

Profit Planning of Commercial Banks in Nepal

(A Comparative Study of Nepal Investment Bank Limited, Nabil Bank Limited and Bank of Kathamndu Bank Limited)

By
PRANAB TIMSINA

T.U. Registration No.: 7-2-39-403-2002

Roll No.: 172/062

Shanker Dev Campus

A Thesis Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

In the partial fulfillment of the requirements for the degree of Masters of
Business Studies (MBS)

Kathmandu

2010

RECOMMENDATION

This is to certify that the Thesis

Submitted by:

PRANAB TIMSINA

Entitled:

Profit Planning of Commercial Banks in Nepal

**(A Comparative Study of Nepal Investment Bank Limited, Nabil Bank Limited and
Bank of Kathamndu Bank Limited)**

has been prepared as approved by this Department in the prescribed format of the
Faculty of Management. This thesis is forwarded for examination.

.....

Jogindera Goet

(Thesis Supervisor)

.....

Prof. Bishwashor Man Shrestha

(Head of Research Department)

.....

Prof. Dr. Kamal Deep Dhakal

(Campus Chief)

Date:

VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis presented

By

PRANAB TIMSINA

Entitled

Profit Planning of Commercial Banks in Nepal

**(A Comparative Study of Nepal Investment Bank Limited, Nabil Bank Limited and
Bank of Kathamndu Bank Limited)**

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the Degree of Master of Business Studies (M.B.S.)

Viva-Voce Committee:

Head Research Department:

Member (Thesis Supervisor):

Member External Expert:

Date :

DECLARATION

I hereby declare that the work reported in this thesis entitled “**Profit Planning Policy of Commercial Banks**” (A Comparative Study of Nepal Investment Bank Limited, Nabil Bank Limited and Bank of Kathamndu Bank Limited) submitted to the Shankar Dev Campus, Tribhuvan University is my original work. It is done in the form of partial fulfillment of the requirements for the Master degree in Business studies under the supervision and guidance of **Jogindra Goet** Shankar Dev Campus of Tribhuvan University.

Date:.....

.....

Researcher

Pranab Timsina

ACKNOWLEDGEMENT

This study has been undertaken to assess the profit planning of commercial banks in Nepal under partial fulfillment of the requirement of Master's Degree.

I would like to express my profound sense of gratitude to my respected supervisor **Jogindra Goet** for his continuous guidance and supervision. The report in this form is the result of his inspiring and invaluable guidance and supervision.

Any accomplishment entitles the efforts of many people and this is no different. In this regard, I express sincere thank to all staff member of Shanker Dev Campus and Central Library who helped me directly and indirectly in course of review of literature. Likewise, the staff of NIBL, NABIL and BOK who helped me in secondary data collection and primary data as well. So, they also deserve the words of thank. My greatest debt is to all my family members, without whom this project report would have been impossible.

At last, regardless of the source, I wish to express my gratitude to these who may have contributed to this work, even though anonymously.

.....
Pranab Timsina

Date:

TABLE OF CONTENTS

Recommendation
Viva-Vive Sheet
Declaration
Acknowledgement
Abbreviations
List of Tables
List of Figures

CHAPTER – I

	Page No.
INTRODUCTION	
1.1 Background of the Study	1
1.2 Statement of the Problem	3
1.3 Objectives of the Study	4
1.4 Significance of the Study	4
1.5 Limitations of the Study	5
1.6 Organization of the study	5

CHAPTER-II

REVIEW OF LITERATURE	
2.1 Conceptual Framework	7
2.1.1 General Concept of Profit Planning	7
2.1.2 Concept of Profit	8
2.1.3 Concept of planning	9
2.1.4 Types of Planning	11
2.1.5 Role of Forecasting in Planning	13
2.1.6 Planning Verses Forecasting	13

