costs for hiring requirements is also an important part of this.

Profit planning is a crucial business activity that prepares the company for the coming year, helps spread out company resources efficiently and motivates the major stakeholders of the company to strive towards year-on-year growth. Profit planning needs to be an activity that is carried out every year. After the end of the year, there also needs to be an audit that compares the projection to the actual profits.

Profit planning and control is defined as estimation and predetermination of revenues and expenses that estimate how much income will be generated and how it should be spent in order to meet investment and profits requirement. In the case of institutional operations it presents a plan for spending income in a manner that does not result in a loss (Welch, 2010).

1.2 Statement of the Problem

Development banks play vital role in economic growth of a country. As a commercial institution, a development bank must make profit out of its operations for its survival and fulfillment of the responsibilities assigned. A development bank's major activities include mobilization of resources, which involves cost, and profitable deployment of those resources, which generates incomes. The differential interest income over the interest cost, which is popularly called interest margin, can be considered as the 'contribution margin' in the profit of the bank. The other operational expenses form a burden to contribution margin which, the banks are attempting to compensate by other income generated out of non fund based business activities of the bank. This study has been tried to analyze and examine the PPC of development bank taking comparative study of Muktinath Bikas Bank Limited and OM Development Bank Limited. Furthermore the study was tried to answer the following research questions.

i) What is the status of risk position of MBBL and ODBL?

ii) What is the break even analysis of MBBL and ODBL?

iii) What are the relationship between liquidity, deposit, loan and profit of sample development banks?

iv) What is the trend of deposit, loan, assets and net profit of MBBL & ODBL?

1.3 Objectives of the Study

The main objective of this study is to assess the actual and budgeting system of MBBL & ODBL. The others specific objectives of the study are as follows:

i) To analyze the status of risk position of MBBL & ODBL in the study period.

ii) To analyze the break even analysis of MBBL & ODBL.

iii) To examine the relationship between liquidity, deposit, loan and profit of sample development banks.

iv) To examine the trend of deposit, loan, assets and net profit of MBBL & ODBL.

1.4 Significance of the Study

The more healthy banking practice in an economy, the better becomes the economic development. The research study is connected with the profit planning in development banks with comparative study of MBBL & ODBL, with the major objectives of examining the proper applicability of profit planning system in the bank. Profit planning process significantly contributes to improve the profitability as well as the overall financial performance of an organization by the best utilization of resources. Profit planning is the heart of management. It tells us profit is the most important indicator for judging managerial efficiency and do not fast happened for this every organization has to manage its profits. Various functional budgets are the basic tools for proper planning of profit control over them. This study may be useful for managers, investors and other stakeholders and those who want to know PPC in the MBBL & ODBL.

It may also helpful for future researchers as a reference material. Profit planning is the most useful technique for the analysis the profitability and its performance. Hence, this study provides the guideline for the technique of profit planning for investors, management students, researchers and other stakeholders.

1.5 Limitation of the Study

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

i) The study has been focused on profit planning and its application in MBBL & ODBL.

ii) This study has been covered five years data from FY 2013/14 to FY 2017/18 of MBBL & ODBL.

iii) In this study, the samples of MBBL & ODBL are selected among all these development banks. But these may not represent the character of financial institutions.

1.6 Organization of the Study

This study has been divided into five chapters, which includes:

Chapter I – Introduction

The first chapter deals with introduction. This includes background of the study, statement of problems, objectives of the study, significance of the study, limitations of the study and organization of the study.

Chapter II – Review of Literature

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

Chapter III – Research Methodology

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

Chapter IV – Data Presentation & Analysis

The fourth chapter, which is the important chapter of the study where including presentation and analysis of data and major findings.

Chapter V – Summary, Conclusion & Recommendations

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

Bibliography and appendices were attached at the end of the study.

CHAPTER TWO

REVIEW OF LITERATURE

Review of literature is basically a stock taking of available literature in the field of research. It supports the researcher to explore the relevant and true facts for the reporting purpose in the field of study. The researcher has presented the conceptual framework about the development banks, banking practices, the legal and regulatory frame work and profit planning concepts and its applicability in a development banking activities. In this connection, the researcher has reviewed various literatures in the form of books written by various authors, published newspapers, journals, browsing materials from the concerned websites, MBBL and ODBL annual reports in the related subject matters etc.

2.1 Conceptual Review

2.1.1 Concept of Profit Planning

Before explanation profit planning it is necessary to understand about profit and planning. So, these two components are explained separately below.

A) Profit

Profit means a peculiar gain, excess of return over the outlays. Profit does not just occur usually because it is not only the contribution of a single factor of production. Profit plays a great role in measuring utility and allocating it along with maximizing social-economic welfare. Generally profit requires a good deal of managerial capability and managerial talent.

A view of profit state that the entrepreneur is special type of labour and profit is a special form of wages. The entrepreneur earns profit for organizing and co-ordinating the other factor of production land, labour and capital.

Profit is the reward for bearing risks of venturing in business. It is the risk of owing something in hope of selling in later. But all economists do not agree the profit a rise due to risk. For the dynamic manufacturing industries for the most telling concept of profits depicts them as the gains in national income that are generated by the managerial desire for destination through creative innovation (Joel, 2012).

These are after all several different interpretations of the term "Profit". An economist will say that the profit is the reward for entrepreneur-ship for risk taking. A labour leader might say that it is a measure of how efficiently labour has produced and it is provides a base for negotiating a wage increase. An investor will view it as a gauge of the return on his or her money. An internal review agent might regard it as the base of determining incomes taxes. The accountant will define it simply as the excess of a firm's revenue over the expense of producing revenue in a given fiscal period. Profit is a single for the allocation of resource and a yardstick for judging managerial efficiency (Kulkarni, 2010).

B) Planning

Planning is continuous process because conditions do not remain static, conditions change rapidly and therefore plans should be revised and reformulated to adapt to the changed conditions. Planning is a tool of developing and achieving the organizational objectives. "Planning is process of developing enterprise objective and selecting a future courses of action to accomplish them. It includes (a) establishing enterprise objectives (b) developing premises about the environment in which they are to be accomplished. (c) Selecting a course of action for accomplishing the objectives. (d) Initiating activities necessary to translate plans into action. (e) Current re-planning to correct current deficiencies (Hilton, 2009).

Planning is the method of thinking out acts and purpose before hand. It is the determination of action of achieves a desired result. Planning is the basic function of management; it may be defined as the selection from among alternatives of courses for future actions. It is the function by which the manager decides what goals are to be accomplished and how they are to be reached (Welch, 2010).

In conclusion, planning is very necessary things or jobs for every family, marketing and businessmen no one can achieve effective goal without planning. There are two categories of plan these are tactical or short-term plan and strategy or long-term plan.

C) Profit Planning

A profit plan is an advance decision of expected achievement based on the most efficient operating standards in effect or in prospect at the time. It is established, against which actual accomplishment is regularly compared. A plan, which is planned for achieving profit in a certain future period, is called profit plan. Every organizations wants profit to survive long in the market, but profit is not auto formulating component.

Explaining the use of budget and profit plans; they further mention that once developed mangers know that when actual expenses exceed budget limitations, there may be problems. The profit plan tells managers how much money remains to be spent in each expense category. Profit plan are also used to develop a new budgets. Information from the current profit plan, along with actual accounting information, becomes the basic for developing the next fiscal accounting year's budgets (Welch, 2010).

Profit planning is the heart of management. The primary aim of profit planning is to assist in assuring the procurement of the profit planed and to provide a guide for assisting in establishing for financial control policies including fixed assets additions, inventories and the cash position. The adoption of a correctly constructed profit plans provision provides opportunity for a regular and systematic analysis of incurred of anticipated expense, organized future planning fixing of responsibilities and stimulation of effort. In short, it provides a tool for more effective supervision of individuals operations and practical administration business as a whole.

2.1.2 Principles of Profit Planning

The main principles and purposes of profit planning are as follows:

a. To provide of realistic estimated of Income and expenses for a period and of the financial position at the close of the period, detailed by areas of management reflected in the budget.
b. To provide a coordinate plan of action, which is, designed to achieve the estimates reflected in budget.
c. To provide a comparison of actual results with those budgeted and an analysis and interpretation of deviation by area of responsibility to indicate course of corrective action and to lead to improvement in procedures in building future plans.
d. To provide a guide for management decision in adjusting plan and objectives as uncontrollable conditions change.
e. To provide a ready basic for making forecasts during the budget period to guide management in making day to day decisions.

(Welch, 2010)

2.1.3 Fundamental Distinction of Profit Planning

The concept of budgeting was originally established with the function of an accountant. At its origin the function of budgeting was assigned to the accountant. But in modern days budgeting is given much more importance and is regarded as a way of management and in more important sense regarded as basic techniques of decision-making and is given the name "Profit Planning and Control Program."

A well established and a well understood profit planning and control concept lends an organization to ultimate success. But a failure to grasp this concept leads to chaos for a business. So just to understand this concept better, consideration should be given to following points.

A. The mechanism of profit Planning and Control

Mechanism of Profit Planning includes the matter related with design of budget schedules, clerical computation of such schedules and routine computation and check of such schedules.

B. The techniques of profit planning and control

Techniques are special approaches and method of developing information for managerial use in decision-making process. Those approaches like forecasting sales volume, a frequent application operation research, (approaches in resolving the sales – production – inventory problems) break-even analysis, resources determinants (such as discounted cash flow approach) cash flow analysis and variable budget procedures which can be developed and used for managerial decision making process are known as techniques.

C. The Fundamentals of profit Planning and control

The fundamentals are concerned with effective application of the theory at management process. It is applied for desired management orientation; these fundamentals need to be established as a foundation of managerial commitment.

Following are some of the important fundamentals of profit planning and control.

a. Managerial involvement and commitment.
b. Organizational adaptation.
c. Responsibility accounting.
d. Full Communication.
e. Realistic expectation.
f. Timeliness.
g. Flexible application.
h. Behavioural viewpoint.
i. Activity costing.
j. Zero base budgeting.
k. Follow-up.

(Hakansson, 2012)

2.2 An Outline of the Fundamental Concepts of PPC

The fundamental concept of PPC includes underlying activities or task that must be generally carried out to attain maximum usefulness from PPC (Welch, 2010).

These fundamentals have never been fuller codified. An outline of the fundamental concept usually identified with PPC is given below.

a. A management process that includes that includes planning, organization, staffing, leading and controlling.

b. A managerial commitment to effective management participation by all levels in the entity.
c. An organization structure that clearly specifies assignment of management authority and responsibility at all organization levels.
d. A management planning process.
e. A management control process.
f. A continuous and consistent coordination of all the management functions.
g. Continuous feed forward, feedback, follow-up, and re-planning through defined communication channels (both down-ward and upward).
h. A strategic (long-range) profit plan.
i. A tactical (short-range) profit plan.
j. A responsibility accounting system.
k. A continuous use of the exception principles.
l. A behavioural management program.

(Welch, 2010)

2.2.1 Managerial Involvement and Commitment

Managerial support, confidence, participation and performance orientation includes managerial involvement. All level of management specially top level management should engage itself to comprehensive profit planning and control. Involvement in profit planning and control means to understand, to select, to devote ourselves, to support by all its department and to evaluate the performance of the profit planning and control of profit planning and control the direction should flow it in total.

Managerial involvement on comprehensive profit planning and control, program is directly related to the confidence of management and its known ability to influence the future program convincement with the idea of setting goal in advance. Managerial involvement also deals with idea of direct participation of the lower staff on the program. But one should not forget the fact that the idea of "Project owns self" should be totally controlled.

2.2.2 Organizational Adaptation

A success of profit planning and control program rest upon the sound organizational structure and also on clear-cut designation of the authority and responsibilities of all departments of an enterprise. The responsibility of each departmental management should be well clarified. Some time indirect relationship of responsibility also plays a great role in organization. So it is advisable to clarify well coordinate all round responsibility and authority of an between the department.

For easy and effective control some time the organizational structure are divided in to different functional sub units and each sub unit chiefs are assigned with specific responsibilities. These sub-units are known as decision centre or responsibility centre. Some time these responsibility centers are use to be in form of a division or department or a sales district. But in most of the cases these centers are use to be a functional are like.

a. Cost centre: Which is only responsible for controllable costs incurred in the sub units but not responsible for profit or investment.

b. Profit centre: Which is the responsibility centre for cost and revenue and hence profit and

c. investment centre : which is responsible for cost revenue, profit and amount of investment invested on assets

2.2.3 Responsibility Accounting

Planning is done with the help of the historical data supplied by accounting section and control is done by comparing actual data with projected data. So for this reason accounting system of any enterprises should be build around the responsibility structure of organization or around functional sub-units. This is called responsibility accounting. For responsibility accounting system one should have to define responsibilities of the various divisions then the relevant parameters of the cost, revenue and other financial data should be utilized for preparing plan.

If the parameter of cost and revenue used for planning purpose are not used in accounting system are not used for costing purpose. Valuation of the result by comparing it with planned goal will not be effective. So for evaluation purpose and for accounting purpose each of the responsibility centre have to prepare chart accounting parameter to be used for planning purpose and have to supply it with full instruction to respective unit then only the main objective of responsibility accounting can be fulfilled.

2.2.4 Full Communication

Communication can be defined as "an interchange of thought or information to bring about a mutual understanding between two or more parties. Communication is needs for both feed forward and feed back process, which are most important for operation of any organization. Role of communication can be justified in all aspect of management. It is communication either for decision-making or for supervision or for evaluation flow of information must be adequate in all sides.

For comprehensive PPC effective communication means development of well defined objective, specification of goals, development of profit plans and reporting and follows up activities related to performance evaluation for each responsibility centre. To have effective communication for PPC both the parties related with planning activities must have some understanding, responsibilities and goals. Full participation in all matter, well defined down ward flow of information and well-defined reporting system is needed.

2.2.5 Realistic Expectation

PPC must be based upon realist approach or estimation management must use realistic assumption and must not take either irrational optimism or unnecessary conservatism. Perfection on setting goal or objectives of the future sales, production levels, cost, capital expenditure, and cash flow and so on determines the success of profit planning and control program. So for profit planning and control purpose, a realistic approach reared with the time diminution and external, internal environment that will prevail during the time span should be considered. This is called realistic expectation.

For budgeting purpose also realistic expectation is needed, because of both over or under estimation of the budget in one unit use to have negative effect on the other units, which ultimately destroy whole planning of the enterprise.

2.3 Planning Vs Forecasting

Forecasts are indispensable in planning. Forecasts are statement of expected future conditions; definite statements of what will happen are patently impossible. Expectations depend upon the assumptions made. If the assumptions are plan sable the forecast has a better chance of being useful. Fore casting assumptions and techniques very with the king for planning needed.

Forecasting is the prerequisite for planning. Its system must establish mutual relationship among forecasts made by different management areas. There is a high degree of inter-dependence among the forecasts of various divisions or departments, which cannot be ignored if forecasting is to be successful. For example error in sales projections can trigger a series of reactions affecting budget forecasts, operating expenses, cash flows, inventory levels, pricing etc. Similarly; budgeting errors in projecting the amount of money available to each division will affect project, development, and modernization of equipment, hiring of personnel and advertising expenditures. This, in turn, will influence if not determine the level of sales, operating costs and cash flows. Clearly there is a strong inter-dependence among the different forecasting areas in organization (Pandey, 2011).

The distinction between forecasting and planning is not an easy one. Forecasting is our best thinking about what will happen to us in future. In forecasting we define situations and recognize problems and opportunities. In planning we develop our objectives in practical detail and we correspondingly develop schemes of action to achieve these objectives (William, 2009).

A forecasting is a prediction of future events, condition or situation where as plan includes a programme of intended future actions and desired results, forecasting predict the future events in such a way that the planning process can be performed more accurately." A forecast is not a plan; rather it is a statement or a qualified assessment of future conditions about a particular subject (e.g. Sales revenue based) based on one or more explicit assumptions. A forecast should always state the assumptions upon which it is based. A forecast should be viewed as only one input into the development of a sales plan. The management of a company may accept, modify or reject the forecast. On contrast, a sales plan incorporate management decision that are based on forecast, other inputs and management judgments about such related items as sales volume, price, sales efforts production and financing. Another reason for identifying sales forecasting as only one step in sales planning is that sales forecasts are conditional.

Forecasting, may be three types, they are as follows:

2.3.1 Short-term Planning

Short-term planning is that plan which covers one year's time period. The management as a substantial part of long range and short-range plan uses it.

The short-term plan is synonymous with the classical budgetary period of one year. The short range planning is made after a freeze is taken on the consideration of possible alternative course of action. Such courses are outline for the medium range plan, which doesn't concern implementation; its aim is weeding out a plethora of possibilities, which are for the most part long on promised and short on feasible results.

The short-term forecasting is a prediction extending a maximum of two years into the future while it is difficult to desire examples that fit every situation some generalization can be made to indicate the application of short term forecasting. A business firm can adjust more smoothly to an indicated higher or lower volume of sales if plans can be set out reasonably well in advance. The short term forecast of general business conditions often important in deriving a short-term sale forecast is useful in making internal estimated of company operations. Internal estimates of forecasting made by the accounting department in the large enterprises can be integrated with up to date predictions of short-term course of general business. Projections covering inventory positions manufacturing expanses, selling and administrative expenses, grass margin, net earnings and the cash position of the enterprise then reflect the most comprehensive internal and external data. Sales forecasting adds in more effective scheduling of goods in process and inventory requirements. Here, short term forecasting provides might more rationally ordered information and sounder base for decision-making.

2.3.2 Medium Term Planning

The intermediate rage forecasting covers from there to five years. This is one of the least development areas of prediction. Because forecast does not have a advantage of surveys of consumer and business intention nor can be extra plate long-term trends, nor he is a particularly good position to rank the importance of qualitative factors. The surveys of business and consumer spending intentions are of vital assistance in the development of short run predictions. Similarly, the extrapolation of long-term historical trends, if subjected to adequate qualitative analysis, can serve as a basis for estimating economic factors ten to twenty years in future. While the quantitative materials that can be employed in intermediate range forecasting are limited, an appraisal of the three to give year out look may be especially valuable in formulating capital expenditure program and related financial plan for research and product development. The forecaster is forced to rely very heavily upon his judgment. He must isolate from the mass of material facing him these elements in the situation that have most significance in shaping the course of economic events in the half decade lying ahead and this may be difficult indeed. In particular, intermediate forecast must consider the problems of cyclical fluctuation if they are to be meaningful.

Two to three years generally not exceed this period. Medium range planning usually includes a time span of above three years. One valuable purpose for using, it is to establish interim objectives between long-term goals and for use in the development of annual program and budgets. In these case target with specific results and defective time schedules must be developed more details is involved than long range plans but less than for short range plan. While resource allocation is important final approval will only be required for the short range and a consideration of alternatives is still possible.

2.3.3 Long Term Planning

Long term planning five to ten years varying with the enterprise, sometimes extended to ten years. Long range planning is one of the most difficult time span involved in planning as many problems in shot range planning can be traced to the absence of clear sense of direction and the practices which comprehensive long range plan provides.

The purpose of long-range projection is to give a rough picture of future prospects; a picture that has some empirical foundation sought is reasonable statement of the most probable outcome of an explicit combination of assumptions. Some time these assumptions are varied to yield a range of possible results.

2.4 Importance and Limitation of Profit Planning

2.4.1 Importance

Importance of Profit Planning is as follows:

i. It forces early consideration of basic policies.

ii. It requires adequate and sound organization structure that is, there must be definite assignment of responsibility for each function of the enterprise.

iii. It compels all the members of management, from the top to down, to participate in the establishment of goals and plans.

iv. It compels departmental managers to make plans on harmony with the plans of other departments and the entire enterprise.

v. It requires that management put down in the figures what is necessary for satisfactory performance.

vi. It requires adequate and appropriate historical accounting data.

vii. It compels management to plan for the most economical use of the labour, material, and capital.

viii. It instills at all level of management the habit of timely, careful and adequate consideration of the relevant factors before reaching important decisions.

ix. It reduces cost by increasing the span of control because fewer supervisors are needed.

x. It frees executives from many days to day's internal problems through predetermined policies and clear-cut authority relationship. Thus, it provides more executive time for planning and creative thinking.

xi. It tends to remove the cloud of uncertainty that exits in many organizations, especially among lower levels of management, relative to basic policies and enterprise objective.

xii. It pin points efficiency and inefficiency.

xiii. It promotes understanding among members of management of their co-workers problems.

xiv. It forces management to give adequate attention to the effect of general business conditions.

xv. If forces a periodic self-analysis of company.

xvi. It aids in obtaining bank credit, banks commonly require a projection of future operations and cash flows to support large loans.

xvii. It checks progress or lack of progress towards the objectives of the enterprise.

xviii. It forces recognition and corrective active action (including rewards).

xix. It rewards high performance and seeks to correct unfavourable performance.

xx. It forces management to consider expected future trends and conditions.

(Pandey, 2011)

2.4.2 Limitation

Following are the main limitation of profit planning.

i. It is not realistic to write out and distribute our goals, polices and guidelines to all the supervisors.

ii. It is difficult, if not possible, to estimate revenues and expenses in our company realistically.

iii. Our management has not interested in all the estimate and schedules. Our strictly informal system is better and works well.

iv. Budgeting places too great a demand on management time, especially to revise budget constantly. Too much paper work is required.

v. It takes away management flexibility.

vi. It creates all kinds of behavioural problems.

vii. It places the management in a straitjacket.

viii. It adds level of complexity that is not needed.

ix. It is too, costly abide from management time.

x. The managers, supervisors and other employee's rate budget.

(Pandey, 2011)

2.5 Review of Articles

Profit planning efficiency is defined as outcomes of profit planning leading to make clear operation, understand evaluating of job accomplishment systematically and correct direction for investment. Hence, profit planning is used to create organizations goal congruence, support creativity and change circumstances, internal processes, innovation and determine the success or failure of an organization (Hynes, 2008).

Planning effectiveness is defined as the ability in using way the communication appropriate to the situation and time. Hakansson and Lind suggest that organizational employees exchange information through a variety of planning. Planning effectiveness is important to the efficient implementation of profit planning in goals achievement and firm success (Lind, 2012)

Operational controlling competency can be defined as the systematic process of regulating organizational activities to make them consistent or successful with the expectations established in plans, targets, and standards of performance. Also, performance assessment is an essential control mechanism that assists in improving the success of different management practices (Evans, 2009). Moreover, feedback theories from psychology argue that performance information can improve psychological empowerment by providing information about task behavior and performance. Accounting-based profit planning controls are an integral part of the management control systems in organizations (Armstrong and Overton, 2012).

Then, profit planning efficiency positively relates to goal achievement and firm success, the findings indicate that resource allocation efficiency is not related to goal achievement and firm success. Because, the resource allocation efficiency of profit planning efficiency are related to implementation internal and external monitoring, Hence differences between countries and the sample-wide performance effects were restricted to controls concerning manager's participation. The effect will link to the other associations' contingent of industry effect (Hinderson, 2013).

2.6 Review of Unpublished Thesis

The review of literature is a curial aspect of the planning of the study. The much purpose of the literature review is to find out what works have been done in the area of research, problem under the study and what works have been done in the field of the research study being under taken.

Paudel (2013) has conducted a study on sales budget of profit planning and control in manufacturing public enterprises: A case study of Dairy Development Corporation. In this study main objectives were as follows:

a. To analyze the sales budget prepared by DDC.

b. To evaluate the variance between budgeted and actual achievement of DDC
c. To compare the sales with profit of the DDC.
d. To provide the suitable suggestion and recommendations for the improvement of planning system of DDC.

Some Major Findings were:

i. DDC has fulfilled the national demand but sales achievement is below than targeted sales.
ii. DDC is following traditional budgeting approach.
iii. DDC has burden of staff, loan and other expenses which directly influenced the profitability.
iv. Different statistical tools show the positive relationship with actual and budgeted sales.
v. DDC is adopted traditional pricing method to determine the selling price.

Dahal (2014) is conducted a research entitled" Planning process and its impact on profitability " A Case Study of Gorkha Patra Corporation" his objectives and some of major findings were listed below.

Objectives:

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

Some Major Findings were:

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

Thapa (2015) has study on "Profit Planning in Merchandising company: A case study of National Trading Limited" his objectives and major findings were as follows:

Objectives:

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

Some of Major Findings were:

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

Kharel (2016) 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 were as follows:

Objectives:

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

Some of major Findings were:

i. The liquidity position of EBL is comparatively better than that of Nabil and BOK.

ii. In spite of the current ratio is average among the other two banks EBL has

iii. Maintained the cash and bank balance to meet the customers demand.

iv. EBL has invested highest sectors like government securities than BOK and lesser portion than that of Nabil.

v. 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.

vi. EBL has invested the highest portion of total working fund on government securities as compared to Nabil and BOK.

vii. Due to more efficient loan policy, Nabil suffers less from loan loss provision.

viii. BOK has higher investment on shares and debentures to total working fund ratio.

ix. The interest earned to total outside assets and return on total working fund ration of EBL is lowest of all.

x. The return on loan and advances ratio and return on assets of EBL is lowest of all.

xi. The ratio suggests that the earning capacity of the bank's loan and advances is satisfactory.

xii. The total interest paid to working fund ratio is less than the interest earned to total working fund ratio. So it is profitable position as it is getting higher return that is interest cost.

xiii. The degree of risk is average on EBL. The credit risk ratio is higher than the compared banks. However the lowest C.V of credit ratio and average C.V of liquidity risk ratio and capital ratio over the study period provided for the assurance of consistency of the degree of risk.

xiv. 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.

xv. The trend of the total investment, total deposit loan and advances and net profit of EBL shows better position than that of Nabil and BOK.