2.1.7	Purposes of Profit Planning	14
2.1.8	Long Range and Short Range Profit Plan	15
2.1.9	Budgeting and Budget	16
2.1.10	Budgeting: As a Device of Profit Plan	17
2.1.11	Essentials of an Effective Budgeting	17
2.1.12	Fundamental of PPC	19
2.1.13	Profit Planning and Control Process	20
2.1.14	Basic Assumptions and Limitations of Profit Plan	24
2.1.15	Development of Profit Plan	25
2.1.16	Resources Mobilization Plan or Budget	25
2.1.17	Resources Deployment Plan or Budget	26
2.1.18	Planning for Non-Funded Business Activities	27
2.1.19	Implementation of the Profit Plan	30
2.1.20	Performance Reports	31
2.1.21	Concept of commercial banks	33
2.1.22	Evolution of Commercial Bank	34
2.1.23	Role of Commercial Banks in the Development of Economy	37
2.2	Review of Previous Studies	37
2.3	Research Gap	44

CHAPTER – III

RESEARCH METHODOLOGY

3.1	Research Design	46
3.2	Population and Sample	46
3.3	Data Collection Procedures and Sources of Data	47
3.4	Research Variables	47
3.5	Analysis of data	47
3.6	Statistical tools	47
3.6.1	Arithmetic mean average	47
3.6.2	Multiple Bar- diagrams and graphs	48

3.6.3	Percentage	48
3.6.4	Coefficient of correlation(R)	48
3.6.5	Regression analysis	49
3.6.6	Standard deviation ()	49
3.6.7	Coefficient of variation (C.V.)	49

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

4.1	Financial Analysis of Commercial Bank	50
4.1.1	Cash and Bank Balance to Total Deposit Ratio	51
4.1.2	Cash and Bank Balance to Current Assets Ratio	52
4.1.3	Investment on Government Securities to Current Assets Ratio	54
4.1.4	Loans and Advances to Current Assets Ratio	55
4.2	Asset Management Ratio	56
4.2.1	Loans and Advances to Total Deposits Ratio	56
4.2.2	Relationship between Deposit and Loan and Advances	57
4.2.3	Total Investment to Total Deposit Ratio	58
4.2.4	Relationship between Deposit and Total Investment	60
4.2.5	Loan and Advances to Total Working Fund Ratio	61
4.2.6	Investment on Government Securities to Total Working Funds Ratio.	62
4.2.7	Investment on Shares and Debentures to Total Working Fund Ratio	64
4.2.8	Total off Balance Sheet Operation to Loan and Advances Ratio	65
4.2.9	Loan Loss Relation	66
4.3	Profitability Ratio	67
4.3.1	Return on Loan and Advances Ratio	67
4.3.2	Return on Total Working Fund Ratio	68
4.3.3	Total Interest Earned to Total outside Assets Ratio	69
4.3.4	Total Interest Earned to Total Working Fund Ratio	70
4.3.5	Total Interest Paid to Total Working Ratio	71
4.4	Risk Ratio	72

4.4.1	Credit Risk Ratio	73
4.4.2	Liquidity Risk Ratio	73
4.4.3	Capital Risk Ratio	74
4.5	Growth Ratio	75
4.5.1	Growth ratio of total deposit	76
4.5.2	Growth ratio of loan and advances	77
4.5.3	Growth ratio of total Investment	78
4.5.4	Growth ratio of total net profit	78
4.6	Statistical Tools	80
4.6.1	Trend Analysis of Total Deposit	80
4.6.2	Trend Analysis of Loan and Advances	81
4.6.3	Trend Analysis of Total Investment	83
4.6.4	Trend Analysis of Net Profit	84
4.6.5	Coefficient of Correlation Analysis	86
4.6.6	Client of Correlation between outside Asset and Net Profit	86
4.7	Regression Analysis	93
4.8	Major Findings of the Study	95

CHAPTER –V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1	Summary	99
5.2	Conclusion	100
5.3	Recommendations	101