Tharu (2017) has conducted a research on the topic "Profit planning and control, a case study of Nepal Telecom". This study has tired to present the effectiveness of profit planning system of Nepal Telecom. Data were taken from primary or secondary sources. Study was focused on secondary data. The main objective the study was to examine the effectiveness profit planning system in the NTC and other objectives were as follows.

i. To highlight the NTC in different aspects.

ii. To analyze, examine & interpret the financial position of NTC.

iii. To analyze various functional budgets adopted in NTC.

iv. To suggest the suitable suggestion or recommendation for improving performance.

He has pointed out various finds and recommendation a few of than are as follows.

i. NTC sales achievement meets approximately the sales target in every year. This shows that NTC is planning proper sales budget.

ii. The management of NTC is not success to utilization of their current assets properly since it has more than 4 times than its current liabilities.

iii. Capital expenditure budget is not prepare or realistic basic. All capital expenditure is below than budgeted except heating and lighting capital expenditure.

Saud (2018) has been conducted in the research on "Profit planning of Machhapuchhre Bank Limited". The basic objective of the study is to highlight the current practices of profit plan and its effectiveness in MBL and other specific objectives were as follows.

i. To examine the present profit planning premises adopted by MBL on the basis of budgeting.

ii. To analyse the variance of budgeted and actual achievement.

iii. To sketch the trend of profit and loss.

iv. To analyse the various functional budgets and financial plans formulate and implemented in Machhapuchhre Bank Limited.

Major Finding were as follows:

i. Machhapuchhre Bank Ltd lacks active and organized planning department of undertake innovative products research, lunch and development work.

ii. Advance training to the personnel is lacking to provided best service and to survive for a long term in highly competitive market.

iii. There is lack of systematic profit planning and controlling system.

Wagle (2018) the topic of "A case study of Profit Planning and Control in Nepal Food Corporation". The specific objectives were as follows.

i. To analyze the financial condition of NFC in the study period.

ii. To explorer the trend of profit and loss of Nepal Food Corporation.

iii. To analyse the various budgets and financial plans of Nepal Food Corporation.

This study has pointed out the following major findings were as follows:

i. Nepal Food Corporation is financially very weak and its financial condition is becoming more and more unmanageable.
ii. Nepal Food Corporation doesn't have any long range and medium range forecasts, forecasting mechanism of past experiences and personal judgment of the managers.
iii. Regular financial appraisal is absent. No financial efficiency indicator has been identified.
iv. Though the enterprise has planning division but it has no skilled and expert planner as well as budgeting experts. Budgets are prepared on traditional basis.
v. Poor planning and forecasting of expenses budget leads higher allocation of administrative expenses.
vi. Staff promotion process has been closed and old staffs are not ready to go to hilly area because of the age and security problem.
vii. The operating position of Nepal Food Corporation is not good. The major cause of lower or negative profit is because of high fixed cost i.e. administration costs and cost of sales.

2.7 Research Gap

The main purpose of the research is to analyze, examine and interpret the budgeting techniques. Not only that objective of the research but also to suggest and give good path for the research field. Every researcher thinks about only new thing but without the study of profit plan we cannot do anything to organization. So researcher want to study in the field of profit plan and researcher have to use another same mathematical tool in this way for solve the problems. In the study researcher also submit the study and data of branches of the organization. This study used latest data from FY 2013/14 to FY 2017/18 and take some statistical and financial tools. And this study helps to every profitable field not only profit planning field of the MBBL and ODBL.

CHAPTER THREE

RESEARCH METHODOLOGY

Research methodology covers the wide range of investigation. This study has intense relation with the application of profit planning in development banks with reference to MBBL and ODBL. The research methodology is followed to achieve the basic objectives and goals of this research work. This section deals with the research design, sources of data, data processing procedure, period covered and research variables.

3.1 Research Design

This study has been used descriptive and analytical research design. It is a process of collecting, evaluating and verifying past evidence. A present status of a phenomenon is the cumulative effect of past.

3.2 Population and Sample

There are 33 development banks operating in Nepal in July 2019 (www.nrb.org.np). This study two development banks namely Muktinath Bikas Bank Limited and OM Development Bank Limited have been taken for sample on the topic profit planning and control of this development bank. Convenience sampling methods has been used for this study.

3.3 Sources of Data

The data presented in the study are secondary type. The annual report of the concerned development bank is the major sources of the data for the study. However, besides the annual reports of the subjected banks the following source of data shall also be used in the respective corner of the study.

a. NRB reports

b. Various publications dealing in the subject matter of the study
c. Various articles published in the News papers

Besides the above, any kind of other sources such as assertions, interviews, remarked by the specialist of those are capable improvising valuable data and conclusion, shall be considered in the study.

3.4 Data Collection Procedure

Beside the above stated sources of data, a detailed review of literature has been conducted for the purpose of collecting other relevant data and information. Such data and information are mainly collected from Centre Library and internet. Such data, information, facts and figures have been edited, tabulated and calculated before analysis. Then only, results are concludes and interpretation are made.

3.5 Data Processing and Analysis

The collected data obtained from secondary sources are not in desirable structure to analysis rather than the collected from the primary sources. The data were described by presenting in the line of theoretical basis with using different tools and technique of financial analysis. Similarly, the collected data are presented and arranged in tabular forms, percentage, ratio, statistical tools and accounting tools.

3.6 Tools Used

Data collected from various sources are managed, analysis and presented in proper as well as systematic tables and formats. Such table and formats are explained and interpreted as necessary. The analysis of data is done with the help of financial and statistical tools.

3.6.1 Financial Tools

Keeping in mind to fulfill the objectives of the present study, some selected financial tools are applied to analysis the relevant data. Ratio is the one of the most common and main indicator to evaluate financial performance. Thus the following ratio is used to evaluate financial performance.

i) Loan & Advance to Total Deposit Ratio

Now it is also necessary to analyze whether deposit meets to disbursement and it is significant to analyze the relationship between credit investment and deposit collection. Following formula has been used in this ratio:

$$\text{Loan and Advances to Total Deposit Ratio} = \frac{\text{Loan and Advance}}{\text{Total Deposit}}$$

A) Cost Volume Profit Analysis

CVP analysis helps to determine the minimum sales volume to avoid losses and sales volume at which the profit goal of the firm will be achieved. They are various CVP tools which help to dig out the real financial position of the development bank.

i) Contribution Margin

High contribution margin means high profit and vice-versa. In banking sector sales are known as interest income and variable cost are known as interest expenses. Following formula has been used in this ratio:

Contribution Margin = Sales – Variable Cost

ii) Profit Volume Ratio

PV ratio is relationship between the contribution margin and sales revenue which is an important tool in studying the profitability of a bank. It is written in the form of times. Following formula used in profit volume ratio.

$$\text{P/V Ratio} = \frac{\text{Contribution Margin}}{\text{Sales}}$$

iii) BEP in Terms of Interest Margin

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

BEP (Amount) = BEP(%) $\times$ Interest Income

iv) Margin of Safety

Margin of safety measures the risk of the bank. Larger the margin of safety included the bank is safer from loss margin of safety. Following formula has been used in MOS:

$$Margin\ of\ Safety = \frac{Profit}{P/V\ Ratio}$$

B) Risk and Profitability Ratio

Higher CRR ratio means higher amount of bank fund is tied up in NRB, which means lower investment etc. because it is non interest earning bank balance. Profitability ratios indicate the degree of success in achieving desired profit.

i) Cash Reserve Ratio (CRR)

Cash reserve ratio at the existing 6 percent for commercial banks, 5 percent for development banks and 4 percent for finance companies.

Cash Reserve Ratio = Actual Cash Reserve in Percent – Statutory Ratio

ii) Interest Rate Risk

This ratio indicates the proportion of interest income on total operating income of a bank. The higher the ratio does a bank maintain, the more the dependency of bank on interest income unveil, which indicates higher level of risk to the bank. Following formula is calculated by interest rate risk:

$$Interest\ Rate\ Risk = \frac{Interest\ Income}{Total\ Operating\ Income}$$

iii) Interest Coverage Ratio (ICR)

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

$$Interest\ Coverage\ Ratio = \frac{EBIT}{Interest\ Expenses}$$

iv) Return on Loan and Advance

This ratio enables to evaluate what extent the management has been successful to mobilize the loan & advance in generating profit. Higher ratio represents better utilization of loan. It is calculated by the formula;

$$Return\ on\ Loan\ \&\ Advance = \frac{Net\ Profit}{Loan\ \&\ Advance}$$

v) Return on Equity

This ratio shows the capacity of the bank to utilize its owner’s fund. It helps to judge whether the company has earned satisfactory return for its shareholder or not. Higher ratio represents the sound management and efficient mobilization of owner equity. It is calculated by the formula:

$$Return\ on\ Equity = \frac{Net\ Profit}{SHE}$$

3.6.2 Statistical Tools

The relationship between different variables related to study topic would be drawn out using statistical tools. The tools to be used are as follows,

i) Arithmetic Mean ($\bar{X}$):

Average is statistical constants, which enable us to comprehend in a single effort of the whole. It represents the entire data by a single value. It is calculated as:

$$\overline{X} = \frac{\sum X}{N}$$

Where,

$\overline{X}$ = Arithmetic Mean

N = Numbers of observation

$\sum x$ = Sum of observation

ii) Standard Deviation (S.D.)

The standard deviation is the square root of mean squared deviations from the arithmetic mean and is denoted by S.D. It is used as absolute measure of dispersion or variability. It is calculated as:

$$\sigma = \sqrt{\frac{\sum(X - \overline{X})^2}{N-1}}$$

Where,

σ = Standard Deviation

iii) Coefficient of Variation (C.V.)

The co-efficient of variation (C.V.) is the relative measure based on the standard deviation and is defined as the ratio of the standard deviation to the mean expressed in percentage it is independent of units. Hence, it is a suitable measure for comparing variability of two series with same or different units. A series with smaller C.V. is said to be less variable or more consistent or more homogeneous or more uniform or more stable than the other and vice versa. It is calculated as:

$$C.V = \frac{\sigma}{\overline{X}} \times 100$$

Where,

σ = Standard deviation

$\overline{X}$ = Mean

iv) Correlation Coefficient (r)

Correlation Coefficient is the important tool to analyze the degree of relationship between two or more variables. It is used to describe the degree to which one variable in the linearly related to other variables. It refers the closeness of the relationship between two or more variable. In other words, it is an analysis of covariance between two or more variables.

It is the statistical measure of the relationship. If any, between series of numbers representing data of any kind, from returns to test scores. If two series move in opposite direction, they are positively correlated; if the series move in opposite direction, they are negatively correlated.

The degree of correlation is measured by the correlation coefficient, which ranges from +1 for perfectly correlated series to -1 for perfectly negatively correlated series. Symbolically, correlation coefficient can be expressed as follows:

Correlation Coefficient (Simply, r) = $\frac{n\sum xy - \sum x \sum y}{\sqrt{\left[\left\{n\sum x^2 - \left(\sum x\right)^2\right\}\left\{n\sum y^2 - \left(\sum y\right)^2\right\}\right]}}$

Correlation analysis describes the relationship between variables i.e. positive or negative. It helps to determine the following.

i. A positive or negative relationship exists.

ii. The relationship is significant or insignificant.

iii. Establish cause and effect relation if any.

The statistical tool-correlation analysis is used in the study to measure the relationship between variables in determining within the relationship is significant or not. For the purpose decision making interpretation are based on the following terms.

1. When, r = 1, then is perfect positive correlation.
2. When, r = -1, then is perfect negative correlation.
3. When, r = 0, then is no correlation.
4. When, 'r' lies between 0.7 to 0.999 (-0.7 to -0.999), then is high degree of positive (or negative) correlation.
5. When, 'r' lies between 0.5 to 0.6999 there is moderate degree of correlation.
6. When, 'r' is less than 0.5, there is low degree of correlation.

v) Probable Error (P.E.)

The probable error of the Coefficient of correlation helps in interpreting its value. With the help of probable error, it is possible to determine the reliability of the value of the coefficient in so far as it depends on the conditions of random sampling. The probable error of the coefficient of correlation is obtained as follows:

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

Where,

r = Correlation coefficient N = Number of pairs of observations

If the value of 'r' is less than the probable error, there is no evidence of correlation, i.e., the value of 'r' is not at all significant. Then, if the value of ‘r’ is more than six times of the probable error, the coefficient of correlation is practically certain, i.e. the value of ‘r’ is significant.

vi) Trend Analysis

Trend analysis or Time series analysis enables us to forecast the future behavior of the variables under study, changes in the values of different variables and past behavior of a variable. In the data related to time span, there are three components of time series like secular trend or long term fluctuation, short term or periodic variations and random or irregular fluctuation, in this study, time series of loan disbursement and collection are shown in the figures. The experts to deal with variants, which changes, in value with time are, used time series. Variations of such quantities are analyzed by presenting on the graphs.

$Y = a + bx$

The above trend equation can be calculated using following two normal equations:

$\sum Y = na + b\sum X$……………………… (i)

$\sum XY = a\sum X + b\sum X^2$……………........... (ii)

Where,

Y = Variable

X = Time span

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

This chapter is the heart of the study. It includes the analysis and interpretation of data as stated in research methodology. To find out the strength and weakness of the development banks in terms of profit planning with financial ratio, variable and statistical value have been calculated in this chapter. It is related to the quantity analysis of various financial and statistical tools to study & analyze the profit planning of the development banks on the basis of financial statement.

4.1 Deposit Collection Actual, Budgeted and Achievement

a) Deposit Collection Actual, Budgeted and Achievement of MBBL

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

Table 4.1

Status of Budgeted and Actual Deposit Collection of MBBL

(Rs. in Millions)

Fiscal Year	Actual Deposit		Budgeted Deposit		Achievement %
	Rs.	Change %	Rs.	Change %	
2013/14	5197.89		5093.93		102.04
2014/15	7781.56	49.71	8015.01	57.34	97.09
2015/16	11276.65	44.92	11163.88	39.29	101.01
2016/17	16775.22	48.76	16942.97	51.77	99.01
2017/18	30354.84	80.95	28533.55	68.41	106.38
Mean	**14277.23**		**13949.87**		**101.11**
SD	**9979.49**		**9260.86**		**3.51**
CV	**69.90**		**66.39**		**3.47**

Source: Annual Report of MBBL from the FY 2013/14 to 2017/18

The table 4.1 shows the status of budgeted and actual deposit collection of MBBL. The bank has achieved its objectives of deposit collection in FY 2013/14, FY 2015/16 and FY 2017/18. Percentage change of actual deposit and budgeted deposit is also shown in the above table. The percentage change of highly in the fiscal year 2017/18 of actual deposit i.e. 80.95 percent and highly change in the fiscal year 2017/18 of budgeted deposit i.e. 68.41 percent.

Figure 4.1

Budgeted and Actual Deposit Collection of MBBL

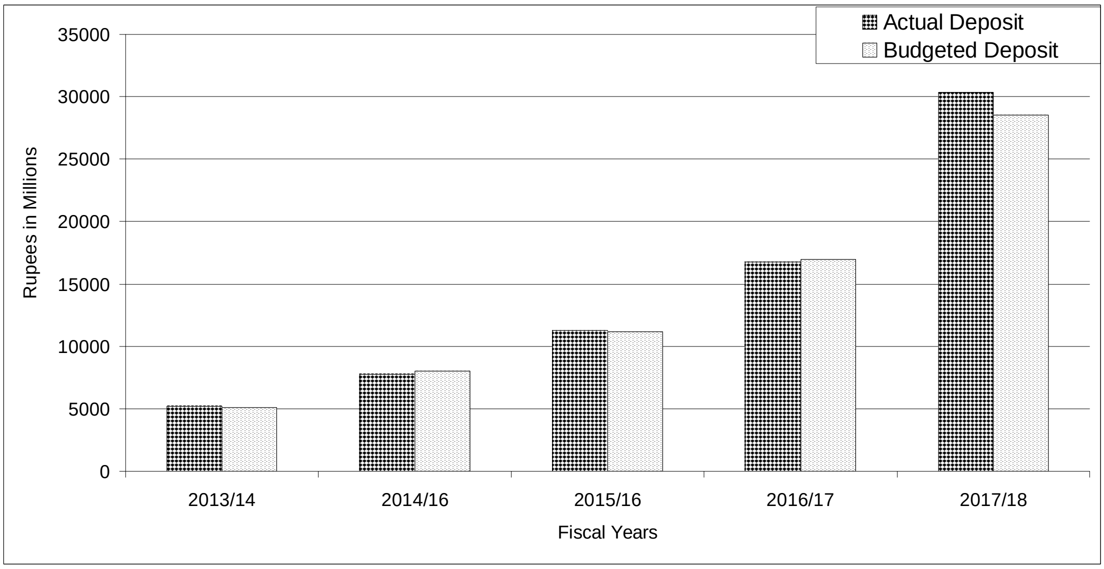


Figure 4.1 shows the achievement range is slightly fluctuating. It ranged between 97.09 percent to 106.38 percent through the five year of study period. MBBL deposit average achievement 101.11 percent, SD is 3.51 and CV is 3.47 percent.

b) Deposit Collection Actual, Budgeted and Achievement of ODBL

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

Table 4.2

Status of Budgeted and Actual Deposit Collection of ODBL

(Rs. in Millions)

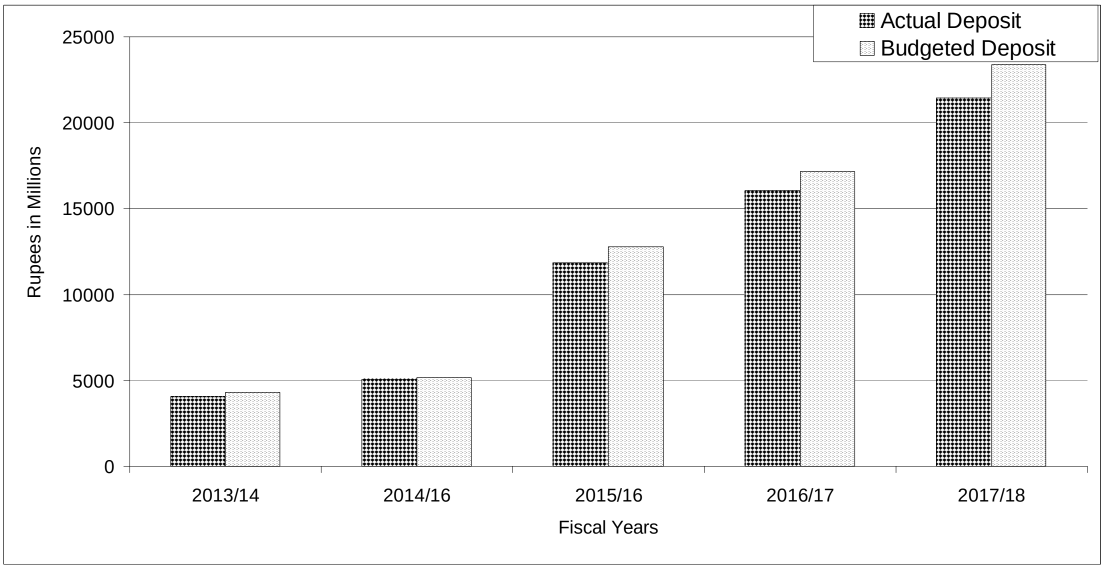
Fiscal Year	Actual Deposit		Budgeted Deposit		Achievement %
	Rs.	Change %	Rs.	Change %	
2013/14	4060.70		4304.34		94.34
2014/15	5067.30	24.79	5168.65	20.08	98.04
2015/16	11853.84	133.93	12802.15	147.69	92.59
2016/17	16061.43	35.50	17185.73	34.24	93.46
2017/18	21455.19	33.58	23386.16	36.08	91.74
Mean	**11699.69**		**12569.40**		**94.03**
SD	**7358.01**		**8084.70**		**2.44**
CV	**62.89**		**64.32**		**2.59**

Source: Annual Report of ODBL from the FY 2013/14 to 2017/18

The table 4.2 shows the status of budgeted and actual deposit collection of ODBL. The bank has not achieved its objectives of deposit collection in every year. The base of preparing the budgets is the actual deposit collection the last year.

Figure 4.2

Budgeted and Actual Deposit Collection of ODBL



Above figure shows the achievement range is fluctuating. It ranged between 91.74 percent to 98.04 percent through the five year of study period. ODBL deposit average achievement 94.03 percent, SD is 2.44 and CV is 2.59 percent. Percentage change of the actual deposit and budgeted deposit of ODBL is also in the fluctuating trend. Percentage change highly in the fiscal year 2015/16 i.e. 133.93 percent of actual deposit and highly change in fiscal year 2015/16 i.e. 147.69 percent of budgeted deposit.

4.2 Lending Actual, Budgeted and Achievement

a) Lending Actual, Budgeted and Achievement of MBBL

In the present study loan a advances represent to local and foreign bills discounted and purchased and loans, cash credit and overdraft in local currency as well as in convertible foreign currency. MBBL prepares the plan for the lending. The budgeted and actual loan and advance of MBBL has presented in table below:

Table 4.3

Status of Budgeted and Actual Loan & Advance of MBBL

(Rs. in Millions)

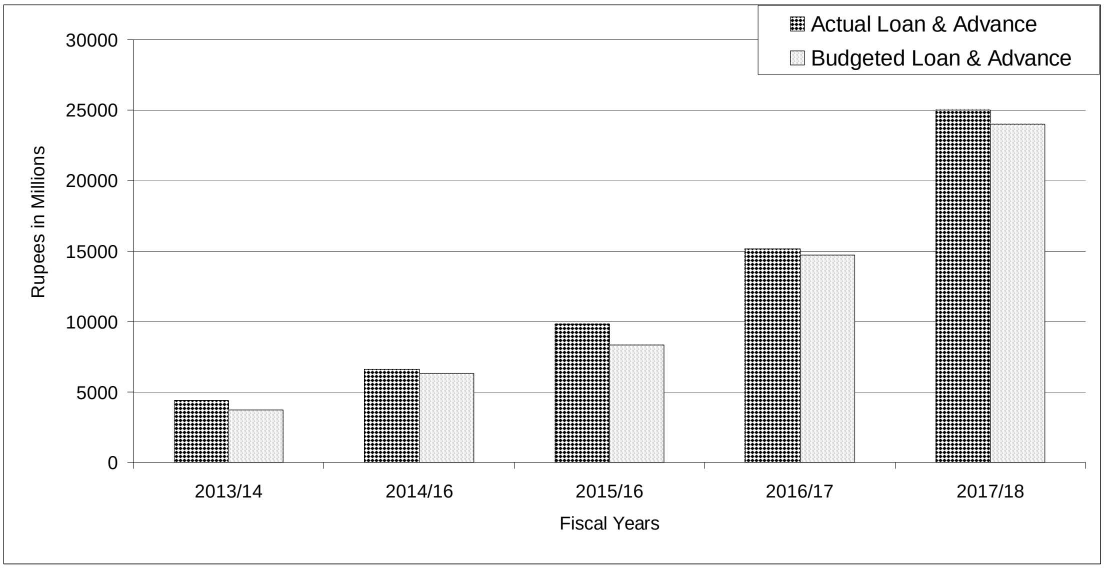
Fiscal Year	Actual Loan & Advance		Budgeted Loan & Advance		Achievement %
	Rs.	Change %	Rs.	Change %	
2013/14	4377.60		3720.96		117.65
2014/15	6625.26	51.34	6294.00	69.15	105.26
2015/16	9798.61	47.90	8328.82	32.33	117.65
2016/17	15159.39	54.71	14704.61	76.55	103.09
2017/18	25003.03	64.93	24002.91	63.23	104.17
Mean	**12192.78**		**11410.26**		**109.56**
SD	**8226.63**		**8127.49**		**7.42**
CV	**67.47**		**71.23**		**6.77**

Source: Annual Report of MBBL from the FY 2013/14 to 2017/18

Table 4.3 shows the high percent of percentage change of actual loan and advances is 64.93 percent in the year 2017/18 and high percent of percentage change of the budgeted loan and advances is 76.55 percent in the year 2016/17. The base of preparing the budgets is the actual lending. The achievement range is fluctuating. It ranged between 103.09 percent to 117.65 percent through the five year of study period and its SD is 7.42 and CV is 6.77 percent.