LIST OF TABLE

Table 4.1	Current Ratio	51
Table 4.2	Cash and Bank Balance to Total Deposit Ratio	52
Table 4.3	Cash and Bank Balance to Current Assets Ratio	53
Table 4.4	Investment on Government Securities to Current Assets Ratio	54
Table 4.5	Loan and Advances to Current Assets Ratio	55
Table 4.6	Loan and Advances to Total Deposit Ratio	56
Table 4.7	Correlation between Deposit and Loan and Advances	57
Table 4.8	Total Investment and Total Deposit Ratio	59
Table 4.9	Coefficient of Correlation Deposit and Total Investment	60
Table 4.10	Loan and Advances to Working Fund Ratio	62
Table 4.11	Investment on Government Securities to Total Working Fund Ratio	63
Table 4.12	Investment on Shares and Debentures to Total Working Fund Ratio	65
Table 4.13	Total OBS Operation to Loan and Advances Ratio	66
Table 4.14	Loan Loss Ratio	67
Table 4.15	Return on Loan and Advances Ratio	68
Table 4.16	Return on Total Working Fund Ratio	69
Table 4.17	Total Interest Earned to Total outside Assets Ratio	70
Table 4.18	Total Interest Earned to Total Working Fund Ratio	71
Table 4.19	Total Interest Paid to Total Working Fund Ratio	72
Table 4.20	Credit Risk Ratio	73
Table 4.21	Liquidity Risk Ratio	74
Table 4.22	Capital Risk Ratio	75
Table 4.23	Growth Ratio of Total Deposit	76
Table 4.24	Growth Ratio of Loan and Advances	77
Table 4.25	Growth Ratio of Total Investment	78
Table 4.26	Growth Ratio of Total Net Profit	79
Table 4.27	Trend Value of Total Deposit of NIBL, NABIL and BOK BOK	80
Table 4.28	Trend Values of Loan and Advances of NIBL, NABIL and BOK	82

Table 4.29	Trend Values of Total Investment of NIBL, NABIL and BOK	83
Table 4.30	Trend Value Net Profit of NIBL, NABIL and BOK	85
Table 4.31	Coefficient of Correlation between outside Asset and Net Profit	87
Table 4.32	Coefficient of Correlation between Deposit and Net Profit	88
Table 4.33	Coefficient of Correlation between Deposit and Interest Earned	89
Table 4.34	Coefficient of Correlation between Loan and Advances and Interest Paid	91
Table 4.35	Coefficient of Correlation between Total Working Fund and Net Profit	92
Table 4.36	Calculation of Regression Equation between Net Profits on Total Working Fund	93
Table 4.37	Calculation of Regression Equation between Net Profits on Total Deposit	94

LIST OF FIGURE

Figure 4.1	Loan and Advances to Current Assets Ratio	56
Figure 4.2	Total Investment Total Deposit Ratio	60
Figure 4.3	Investments on Government Securities to Total Working Fund Ratio	64
Figure 4.4	Growth Ratio of Total Deposit	76
Figure 4.5	Growth Ratio of Loan and Advances	77
Figure 4.6	Growth Ratio of Total Investment	78
Figure 4.7	Growth Ratio of Total Net Profit	79
Figure 4.8	Trend Value of Total Deposit of NIBL, NABIL and	81
Figure 4.9	Trend Values of Loan and Advances of NIBL, NABIL and BOK	83
Figure 4.10	Trend Value of Investment of NIBL, NABIL and BOK	84
Figure 4.11	Trend Value of Net Profit of NIBL, NABIL and BOK	86

ABBREVIATIONS

C.V.	= Coefficient of Variation
CB	= Commercial Bank
FY	= Fiscal Year
JVBs	= Joint Venture Banks
NABIL	= Nabil Bank Limited
NIBL	= Nepal Investment Bank Limited
NO.	= Number
NRB	= Nepal Rastra Bank
OBS	= Off- Balance Sheet
P.Er	= Profitable Error
RBB	= Rastriya Banijya Bank
ROA	= Return on Asstes
Rs	= Rupees
S.D.	= Standard Deviation
SBI	= SBI Bank Limited
T.U.	= Tribhuvan University