Figure 4.3

Budgeted and Actual Loan & Advance of MBBL



The above figure shows the status of budgeted and actual loan and advance of MBBL. The bank has around 109.56 percent achieved its objectives of lending target. Percentage change of actual loan and advances and budgeted loan and advances of all year are appeared positive.

b) Lending Actual, Budgeted and Achievement of ODBL

In the present study loan a advances represent to local and foreign bills discounted and purchased and loans, cash credit and overdraft in local currency as well as in convertible foreign currency. ODBL prepares the plan for the lending. The budgeted and actual loan and advance of ODBL has presented in table below:

Table 4.4

Status of Budgeted and Actual Loan & Advance of ODBL

(Rs. in Millions)

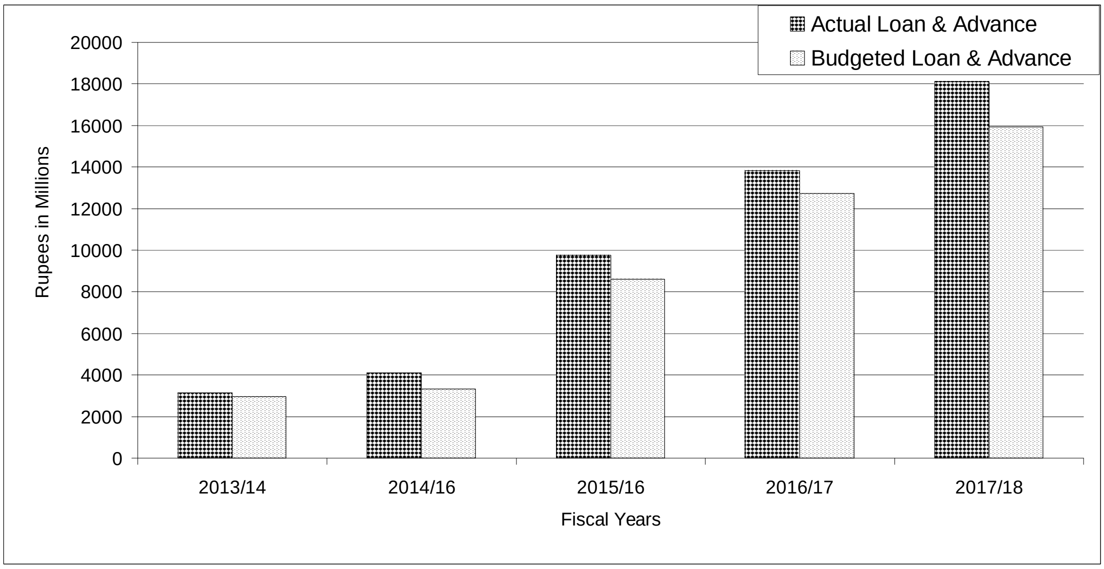
Fiscal Year	Actual Loan & Advance		Budgeted Loan & Advance		Achievement %
	Rs.	Change %	Rs.	Change %	
2013/14	3136.14		2979.33		105.26
2014/15	4107.54	30.97	3327.11	11.67	123.46
2015/16	9767.24	137.79	8595.17	158.34	113.64
2016/17	13840.56	41.70	12733.32	48.14	108.70
2017/18	18095.03	30.74	15923.63	25.05	113.64
Mean	**9789.30**		**8711.71**		**112.94**
SD	**6362.89**		**5702.03**		**6.87**
CV	**65.00**		**65.45**		**6.08**

Source: Annual Report of ODBL from the FY 2013/14 to 2017/18

The table 4.4 shows the status of budgeted and actual loan and advance of ODBL. The bank has around 112.94 percent achieved its objectives of lending target. Percentage change of the actual loan and advances and budgeted loan and advances both are in fluctuating trend. Change percent of actual loan and advances high in the fiscal year 2015/16 and low in the year 2017/18. Likewise change percent of budgeted loan and advances high in the year 2015/16 and low in the year in 2014/15. It ranged between 105.26 percent to 123.46 percent through the five years of study period and its SD is 6.87 and CV is 6.08 percent.

Figure 4.4

Budgeted and Actual Loan & Advance of ODBL



4.3 Loan Disbursement and Deposit Collection

Now it is also necessary to analyze whether deposit meets to disbursement and it is significant to analyze the relationship between credit investment and deposit collection.

Table 4.5
Actual Loan Disbursement and Actual Deposit Collection

Rs. in Millions & Ratio in %

FY	MBBL			ODBL		
	L&A	TD	Ratio	L&A	TD	Ratio
2013/14	4377.60	5197.89	84.22	3136.14	4060.70	77.23
2014/15	6625.26	7781.56	85.14	4107.54	5067.30	81.06
2015/16	9798.61	11276.65	86.89	9767.24	11853.84	82.40
2016/17	15159.39	16775.22	90.37	13840.56	16061.43	86.17
2017/18	25003.03	30354.84	82.37	18095.03	21455.19	84.34
Mean	**12192.78**	**14277.23**	**85.80**	**9789.30**	**11699.69**	**82.24**
SD	**8226.63**	**9979.49**	**3.03**	**6362.89**	**7358.01**	**3.40**
CV	**67.47**	**69.90**	**3.53**	**65.00**	**62.89**	**4.14**

Source: Annual Report of Concerned Bank from FY 2013/14 to 2017/18

Table 4.5 shows that the level of actual loan and actual deposit collection. In average MBBL and ODBL 85.80 percent and 82.24 percent loan disbursement over the study period. So, MBBL is higher than ODBL for loan disbursement. However, disbursement of credit/loan also satisfactory in comparison with deposit in order to find out nature of variability and standard deviation 3.03 and coefficient of variation is 3.53 percent in MBBL and standard deviation 3.40 and coefficient of variation is 4.14 percent in ODBL.

4.4 Cost Volume Profit Analysis

CVP analysis is a systematic method of examines the relationship between change in activities and change in total sales revenue and expenditure and net profit. CVP is powerful tools for decision making in certain situation. The entire field of profit planning and control has become associated with the CVP interrelationships. CVP analysis helps to determine the minimum sales volume to avoid losses and sales volume at which the profit goal of the firm will be achieved. They are various CVP tools which help to dig out the real financial position of the development bank.

4.4.1 Contribution Margin

Contribution margin is the difference between the sales and variable cost (marginal cost) of sales, contribution margin is known as the sum of fixed cost and profit. High contribution margin means high profit and vice-versa. In banking sector sales are known as interest income and variable cost are known as interest expenses.

Table 4.6

Contribution Margin

Rs. in Millions, Ratio in %

FY	MBBL			ODBL		
	Sales	**VC**	**CM**	**Sales**	**VC**	**CM**
2013/14	613.76	286.96	326.80	427.41	247.44	179.97
2014/15	836.24	350.80	485.44	524.66	277.86	246.80
2015/16	1174.80	483.91	690.89	842.10	197.37	644.73
2016/17	1881.95	850.14	1031.81	1588.82	827.87	760.95
2017/18	3100.55	1842.41	1258.14	2411.00	1563.40	847.60
Average	**1521.46**	**762.84**	**758.62**	**1158.80**	**622.79**	**536.01**
SD	**1004.63**	**641.70**	**384.00**	**835.21**	**584.73**	**304.10**
CV	**66.03**	**84.12**	**50.62**	**72.08**	**93.89**	**56.73**

Source: Annual Report of Concerned Bank from FY 2013/14 to 2017/18

Table 4.6 illustrate the contribution margin of MBBL and ODBL. The contribution margin of MBBL and ODBL are increasing trend over the study periods. Comparatively contribution margin of MBBL seems to be on the higher than ODBL. The highest contribution margin of MBBL is 1258.14 millions in FY 2017/18 and lowest contribution margin is 326.80 millions in FY 2013/14. The highest contribution margin of ODBL is 847.60 millions in FY 2017/18 and lowest contribution margin is 179.97 millions in FY 2013/14.

4.4.2 Profit Volume Ratio

PV ratio is relationship between the contribution margin and sales revenue which is an important tool in studying the profitability of a bank. It is written in the form of times. Following table shown in profit volume ratio.

Table 4.7

Profit Volume Raito

Rs. in Millions, Ratio in Times

FY	MBBL			ODBL		
	CM	**Sales**	**P/V Ratio**	**CM**	**Sales**	**P/V Ratio**
2013/14	326.80	613.76	0.53	179.97	427.41	0.42
2014/15	485.44	836.24	0.58	246.80	524.66	0.47
2015/16	690.89	1174.80	0.59	644.73	842.10	0.77
2016/17	1031.81	1881.95	0.55	760.95	1588.82	0.48
2017/18	1258.14	3100.55	0.41	847.60	2411.00	0.35
Average	**758.62**	**1521.46**	**0.53**	**536.01**	**1158.80**	**0.50**
SD	**384.00**	**1004.63**	**0.07**	**304.10**	**835.21**	**0.16**
CV	**50.62**	**66.03**	**13.87**	**56.73**	**72.08**	**31.80**

Source: Annual Report of Concerned Bank from FY 2013/14 to 2017/18

Table 4.7 illustrate the PV ratio of MBBL and ODBL. The PV ratio of MBBL and ODBL are fluctuating trend over the study periods. The PV ratio of MBBL seems to be on the higher than ODBL. The highest PV ratio of MBBL is 0.59 times in FY 2015/16 and lowest PV ratio is 0.41 times in FY 2017/18. The highest PV ratio of ODBL is 0.77 times in FY 2015/16 and lowest PV ratio is 0.35 times in FY 2017/18. The average PV ratio of MBBL and ODBL are 0.53 times and 0.50 times respectively.

4.4.3 Break Even Point Analysis

Break even is a situation where you are neither making money nor losing money but all your costs have been covered. Break-even analysis is useful in studying the relation between the variable cost, fixed cost and revenue. Generally, a company with low fixed costs will have a low break-even point of sales. For an example, a company has a fixed cost of zero will automatically have broken even upon the first sale of its product.

A) BEP in Terms of Interest Margin of MBBL and ODBL

Following table shows the BEP of MBBL and ODBL.

Table 4.8

BEP in Term of Interest Margin of MBBL

Rs. in Millions

FY	Net Burden/ Overhead (A)	Interest Margin (B)	Interest Income (C)	BEP (%) D= A/B	BEP in Rs. (C×D)
2013/14	174.95	326.80	613.76	53.53	32857.19
2014/15	267.80	485.44	836.24	55.17	46132.39
2015/16	329.52	690.89	1174.80	47.70	56032.09
2016/17	544.88	1031.81	1881.95	52.81	99382.34
2017/18	682.61	1258.14	3100.55	54.26	168221.85

Source: Annual Report of MBBL from FY 2013/14 to 2017/18

From the table 4.8 shows the BEP percentage and BEP amount of MBBL in terms of interest margin. The percentage of BEP is in fluctuating trend over the study periods. It means the burden and interest margin growth trend are also fluctuating. So, MBBL is in over the BEP level in terms of interest margin. The range of BEP percentage were 47.70 percent to 55.17 percent over the study periods.

Table 4.9

BEP in Term of Interest Margin of ODBL

Rs. in Millions

FY	Net Burden/ Overhead (A)	Interest Margin (B)	Interest Income (C)	BEP (%) D= A/B	BEP in Rs. (C×D)
2013/14	87.05	179.97	427.41	48.37	20673.47
2014/15	92.44	246.80	524.66	37.46	19651.37
2015/16	348.20	644.73	842.10	54.01	45479.38
2016/17	366.56	760.95	1588.82	48.17	76535.63
2017/18	473.85	847.60	2411.00	55.90	134786.73

Source: Annual Report of ODBL from FY 2013/14 to 2017/18

From the table 4.9 shows the BEP percentage and BEP amount of ODBL in terms of interest margin. The percentage of BEP is in fluctuating trend over the study periods. It means the burden and interest margin growth trend are not increasing in same ratio. So, ODBL is in over the BEP level in terms of interest margin. The range of BEP percentage were 37.46 percent to 55.90 percent over the study periods.

4.4.4 Margin of Safety

The difference between actual sales and the BEP sales is known as margin of safety. Margin of safety measures the risk of the bank. Larger the margin of safety included the bank is safer from loss margin of safety.

Table 4.10

Margin of Safety

Rs. in Millions, Ratio in Times

FY	MBBL			ODBL		
	Profit	**PV Ratio**	**MOS**	**Profit**	**PV Ratio**	**MOS**
2013/14	151.85	0.53	285.19	92.92	0.42	220.68
2014/15	217.64	0.58	374.92	154.36	0.47	328.15
2015/16	361.37	0.59	614.48	296.53	0.77	387.31
2016/17	486.93	0.55	888.13	394.39	0.48	823.46
2017/18	575.53	0.41	1418.33	373.75	0.35	1063.13
Average	**358.66**	**0.53**	**716.21**	**262.39**	**0.50**	**564.54**
SD	**177.59**	**0.07**	**456.93**	**133.59**	**0.16**	**360.96**
CV	**49.51**	**13.87**	**63.80**	**50.91**	**31.80**	**63.94**

Source: Annual Report of Concerned Bank from FY 2013/14 to 2017/18

Table 4.10 illustrate the margin of safety of MBBL and ODBL. The margin of safety of MBBL and ODBL are increasing trend over the study periods. The MOS of MBBL seems to be on the higher than ODBL. The highest margin of safety of MBBL is Rs. 1418.33 in FY 2017/18 and lowest margin of safety is Rs. 285.19 in FY 2013/14. The highest margin of safety of ODBL is Rs. 1063.13 in FY 2017/18 and lowest margin of safety is Rs. 220.68 in FY 2013/14. The average MOS of MBBL and ODBL are Rs. 716.21 and Rs. 564.54 respectively.

4.5 Risk and Profitability Ratio

Cash reserve ratio refers to the portion of total local currency deposit except margin deposit that the commercial banks should maintain in NRB. The local currency deposit of two week ago is considered for CRR calculation. It is a statutory reserve that the bank should have to maintain in NRB current account. Higher CRR ratio means higher amount of bank fund is tied up in NRB, which means lower investment etc. because it is non interest earning bank balance. Profitability ratios indicate the degree of success in achieving desired profit.

4.5.1 Cash Reserve Ratio (CRR)

A provision has been made for all the banking and financial institutions to maintain cash reserve ratio (CRR) at the existing 6 percent for commercial banks, 5 percent for development banks and 4 percent for finance companies.

Table 4.11

Cash Reserve Ratio of MBBL and ODBL

FY	Statutory Ratio	MBBL		ODBL	
		Ratio	Excess/ (Short)	Ratio	Excess/ (Short)
2013/14	5.00	6.64	1.64	4.84	-0.16
2014/15	5.00	7.95	2.95	5.33	0.33
2015/16	5.00	8.49	3.49	5.20	0.20
2016/17	5.50	9.74	4.74	5.06	0.06
2017/18	5.50	5.34	0.34	5.06	0.06
	Mean	**7.63**		**5.10**	
	S.D	**1.70**		**0.18**	
	CV	**22.23**		**3.59**	

Source: Annual Report of Concerned Bank from FY 2013/14 to 2017/18

Table 4.11 shows the cash reserve ratio of MBBL and ODBL from fiscal year 2013/14 to 2017/18. The Cash Reserve Ratio (CRR) indicates the total amount of deposit of development banks in NRB. NRB prescribe CRR for the development banks each year. It is clear that MBBL has maintained the statutory requirement in all the fiscal years of the study period. But, ODBL has not maintained in the FY 2013/14. The average CRR of MBBL is 7.63 percent and standard deviation is 1.70 whereas the average of ODBL is 5.10 percent only and its standard deviation is 0.18. This shows that MBBL has meet the CRR required as per the NRB guidelines and ODBL was unable to meet the required CRR in FY 2013/14. Further, this means MBBL has more liquid funds than ODBL. The more liquid position does the bank maintain, the more likely that the bank can easily met its liabilities that come.

4.5.2 Interest Rate Risk

Interest rate risk refers to the risk of a bank, which arises due to changes in interest rate in the market. It is one of the important indicators of market risk. The changes in interest rate on both lending and deposit are equally risky and profitable for a bank. Increase in interest rate on deposit leads to increase cost of deposit and less profit for a bank and the increase in interest on loan leads to increase in profitability of a bank. This ratio indicates the proportion of interest income on total operating income of a bank. The higher the ratio does a bank maintain, the more the dependency of bank on interest income unveil, which indicates higher level of risk to the bank. The interest income to total operating income of both banks is presented below:

Table 4.12
Interest Rate Risk

Rs. in Millions, Ratio in %

FY	MBBL			ODBL		
	Interest Income	**Total Operating Income**	**Ratio**	**Interest Income**	**Total Operating Income**	**Ratio**
2013/14	613.76	416.29	147.44	427.41	220.81	193.56
2014/15	836.24	588.88	142.01	524.66	292.86	179.15
2015/16	1174.80	853.53	137.64	842.10	511.97	164.48
2016/17	1881.95	1253.25	150.17	1588.82	864.01	183.89
2017/18	3100.55	1664.56	186.27	2411.00	1021.73	235.97
Average	**1521.46**	**955.30**	**152.70**	**1158.80**	**582.28**	**191.41**
SD	**1004.63**	**506.70**	**19.38**	**835.21**	**350.66**	**27.03**
CV	**66.03**	**53.04**	**12.69**	**72.08**	**60.22**	**14.12**

Source: Annual Report of Concerned Bank from FY 2013/14 to 2017/18

Table 4.12 illustrate the interest income to total operating income of MBBL and ODBL. The interest income to total operating income ratio of both banks is fluctuating. Comparatively the ratio of ODBL seems to be on the higher than MBBL. The average ratio of MBBL is 152.70 percent whereas ODBL has the average ratio of 191.41 percent. The standard deviation of MBBL and ODBL is 19.38 and 27.03 with coefficient of variation of 12.69 percent and 14.12 percent respectively. This shows that ODBL has higher deviation of ratios than MBBL.

4.5.3 Interest Coverage Ratio (ICR)

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

Table 4.13

Interest Coverage Ratio of MBBL & ODBL

(Rs. in Millions, Ratio in Times)

FY	MBBL			ODBL		
	EBIT	**Interest Exp.**	**ICR**	**EBIT**	**Interest Exp.**	**ICR**
2013/14	227.29	286.96	0.79	134.44	247.44	0.54
2014/15	330.46	350.80	0.94	200.25	277.86	0.72
2015/16	528.61	483.91	1.09	356.26	197.37	1.81
2016/17	728.00	850.14	0.86	595.19	827.87	0.72
2017/18	887.98	1842.41	0.48	577.70	1563.40	0.37
Mean	**540.47**	**762.84**	**0.83**	**372.77**	**622.79**	**0.83**
SD	**273.06**	**641.70**	**0.23**	**211.13**	**584.73**	**0.56**
CV	**50.52**	**84.12**	**27.15**	**56.64**	**93.89**	**67.74**

Source: Annual Report of Concerned Bank from FY 2013/14 to 2017/18

The table 4.13 shows the position of interest coverage ratio (ICR) of MBBL & ODBL. The ICR of MBBL is 0.79 times in FY 2013/14 this means EBIT is 0.79 times more than interest expenses. Likewise the ICR increase to 0.94 times in FY 2014/15. This result represents the MBBL has increased its EBIT. Then the rate was increased to 1.09 times in FY 2015/16 and it decreased in 2016/17 with 0.86 times and it is decreased in FY 2017/18 with 0.48 times. The interest coverage ratio of MBBL ranges between 0.48 to 1.09 times. Another, the ICR of ODBL is 0.54 times in FY 2013/14 this means EBIT is 0.54 times more than interest expenses. Likewise the ICR increase to 0.72 times in FY 2014/15 and in FY 2015/16 it was increased 1.81 times. Then the rate decreased to 0.72 times in FY 2016/17 and again it was decreased to 0.37 times in FY 2017/18. The interest coverage ratio of ODBL ranges between 0.37 times to 1.81 times.

4.5.4 Return on Loan & Advances

Every financial institution tries to mobilize their deposits on loan & advances properly. So this ratio helps to measure the earning capacity of selected banks. Returns on loan & advances ratio of selected banks are presented as follows.

Table 4.14
Return on Loan and Advance

(Rs. in Millions & Ratio in %)

FY	MBBL			ODBL		
	NP	**L&A**	**Ratio**	**NP**	**L&A**	**Ratio**
2013/14	151.85	4377.6	3.47	92.92	3136.14	2.96
2014/15	217.64	6625.26	3.29	154.36	4107.54	3.76
2015/16	361.37	9798.61	3.69	296.53	9767.24	3.04
2016/17	486.93	15159.39	3.21	394.39	13840.56	2.85
2017/18	575.53	25003.03	2.30	373.75	18095.03	2.07
Mean	**358.66**	**12192.78**	**3.19**	**262.39**	**9789.30**	**2.93**
SD	**177.59**	**8226.63**	**0.53**	**133.59**	**6362.89**	**0.60**
CV	**49.51**	**67.47**	**16.61**	**50.91**	**65.00**	**20.53**

Source: Annual Report of Concerned Bank from FY 2013/14 to 2017/18

The table 4.14 shows that return on loan and advances ratio of MBBL is in fluctuating trend and ODBL is also fluctuating trend. The highest ratio of MBBL is 3.69 percent in the year 2015/16 and lowest ratio 2.30 percent in year 2017/18. The mean ratio is 3.19 percent. Whereas highest ratio of ODBL is 3.76 percent in year 2014/15 and lowest ratio is 2.07 percent in 2017/18. The mean ratio is 2.93 percent. MBBL shows the good earning capacity in loan and advances whereas ODBL shows poor earning capacity in form of loan and advances. The C.V. of MBBL is lower than ODBL.

4.5.5 Return on Equity

Equity capital of any bank is its owned capital. The prime objective of any bank is wealth maximization or in other words to earn high profit and thereby, maximizing return on its equity capital. Return on equity plays the measuring role of profitability of bank. It reflects the extent to which the bank has been successful to mobilize or utilize its equity capital. A high ratio indicates higher successful to mobilize its owned capital and vice-versa. Following table shows the return on equity of MBBL and ODBL during the study period.

Table 4.15
Return on Equity Ratio

(Rs. in Millions & Ratio in %)

FY	MBBL			ODBL		
	NP	**SHE**	**Ratio**	**NP**	**SHE**	**Ratio**
2013/14	151.85	595.79	25.49	92.92	495.04	18.77
2014/15	217.64	972.04	22.39	154.36	701.17	22.01
2015/16	361.37	1344.31	26.88	296.53	1627.62	18.22
2016/17	486.93	2289.81	21.27	394.39	2640.51	14.94
2017/18	575.53	3514.83	16.37	373.75	3301.78	11.32
Mean	**358.66**	**1743.36**	**22.48**	**262.39**	**1753.22**	**17.05**
SD	**177.59**	**1173.44**	**4.10**	**133.59**	**1213.56**	**4.07**
CV	**49.51**	**67.31**	**18.23**	**50.91**	**69.22**	**23.87**

Source: Annual Report of Concerned Bank from FY 2013/14 to 2017/18

The table 4.15 shows return on equity ratio of MBBL and ODBL are fluctuating trend. MBBL has higher ratios over the study periods as well as mean ratio (i.e. 22.48>17.05). Despite stiff competition and an adverse macroeconomic environment, MBBL is currently generating higher ROE in comparison with ODBL. In brief, it signifies that the shareholders of MBBL are getting higher return but in case of ODBL, they are getting lesser. It can be concluded that MBBL has better utilized the equity for the profit generation. It proves to be a good strength of MBBL in attracting future investment also while ODBL shows its weakness regarding efficient utilization of its owner's equity in comparison with MBBL.

4.6 Statistical Analysis

To make the analysis more fruitful and meaning of MBBL & ODBL certain statistical tools have been used. Here, Karl person's correlation coefficient and probable error is used to describe the relationship between CA and CL, deposit and loan & advance, total assets and net profit.

Karl Pearson's coefficient of correlation is most widely used in practice to measure the degree of relationship between two variables of the company.

4.6.1 Correlation between Current Assets and Current Liabilities

The coefficient of correlation between current assets and current liabilities of MBBL & ODBL for the different year has been calculated in the following table. In this analysis, CA is independent variable (X) and CL is dependent variable (Y). The main objectives of computing "r" between these two variables is to justify whether deposit are significantly used as CL in proper way or not.

Table 4.16

Correlation between Current Assets and Current Liabilities

Name of Banks	Evaluation Criterions			
	r	r^2	PE	6 PE
MBBL	0.97	0.9356	0.0194	0.1166
ODBL	0.98	0.9671	0.0099	0.0596

From the table 4.16, it is found that coefficient of correlation between CA and CL of MBBL and ODBL is 0.97 and 0.98. It is shows that both banks have the highly positive relationship between these two variables. Moreover, the coefficient of determination of MBBL is 0.9356, PE is 0.0194 and 6PE value is 0.1166. So, the correlation coefficient of MBBL is significant because the correlation coefficient is greater than the relative value of 6PE. Similarly, the coefficient of determination of ODBL is 0.9671, PE is 0.0099 and 6PE value is 0.0596. So, the correlation coefficient of ODBL is also significant because the correlation coefficient is greater than the relative value of 6PE.

4.6.2 Correlation between Deposit and Loan & Advance

The coefficient of correlation between total deposit and loan & advance of MBBL & ODBL for the different year has been calculated in the below table. In this analysis, deposit is independent variable (X) and loan & advance is dependent variable (Y). The main objectives of computing “r” between these two variables is to justify whether deposit are significantly used as loan & advance in proper way or not.

Table 4.17

Correlation between Deposit and Loan & Advance

Name of Banks	Evaluation Criterions			
	r	**r^2**	**PE**	**6 PE**
MBBL	0.997	0.9965	0.0010	0.0063
ODBL	0.998	0.9973	0.0008	0.0049

From the table 4.17, it is found that coefficient of correlation between deposit and loan & advance of MBBL and ODBL is 0.997 and 0.988. It is shows that both banks have the highly positive relationship between these two variables. Moreover, the coefficient of determination of MBBL is 0.9965, PE is 0.0010 and 6PE value is 0.0063. So, the correlation coefficient of MBBL is significant because the correlation coefficient is greater than the relative value of 6PE. Similarly, the coefficient of determination of ODBL is 0.9973, PE is 0.0008 and 6PE value is 0.0049. So, the correlation coefficient of ODBL is also significant because the correlation coefficient is greater than the relative value of 6PE.

4.6.3 Correlation between Total Assets and Net Profit

The coefficient of correlation between total assets and net profit of MBBL & ODBL for the different year has been calculated in the below table. In this analysis, total assets is independent variable (X) and net profit is dependent variable (Y).

Table 4.18

Correlation between Total Assets and Net Profit

Name of Banks	Evaluation Criterions			
	r	r^2	PE	6 PE
MBBL	0.93	0.8722	0.0385	0.2313
ODBL	0.94	0.8783	0.0367	0.2202

From the table 4.18, it is found that coefficient of correlation between total assets and net profit of MBBL and ODBL is 0.93 and 0.94. It is shows that both banks have the highly positive relationship between these two variables. Moreover, the coefficient of determination of MBBL is 0.8722, PE is 0.0385 and 6PE value is 0.2313. So, the correlation coefficient of MBBL is significant because the correlation coefficient is greater than the relative value of 6PE. Similarly, the coefficient of determination of ODBL is 0.8783, PE is 0.0367 and 6PE value is 0.2202. So, the correlation coefficient of ODBL is also significant because the correlation coefficient is greater than the relative value of 6PE.

4.7 Trend Analysis

Trend analysis plays an important role in the analysis and interpretation of financial statement. Trend in general terms, signifies a tendency. It helps in forecasting and planning future operation.

A) Trend Analysis of Total Deposit

Deposits are the important part in banking sector hence its trend for next five years will be forecasted for future analysis. This is calculated by the least square method. Here the effort has been made to calculate the trend values of total deposit of MBBL and ODBL for further five year.

Y= a + bx

Where as

Yc = 14277.23 + 5930.76 X of MBBL

Yc = 11699.69 + 4578.31 X of ODBL

Table 4.19

Trend Analysis of Total Deposit

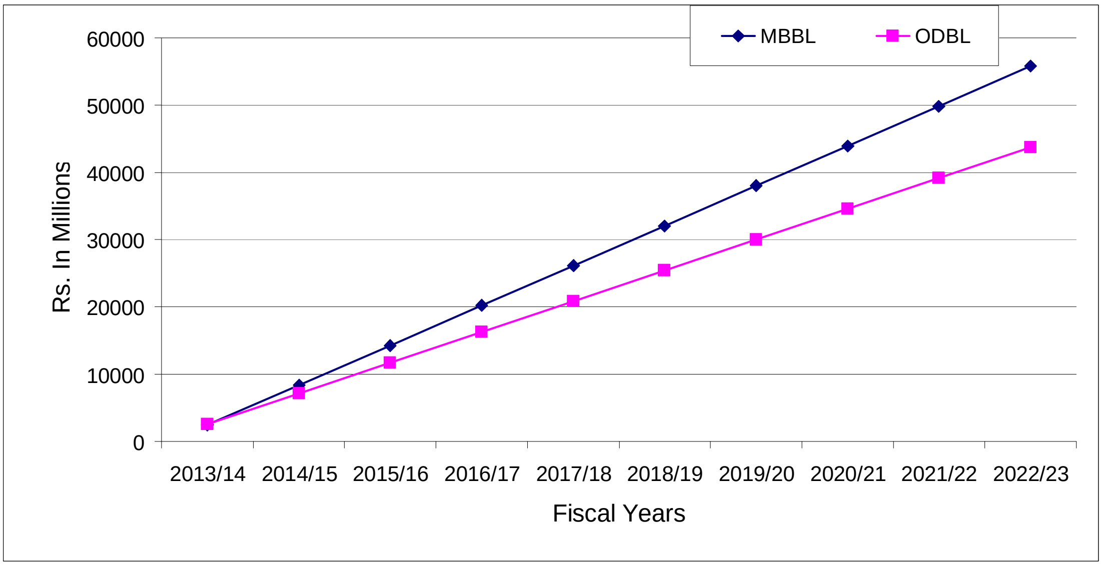
(Rs. in Millions)

Year(x)	MBBL		ODBL	
	Actual Value	Trend Value	Actual Value	Trend Value
2013/14	5197.89	2415.72	4060.70	2543.07
2014/15	7781.56	8346.48	5067.30	7121.38
2015/16	11276.65	14277.23	11853.84	11699.69
2016/17	16775.22	20207.99	16061.43	16278.00
2017/18	30354.84	26138.74	21455.19	20856.31
2018/19		32069.50		25434.63
2019/20		38000.26		30012.94
2020/21		43931.01		34591.25
2021/22		49861.77		39169.56
2022/23		55792.52		43747.87

Source: Appendix I

Figure 4.5

Trend Line of Total Deposit between MBBL and ODBL



Source: Table No. 4.19

The table 4.19 and figure 4.5 shows that total deposit of MBBL and ODBL. Both banks are in increasing trend. The rate of increment of total deposit for MBBL seems to be higher than that of ODBL. The increasing trend of total deposit of MBBL is more aggressive and high rather than ODBL. It indicates MBBL has more prospect of collecting total deposit.

B) Trend Analysis of Loan & Advances

Here, the trend values of loan & advances between MBBL and ODBL have been calculated for further five year. The following table shows the actual and trend values of MBBL and ODBL.

Y= a + bx

Where as

Yc = 12192.78 + 4978.50 X of MBBL

Yc = 9789.30 + 2965.08 X of ODBL

Table 4.20

Trend Analysis of Total Loan and Advance

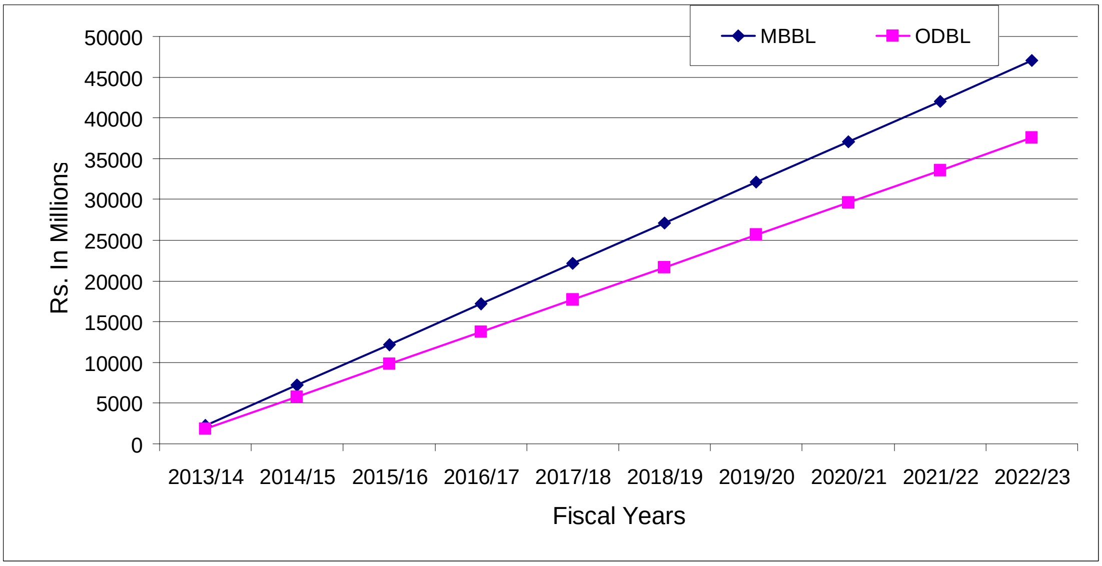
(Rs. in Millions)

Year(x)	MBBL		ODBL	
	Actual Value	Trend Value	Actual Value	Trend Value
2013/14	4377.60	2235.78	3136.14	1859.14
2014/15	6625.26	7214.28	4107.54	5824.22
2015/16	9798.61	12192.78	9767.24	9789.30
2016/17	15159.39	17171.28	13840.56	13754.38
2017/18	25003.03	22149.78	18095.03	17719.46
2018/19		27128.28		21684.54
2019/20		32106.77		25649.62
2020/21		37085.27		29614.70
2021/22		42063.77		33579.78
2022/23		47042.27		37544.86

Source: Appendix II

Figure 4.6

Trend Line of Total Loan and Advance of MBBL and ODBL



Source: Table No. 4.20

The table 4.20 and figure 4.6 depicts that loan & advances of MBBL and ODBL. Both banks has in increasing trend. The increasing trend of MBBL is higher than ODBL. The actual value of loan & advances for MBBL is quite fluctuating in relation to ODBL. It is clear that MBBL mobilizing highly its collected deposits and other funds in the form of loan & advances than ODBL.

C) Trend Analysis of Total Assets

Under this topic, an attempt has been made to analyze trend analysis total assets of MBBL and ODBL for further five years.

Y= a + bx

Where as

Yc = 16441.65 + 6783.15 X of MBBL

Yc = 13565.24 + 5403.71 X of ODBL

Table 4.21

Trend Analysis of Total Assets

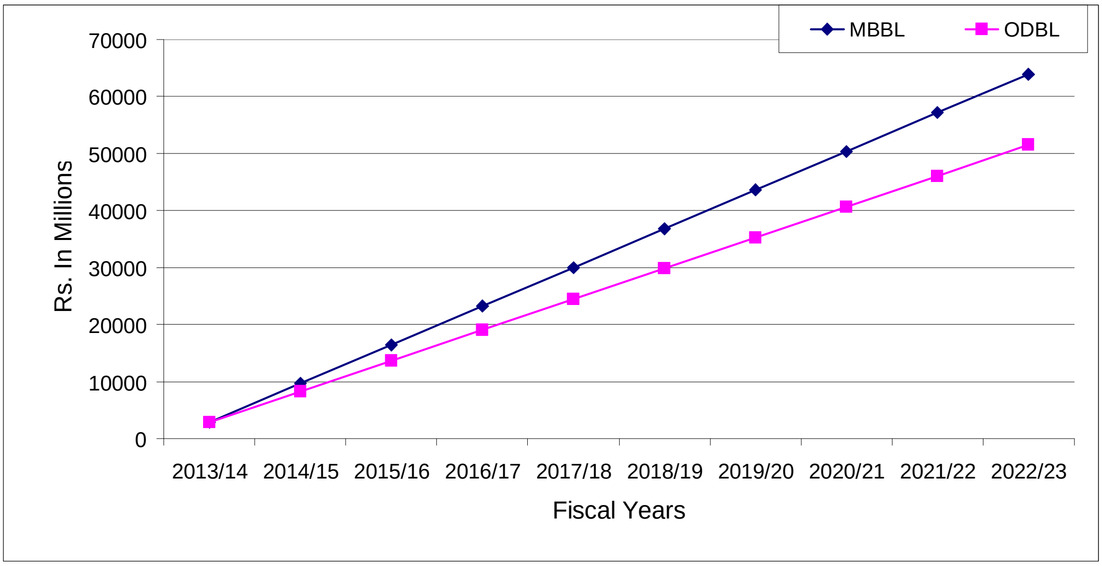
(Rs. in Millions)

Year(x)	**MBBL**		**ODBL**	
	Actual Value	**Trend Value**	**Actual Value**	**Trend Value**
2013/14	6029.44	2875.35	4661.52	2850.83
2014/15	9000.47	9658.50	5867.58	8254.53
2015/16	12936.75	16441.65	13646.14	13658.24
2016/17	19592.34	23224.80	19004.24	19061.95
2017/18	34649.26	30007.95	25111.73	24465.66
2018/19		36791.11		29869.37
2019/20		43574.26		35273.07
2020/21		50357.41		40676.78
2021/22		57140.56		46080.49
2022/23		63923.71		51484.20

Source: Appendix III

Figure 4.7

Trend Line of Total Assets between MBBL and ODBL



Source: Table No. 4.21

The table 4.21 and figure 4.7 shows the trend of total assets between MBBL and ODBL. Both bank have increasing trend in making total assets. MBBL has high and upward trend of increasing. The forecasted trend projected that the MBBL has greater increment rate in total assets than the increment rate of ODBL.

D) Trend Analysis of Net Profit

Here, the trend values of net profit of MBBL and ODBL have been calculated for five years FY 2013/14 to FY 2017/18 and forecasting for the next five year till FY 2022/23.

Y= a + bx

Where as

Yc = 358.66 + 111.67 X of MBBL

Yc = 262.39 + 80.17 X of ODBL

Table 4.22

Trend Analysis of Net Profit

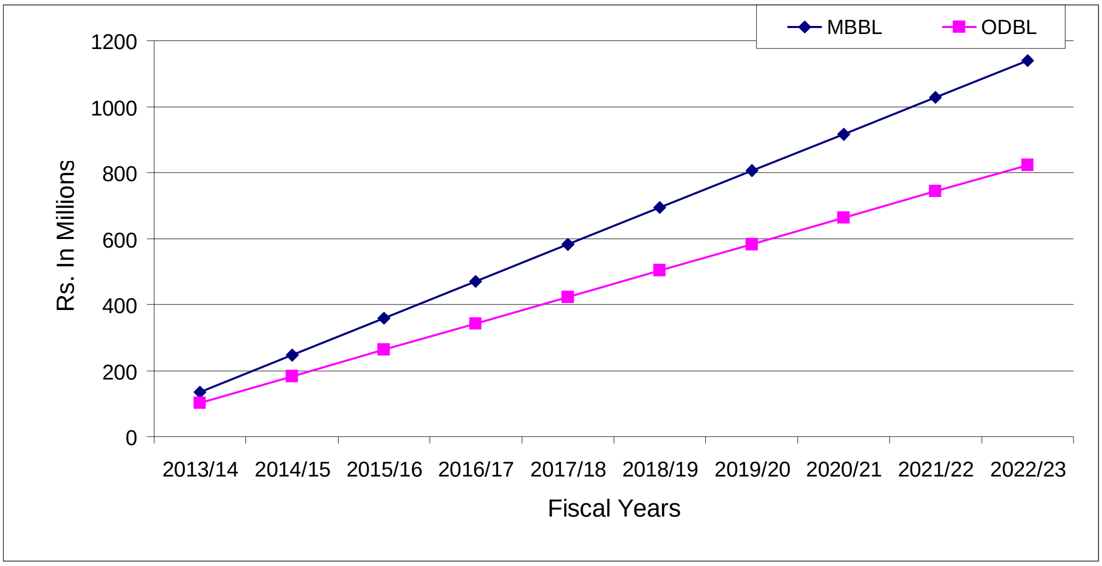
(Rs. in Millions)

Year(x)	MBBL		ODBL	
	Actual Value	Trend Value	Actual Value	Trend Value
2013/14	151.85	135.33	92.92	102.05
2014/15	217.64	247.00	154.36	182.22
2015/16	361.37	358.66	296.53	262.39
2016/17	486.93	470.33	394.39	342.56
2017/18	575.53	581.99	373.75	422.73
2018/19		693.66		502.90
2019/20		805.32		583.07
2020/21		916.99		663.24
2021/22		1028.65		743.40
2022/23		1140.32		823.57

Source: Appendix IV

Figure 4.8

Trend Line of Net Profit between MBBL and ODBL



Source: Table No. 4.22

The table 4.22 and figure 4.8 reveals the trend of net profit of MBBL and ODBL. Net profit both banks forecasted in increasing trend. The trend of increasing value of net profit of MBBL is higher than ODBL. The net profit of MBBL and ODBL has been increasing every year by Rs. 111.67 million and Rs. 80.17 million respectively.

4.8 Major Findings of the Study

The major findings of this study on profit planning and control of MBBL and ODBL are as follows.

i. The status of budgeted and actual deposit collection of MBBL has achieved its objectives of deposit collection in FY 2013/14, FY 2015/16 and FY 2017/18. The percentage change of highly in the fiscal year 2017/18 of actual deposit i.e. 80.95 percent and highly change in the fiscal year 2017/18 of budgeted deposit i.e. 68.41 percent.

ii. The status of budgeted and actual deposit collection of ODBL has not achieved its objectives of deposit collection in every year. The base of preparing the budgets is the actual deposit collection the last year.

iii. The status of MBBL high percent of percentage change of actual loan and advances is 64.93 percent in the year 2017/18 and high percent of percentage change of the budgeted loan and advances is 76.55 percent in the year 2016/17. The achievement range is fluctuating. It ranged between 103.09 percent to 117.65 percent through the five year of study period.

iv. The status of budgeted and actual loan and advance of ODBL has around 112.94 percent achieved its objectives of lending target. Percentage change of the actual loan and advances and budgeted loan and advances both are in fluctuating trend. Change percent of actual loan and advances high in the fiscal year 2015/16 and low in the year 2017/18. It ranged between 105.26 percent to 123.46 percent through the five years of study period.

v. The level of actual loan and actual deposit collection. In average MBBL and ODBL 85.80 percent and 82.24 percent loan disbursement over the study period. So, MBBL is higher than ODBL for loan disbursement.

vi. The contribution margin of MBBL and ODBL are increasing trend over the study periods. Comparatively contribution margin of MBBL seems to be on the higher than ODBL.

vii. The PV ratio of MBBL and ODBL are fluctuating trend over the study periods. The PV ratio of MBBL seems to be on the higher than ODBL. The highest PV ratio of MBBL is 0.59 times in FY 2015/16 and lowest PV ratio is 0.41 times in FY 2017/18. The highest PV ratio of ODBL is 0.77 times in FY 2015/16 and lowest PV ratio is 0.35 times in FY 2017/18. The average PV ratio of MBBL and ODBL are 0.53 times and 0.50 times respectively.

viii. BEP percentage and BEP amount of MBBL and ODBL in terms of interest margin. The percentage of BEP is in fluctuating trend over the study periods of both banks. It means the burden and interest margin growth trend are also fluctuating.

ix. The margin of safety of MBBL and ODBL are increasing trend over the study periods. The MOS of MBBL seems to be on the higher than ODBL. The highest margin of safety of MBBL is Rs. 1418.33 in FY 2017/18 and lowest margin of safety is Rs. 285.19 in FY 2013/14. The highest margin of safety of ODBL is Rs. 1063.13 in FY 2017/18 and lowest margin of safety is Rs. 220.68 in FY 2013/14.

x. Cash reserve ratio of MBBL and ODBL from fiscal year 2013/14 to 2017/18. It is clear that MBBL has maintained the statutory requirement in all the fiscal years of the study period. But, ODBL has not maintained in the FY 2013/14. The average CRR of MBBL is 7.63 percent and ODBL is 5.10 percent. This shows that MBBL has meet the CRR required as per the NRB guidelines and ODBL was unable to meet the required CRR in FY 2013/14.

xi. The interest income to total operating income ratio of MBBL and ODBL are fluctuating trend. Comparatively the ratio of ODBL seems to be on the higher than MBBL. The average ratio of MBBL is 152.70 percent whereas ODBL has the average ratio of 191.41 percent.

xii. The ICR of MBBL is 0.79 times in FY 2013/14 this means EBIT is 0.79 times more than interest expenses. The interest coverage ratio of MBBL ranges between 0.48 to 1.09 times. The ICR of ODBL is 0.54 times in FY 2013/14 this means EBIT is 0.54 times more than interest expenses. The interest coverage ratio of ODBL ranges between 0.37 times to 1.81 times.

xiii. Return on loan and advances ratio of MBBL is in fluctuating trend and ODBL is also fluctuating trend. The highest ratio of MBBL is 3.69 percent in the year 2015/16 and lowest ratio 2.30 percent in year 2017/18. The mean ratio is 3.19 percent. Whereas highest ratio of ODBL is 3.76 percent in year 2014/15 and lowest ratio is 2.07 percent in 2017/18. The mean ratio is 2.93 percent. MBBL shows the good earning capacity in loan and advances whereas ODBL shows poor earning capacity in form of loan and advances.

xiv. The return on equity ratio of MBBL and ODBL are fluctuating trend. MBBL has higher ratios over the study periods as well as mean ratio (i.e. 22.48>17.05). It can be concluded that MBBL has better utilized the equity for the profit generation. It proves to be a good strength of MBBL in attracting future investment also while ODBL shows its weakness regarding efficient utilization of its owner's equity in comparison with MBBL.

xv. It is found that coefficient of correlation between CA and CL of MBBL and ODBL is 0.97 and 0.98. It is shows that both banks have the highly positive relationship between these two variables. So, the correlation coefficient of both banks are significant because the correlation coefficient is greater than the relative value of 6PE.

xvi. It is found that coefficient of correlation between deposit and loan & advance of MBBL and ODBL is 0.997 and 0.988. It is shows that both banks have the highly positive relationship between these two variables. So, the correlation coefficient of MBBL and ODBL are significant because the correlation coefficient is greater than the relative value of 6PE.

xvii. It is found that coefficient of correlation between total assets and net profit of MBBL and ODBL is 0.93 and 0.94. It is shows that both banks have the highly positive relationship between these two variables. So, the correlation coefficient of MBBL and ODBL are significant because the correlation coefficient is greater than the relative value of 6PE.

xviii. The trend of total deposit of MBBL and ODBL are in increasing trend. The rate of increment of total deposit for MBBL seems to be higher than that of ODBL.

xix. The trend of loan & advances of MBBL and ODBL has in increasing trend. The increasing trend of MBBL is higher than ODBL.

xx. The trend of total assets between MBBL and ODBL have increasing trend in making total assets. MBBL has high and upward trend of increasing.

xxi. The trend of net profit of MBBL and ODBL has forecasted in increasing trend. The trend of increasing value of net profit of MBBL is higher than ODBL. The net profit of MBBL and ODBL has been increasing every year by Rs. 111.67 million and Rs. 80.17 million respectively.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

This study is concerned with profit planning and control of Nepalese development banks. Development bank pools between savers and users thereby raising employment opportunity. The major income source of bank is interest margin which depends upon the deployment of available resources. The bank generally deployed their resources for the purpose of liquidity, lending and investing in securities. So the overall profitability of bank depends on lending procedure, lending policy and investment policy. The main objective of the study is to evaluate the profit planning and control of MBBL & ODBL.

The loan and deposit collection of MBBL and ODBL satisfactory level over the study period but MBBL is higher than ODBL for loan disbursement. The contribution margin of MBBL and ODBL are increasing trend over the study periods. Comparatively contribution margin of MBBL seems to be on the higher than ODBL. BEP percentage and BEP amount of MBBL and ODBL in terms of interest margin. The margin of safety of MBBL and ODBL are increasing trend over the study periods. The MOS of MBBL seems to be on the higher than ODBL. Cash reserve ratio of MBBL has maintained the statutory requirement in all the fiscal years of the study period. The average CRR of MBBL has met the required as per the NRB guidelines. It is found that coefficient of correlation between CA and CL of MBBL and ODBL are significant. The trend of total deposit, loan & advance, total assets and net profit of MBBL and ODBL are in increasing trend.

5.2 Conclusions

On the basis of study some conclusion has drawn about the MBBL & ODBL. Profit planning and controlling system of MBBL & ODBL is very effective because it has generated more profit year after year. There is variance in budgeted and actual performance but it has always crossed budgeted figure. Actual deposit is also more than budgeted one. Analysis concludes that growth of bank is significant. MBBL & ODBL are increasing its internal fund by increasing capital year by year this means strengthen their capability internally. MBBL & ODBL are able to meet its targeted deposit collection and loan & advance. The relationship between budgeted and actual figures is positively correlated.

The major income source is interest the trend of interest is increasing trend every year. The liquidity position of both banks were better position bank has maintained to met the current obligations. The financial strength of MBBL & ODBL are strong since debt equity ratio shows that the MBBL & ODBL use more internal fund to repay its borrowings. The return on assets and return on capital is satisfactory of MBBL & ODBL it shows the good earning capacity of the bank. The result of the study shows the overall performance of MBBL & ODBL were satisfactory and progressive.

5.3 Recommendations

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

i. People in rural area of Nepal still out of banking services so MBBL & ODBL were suggested to take bold steps to expand and upgrade its network to reach such area with their products and services.

ii. The size of Nepali banking market is increasing day by day. The increase in number of financial institutions indicates the increasing competition in financial market. To monitor with proper regulation this even more, the government had to bring new strategies.

iii. Bank should develop its specific goal for the coming budget year. Such goals the operation of the bank may not be effective. So it is recommended banks should be increase deposit for gain more profit.

iv. The 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. Every business concerns have one another obligation i.e. corporate social responsibility so MBBL & ODBL needs more involvement in social activities in the coming days.

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Appendix I

Trend analysis of Total Deposit of MBBL and ODBL

(Rs. in Millions)

Year(x)	**MBBL**	**ODBL**
2013/14	5197.89	4060.70
2014/15	7781.56	5067.30
2015/16	11276.65	11853.84
2016/17	16775.22	16061.43
2017/18	30354.84	21455.19

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

$$a = \frac{\sum Y}{N}$$

$$b = \frac{\sum XY}{\sum X^2}$$

MBBL	**ODBL**
a = 14277.23	a = 11699.69
b = 5930.76	b = 4578.31

Where as

Yc = 14277.23 + 5930.76 X of MBBL

Yc = 11699.69 + 4578.31 X of ODBL

Appendix II

Trend analysis of Loan & Advance of MBBL and ODBL

(Rs. in Millions)

Year(x)	MBBL	ODBL
2013/14	4377.60	3136.14
2014/15	6625.26	4107.54
2015/16	9798.61	9767.24
2016/17	15159.39	13840.56
2017/18	25003.03	18095.03

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

$$a = \frac{\sum Y}{N}$$

$$b = \frac{\sum XY}{\sum X^2}$$

MBBL	ODBL
a = 12192.78	a = 9789.30
b = 4978.50	b = 2965.08

Where as

Yc = 12192.78 + 4978.50 X of MBBL

Yc = 9789.30 + 2965.08 X of ODBL

Appendix III

Trend analysis of Total Assets of MBBL and ODBL

(Rs. in Millions)

Year(x)	**MBBL**	**ODBL**
2013/14	6029.44	4661.52
2014/15	9000.47	5867.58
2015/16	12936.75	13646.14
2016/17	19592.34	19004.24
2017/18	34649.26	25111.73

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

$$a = \frac{\sum Y}{N}$$

$$b = \frac{\sum XY}{\sum X^2}$$

MBBL	**ODBL**
a = 16441.65	a = 13565.24
b = 6783.15	b = 5403.71

Where as

Yc = 16441.65 + 6783.15 X of MBBL

Yc = 13565.24 + 5403.71 X of ODBL

Appendix IV

Trend analysis of Net Profit of MBBL and ODBL

(Rs. in Millions)

Year(x)	MBBL	ODBL
2013/14	151.85	92.92
2014/15	217.64	154.36
2015/16	361.37	296.53
2016/17	486.93	394.39
2017/18	575.53	373.75

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

$$a = \frac{\sum Y}{N}$$

$$b = \frac{\sum XY}{\sum X^2}$$

MBBL	**ODBL**
a = 358.66	a = 262.39
b = 111.67	b = 80.17

Where as

Yc = 358.66 + 111.67 X of MBBL

Yc = 262.39 + 80.17 X of ODBL